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In This Issue:

Agricultural Cooperatives



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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.

The Emergence of GICL, the Graduate Institute of Cooperative Leadership: Engaged Scholarship, Theory and Practice in Cooperative Education

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Introduction

By the 1950's, the United States agriculture sector was populated with more than 10,000 marketing and multipurpose cooperatives – a new institutional form of organization born in the early 20th century. Enthusiasm and the intellectual attractiveness for this producer-owned and governed institutional form of collective action was beginning to wane. Agricultural economists, the primary source of research on the impact and competitive role of cooperatives in an increasingly globalized and industrialized food and fiber sector documented the consequences of increased rivalry in numerous subsectors and supply chains. However, their interests were usually limited to the mezzo level (market structure) and seldom expanded to the micro-analytic level of how strategic behavior of these patrons, rather than investor-owned entities, impacted farm decision making and subsequent governance behaviors of their user-owned cooperatives. Agricultural economists noted cooperatives' positive impact in establishing countervailing market power in output and input markets, particularly at the first handler and increasingly in some of the upstream and downstream processing and manufacturing sectors. Many Nourse inspired, multi-purpose local cooperatives organized into vertically integrated supply chains, particularly in the capital-intensive input industries including petroleum, fertilizer, and chemicals. These multi-purpose federated regional cooperatives had also integrated into grain handling, terminal elevator storage, and commodity trading functions as they extended their reach into the global markets by beginning to acquire export facilities. Additionally, mid-century, Sapiro influenced, single commodity, centralized market-processing cooperatives were well known for their established brands supported by well-coordinated value chains. Meanwhile, academics were involved in debating the Helmberger-Philips discussion of whether a cooperative should be analyzed as an extension of the farm or a separate firm. For the more developed multipurpose and vertically integrated marketing cooperatives, scaling up was the challenge they faced, not starting up. The start-up cooperative role of ameliorating the negative consequences of imperfect markets and the accompanying market failures was accomplished already and cooperatives were now seen by non-cooperatives as rival firms. Consequently, for survival reasons, general managers and boards of directors were incentivized to behave in a more strategic manner. However, university researchers, particularly agricultural economists trained to study markets and market performance, paid little attention to the unique skills and traits and the accompanying tools needed to manage, lead, and govern these patron-owned and controlled entities

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(there were exceptions, particularly among extension personnel). However, there were exceptions, particularly among extension personnel who utilized investor-owned firm analytical tools rather than multiple objective approaches needed to understand more clearly the complexities of cooperative entities. This was the cooperative knowledge creation and dispersion environment in 1970.

The Birth of Executive Education for Cooperative Leaders at the University of Missouri

By the late 1960's Howard Cowden, former employee of MFA Inc., (one of the first Midwestern multipurpose cooperatives founded in 1914) and later founder of Farmland Industries, observed the aforementioned trends. He noted the need for more sophisticated governance and management training, thus starting a management and governance division in the Farmland Industries training complex in Kansas City. He also noted the decrease in allocation of monies being appropriated for research and extension services to cooperative education efforts by state and federal governments. After several years of observing the output of Farmland's training efforts, he determined that the training should include more research-oriented findings. As a result, the Cowden Foundation was instructed to provide funds to the University of Missouri to initiate a research-oriented executive education program to provide applied research-generated learnings to more cooperative managers through an advanced set of education experiences. Thus, the Graduate Institute of Cooperative Leadership (GICL) was created in 1971. This initiative was led by Elmer Kiehl, Dean of the College of Food, Agriculture, and Natural Resources, Professor Charles Cramer, head of the Agriculture Economics Department, and Randall Torgerson, a newly minted assistant professor in agricultural economics from the University of Wisconsin. The GICL was governed by a fifteen person Board of Trustees, which was elected and selected from leading rural cooperatives in the United States.

