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INTRODUCTION

Agricultural Cooperatives, in terms of numbers, have been declining for the past 15 to 20 years. Part of this decline can be explained by recent mergers and even some liquidations. During this same period a number of cooperatives, primarily vegetable and hay marketing, have been organized in Kentucky. Cooperative mergers represent a positive attempt by cooperatives to realize economies of size in their daily operations.

Like many other states, Kentucky has witnessed a few cooperative liquidations over the past ten years. These liquidations have been the source of much public attention and the question becomes why? The answer in part has to do with the uniqueness of cooperatives as compared to other business structures where liquidations are much more numerous. Because of the current focus on cooperative liquidations attention is focused here on factors associated with cooperatives that have enjoyed a degree of success over the years. Attention is also focused on factors associated with cooperatives that were not successful in meeting their articulated goals.

This paper will focus on a review of literature which looks at factors associated with success of cooperatives as well as those that failed; the interrelationship of the factors on the economic well being of the cooperative using a hypothetical produce marketing cooperative; and a summary of key elements that members, management, and board of directors should monitor within the cooperative.

There are different and identifiable factors that are associated with cooperatives that are successful and cooperatives that failed. The identified factors will hold for both "Established" and "Limited Resource" farmer cooperatives.

FACTORS ASSOCIATED WITH SUCCESSFUL COOPERATIVES

Cooperatives are organized to perform one or more of the following functions: market products; purchase supplies; and provide services such as electricity, credit, irrigation, supply delivery, fertilizer application, and artificial inseminations.[1] Whenever a cooperative successfully

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performs those functions for which it was organized, we naturally expect it to be successful.

Researchers, in general, tend to concur that when cooperatives are organized according to tested and acceptable procedures they are for the most part successful. Many of the problems that ultimately lead to cooperative-failure could be avoided if the cooperative were organized following sound business practices.

Roy, Irwin, and others have gone into great detail with regards to the procedure that should be followed in conceptualizing, organizing, and successfully operating a cooperative. The following are some basic steps that these researchers feel should be followed in organizing and operating a sound cooperative:[2,3]

1) decide on the function(s) the cooperative will perform;
2) determine membership potential;
3) determine if there is an economic need for the function(s) that the cooperative plans to perform;
4) determine the potential volume of output (input) that will be supplied (demanded) by both members and non-members;
5) determine the level of management skills that will be needed to operate the cooperative successfully;
6) determine the facilities needed and their cost;
7) determine the fixed and operating costs of the cooperative;
8) determine the method that will be used for capitalization; and
9) determine the scope of business and services that will be handled; membership policy; method of payment for supplies purchased or sold; volume of business with non-members; and organization costs.

Abrahamsen believes that cooperatives are successful in those cases where members, management, and the board of directors are all encouraged to take an active part in playing their specified roles. He further believes that where the roles of each group are clearly defined and followed by all parties involved, the cooperative has a better chance at success.[4]

Roy did an economic survey of limited resource agricultural cooperatives in Louisiana. The specific objectives of his study were: (1) to identify and describe limited resource agricultural cooperatives in Louisiana in terms of their types, location, economic characteristics and operational problems, and (2) to suggest possible remedies for correcting economic problems as reported by management of these limited resource cooperatives.[5]

In identifying cooperatives having small farmer membership, Roy concluded all parishes in Louisiana with 33 percent or more of the commercial farmers had low incomes. A total of 25 limited resource agricultural type cooperatives were identified. Of this total, 18 were "marketing associations" and 6 were farm supply cooperatives. Of the 18 marketing associations, 13 were still in operation and provided survey data for Roy's research. The remaining 5 were either inactive or in the process of becoming inactive.

Of the six farm supply associations, 5 were local retail cooperatives and one a federated wholesale cooperative. The latter was not included in data tabulations.

Roy found that the average number of member patrons among both marketing and supply cooperatives was 123. The supply cooperatives individually averaged 232 member patrons and marketing cooperatives averaged 80 members. Nonmember patrons averaged 30 overall with supply cooperatives averaging 69 and marketing cooperatives 15. Supply cooperatives normally had larger memberships than marketing cooperatives because of the relatively smaller volume of business per patron conducted by supply cooperatives.

Roy measured success of the cooperatives in his study in terms of the returns on net worth. Of the 13 marketing cooperatives included in his analysis 6 had positive net margins, 5 had negative net earnings and two could not furnish reporters on net earnings. The average positive net was $6,900, or about 7 percent of sales.

Roy discovered that 5 of the 6 successful marketing cooperatives picked up on the average, an additional $3,000 of net margin from the sale of farm supplies. This finding would tend to indicate there were positive effects when both the purchasing and marketing functions were combined in one cooperative.

The five strictly farm supply cooperatives identified in Roy's study averaged $346,000 in sales to patrons and reported net margins per cooperative of $13,200 or 3.8 percent of sales. None reported losses. Return on net worth was 24.5 percent. On the basis of these returns, Roy concluded that specialized farm supply cooperatives tended to perform better than the average marketing cooperative.

Morris has done extensive research on limited resource farmer cooperatives in Mississippi. His cooperative research deals primarily with Economic Opportunity Cooperatives.[6] There were 123 economic opportunity cooperatives included in his study. The primary objective of the research was "to determine the role that co-ops play in working with limited resource farmers in Mississippi".[7]

Of the 123 cooperatives in Morris's study, 84 percent were classified as farm supply and farm services cooperatives, 10 percent were classified as marketing cooperatives and 6 percent were classified as others.

