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In This Issue:

Agricultural Cooperatives



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TABLE OF CONTENTS

| | |
|---|----|
| A Framework for Training and Assessment of the 21st Century Cooperative John Park, Diane Friend, Greg McKee and Matthew Manley | 5 |
| The New Role of Agricultural Cooperatives in Pooling and Distributing Tax Deductions Phil Kenkel, Greg McKee, Mike Boland and Keri Jacobs | 16 |
| The Emergence of GICL, the Graduate Institute of Cooperative Leadership: Engaged Scholarship, Theory and Practice in Cooperative Education Michael L. Cook | 24 |
| Livestock Marketing Cooperative Benefits in the 21st Century Greg McKee, Jay Parsons and Phil Kenkel | 34 |
| Governance in Agricultural Cooperatives Michael Boland | 42 |
| <i>Featured Paper</i> Value of Migratory Bird Recreation at the Bosque del Apache National Wildlife Refuge in New Mexico Christopher Huber and Natalie Sexton | 52 |

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WEF

Western Economics Forum

Letter from the Editors:

The agricultural sector is complex due to the interactions of the biological, ecological, economic and institutional systems associated with it. WEF focuses on these issues with relevance and importance to the Western United States. To this end, the WEF provides a forum for economists and other thought leaders to participate in such discussions with articles related to food, farms, ranches, resources, institutions, communities and other related and applicable topic areas.

Guest editors are invited on an issue-by-issue basis. WEF is a semi-annual publication with each issue intended to address a specific topic area. Individuals and groups are encouraged to contact any member of the WEF editorial team with their ideas or proposals for an upcoming issue. If you know a group or want to become a guest editor, please call, email or visit with us at a meeting. We, the editors, are excited to work with you to help you be a guest editor, develop your topic and produce an issue. Topic areas must be relatable and relevant to the Western United States. This does not mean that the research, case study, or work occurred in the region, but that it has applicability and connectivity to Western US agricultural and natural resource issues. For instance, a series of papers about water might include the impact of various water policies throughout the world and how they relate to similar challenges in the Western US.

Individual papers may be submitted and are referred to as guest submissions. These guest submissions are welcomed but subject to space availability and the editorial team's approval. Individual submissions must be accompanied with at least two viable recommendations for potential referees including their contact information.

Authors should generally follow the formatting guidelines for the Journal of Resource and Agricultural Economics, <http://www.waeaonline.org/publications/jare/submission-guidelines>). Submissions must be in MS WORD with authorship only identified on a cover page. All submissions are subject to double-blind review. Reviewers may receive a PDF version, a cleaned MS WORD document or other format with authorship removed. Guest editors are responsible for making sure the papers authored by their group are peer reviewed.

Articles are normally expected to be approximately 2,500 words (maximum and minimum length is at the discretion of the editors). There is no fee for submissions or publication. Papers and topics may cover any issue related to agriculture and natural resources including but not limited to production, marketing, financial, business, institutional, food and specialty crops, regulatory issues etc. All works of the journal should be created to appeal to a wide audience of many different backgrounds, education and disciplines. As a professional forum, it is implicit that all works are original, professional and defensible based on current scientific standards.

Foreword

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The first two decades of the 21st century have seen a rapid realignment of the food and agriculture sectors with significant implications for cooperatives (co-ops). The pace of these changes are remarkable in terms of their breadth and depth. Consolidation has accelerated at each link in the value chain, from the producer all the way to the retailer; international markets have become the destination for an ever-growing share of U.S. agriculture; and consumer demands are driving change all the way down to the farm gate.

Co-ops have not been immune to any of these trends. As we look toward the 100th anniversary of the Capper-Volstead Act in 2022, co-ops are evolving as rapidly now as at any point in the past century. However, throughout this period, providing value to their producer-owners remains at the core of the co-op model. The essays in this volume put a spotlight on how co-ops are accomplishing this in the 21st century and form a valuable resource to help guide co-ops and their members going forward.

A Framework for Training and Assessment of the 21st Century Cooperative

John L. Park¹, Diane Friend², Greg McKee³ and Matthew T. Manley⁴

Abstract

The training of a board of directors for a cooperative business often focuses on the fiduciary duties and skills needed by the cooperative. However, this focus fails to recognize that high performing boards, which are comprised of individuals dedicated to self-improvement, strengthen the cooperative structure. This article presents a framework for cooperative governance, which is characterized by three levels: self, board, and cooperative. The authors suggest a more robust and holistic approach to director training.