Evolution of the Graduate Institute of Cooperative Leadership

Initially, the primary outputs of GICL programs were directed towards middle and upper middle cooperative management. The program outputs emphasized on fostering, nurturing and embedding a culture of flexibility comfortable with rapidly consolidating and globalizing the agriculture sector (Cramer, 1994). During the first twenty years, GICL practiced different program formats, contents, curriculum designs and leadership portfolios. Meanwhile, Cowden's endowment inspired other agricultural cooperatives to invest more heavily in cooperative education. Feedback from GICL training programs inspired board chairs and CEOs to request the establishment of an executive education program for cooperative senior leadership. Thus, the Chair/CEO Program emerged in 1982. In addition, they funded the first endowed chair in cooperative leadership at the University of Missouri in the College of Agriculture, Food, and Natural Resources. The chair was named after Robert D. Partridge, the former CEO of the National Rural Electric Cooperative Association. Subsequently, further named professor positions were established at the University of Missouri commemorating past cooperative leaders: William Hirth, the first CEO of MFA, a successful Missouri cooperative, which is currently 105 years old; Fred Heinkel, the second CEO of MFA; Howard Cowden, the founder of a GICL endowment and founder of Farmland Industries; and, in 2016, the MFA Professorship in Agribusiness.

In the early 1990s, the GICL Board of Trustees and the University of Missouri were determined to experiment with a more research-informed and theoretical approach to cooperative education. This purpose and culture change launched GICL toward a new abductive approach to executive education. The endowments and the net revenues generated enough cash flow to hire experienced professional staff and attract highly motivated and qualified PhD students. Visiting scholars and professionals from around the world with interests in organizational design and new industrial economics developed a critical mass of

institutional theory. The institutional theory developed new research programs and generated an innovative theoretical and conceptual platform from which emerged a dynamic micro-analytical executive education framework (Cook, 1995). Concepts developed by Oliver Williamson, Bengt Holström, Elinor Ostrom, Douglass North, Herbert Simon, Richard Thaler, Oliver Hart, Leonid Hurwicz and James Buchanan challenged a number of neoclassical economic assumptions. These concepts paved the path to introduction of incentive concepts, self-seeking behavior with guile, and the inability of transactors to know all attributes of a transaction. Insights from institutional and behavioral economics, psychology, sociology, political science, law and anthropology allowed for a more realistic analysis of the complexity of patron-controlled entities such as cooperatives. By the mid-1990s, the GICL Process emerged and informed the development of the Life Cycle Framework.

Figure 1.



This institutionalized framework created a dynamic learning ambience among staff, students and scholars. This process evolved in a dynamic, abductive form and resulted in the GICL outputs. The GICL outputs include Summer Institute, Board Chair/CEO, workshops, customized programs, graduate seminars and undergraduate courses. Each program fosters new networks that in turn generate additional research ideas and stories as well as student opportunities. These research ideas and stories are shared with academic colleagues in social sciences and management studies. These exchanges inform conceptual model development, leading to empirical testing and academic outputs. The testing and outputs are translated into practitioner language utilized in teaching, case studies, histories and stories, which are embedded into the subsequent outputs. This circular and dynamic approach has fostered a growing, multidisciplinary, collaborative enthusiasm for studying and analyzing complex group action.

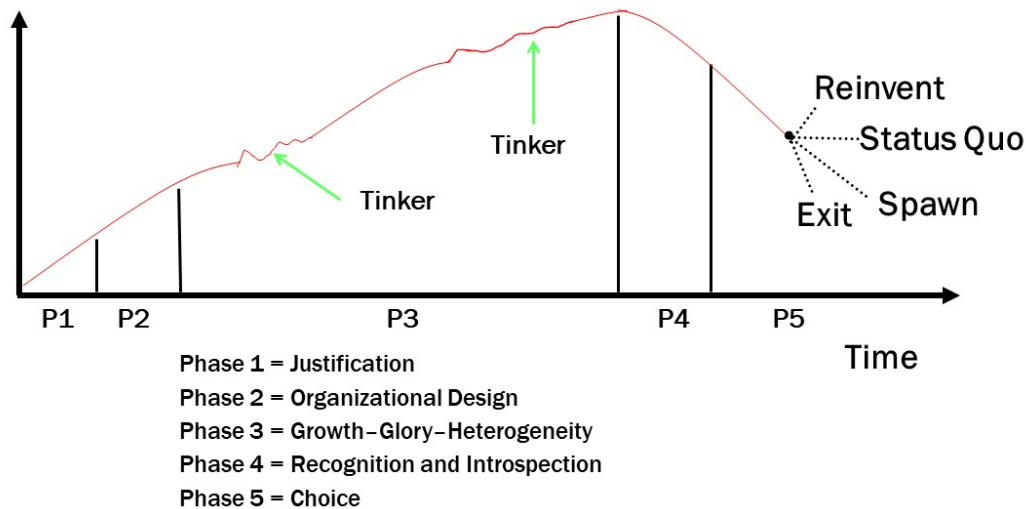
The basic platform employed in these varying cooperative education efforts is the 'Cooperative Life Cycle Framework' (Cook, 2018). The life cycle framework is the result of interaction between cooperative management, board of director participants, organizational social science and management scientists. The framework divides the evolution of a cooperative life cycle