According to Morris the cooperative provided a number of benefits to both its member patrons and the community as well. Benefits to member patrons included: increased income; crops planted and harvested on time; higher crop yields; better quality of livestock grown; better pest control; and farm program more diversified. Benefits to the community included: cooperative services to nonmembers; increased community income; better school attendance by children; the adoption of new practices; and greater employment opportunities.

The success of the OEO funded cooperatives included in Morris's study was measured in terms of these cooperatives' ability to gain additional initial financing. A small percentage of the OEO loaned funds were in the nature of a grant. It is important to note that by this criteria of success, 97 percent of the cooperatives in Morris's study were successful. Morris believes that these cooperatives were successful because their roles were well defined and followed. The drive to obtain additional members was successful because the cooperatives provided a number of services that member patrons felt were important to their individual farming operations.

Besides those benefits mentioned, Morris listed the following as the primary roles played by the successful OEO cooperatives:

1) "They provided the 'so-called' non-profit or low-profit services to low income people such as recreation centers, nursery schools, children day-care centers and other community services that are normally denied low income people because they cannot be feasibly provided on a profitable commercial basis. Included in this category of services were water and electricity.

2) Cooperatives provided farm machinery and related services that the individual farmer could not afford due to high machinery costs and the small scope of his machinery needs.

3) Cooperatives (supply and marketing) enable low income people to purchase goods cheaper and to market products more advantageously than they could have had such cooperatives not been present.

4) Cooperatives provided training and business experience for low income people. This, in turn, helped to build self-confidence. It further developed the art and practice of citizenship that is useful in a democratic society.[8]

Many limited resource farmers in Mississippi have organized cooperatives without the financial aid provided through OEO and other government agencies. An example of such an independently organized cooperative is the Mileston-Cooperative located in Lexington, Mississippi.

The Mileston-Cooperative is an all-black organization formed abut 1960. It is a marketing cooperative exclusively engaged in the production and marketing of beef cattle. From the time the cooperative was organized until recently Harold T. Bailey was Board President.

According to Bailey, the cooperative, after sixteen years in operation, was making substantial accomplishments. Some recent examples were increases in the number of members with beef cattle, increases in herd sizes, increases in loans to member patrons, increases in members' farm size, increases in herd quality, and increases in management quality.

Bailey attributed the cooperative's success to the following factors: (1) patience on the part of members; (2) selection of an effective staff to plan, organize, and conduct training; (3) not over promising; (4) an educational program that was geared to the local situation, (5) a self help education program was provided, (6) the educations program had a goal of continuing member involvement and ownership and (7) the cooperative provided simple training materials in southern vernacular.[9]

Brown, who is director of the Southeast Alabama Self-Help Association (SEASHA) did a study of efforts of limited resource farmer cooperatives to help their member patrons. There were three kinds of cooperative efforts reported. The ones of concern here are those cooperative efforts related to producing and marketing feeder pigs.

The feeder pig cooperative began with 24 farmers in September 1973. Another 8 farmers joined at the end of the first year of operation. The cooperative had 48 farmer-members in 1975. Over 50 percent of the farmer-members own 20 sows and 2 boars.

The SEASHA received financial support from a number of sources. Included in those sources were: (1) the OEO, (2) Ford Foundation, (3) First National Bank of Montgomery, Ala. and (4) the Presbyterian Fund.

Brown attributed the cooperative's success to the following features: (1) efficient management, (2) efficient production methods and (3) a well organized educational program.[9a]

Londhe and Daniels reported on cooperative efforts by a group of limited resource farmers in South Carolina. A sample of 98 members and 93 nonmember farmers were interviewed. The specific objectives of their study were:[10]

1) to examine the performance of existing marketing and supply cooperatives organized by low income farmers;
2) to determine the characteristics and resources of low income farmers and their attitudes towards farmer cooperatives; and
3) to examine the economic factors that influenced the organization of marketing and supply cooperatives by low income farmers in South Carolina.

Originally there were 10 limited resource farmer cooperatives operating in South Carolina. Of this number, 6 were marketing and supply cooperatives; while 2 were fishery cooperatives. There was one credit union, also one consumer cooperative. Only 4 of the 6 marketing and supply cooperatives were in operation at the time this literature review was made. Vegetable marketing was the major activity of the cooperatives included in their study.

In order to maintain confidentiality, Londhe and Daniels identified the four cooperatives included in their study as C_1, C_2, C_3, and C_4. Cooperatives C_2 and C_4 were stock cooperatives. Cooperative C_4 required that each member purchase 10 shares of common stock before becoming a voting member. Cooperatives C_1 and C_3 charged an initial membership fee of $50 and $25, respectively. Cooperatives C_1, C_2, and C_3 were marketing as well as supply cooperatives, while C_4 was strictly a marketing cooperative.

With the exception of cooperative C_2, all of the cooperatives realized an increase in membership. C_1 was by far the largest of the four cooperatives in terms of membership. There were originally 178 members in C_1. This figure increased to 329. Of this latter figure, 290 were farming at the time of the study.

Cooperative C_3 was the second largest cooperative with a membership with a membership totaling 115. The smallest cooperative, C_4, had only 46 members.

Cooperative success, measured in terms of returns to member patrons, naturally fluctuated from year to year. The year 1972 was not a successful year for any of these four cooperatives. All cooperatives suffered losses ranging from 9 to 57 percent. A low volume of sales with relatively high selling cost was responsible for these losses. The buyers to which these cooperatives sold their products also influenced the size of the losses incurred.