JEL Classification: A290, D020, L310

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Introduction

Many say cooperatives exemplify the economic engine of rural America. They play an important role in the sustainability of their farmer members as well as the communities in which they reside.

Governance of these businesses lies in the hands of a few farmers who serve as a board of directors for their organization. There are no qualifications for board membership other than membership in the cooperative and an election by their peers. Thus, we may ask, are board members equipped with necessary governance skills? In general, farmers are business-minded and likely run successful farming and ranching operations. However, are they truly prepared to govern an organization worth millions of dollars in assets that operates in an unfamiliar sector of the supply chain? Are they prepared to provide professional oversight, or make complex decisions and predict global trends? If not, what training is necessary to produce effective governing skills and abilities? Additionally, what governing competencies should be established and assessed to measure performance levels? These questions are the basis for this article, which provides a governance competency framework for cooperative board member assessment, training and development.

As a business model, the cooperative is often identified as having unique challenges to management and governance. These challenges generally stem from the inherent conflicts of interest that accompany customer ownership. A cooperative's board of directors may understand and faithfully execute their fiduciary duties. However, board members are also owners and customers who are constantly responding to the influences of these competing identities. Further, a proper balance between company and customer may be difficult to achieve for a cooperative whose current members are removed from the initial motivations for formation. They have not experienced participation in a marketplace where the cooperative did not exist, and may not perceive the long-term value of the cooperative's existence.

However, the challenges of cooperation are not limited to conflicts of interest. Several other subtle aspects of customer ownership exist which might present challenges (Park, 2018). Consider these:

1. Board members are elected from among the customers whose experience may be limited to production.
2. Board members are all successful managers of their own operations.
3. Members of the cooperative expect equal treatment and a strong culture of cooperation exists among cooperatives.
4. Board members may have little to no previous experience or training in interpersonal skills.

First, consider the implications from the board of directors being elected from among the membership. Since membership is limited to farmer users of the cooperative, board members tend to have similar types of experience. Therefore, the board may be limited in its breadth of collective skills compared to an independent firm. Some cooperatives try to overcome the lack of skills by changing their board structure to allow board appointments from outside the membership. Nonetheless, small, rural cooperatives may still be limited in their ability to appoint outside members.

Next, cooperative members, and therefore board members, are most familiar with managing farm production, which results in additional problems. Due to familiarity with the manager role, board members may be tempted to step outside their role as director and make managerial decisions.

Further, they may not fully comprehend the managerial decisions and financial considerations for a business focused on supply, processing, or marketing. Competitive considerations such as margins, pricing, or handling accounts receivable for a channel intermediary can be very different than those faced by a producer of farm commodities.

Finally, the culture among many cooperative businesses includes the expectation among members to be treated equally. Even when members are educated and accepting of equitable treatment as opposed to equal treatment, a sense of fairness persists that may limit a cooperative's pursuit of certain customer segments. This extends as well to competition among other cooperatives. The traditional principle of cooperation among cooperatives may hinder a board trying to strategize on how to expand its business and customer base.

Evidence suggests negative consequences when directors do not have much experience or training in the skills to overcome these challenges. The inability to form and communicate a cohesive strategic plan can lead to buyouts of member equity (McKee and Jacobs 2018), diminished ability to participate in CEO succession transitions (Froelich et al 2011), and reduced strategic continuity during periods of CEO succession (McKee et al 2019) or during major innovations in policy (McKee and Kagan 2015).

Board Training and Development

An approach to board member training that also includes individual and team development may be an effective means of strengthening the ability of directors to perform functions associated with their fiduciary duties. Can the board accurately represent member preferences? Can the board facilitate development of a relevant strategic plan? Can the board credibly monitor business and managerial performance? If so, the board becomes a resource that delegates authority and preferences from the membership to the management team, while credibly monitoring performance. As individual board members increase their functional leadership, they can influence the governance capacity of the larger board, and ultimately the performance of the cooperative, thereby earning the trust of the membership.

