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## THE CHALLENGE OF MAINTAINING PRODUCER CONTROL OF COOPERATIVES

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This discussion focuses on involving members in the decision making process of agricultural cooperatives. While members may exercise control through several mechanisms, such as patronage decisions and voicing opinions, member voting in cooperative decisions is the control mechanism considered in this discussion.

Member voting provides a measure of democratic control in cooperatives. Member voting, or failure to cast ballots, becomes a very visible determinant of who is in control of cooperative decisions. Do cooperatives enjoy broad-based governance by a majority of members? Or have members abdicated their voting privileges to a tiny minority or place ultimate control in the hands of professional managers?

This discussion examines reasons for stimulating member voting participation as well as probing several principles advanced by organizational theorists to describe voting and participation patterns in the life of voluntary organizations. A set of assumptions and several action suggestions are advanced to attack membership apathy. These suggestions include increasing member voting participation, preparing members for service as directors, and helping managers implement the cooperative principle of democratic control.

### Reasons for Stimulating Member Voting in Cooperatives

Membership control of decisions is a fundamental concern of agricultural cooperatives because it represents their main argument for treating cooperatives as unique business institutions. Democratic control is the primary justification cooperatives use to defend their income tax and antitrust treatment by the

United States government (Boyton and Elitzak, 1982, p. 1).

Cook (1980) reports that the cooperative critics who have surfaced in Congress and in consumer-oriented organizations have spearheaded efforts, "to amend the Capper-Volstead Act, to revoke co-op income tax privileges, to remove antitrust law immunities and to revamp federal milk orders" (p. 4). The critics claim farmer members have abdicated their control to professional managers.<sup>1</sup>

Cooperative organization scholars pinpoint membership control as the core principle of economic cooperation. Schaars (1971) defines a cooperative enterprise as a business voluntarily owned and controlled by its member patrons, and operated by them on a nonprofit or cost basis. He contends, "The cooperative is organized and incorporated to engage in economic activities with certain ideals of democracy, social consciousness and human relations" (p. 7).

Roy (1976) also underscores the importance of members controlling cooperatives in his definition: "A cooperative is a business voluntarily organized, operated at cost, which is owned, capitalized and controlled by member patrons as users, sharing risks and benefits proportional to their participation" (p. 6).

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<sup>1</sup>For a review of charges against agricultural cooperatives for turning control of their organizations to management in their drive to enhance competitive positions with agri-business giants see Kravitz, Linda (1974) "Who's Minding the Coop?" Washington, D.C. Agribusiness Accountability Project and the *Washington Post* series, "The Coop Controversy: Who Is In Control?" by Goody L. Solomon, *Washington Post*, February 13, 1980, p. D-14.

Shaffer (1978) suggests that members are in control of a cooperative when they determine policy and hire management that serves their interests. He says the three ways farmers influence management and thus cooperative operations include: (1) Voting on policy issues; (2) Electing a board to control the cooperative; (3) Deciding to use the cooperative.

He feels that through these three methods, farmers can discipline management to perform in the interest of members (p. 165).

Kirkman (1980) reviewed the statutes of enabling legislation in each state to determine the legal responsibilities of members. He found state statutes provide members indirect and direct control of major decisions in cooperative organizations (p. 15).

He explains that members achieve indirect control when they elect directors who in turn have the responsibility of controlling management performance. Members may be consulted to amend bylaws and resolutions, and to approve long-range objectives and plans. Kirkman reports members must have direct control over two decisions for cooperatives to comply with state statutes. Only members can make the following decisions:

1. Initial approval and subsequent changes in the articles of incorporation, including changes in capital structure, name, and number of directors.
2. Merger, consolidation, or sale of all assets (p. 15).

#### **Reasons Researchers Suggest for Erosion of Member Involvement in Cooperatives**

Despite claims by some leaders that farmers retain strong control of their cooperatives, students of cooperatives agree that cooperatives in the 1980s do not enjoy the same level of member involvement experienced during their formative years.<sup>2</sup>

<sup>2</sup>Elected cooperative leaders dispute critics charges that they abdicated control of agricultural cooperatives to managers. See the following selected articles in the 1980 American Institute of Cooperation Year-

Abrahamson (1973) claims that rapid growth and concentration of power in fewer cooperatives has strained cooperative commitment to internal democracy.

Studies of member participation suggest that factors other than business growth and membership size may help explain the erosion of membership use of control mechanisms.

Boyton and Elitzak (1980) found that increased cooperative size is not necessarily inconsistent with the cooperative principle of democratic control. In comparison of large and small dairy marketing and grain/supply cooperatives, members generally felt they had high levels of control over their cooperatives. Members of small cooperatives expressed higher levels of perceived control, but no differences were found in member satisfaction with decisions and operations between large and small cooperatives (p. 1).