into five separate and sequenced phases (see Figure 2). The framework is the result of 25 years of iterative sessions with more than 5,000 engaged practitioners. The primary purpose of the framework is to serve as a guide for starting up cooperatives.

Figure 2.

Cooperative Life Cycle

Health of Cooperative



Phase 1, economic justification, discusses producer reasoning behind the decision to enter the costly process of determining whether collective action is justified. During phase 2, organizational design, producers determine the legal-business-organizational model that best fits their group's needs and preferences. Next, the rules of the game are decided: responsibilities, benefits, penalties, adjudication processes, purpose, cooperative health and performance measure(s).

Once the organizing phases are complete, the cooperative enters phase 3, which is designated as the "growth, glory and heterogeneity" phase. In this phase, the decision-makers address the rate of growth or non-growth, the glory and success achieved, and disagreements generated by the heterogeneity of preferences emerging as time passes. Potential disruptive frictions may result from the broad and diverse objective functions of members and agents in a patron (user)-owned and controlled entity embedded in the performance metrics. These frictions must be ameliorated if the cooperative is going to continue meeting member needs. External disruptions may occur by rivals within the industry or by macro phenomena such as trade, economic or political policy shifts and/or intra-firm frictions. We find that the surviving cooperatives develop a collective process called 'cooperative genius' associated with the longevity of agricultural cooperatives in North America. However, compromise is not always attainable and subgroup frictions turn into rudiments of factions. At this stage of phase 3, cooperative leaders assess what probabilities exist for cooperative survival. To assist with making this decision, the cooperative engages in an introspective analytical process charged with determining what factors give rise to the collective decision-making cost frictions and sometimes resultant factions.

During this introspective phase 4, root causes of these friction/faction disturbances are identified. Disturbances usually emanate from a set of unique cooperative structural characteristics embedded in capital constraints and control/governance policies and practices. Generic solutions – in the form of realigning user incentives, policies balancing supply and demand, member retention investments and transparency practices – that have the potential to regenerate the level of cooperative health are also evaluated (Cook and Iliopoulos, 2016).

Having identified the causes and potential solutions in phase 4, the membership moves toward deciding the future of the cooperative in phase 5. Members have the following options: (a) exit through liquidation, merger or bankruptcy; (b) maintain the status quo with little or no change; (c) spawn; and/or (d) reinvention or significant overhaul. If patrons reject the exit, status quo or spawn options, reinvention is chosen.) Reinvention occurs when one or a combination of the following elements occurs, each of which will vary across business entities: (a) modification to residual claim rights or rules that determine who receives what proportion of the earnings/savings; (b) readjustment to control rights that define how votes and power are distributed; (c) a significant change in the purpose of the cooperative; or (d) a dramatic shift in cooperative culture and/or mindset.