Traditionally, the framework for training cooperative board members is built around fiduciary duties, namely the duty of care, the duty of loyalty, and the duty of obedience. Fiduciary duties imply that a board of directors will act in good faith, with all due diligence, and in the best interest of the cooperative. These implications must be carried out in a manner which supports the stated purpose of the organization and remain compliant with bylaws, statutes, and regulations. As a result, board members are trained to conduct meetings, set policies, review financial data, and become knowledgeable about legal considerations. These are critical topics for training individuals to fill the role of a director, yet they are insufficient for developing the capacity to excel in that role. Thus, topics for board member development could also devote explicit attention to monitoring how their individual capacities affect their personal ability to influence board discussion, culture and function, and to remain credible with the membership (Engelke and Park 2008).

Governance Competencies

Given such personal and interpersonal skills are desired, we suggest converting them into attainable competencies of governance. To become an effective cooperative director, certain skills must be employed with intention and motivation to reach the highest level of performance through behavior

and action (Northouse, 2017). By establishing baseline competencies, directors can rise to leadership levels by enhancing their overall capacity to grow and develop.

Governance competencies performed by individual board members are defined as certain acquired skills and abilities needed to perform governing roles. To be proficient, a director must exhibit a sufficient level of leadership efficacy. Collectively, proficient directors perform effective governance and act in the best interest of the organization. Identifying what is “effective governance” and measuring director competencies is the centerpiece for what we are suggesting as a multidimensional approach to governance. According to Peter Drucker (2008), making a corporate board effective requires “spelling out its work, setting specific objectives for its performance and regularly appraising performance against those objectives”.

Then, if the question is how to improve influence and credibility, board members need a mechanism by which they can assess the quality of their functional leadership. Board training and assessment should provide an opportunity for board members to reflect on the consequences of processes and structures of the board on its scope of influence.

We suggest that a more robust, effective, approach to board member training would be to expand the topics on roles and responsibilities, to include topics on personal, board, and organizational development. Further, we expect that boards, as a whole, may face certain challenges when specific skills are missing from the composition of directors. We offer a more holistic framework for board of director training and subsequent assessment.

Theoretical Foundation

The theoretical foundation for this article is found by drawing upon approaches, models and theories found in economic, business and leadership literature. However, it appears a significant gap exists in the literature specific to cooperative governance; how it is assessed and what training is needed for certain skills and competencies. Most of what we know about cooperatives is in the realm of operational process and financial and economic performance (Hueth & Reynolds, 2017; Hamstreet, 2006; Hogeland, 2008; Cook, 1995). One seminal study looked at commitment and loyalty in cooperatives as a “multidimensional construct with emotional or affective and behavioral components”, (Foreman & Whetten, 2002). This supports our contention that a complex set of skills and abilities are needed for boards of directors to lead the cooperative organization.

Widely recognized as one of the most applicable leadership approaches is *Situational Leadership Theory* developed by Hersey and Blanchard (1985). Defined by Levi (2017), Situational Leadership Theory links a leader’s behavior to characteristics of the team. This theory relies on the premise that different situations demand different kinds of leadership style, ability and skill. We can see its relevance in cooperative boards of directors, in which it prescribes developmental abilities and assumes the important goal of building capacity to develop the effectiveness of the whole team (Levi, 2017).

Another model recognized as an essential leadership concept is an *Emotional Competence Framework*. This framework includes two key dimensions of personal and social competence. According to Goleman (1998), using an emotional intelligence yardstick to measure how well we handle ourselves and influence others, is increasingly important to leading people. The great divide in competencies resides between the heart and the mind, or more technically between cognition and emotion (Goleman, 1998). By combining thoughts and feelings, cooperative directors may have the potential for learning the practical skills of self-awareness, motivation, self-regulation, empathy and

adeptness for relationships. These translate into on-the-job governance capabilities which have shown optimum levels of deeper leadership understanding and performance.

A Multidimensional Framework for Training and Assessment

If the training of directors should include the development of interpersonal skills, we suggest that governance of a cooperative is more than the actions and decisions of the board of directors in fulfillment of their duties. The actions and outcomes of governance are important, but do not fully describe the ability of an individual director to perform their duties. Consider that in the course of governance, a highly effective director is one who is able to properly influence themselves, the board, and ultimately the cooperative.