Although success of the cooperatives was limited, members felt that cooperatives benefited members in the following ways: (1) members received better prices, (2) guaranteed market, (3) cheaper supplies, (4) good service in selling, (5) good service in buying and (6) member received other help to increase production.[11]

Another example of an independently formed limited resource farmer cooperative was the Tri-County Farmers Association located in the coastal region of North Carolina. Unlike some of the cooperatives which had the financial support of a number of institutions, the Tri-County Farmers Association was financed exclusively by farmer members.

The cooperative was chartered in April 1969 with headquarters in Whiteville. Its marketing facility was completed in mid-1972. Processing functions were assembling, washing, grading, packing and shipping of cabbage, sweet potatoes, peppers, and cucumbers. The cooperative served small farmers in Bladen, Brunswick and Columbus counties. The typical member of the Association was: (1) a small farmer who had not had the opportunity to understand the marketing process; (2) had little knowledge of market prices paid for products sold, and (3) found it difficult to understand the advantages of orderly marketing.

Reporting on the progress being made by the Association, Rogers noted a number of factors that made the formation of this small-farmer vegetable marketing cooperative necessary. Factors that led to the formation were (1) declining tobacco allotments, (2) rising production costs, and (3) problems in marketing.[12]

Switching from tobacco to vegetable production presented the additional problems of: (1) few buyers, (2) price fluctuations, (3) labor shortages at harvest, and (4) problems in dealing with wholesalers.

The success of this cooperative was measured in terms of (1) increased member incomes, and (2) expansion of the varieties of vegetables. For the most part the Tri-County Farmers Association was highly successful. rogers attributes success to the following factors: (1) maintaining a sufficient volume of vegetables to meet demand, (2) knowledgeable management, (3) production of selected vegetables, and (4) a good educational program.

North Carolina's limited resource farmers also independently organized a feeder pig marketing cooperative. Although this cooperative was originally a low income endeavor, the project evolved into a market alternative for farmers of all sizes in an 11 county area of eastern North Carolina. The cooperative operates a graded feeder pig auction at Albermarle, North Carolina. In an analysis of this cooperative Iglasbe described the advantages to farmers of such an auction as: (1) price is determined by competition from a large number of buyers; (2) prices received are on the average higher than other methods of selling; (3) feeder pigs are sold by weight with no guesswork; and (4) graded pigs were more appealing to buyers.

The feeder pig project has been a successful cooperative effort. It helped farmers, especially the smaller ones, to increase income, produce a better quality product, and market more efficiently and effectively.

Iglasbe attributed the cooperative's success to the following factors: (1) interagency cooperation; (2) members with an active interest in the operation of the cooperative; (3) a well trained manager; (4) well trained co-op fieldmen, and (5) changed attitudes of money lenders.[13]

The Mid-Continent Farmers Association with the aid of the University of Missouri Cooperative Extension Division personnel applied for and received a grant to conduct an action study to determine how cooperatives might more effectively involve low-income farmers. The primary objective of the study was to involve established cooperatives in locating and assisting low income farmers in their efforts to become members of these established cooperatives.

The Mid-Continent Farmers Association, operating with a grant from the Office of Economic Opportunity carried on a project termed TUFF (Teaming Up For Farmers). The project area was in southwest Missouri. This project was aimed specifically at helping small farm operators supplement their income with feeder pig production. A program grant of $58,078, with a federal share of $48,396 and a non-federal share of $9,682, was approved for the first 12-month operating period, July 1, 1970 through June 30, 1971. This period was later extended to December 31, 1971.

Feeder pigs were selected as the livestock enterprise that would most effectively aid small farmers in increasing income. M.F.A., through agreements with the Ozarks Area Community Action Corporation, provided the training and materials that were needed to make the project a success.

Richard Collins, Vice-President, Communications, believes that M.F.A. Livestock Association's cooperative feeder pig program was successful. He believes that the cooperative activity was extremely practical for small farmers because it: (1) utilized unskilled family labor, (2) fitted the rough land usually owned, (3) required a minimum capital outlay, (4) provided early and regular returns to the producer, (5) encouraged efficient production and marketing, (6) yielded a quality product and price, (7) provided a regular market, (8) based service cost on the number of pigs sold, (9) made available technical field assistance and supervision by skilled market managers, and (10) required, by simple contractual agreement, the producer and the cooperative to perform specific duties for the benefit of the producer.[14]

FACTORS ASSOCIATED WITH COOPERATIVE FAILURES

Miller and Jensen did extensive studies of cooperative successes and failures using data accumulated over the period 1863 to 1939. These researchers found a total of 11,272 reasons for cooperative discontinuances or failures. From this list the authors classified those reasons into the following nine categories and in addition gave the percentage of the 11,272 reasons that fell in each:[15]

1) Difficulties with management, 19.8 percent.
2) Difficulties in the field of membership, 19.7 percent.
3) Natural or unavoidable causes (fire, crop failure, etc.), 10.9 percent.
4) Insufficient business for efficient operation, 10.3 percent.
5) Financing and credit difficulties, 9.6 percent.
6) Transportation problems, 9.1 percent.
7) Opposition from competing enterprises, 8.9 percent.
8) Declining prices, 5.4 percent.
9) All others, 6.3 percent.