Cooperative Life Cycle Longevity

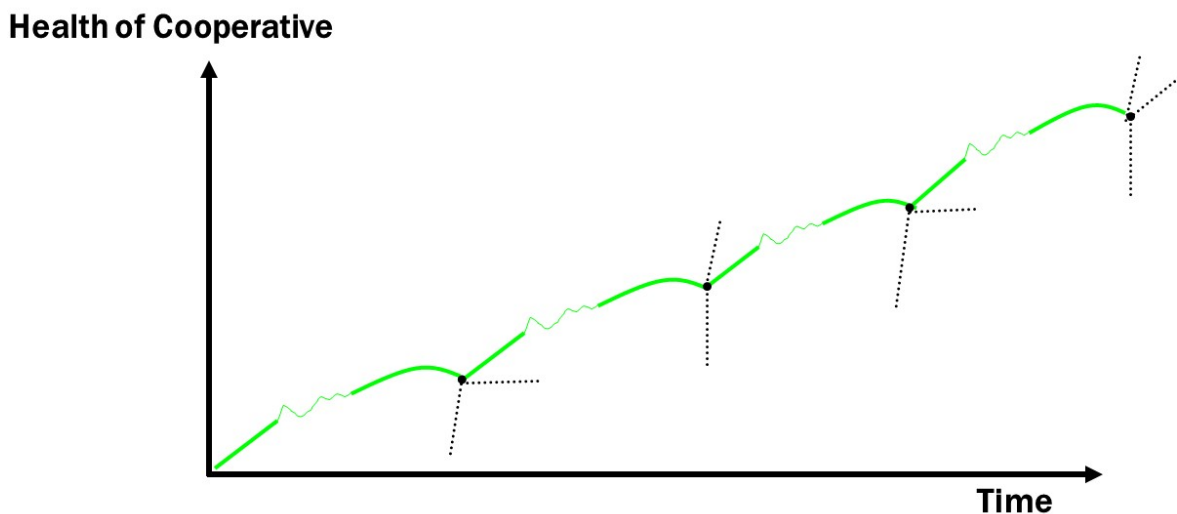


Figure 3.

GICL participants engage in studying, discussing and interacting at each phase. This exercise takes approximately 30 hours at the Summer Institute session (times vary at workshops, graduate seminars and customized exercises). Participants are divided into two teams: one is a similar function team and the other is a similar or related cooperative team. The assignment at the end of the program is for the participants to draft their cooperative's most recent life cycle.

Observations and Concerns

Analyzing detailed participant evaluations and shared experiences provide important insights into this process. The participant behaviors described below are derived from cooperative management employees and boards of directors, the vast majority of whom have a minimum of five years of experience either with an agricultural-oriented cooperative or with a non-cooperative agribusiness entity. These observations are from approximately 5,000 cooperative management and director participants.

- 1) Cooperative employee participants prefer to be guided by a conceptual framework when involved in a learning process. Participants initially attach their personal and cooperative experiences to the framework in an unorganized manner. Their experiences are subsequently rearranged once exposed to the logic of a chronologically organized architecture. Participants immediately identify with the simplicity of the skeleton framework of the life cycle. Over time, frictions caused by changing membership preferences emerge and the rate of growth in cooperative health moderates. After recognizing and analyzing this change in direction of cooperative health, membership must decide whether to continue as currently organized. The subsequent curvatures in succeeding life cycles indicate that cooperatives are quite resilient. Participants identify with this optimism as it suggests that their future is in their hands.
- 2) Once confronted with the abstract and simple Figures 2 and 3, participants begin to think in a longitudinal manner that is more temporal and conceptual. Indeed, the selection process conducted by senior cooperative leadership in choosing participants uses 'comfort with abstractness' as a criterion. This supports the supposition that "managers love theory". Cooperative leaders, both senior management and board members, agree with empirical studies where one of the key factors in successfully leading complex organizations, such as cooperatives, demands comfort with flexible abstractness.
- 3) We conclude that the employment of historical context is underused in cooperative education. Our conclusion is drawn given the interest expressed by the participants through both verbal and written reaction (a ten-page evaluation instrument is administered during and after each session). A need appears to exist to understand the significant continuities with the past as well as how to use such insights to respond to future challenges. Moreover, participants enjoy learning from stories. The original purpose and reasons for forming a cooperative garners more attention when embedded in real world stories formulated and derived from historical documents. The importance of history highlights the fact that longevity is crucial to cooperatives, which are formed to meet member needs rather than shareholder returns. Discussion of the original purpose of the cooperative's founders leads to another interesting observation. The closer the current purpose is to the original purpose of the founding members, the lower the level of anxiety encountered by current cooperative leaders and employees. Anxiety is caused by rapid change emanating from volatile competitive and global environments. One of the refreshing lessons drawn from this exercise is that the power of the original purpose attracts interest in the history of the organization, including decisions that led to the cooperative's enduring longevity. This interest contributes to a culture of respect for understanding survivability factors.
- 4) Additionally, participants enjoy sharing stories. They appear to learn from reacting to other participants' stories and then countering with stories of their own. Embedding critical structural and strategic decisions into historical story contexts creates a learning environment that motivates participants to contact veteran employees back home to probe, extract and construct even better

stories related to the organizational concepts under discussion in a given session. Before attending the workshop, a future participant is asked to contact other employees with a historical appreciation of their cooperative's past. These veterans are also forewarned that the participant might contact them during the program, seeking validation of certain concepts and supporting stories.