The factors that they found significantly affecting the level of member control in order of importance were: (1) Possible avenues of influencing a cooperative decision, (2) The usefulness of information sources about the cooperative, (3) The ease of access to cooperative officials, and (4) The participation (patronage) levels of members in cooperative activities (p. 9).

Lasley (1981) points out that previous research has focused on small voluntary organizations of 30 to 1,000 members. He feels it may be possible that beyond a certain point, increased organizational size does not influence membership participation (p. 83). He suggests farmers may participate more frequently in larger cooperatives because members want to associate with thriving organizations.

Torgerson (1972) contends that as cooperatives gained size and market strength they were forced to defend their existence (p. 18). He says cooperative leaders adopted a "corporate mentality of management" by emphasizing the similarity between coopera-

book, *Expanding Cooperative Horizons*, Washington, D. C.: "How Members Keep Control in a Centralized Cooperative" by Hilbert V. Fryer; "A Federated Cooperative's View on Who is Controlling Cooperatives" by Fritz Hudson and "Farmers Must Set Ranges of Policy for Management" by Don Sliden.

tives and corporate business instead of justifying their existence on the basis of self-help programs needed to help small, independent farmers.

Torgerson contends cooperative identification with a corporate model of organization leads to reducing the role of members from active involvement to passive stockholders. The "just another business" corporate mentality placed the organization emphasis of cooperatives on profits rather than member participation.

Cook (1980) appears to have confirmed Torgerson's contentions in a study of the membership of the three largest dairy cooperatives in the United States which have a combined membership of 63,250 dairy farmers. He found these members placed a higher value on the cooperative's economic performance than on internal democracy (p. 1).

He asked farmer members to select functions of the cooperative in their order of importance. Members participating in the study ranked guaranteed market and payment for milk first; competitive milk prices, second; member participation in cooperative policy, third; and retirement of retained equities, fourth (p. 2).

Several researchers suggest communication variables partially explain member participation in control procedures of cooperatives.

Utterstrom (1974, p. 112) feels one of the consequences of cooperative growth has been the introduction of more formal communication structures in larger organizations. He reasons that members enjoy more informal communication with their leaders and management in small community-sized cooperatives. He feels members are now more separated from cooperative officials by distance and formal communication channels.

Groves and Vilstrup (1971) argue that the need for communication between members and their leaders is likely to increase as organizations grow larger. They feel communication has become more complex as cooperatives have grown. "The organization must be large enough to operate

efficiently and bargain effectively in the market place, but must appear small enough for the local member to feel effective" (p. 9).

In a study of members voting to merge their cooperative with another, Schomisch (1983, p. 95), reports significantly more members voted if they discussed the merger with a communication network of two or more others compared to members not involved in a discussion with others about the merger. He found 59.7 percent of members involved in communication networks voted in the merger decision, and only 34.5 percent of other members voted (Chi Square significance at  $p. = .001$  level). This finding demonstrates the strength of another person's opinion on an individual's behavior in a voting situation.

The merger study also showed a highly significant difference between voters and non-voters in whether they had been elected a delegate sometime in the past for the cooperative. Some 57.3 percent of voters were elected as delegates of the cooperative compared to 30.9 percent of non-voters (T-test difference significant at  $p. = .008$ ).

Involvement in previous cooperative activities also lead to greater voting participation in a study of young member programs by Schomisch and Gray (1985). They report that managers of local agricultural cooperatives with established young member programs (five or more consecutive years of programs) feel young members involved in these programs were more likely to vote at annual meetings and were more loyal when competitors offered better prices (p. 21).

Organization theorists advance several principles that help explain the phenomenon of collective behavior in voluntary organizations such as cooperatives. The following section discusses the principles of apathy and entropy in organizations.

### **Theoretical Propositions of Organization Associated With Member Control**

Cooperative leaders should not be surprised if member apathy has crept into some of their organizations. According to

organizational theorists, maintaining systems of democratic involvement presents one of the greatest challenges for voluntary organizations.

Blau and Scott (1962) contend that a voluntary organization operated for the primary benefit of members or rank and file participants, faces the "critical problem of maintaining internal democratic processes to prevent apathy among its members and the growth of oligarchy" (p. 43).

Blau and Scott claim an inherent dilemma of mutual benefit organizations involves the compromising of democratic control in favor of efficiency. They argue that this compromise often results in the formation of bureaucratic structures in the association which centralizes power in the hands of officials instead of strengthening control by the membership.

Katz and Kahn believe the distinction between policy making in the legislative function of democratic organizations and implementing policies through the executive function implies a continuum of decisions rather than a set of categories. They advance three criteria which need to be met for members to genuinely control the legislative power of voluntary organizations:

1. *Separation of legislative from executive power:* Members, through their vote, make policy decisions which form substantive goals and objectives.
2. *The location of the veto power:* The repeated presentation of an issue to successively higher levels of authority leads ultimately to the assembled membership or its representatives in a democratic organization, and to the office of the corporate president in a hierarchical organization.
3. *Selection of officers:* The president of a voluntary organization typically holds office for a stipulated term, is elected by vote of the members, and is subject to recall on the same basis (p. 328).