Knapp did a critical appraisal of purchasing cooperatives. He noted that purchasing cooperatives have a lot of achievements. However, he also recognized that there was much more for them to achieve if they were going to increase their relative position of significance and make their maximum contribution to the nation's welfare.[16] He identified the following factors as major contributors to poor cooperative performance and failure: (1) failure to provide services geared to the real needs of members, (2) low management standards, (3) failure to promote employees on the basis of business aptitude rather than their sociability and loyalty, (4) failure to pay salaries competitive enough to attract effective secondary management, (5) poorly selected board of directors, (6) loose membership policies, (7) failure to include membership in policy development, (8) failure of managers and directors to return saving at regular intervals instead of using such savings to increase net worth or for expansion, (9) failure to recognize and improve poor cooperative performance, (1) failure to adequately study a potential new venture before going into it, (11) too much emphasis placed on bigness, (12) lack of economic planning, (13) failure to invest in needed research, (14) poor public relations, and (15) failure to develop cooperative organizations that continually renew and increase their vitality.

Roy has made the following observations regarding cooperative failures:

Co-op failures are probably no more numerous than failures in other types of businesses. However, it is not so much whether cooperatives fail or not as it is a problem of their not doing as well as they should. What are some of the situations which cause cooperatives to either fail or not reach their full potential?

1) *Poor selection of board members, especially directors who fail to support their own cooperatives.*

2) *Members who join but never use their cooperatives and bypass them for a small gain somewhere else.*

3) *Members who use cooperatives but fail to take responsibility. Each member has to stand ready to accept responsibility when called upon or as the need may arise. Any member has an opportunity to be president of the cooperative.*

4) *Members who never ask questions and who let a few persons make policy.*

5) *Failure of members to attend annual meetings and failure of directors to attend board meetings.*

6) *Lack of consistent membership education in the problems cooperatives are facing and the challenges they must meet.*

7) *Failure to support with enough money to get the job done.*

8) *Cheaply priced management, which is the most expensive item in cooperatives. High-priced management is usually the least expensive.*

9) *Cliques and special interest groups which are not closely watched.*

10) *Concealment of the facts about a cooperative. All facts, both good and bad, should be placed on, not under, the table.*

11) *Errors in financial policy such as over-extension of credit, too little capital, poor accounting records, paying patronage returns too soon and underselling competing stores.*

12) *Errors in educational and social work such as beginning with a membership unfamiliar with cooperation, neglecting educational programs, failure to develop loyalty and development of factions within the association.*

13) *Errors in management such as an inadequate inventory, poor store location, improper equipment, neglected appearance of stores, employee dishonesty, ineffective management, incompetent directors, nepotism, poorly conducted meetings and admittance of disloyal and dissatisfied members.*[17]

FACTORS ASSOCIATED WITH FAILURE OF SMALL FARMER COOPERATIVES

Morris, as you will recall, reported on 123 OEO funded cooperatives in Mississippi. Of this number only 3 percent were failures. This is not to say that the remaining 97 percent did not encounter some problems. These problems, if they are not corrected, could ultimately lead to cooperative failure.[18]

Morris listed the following sixteen factors that were associated with the cooperatives that failed: (1) failure to keep records; (2) unskilled equipment operators; (3) less than capable managers; (4) members' failure to use the cooperative; (5) members do not (cooperate) get along together; (6) failure to collect delinquent accounts; (7) reduced cotton acreage; (8) bad weather; (9) high operating cost; (10) poor care and management of livestock; (11) equipment broke down during peak season; (12) short crops; (13) not enough equipment owned; (14) unable to find needed equipment; (15) used equipment purchased; and (16) service area too large.

Morris, in a more recently published paper, clearly defined those factors associated with those cooperatives in his study that failed as (1) a majority of the members discontinued farming, (2) members' livestock died, (3) machinery and/or equipment was damaged beyond repair, and (4) members decided to liquidate.[19]

In a proposal for a Cooperative Action Program for Southern Low-Income Groups, Bailey studied a number of all-black, low-income farmer cooperatives all across the Black-Belt. He presented his findings at a cooperative planning conference at Mt. Beulah Conference, Edwards, Mississippi, June 9-11, 1966. He summarized the factors associated with the failure of many of these cooperatives in the following manner:

> *"The co-ops are generally acts of hope and vision rather than well-planned economic moves. There is generally no preplanning, no survey taken before setting up the co-ops, and because of racial segregation in the South, there is almost no technical expertise available to low-income groups who are interested in organizing cooperatives".*[20]

Baily summarized the factors that "members of the Mt. Beulah Conference felt were most frequently associated with cooperative failures in their respective areas: (1) "overpromising" -- saying a co-op can accomplish things maybe it can't, (2) absence of the feeling of ownership -- members were not required to put enough money into the co-op to make them feel ownership, (3) difficulties in securing credit to form cooperatives, members felt that FHA's interest rates were too high, (4) fear of joining cooperatives, fear based on experiences of past failures, danger of losing one's resources in a risk venture, the general frontier nature of the rural South--violence, intimidation, and economic coercion in responses to threats to the present entrenched system, (5) illiteracy and semi-illiteracy -- people do not know how to learn how to organize and run cooperatives, and (6) the difficulty of getting the poor to work together.

Roy identified 24 limited resource farmer cooperatives in Louisiana. Of this number, 5 were listed as inactive or in the process of becoming inactive. These cooperatives were not discussed in his study.[21] Although Roy listed no factors associated with failures of the five inactive cooperatives, he provided a list of the major problems encountered by those that remained in operation. Operational problems reported by cooperative managers are listed in tabular form (Table 1).