- 5) Increasingly, the participants arrive with more advanced formal education (50 to 75 percent of the participants in recent years have undergraduate and advanced graduate degrees). Thus, demanding rigorous theoretical explanations and sophisticated solutions to cooperative challenges. Yet, almost none of the participants are exposed to formal instruction or experience in confronting unique cooperative issues. Concepts include but are not limited to vaguely defined property rights, patron-oriented ownership rights, member responsibility contracts, imbalances between control rights and residual claim rights, cooperative health, reinvention and balancing volatility of supply and demand. These concepts, which rarely appear in MBA courses, are addressed in detail in GICL workshops and are supported by evidence-based social science research.
- 6) Many of the participants graduated with an academic discipline degree rather than a professional degree. Consequently, their analytical skills are formed by a specific set of theories and a predetermined outline for solutions. GICL attempts to incorporate a more inter/multidisciplinary approach emanating from social sciences and management sciences due to the complexity of the cooperative organization. Understanding a cooperative, its members, organization, governance, management and life cycle demands a broad understanding of conceptual approaches and the ability to use them to inform complex cooperative problems. Participants enjoy knowing the relevance of these differing views when addressing the problems and challenges faced by cooperative decision-makers. The knowledge helps in particular when digesting phase 3 of the aforementioned Life Cycle Framework. Phase 3 explores the positive, neutral and negative implications of growing forms of heterogeneously created frictions (Cook and Iliopoulos, 2016).
- 7) Participants thrive in a learning environment where peers have experienced the same cooperative user-patron-member issues. When engaged in team exercises, where teams have experienced similar functions and common histories, participants are frequently surprised by the number of solutions that address similar problems. They also celebrate the learning of a new vocabulary. By sharing stories of issues, concerns and behaviors that are difficult to define or describe, they become excited when phenomena are defined and put into the context of a cooperative-laden story. Examples of phenomena discussed are temporal asset specificity, tinkering, cooperative genius process, influence costs, internal versus external free-rider constraints, and ownership costs. We find them practicing this new vocabulary during breaks and mealtimes. We receive feedback once they return to their cooperatives about how their use of certain terms raises the interest of a peer or colleague. Thus, an opportunity arises to share their newly acquired cooperative knowledge and education. Indeed some evidence exists that this method of training is implemented and shared with other employees.
- 8) Debate on cooperative health is always a highlight in a GICL workshop. How does a group define or measure cooperative health, or achieve a consensus about its meaning among members, management, employees, and subgroups of each? This is one of the most fundamental elements of cooperative education and cooperative success. When conducting member surveys, we find a multitude of responses or measures. Exercises within GICL workshops have resulted in more

than 50 perceived definitions of cooperative health. We find that truly understanding cooperative health requires an acceptance of the concept as self-defined by each individual cooperative. This is a difficult reality for cooperative researchers to accept. However, this reflects the fact that cooperatives are autonomous enterprises and developing their own criteria for success is crucial to building an engaged democratic team. This is particularly true in the U.S. where more than 100 cooperative incorporation statutes exist. These statutes are vague in their explanation of performance.