We refer to these levels of governance as simply, Level 1 (influence over self), Level 2 (influence over other individuals and the board), and Level 3 (influence over the cooperative organization). Beginning with Level 1 Governance, we recognize that an effective board member must be aware of their own perceptions, abilities, and biases as they interact with the world around them. Level 2 Governance is characterized by the ability to understand and build connections with others, leading to greater group effectiveness. Finally, Level 3 Governance represents the ability to develop the identity and sense of duty that allow the board member to unite others in a common cause. In short, Level 1 Governance is centered on the self, Level 2 Governance is centered on board relationships, and Level 3 Governance is centered on the cooperative organization.

Levels of governance are further defined by the beliefs formed from our individual abilities, experiences, and personality as well as the ways in which we act on those beliefs. As a result, we can describe levels of governance in terms of both belief and action.

Both belief and actions are expressed differently as we progress to higher levels of governance. As belief progresses from self to board to cooperative, it is expressed as consciousness, connectedness, and representation. As action progresses from self to board to cooperative, it is expressed as conduct, teamwork, and collaboration. Thus, our complete framework for governance is described by six key factors resulting from an expression of belief and action for each of the three levels of governance. They are namely, consciousness, conduct, connectedness, teamwork, representation, and collaboration (Table 1).

This framework provides an organized approach to board training and assessment. The framework also recognizes that the ability to influence successful outcomes of the cooperative starts with the individual board member. In other words, we suggest a cooperative is made financially stronger when governed by an informed, engaged board composed of individuals who can effectively work together. It is counterproductive to discuss and make plans to improve board governance without focusing on the individuals involved.

Table 2 summarizes Level 1 Governance. Level 1 recognizes that each board member has an opportunity to contribute to the culture and function of the board through their own preparation. Participation in training can instill the belief in the need for awareness of elementary knowledge about board function and operations. This belief can lead to actions that optimize the board member's engagement in goals and learning. Outcomes of these actions include increased candor in board discussion and trust in personal contributions to board function. Board members should want to know, via self-evaluation, the current status of the critical skills associated with influence over self.

Table 3 summarizes Level 2 Governance. Level 2 Governance recognizes that individual directors may use training and evaluation to improve their skills for contributing to the function of

the board as a whole. Participation in training can reveal to new directors that they cannot act in the boardroom as single-issue directors. Training might also enhance their understanding of the complexities of business operations in the cooperative, or feelings of loyalty via participation in democratic decision-making. Actions resulting from these beliefs include greater engagement with other directors to consider key issues or to participate in board conversations motivated by a sense of accountability. Board members may choose to obtain information about board-wide influence skills on a periodic basis. Board members may also want to assess their influence skills for more targeted questions, such as the fulfillment of selected strategic objectives.

Level 3 Governance (summarized in Table 4) is associated with a board's ability to develop a board culture of representative collaboration. The board must attest to the quality of managerial and business performance in reporting to the membership. Thus, through regular training, board members may come to realize that adherence to fiduciary duty satisfies the basic requirements of stewardship to the membership. Boards act on this belief by collaborating with the membership to determine which goods and services are to be provided by the firm and in what manner. Board members also collaborate with the membership and the management team by preserving boundaries between the board, membership, and employee roles. Each role is a center of power in the cooperative and the board performs a critical function by establishing a culture that promotes organizational trust and integrity.

Board Assessment

We want to be clear that we are not suggesting a system for board *rating*. This is not intended to provide a statement for comparing the effectiveness of one board to another or one director to another. It is a natural tendency to hear the word "assessment" or "evaluation" and equate this to some kind of statement on quality or worth. Rather, our philosophy is that each director brings a unique contribution. As such, a cooperative board should celebrate their strengths, identify their shortcomings, and make plans for improvement. Our vision for assessment is to provide a tool that will open the eyes of directors to overlooked or neglected skills and characteristics, and help prioritize training efforts.