Table 1. Operational Problems Reported by Limited Resource Cooperatives

Problem Category	Number of Times Cited[a]	Percent of Total
Marketing	20	47.6
Capital	9	21.4
Membership	6	14.3
Farm Supplies	4	9.5
Records & Accounts	3	7.2
	42	100.0

[a]Some cooperatives reported more than one problem.

Many of the researchers who studied limited resource farmer cooperatives did not list any instances of cooperative failures. However, like the established cooperatives, limited resource farmer cooperatives did encounter a number of problems. The problems ranged from problems in management selection to those concerned with membership.

COOPERATIVES SERVING BOTH LARGE AND SMALL FARMERS

Roy's study of cooperatives in Louisiana had the following general objective: "To study the feasibility of incorporating low income farmers into the 28 Established Cooperatives." In order to make such a feasibility analysis Roy gathered from low income farmers information regarding education, sales volume and available capital.[29]

Many of the cooperative managers in Roy's study reported there were low income farmers among their cooperative's membership. There were three main problems that cooperatives managers observed in doing business with low income patrons including: (a) a small volume of business handled or contributed by them, (b) lack of education, formal or otherwise, and (c) lack of use of capital in their farming operations. Managers did not consider low income patrons to be welfare program addicts or bad credit risks.

Some basic cooperative principles were discussed with all cooperative managers in Roy's study. From interviews with these managers Roy concluded that: (a) none of the mangers would lower membership fees to permit low income patrons to join their cooperatives under any circumstances, because they felt that such fees were already low enough, (b) almost none of the managers would change the one-man one-vote principle in their cooperatives, (c) about three-fourths of the managers would not allow patronage dividends to be credited toward membership fees on the grounds that if such practices were followed control of the membership would get out of hand, (d) about 72 percent of the managers interviewed could not, or were not willing to devote funds to membership education for financial reasons or because of the belief that membership education should be left up to a public agency, and (e) the majority of managers were willing to extend more credit to low income patrons if a definite need were shown.

Roy drew the following conclusions in regards to the possibility of small volume farmers operating through the established cooperatives:

> *1. Since low-income farmers presently better fit the structure of farm supply cooperatives than that of the marketing cooperatives, greater results per unit of effort (time, money, etc.) may be obtained by concentrating these efforts on the development of supply cooperatives. It is relatively easier to lower the farmers' costs by the use of supply co-ops than to obtain higher revenues for farm products by the use of marketing cooperatives. This seems especially true for low-income farmers.*

2. *Since so few low-income farmers have access to marketing cooperatives, the Farmers Home Administration and other appropriate agencies should re-evaluate their efforts with a view of improving existing marketing cooperatives and/or making available marketing cooperatives to low income farmers -- especially productive in the case of more perishable produce such as poultry, eggs, fresh fruits and vegetables.*

3. *As far as existing marketing cooperatives are concerned, credit agencies might give consideration to providing financing to low income farmers to allow them to make sizeable investments and join these marketing cooperatives, if the marketing cooperatives will permit. This recommendation is presently significant; because under the Economic Opportunity Act of 1964, the Farmers Home Administration is allowed to lend money for such purposes. It is believed that most marketing cooperatives in Louisiana would be amenable to such action.*

4. *It is evident that cooperative management in Louisiana do not desire or feel the need for changing some of the cooperative principles and laws, such as the one-man one-vote principle; lowering the membership fee, etc. Large farmer-members of cooperatives seem to be contented with the idea of having a vote equivalent to that of the smaller farmers.*[30]

Collins' study of the MFA project did not address the problems involved in serving farmers purchasing different volumes of farm supplies, or selling different volumes of output. The MFA has expressed the belief that the small farmer can be helped through a combination of efforts. These efforts would include: (1) providing for capital needs, (2) providing training for field men of various agencies and cooperatives working with small farmers, (3) providing some financing, management and supervision and (4) conducting a membership educational program which would include field tours, record-keeping workshops, demonstrations and performance oriented awards.[31]

SITUATION ANALYSIS

There are many interrelationships in a business, particularly a cooperative, which when set into motion, resemble a line of standing dominoes that when one falls, in sequence they all may topple. The observation can be made that either each domino fell (an individual action) or they all fell (an action in totality). A similar question and/or observation occurs when a cooperative ceases business...was it because of one particular reason, or did several things occur inter-related to set the co-op's demise into action?

To help address this issue, a hypothetical marketing cooperative, Wildcat Produce Marketing Cooperative, is used to develop six situations that cooperatives frequently face in their early years of incorporation. Influencing factors or causes of a particular situation and resulting potential impacts or effects are emphasized. Any listing of factors or effects is not to imply all things must or even will occur, nor that the listing is all inclusive for that particular situation; after all, a hypothetical cooperative is being described and any representation of an actual co-op's situation is coincidental. These events do occur with such frequency among cooperatives, however, that the example situations described will likely mirror reality for many cooperatives.

Situation I: **Grower(s) face lower than desired harvestable yield per acre.**

Among marketing co-ops, such as Wildcat Produce Marketing Cooperative, the economic soul and success relies on member-growers raising the commodities in sufficient volume so that the co-op generates market clout and recognition; the co-op achieves an efficient economy of scale; the co-op exceeds its costs of doing business with revenue generated by sales for a grower return; and the grower-member retains membership in the co-op while simultaneously encouraging other farmers to become grower-members. What happens to the cooperative when grower-members are experiencing low or less than expected harvested yields?