- 9) Management participants at GICL sessions are selected primarily by senior leaders in their cooperatives. The participants are known explicitly or implicitly as the future senior leaders of their organizations. They arrive with a high degree of confidence and elevated standards, yet few have been exposed to cooperative theory, history or structure. Many have the impression that cooperatives are considered an inferior or inefficient form of business governed by an inexperienced group of patrons. This presents the cooperative educator with a unique challenge. GICL confronts this challenge by working through an exercise on the 26 advantages of being a cooperative, which are organized into five categories: (a) competitive advantage elements; (b) public authorization advantages; (c) positive externalities; (d) defensive gain advantages; and (e) offensive gain advantages. Discussion of these points and the countering disadvantage brings participants' attention to the stories of how each of the long-enduring cooperative entities in US agriculture has employed these advantages to serve their members for more than four times longer than their investor-owned rivals. As of 2018, more than 970 agricultural cooperatives have been operating for more than 75 years, and of those, 259 for more than 100 years (Wadsworth). The average investor-owned firm in the USA has a life span of less than 20 years. Thus, the supposed inefficiencies of cooperatives are not borne out by the facts. Combining these facts with stories of success and near failure with the ability to rebound and continue appears to change attitudes. When exposed to stories and readings on whether competitor entities are more efficient, participants are surprised to learn how professionally managed and governed cooperatives are today, with many cooperatives considered leaders in their value chains. In discussing the participants' inferiority attitude, the importance of defining and understanding purpose and cooperative health becomes apparent.
- 10) Theoretical advances have helped. In the USA, consolidation at the farm level and the advances in agribusiness and management education have had considerable impact on the concept of collective action. Farmers are becoming more individualistic and more demanding of their collectively controlled assets. As this phenomenon was fostered by the agricultural depression of the 1980s and rekindled in the early 2000s, cooperatives consolidated very rapidly and farming became driven almost entirely by business and economics. There are a few exceptions to this pattern, but even the organic cooperatives are now reaching a large scale. On observing these trends, we examine new advances in institutional and behavioral research and in social and management science. The insights from these advances inform the theoretical underpinnings of the predecessors to the Life Cycle Framework, particularly developing the concept of vaguely defined property rights (Cook, 1995; Chaddad and Cook, 2004). The assumptions underlying the theoretical concepts were tested with the participants (particularly the assumptions of bounded rationality and opportunism) and were found to be non-heroic. A basic premise of classical social science is that the parties of a transaction both have perfect knowledge of all attributes of the asset being exchanged, such as cost, quality and price. The new institutional and behavioral approach

draws on Herbert Simon's findings that humans do not have the capacity to know everything and do not have the time to gather the information because of the complexity involved. A further premise is that parties to a transaction want to know the rules of a game so they can play by those rules. Oliver Williamson describes a behavior called opportunism that suggests people want to know the rules to determine how far they can bend them. Free-riding behavior is often observed in cooperatives. Relaxing these two assumptions, perfect knowledge and non-opportunistic behavior, enables cooperative scholars to develop greater understanding of frictions, factions and broken norms and rules with more predictability. Participants in GICL programs identify these behaviors and much time is spent discussing the solutions to the resultant opportunistic behaviors (Cook and Iliopoulos, 2016). Thus, advances in organization economics formed the basis of a new conceptual framework that has served as a lightning rod for cooperatives (Royer, 1987).

11) Identifying conceptual approaches to explore the complexity of cooperatives is only one of the challenges for cooperative educators working in this narrow yet important agricultural field where cooperatives play very important economic, community and social roles. In the mid-1990s, GICL staff faced a number of serious challenges. GICL staff realized federal and state resources were decreasing; cooperative employees and farmer members were becoming more educated and sophisticated; cooperatives themselves were becoming more complex and their design was more of a hybrid form than a traditional cooperative organization; and social scientists were making great strides in fields such as mechanistic design, organizational architecture, contract formulation, governance, property rights enforcement, and individual and group incentive understanding. GICL staff and board members questioned whether cooperative education had a future. This is a story, albeit incomplete, of what they decided. They combined new conceptual fields and designed programs that would engage with and extract knowledge from participants as to what skills and concepts they really needed in order to lead a sustainable and competitive agricultural cooperative. As a result, GICL staff built a process that facilitates interactive learning and started a process that continues to be modified. Participants and educators co-design methods to explore alternatives to finding group solutions, how to ameliorate frictions, how to design and develop cooperative genius processes, and to determine how to communicate to a leadership that might not understand how rapidly the world is changing. Another major challenge for cooperative education is to determine an appropriate degree of engagement. Originally, higher education was available only to the elite. Passing the Land Grant Act of 1862 introduced the concept of inclusiveness to the American public--particularly rural America. The Hatch Act of 1887 and Smith-Lever Act of 1914 furthered the ability to connect knowledge creation with knowledge dispersion/applicability. As state and federal funds have decreased for these public good provided activities, more incentives emerge for private food solicitation (McDowell 2003). The challenge to remain objective and non-adulating often remains difficult as our profession introduces more executive education activities. The set of challenges awaiting the future of cooperative education merits more attention. Particularly, when working through challenges that might be considered wicked problems. In a world demanding more attention for alternative organizational forms that promote community and social capital in addition to positive financial return, is it imperative that cooperative education continues to evolve.

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