The Multidimensional Governance Assessment (MGA) has been developed following the framework presented here. Currently, the MGA is being tested and refined among select agricultural cooperatives in Texas. The primary goal of the MGA is to promote a more holistic view of director competencies and subsequent training. A greater awareness of one's ability to influence self, board, and cooperative can strengthen board interactions and ultimately firm performance. However, the MGA, like the framework upon which it rests, has the potential to provide benefits beyond self-improvement. We predict the MGA will prompt boardroom discussions to improve teamwork and accountability among board members. Also, as assessments are completed, we will collect data to provide industry benchmarks. Importantly, such data could help identify and prioritize topics for training by the Texas Agricultural Cooperative Council and other trade associations. An interesting potential for future research could be the identification of competency patterns within boards, and whether they are helpful or problematic to firm performance. We expect to see improved organizational effectiveness and a greater understanding of cooperative governance as a result of these efforts.

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Table 1. Multi-Dimensional Framework of Cooperative Governance

| Level of Governance | Beliefs | Actions |
|-----------------------|----------------|---------------|
| Level 1 (Self) | Consciousness | Conduct |
| Level 2 (Board) | Connectedness | Teamwork |
| Level 3 (Cooperative) | Representation | Collaboration |

Table 2. Level 1 Governance (Realm of Influence: Self)

| | Competencies | Prospective Evaluation Statements |
|---|--|---|
| <p>Belief: Consciousness <i>The quality or state of being aware especially of something within oneself.</i></p> | <ul style="list-style-type: none"> • Understanding of your personality and preferences for communication and work. • Understanding how you respond to stress and conflict. | <ul style="list-style-type: none"> • I quickly realize when my thoughts are turning negative. • I am open to feedback during discussions with other board member. • I can articulate feelings and emotions appropriately during meetings. • I am guided by my internal beliefs and value system rather than what others think and do. |
| <p>Action: Conduct <i>A mode or standard of personal behavior especially as based on moral principles. The act, manner, or process of carrying on.</i></p> | <ul style="list-style-type: none"> • Goal setting. • Attitude of constant improvement. • Committed to learning. | <ul style="list-style-type: none"> • I can reflect and learn from my mistakes then move on. • I will take a tough, principled stand even if it is unpopular. • I will challenge unethical actions of the board when needed. • I think clearly and stay focused under pressure when the board has to make tough decisions. |

Table 3. Level 2 Governance (Realm of Influence: Board of Directors)

| | Competencies | Prospective Evaluation Statements |
|---|---|---|
| <p>Belief: Connectedness <i>A feeling of belonging to or having affinity with a particular person or group.</i></p> | <ul style="list-style-type: none"> • Being aware of the feelings, body language, and preferences of others. • Exemplifies proper confidentiality, loyalty, dependability. | <ul style="list-style-type: none"> • I demonstrate empathy with others' feelings. • I freely share my feelings and thoughts with others on the board. • I encourage open communication around me. • I will challenge bias and intolerance by speaking up when needed. |
| <p>Action: Teamwork <i>Work done by several associates with each doing a part but all subordinating personal prominence to the efficiency of the whole.</i></p> | <ul style="list-style-type: none"> • Comes prepared for board meetings. • Accountability to board. | <ul style="list-style-type: none"> • I try to help others to develop their strengths. • I help others to see the best in themselves. • I actively seek ways to resolve conflicts in board meetings. • I am helpful, honest and courteous with other board members. |

Table 4. Level 3 Governance (Realm of Influence: Cooperative Membership)

| | Competencies | Prospective Evaluation Statements |
|--|---|---|
| <p>Belief: Representation <i>The action or fact of one person standing for another so as to have the rights and obligations of the person represented.</i></p> | <ul style="list-style-type: none"> • Fiduciary duties (care, obedience, loyalty, good faith, disclosure). | <ul style="list-style-type: none"> • I am a loyal member of the cooperative in good standing. • I strive to meet other members and learn about their needs. • I try to raise the morale of others on the board and make them feel good about serving the cooperative members. • I strive to adhere to the policies of the cooperative. |
| <p>Action: Collaboration <i>The enabling of individuals to work together to achieve a defined and common business purpose.</i></p> | <ul style="list-style-type: none"> • Setting policy. • Establishing strategy. • Maintaining the division of roles between manager and directors. | <ul style="list-style-type: none"> • I am informed on the cooperative's operations as well as its competitors. • I strive to understand the financial status of the cooperative prior to board meeting. • I understand the strategic plan of the cooperative and strive to fulfill it. • I consider the needs of the cooperative above my own in boardroom decisions. |