For the grower, the questions have to be asked as to why the low yield and what is the economic realization? Among the potential factors influencing the situation, especially among farmers with relatively little experience with the commodities, include inadequate farm management planning, improperly completed production practices, error in variety selection, weather (heat, humidity, drought, etc.), pestilence (insects, diseases and virus, etc.), non-availability of labor for timely hand harvesting or prescribed production practices, or inadequate use of irrigation. Relative to the expenditures for producing an acre of produce, the farmer observes cost per acre as budgeted, but cost per unit harvested (i.e., 1-1/9 bushel carton of produce) has escalated. The grower-member's cost of producing a marketable carton of produce is higher per carton with a low yield than a higher yield due to the sunk costs of production being spread over fewer revenue generating units in the marketplace. In turn, the grower's net return from the cooperative is decreased when the cost, and not the selling price, is increased in the equation of selling price minus cost equals net return.

As for Wildcat Produce Marketing Cooperative, a grower's lower harvest yield means a reduced volume of produce brought to the co-op and a commensurate decline in the quantity of produce available to be marketed by the co-op, and a lower than planned revenue for the cooperative. This assumes ceteris paribus conditions (all other things constant or equal). If a reduced quantity (lower than desired) is marketed, certain things happen to the co-op. Depending on the amount of reduction, market clout can be negatively influenced and, with it, the selling price expectation associated with part-loads or insufficient volume for a sale. Within the operations of the co-op, increased average costs will likely occur, although the packout percentage may not be adversely affected, and may even be up. The increase in average variable costs for grading, sorting, packing, storing and marketing a lower volume translates to higher average total costs defrayed by the produce on a per box basis. It is this average total cost per carton of doing business that must be deducted from the selling price to generate a net return per carton from the co-op to the grower (the same one who initially had the reduced harvest).

A reduced produce return (typically a check from the co-op) after the co-op's expenses are deducted from the selling price does little to bolster confidence in the cooperative, let alone increase the grower's cash flow. Because of the grower's increased average production costs per harvested unit, as described earlier, the family has reduced net income from farming (per box net return from the co-op minus the higher per unit production costs results in a lower net "profit" per box sold through the cooperative) and reduced income for family living expenses which heightens the potential for farm family indebtedness. The bottom line is usually increased dissatisfaction with the co-op.

The economic squeeze realized by the grower-member tends to influence decisions for the next growing season. Not atypical responses are to either reduce acreage commitment to the co-op for the coming season in the grower agreement or to drop out of the co-op completely. If either circumstance occurs, the effect on the co-op is a reduction in produce volume to the co-op for the season (and a loss of fees or dues revenue if the farmer completely drops from the membership roster), which starts the process just described all over again.

Since the costs of c-op operation are shared by all grower-members in accordance with their participation, one grower-member's failings are felt by all as the other members experience a prorated increase in their co-op costs as well, as deducted from the selling price on a per unit basis. Consequently, subsequent declines in acreage participation (without new membership or additional acreage by existing members) tend to increase the average total cost incurred by the cooperative which, in turn, is deducted from each grower-member's return from the co-op. A tightening economic spiral ensues, potentially leading to the economic demise of the cooperative if operational corrections are not made.

Situation II: **Cooperative is under-capitalized and/or inadequately financed.**

One of the most frequent occurrences among new cooperatives is to open for business either initially under-capitalized or attempting to operate insufficiently financed through member fees and dues and charges. Examples of why a fledgling co-op might be under-capitalized or inadequately financed include an inadequate feasibility study that failed to perform sensitivity analyses on the market plan, the member participation, the finance sources and amounts, the supply/demand and price relationships, and/or the facility capacity or size needs; too little up-front investment capital; too few members; short-changed dues or fees schedule; facility capacity (and resulting investment) exceeds member or commodity needs; and not enough monetary commitment by grower-members.

Almost immediately, the cooperative experiences cash flow crunch and an inability to perform services expected by members while waiting through the production season for commodity to be handled and marketed. The financial squeeze continues as the co-op borrows additional operating capital, thereby adding to any existing indebtedness. Such signs are not limited to just first year operations as limited resource cooperatives operating on shoestring budgets may find the cash flow dilemma a recurring problem. As a result, total fixed costs may rise.

If the source of financial problems is a mismatch of equipment and facility capacity with production and marketing needs (usually too large a facility for the initial years, even exceeding logical membership growth expectations), total variable costs rise as well. With average total costs per marketable unit higher than necessary or expected these costs are deducted on a per unit (i.e., box, carton, bushel, etc.) basis from the selling price received by the cooperative. This decrease in expected revenue from the co-op to the grower-marketer impacts the grower in the current season, and potentially impacts the cooperative in subsequent seasons, as delineated in the Situation I discussion, through decreased member acreage and volume committed to the co-op and the resulting incremental increases in cooperative costs shared by all remaining growers. Again the economic spiral tightens its strangle-hold on the cooperative.

Situation III: **Improper facilities and under-utilization of cooperative's capacity.**

Another source of rising cooperative expenditures is improper facilities commensurate with member participation. Contributing factors as to why an inadequate facility is being used include poor capitalization/financing; inadequate feasibility study (or failure to heed a good study); too large or too small due to acquiring what was immediately available; make-shift in order to proceed even on a limited basis; undocumented expectations and/or goals with respect to facility use; and mismatched capacity to reasonable needs.

Regardless whether the facility is too large or too small, the cooperative will not be operating at the level of short run cost efficiency, thereby forcing the average total costs above the desired amount. Although the fixed costs may actually be down (too small an investment), variable costs will be up. With an increase in average total costs which must be deferred from the revenue obtained by selling the produce, grower returns net the cooperative expenses will once again fall short of expectations. Once more, the cooperative and its members will fall victim to the vicious circle of lower volumes to the co-op and rising incremental costs influencing smaller grower returns and reduced acreage (volume) for the cooperative to market in following years.

A pattern has developed similar to the one presented in the discussion of Situation I on reduced grower-member volume to the cooperative for marketing.

Situation IV: **Farming diversification and competing farm enterprises.**

The buzzwords of the mid-1980s were diversification and alternative enterprises as farmers everywhere sought new farming activities and income sources to weather the farm crisis. Many marketing cooperatives sprang forth during those years to facilitate marketing of commodities these innovative farmers were producing. However, there was not widespread abandonment of enterprises already grown on the farm, but a diversification which meant more enterprises from the same set of farmer-held resources, including management, time, land, capital, machinery and equipment, and labor.

Although the new enterprises (and horticultural crops is the leading category) offered potential income growth, they also had their drawbacks relative to on-going farming enterprises. For Wildcat Produce Marketing Cooperative, tobacco was the champion competitor among farmers, while Wildcat's sister cooperative Goober Produce Marketing Association found peanuts to be its nemesis. For the more established commodities, contributing factors that stymied expansion into these competing enterprises that are marketed through limited resource marketing cooperatives include farmer or management experience with major commodities; favorable returns with the principal enterprises; stability (yield, income, price, market conditions, etc.); utilization of limited resources (land, labor, time, machinery, capital, managerial skills, etc.); conflict in timing of resource to best or preferred use; and the probable lower investment in production and marketing associated with the established farming activities. All these items lead to an increased reluctance by the co-op's grower-member to commit heavily toward the cooperative with acreage in production.

As a result, a lower than anticipated volume is committed to the co-op, which, in turn, decreases the quantity available to market by the cooperative. Incremental and average total costs attributed to the co-op rise and, consequently, cut into the revenue the grower-member and peers would logically have received net the co-op expenses. And the scenario continues, as described in the Situation I write-up.

Situation V: **Less than optimal management decisions.**

In a cooperative's decision-making activities, the one person who frequently is the only individual who is not a member of the co-op is the manager, although that is not a prerequisite to being a manager. As such, the manager may become the scapegoat for many of the cooperative's problems; at the same time, the manager can either be the cause or perpetuate a problem in the cooperative.

A long list of contributing factors for poor or improper manager decisions is possible. Examples of these causes include unclear role and power of the manager as defined by the board of directors (may lead to an overzealous or self-initiating manager); a weak board of directors in the actual decision-making and goal setting; a poorly financed cooperative initially; personality trait differences between manager and board or manager and members; personnel issues (poorly defined job descriptions and evaluation criteria); an inadequate feasibility study, by-laws, marketing and financial plans or other guidelines to adhere to; no stated quantitative goals and objectives with time lines for reference; too much power vested to the manager for purchasing, marketing and other decision-making activities; operating without a system of checks and balances which can lead to the manager being subject to influence and resulting in cronyism or favoritism; few outside (non-co-op member) participants and supporters as resource personnel in the decision-making activity; and once the cooperative is recognizably in financial duress, a manager's desire and attempt to double up to catch up.

Although the cause-effect relationships are not directly discernable, the net effect of manager error invariably is increased cooperative expenditures. The bottom line becomes one of increased per market unit costs which must be subtracted from the per unit selling price, thereby lowering grower returns to pay farming expenditures and family living expenses. This cut in income from farming can lead to heightened dissatisfaction with the co-op manager, the board of directors and the cooperative itself. The easy solution is to cut back acreage to the co-op next season, which leads to a potential decline in volume to the co-op,...and the economic spiral continues as with the other situations previously described.

Situation VI: **Member misunderstanding of co-op principles or discontent with co-op operations.**

If a player does not know and understand the rules to a game, it is very difficult to perform well and not feel discontent with the outcome. The same analogy pertains to farmer participation in marketing cooperatives. Several contributing sources of member-grower misunderstanding and/or discontent are possible. Included on a sample listing are poor cooperative (board and/or manager) to member communications; member experience and knowledge counter to the cooperative principles; unfulfilled member expectations; co-op rules or operation, by-laws and principles not adequately explained (nor potentially followed by the cooperative itself); mixed signals to the member by the manager, board, Extension, creditors, State Department of Agriculture and even the member himself/herself; not fully appreciating the uniqueness of a co-op (a member owned and operated business, but still a middleman with business expenses to be paid by the members); too many directives affecting individual farming operations (irrigation, pest/disease control, harvesting and quality control procedures); personality issues (member independence, manager, marketer, board of directors, Extension specialists and agents, and other growers); and not comprehending the intertwined relationships one co-op member's performance has on one another.

Any time misunderstanding or discontent occurs, commitment to that particular activity is lowered; and a member's involvement with a cooperative is no exception. In a marketing cooperative, the net effect is potentially lower acreage and quantity of commodity to the cooperative. If additional acreage and volume is not obtained by the co-op to counter this decline, average per unit costs incrementally rise and eventually a lower grower return from the co-op is realized by the member. This only breeds more discontent with the cooperative and the loop between lower volumes and higher costs for the cooperative continues, as presented earlier, and conceivably ends only at bankruptcy or economic extinction of the cooperative.

Summary of Situational Analyses

The following figure displays the interrelationships between the six situations described in the text. Not only does each situation potentially lead to the same internal loop of higher costs-lower volumes, members can see that a compounding effect can occur when multiple situations exist. Consequently, members can be experiencing different situations unbeknownst to each other and the net effect to the cooperative and on each other is the same: higher cooperative costs of operation resulting in lower grower-member returns.

HIGHLIGHTS AND SUMMARY

Cooperative failures are perhaps no more numerous than failures in other types of business. However, because of cooperatives uniqueness and because new cooperative formations are so few compared to other types of businesses, their failure or liquidation appear to be the focus of much public attention. Researchers have identified a number of factors associated with cooperatives that are successful and those that failed. Those factors are summarized in six categories as follows:

Grower's Harvest Wanes

factors: management/production practices
variety selection
drought, heat, humidity - weather
pestilence & disease
labor
irrigation
influence: increases average variable & total costs of production

Competing Farm Enterprises

factors: farming experience
favorable returns
stability (Price, yield, market)
resource availability/use
investment

influence: take a "wait and see" attitude

Under-capitalised &/or Inadequately Financed

factors: feasibility study & plan
membership
fees/dues/charges
investment exceeds needs

influence: raises co-op's expenditures on market unit basis.

Decreased Volume to the Co-op

Decreased Quantity Available to Market by the Co-op.
-diminishes market clout
-raises variable costs/unit
-increases averages total costs which are deducted from selling price
-lowers grower return net the co-op expenses

Decreased Revenue to the Co-op.

Lowered profit per market unit and for enterprise on Farm.

Less money for family living expenses

Heightens potential for indebtedness.

Increases discontent with co-op.

Influences decisions for next season, such as lowering acreage commitment to co-op, or dropping out completely.

Member-Grower Misunderstanding &/or Discontent

factors: communications
experience/knowledge
expectations
uniqueness of co-op/principles
mixed signals
influence: inadequate commitment to co-op

Tainted Management Decisions

factors: role or power of manager
board of directors input
personality
feasibility & plan to follow
outside of co-op resources
influence: increases co-op costs of doing business

Improper Facilities

factors: not matched with needs
make-do approach
capitalization/financing
feasibility
goals/objectives
influence: raises costs of doing business, may lower quality

1. **FINANCING PROBLEMS**

- Too little capital
- Poor accounting records
- Over-Extension of credit
- Paying patronage refunds too soon
- Underselling competition

2. **MANAGEMENT PROBLEMS**

- Lack of planning
- Inadequate financial records
- Over-Extension of credit
- Poor pricing policy
- Faulty product mix
- Poor marketing policy
- Narrow concept of Management functions
- Poor inventory control
- Poor membership relations
- Lack of teamwork between management and directors

3. **MEMBERSHIP PROBLEMS**

- Members who join but never use their cooperative
- Members who fail to support the cooperative with enough money to get the job done
- Members who bypass their cooperative for a small fain somewhere else
- Members who spread misinformation about their cooperative
- Members who never ask questions and who let a few persons make policy
- Failure of members to attend annual meetings
- Failure of directors to attend board meetings
- Members who form cliques and special interest groups that are disruptive

4. **EDUCATION AND COMMUNICATION**

- Failure to communicate co-op principles to membership unfamiliar with cooperation
- Failure to define lines of communication
- Failure to provide training for members and employees
- Failure to provide members with all the facts, both good and bad, about the cooperative
- Failure to listen to members concerns or ideas
- Lack of consistent membership education in the problems facing cooperatives

5. **VOLUME PROBLEMS**

- Inadequate volume of production inputs handled to pay operating costs
- Inadequate volume of products marketed to pay operating cost
- Inadequate volume of a specific product to meet market requirements
- Inadequate volume of products demanded over a specified time period
- Inadequate yields due to climatic and other factors

6. **GENERAL PROBLEMS**

- Starting co-ops for political - vs - economic reasons
- Co-op over-promising and not delivering
- Co-op established without feasibility studies
- Cheaply priced management
- Failure to change co-op mode of preparation in response to changing markets
- Conflicts between board and manager
- Failure to follow co-op principles

This discussion of the why's of cooperative failure should not imply that co-ops and the membership in them is bad or problematic quite the contrary. The formation of cooperatives and active committed participation in them has benefits for the farmer-members, the rural communities, and the customers or consumers of the goods and services provided by the cooperatives.

BENEFITS TO FARMERS

- Ownership and democratic control
- Increased farm income
- Improved service
- Quality of supplies and products
- Assured sources of supplies
- Enhanced competition
- Expanded markets
- Improved farm management
- Legislative support
- Local leadership development
- Family farmer control of agriculture

BENEFITS TO RURAL COMMUNITIES

- Added community income
- Stronger rural communities
- Goods and services to non-farmers

BENEFITS TO CONSUMERS

- Quality products
- Varied services
- New products and processes
- Lower production and marketing costs
- Improved the general welfare
- Benefits to people overseas

Reenterating a statement from the introduction to this paper: there are different and identifiable factors associated with cooperatives that are successful and cooperatives that failed. By studying the literature review and the situation or case analyses, cooperatives' members, managers and boards of directors should gain insight as to key elements in their business to monitor for successful operation and efficiency.

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