Katz and Kahn contend all three criteria "reflect the principle of government by the active and expressed consent of the

governed" (p. 329). They insist that organizations that meet these democratic criteria will more likely maintain control in hands of the membership.

Cooperative scholar Laidlaw (1977) argues that cooperatives are a unique form of voluntary organization since they share the characteristic problems of both voluntary and work organizations. He believes that cooperatives must achieve the dual objectives of efficiency and democracy. He feels that a cooperative could exist for some time with efficient management without democratic involvement, but in the long run, the organization would not survive as a cooperative. Laidlaw presents two main reasons:

First, another kind of business or new way of serving people that is still more efficient will come along, and members will leave the cooperative in droves simply because someone else can do the job better.

Or second, in time a new generation grows up and they may not know anything of the conditions which gave rise to the cooperative in days gone by, and when trouble comes along they couldn't care less, and the cooperative goes down the drain.

So, a system of cooperatives or any single cooperative that tries to exist on a foundation of business efficiency alone, is not only denying or neglecting a basic principle of this whole idea, but is also writing its own death warrant (p. 7).

Overcoming member apathy presents cooperative leaders the major challenge of balancing the needs for short term business survival and long term perpetuation of a membership-centered organizational system.

Theorists contend that organizations like cooperatives are also subject to the universal law of nature known as entropy. Entropy implies that all physical or social systems will use up their sources of energy and eventually die.

Buckley (1967) argues that organizations, as living systems, can arrest or reverse the entropic process by importing more energy than they expend producing outputs.

Bertalanffy (1956) defines a system as "A complex of elements standing in interaction" (p. 3). In this context, the components of a system are individual units. Certain components may cluster together and interact to accomplish various functions for the system. These interacting clusters of components are defined as subsystems.

Bertalanffy believes systems remain alive through constant exchanges with their environment. He believes systems, ranging from biological organisms to social organizations, depend on their external environments for their existence and perpetuation (p. 9).

The cooperative uses a decider system to govern itself and propel the organization towards its basic mission. Miller (1972) perceives at least two decider subsystems existing in voluntary membership organizations. The individual voting members compose one subsystem. They hold the ultimate decision-making authority (p. 281).

The members elect a board of directors as the second decider subsystem. Conceptually, the board of directors forms a boundary subsystem located at the perimeter of the organization.

While members may exchange information directly with others in the environment, the directors serve as a screening mechanism for members. The directors screen and filter information from the organization's environment, identify problems, seek and implement solutions.

The voting membership subsystem exchanges information with the boundary subsystem of directors. The directors, in turn, interact with the environment surrounding the cooperative.

The decider system gives the cooperative enterprise an opportunity to reverse membership entropy. However, if the system expends more energy simply processing information from its environment than members perceive as worth their effort, participation

will likely drop and expose the organization to forces of entropy.

Likewise, if the membership subgroups and the board of directors seldom exchange information, the cooperative will have a difficult time contending with entropy.

### **Assumptions to Attack Membership Apathy and Reverse Entropy**

Given the theoretical underpinnings advanced by system theorists and the limited findings of cooperative organization scholars, the following assumptions are suggested as a guide to attack membership apathy and reverse entropy in cooperative organizations:

1. *Democratic control through member voting is an essential cooperative principle necessary to perpetuate the organization as well as distinguish cooperatives from other business forms.* This assumption implies a dual purpose for voting participation in cooperatives. An informed, involved membership will perpetuate an organization or take steps to change it to fit their needs. While doing so, members will demonstrate a key difference from other corporations, where decisions are made on the basis of capital investment.
2. *Members realize that through representative governance procedures, they elect directors who serve as a conceptual boundary subsystem to scan the environment, identify problems, seek out and see that management implements solutions on behalf of members.* Since members are citizens of a democracy, most individuals will be able to transfer the notion of the representative governance they enjoy in their townships, county, state and federal elected governmental bodies to that of expecting elected board members to serve as trustees of their cooperative's financial, physical and human assets.
3. *Members will exercise voting rights if they understand the value of the cooperative to their personal success.* For the democratic control principle to be exercised through majority rule, members must be equally informed of the difference the cooperative does and/or could make in

their lives. Only when the cooperative appears relevant to their personal needs will member-users convert to member-owners.

4. *Directors who understand their duties and responsibilities as key cooperative leaders will maintain control of strategic decisions in the cooperative.* Knowledge of their legal and moral obligations as the supreme decision-making body for the cooperative will motivate directors to exert their leadership responsibilities. They will seek frequent updates of cooperative member desires and industry changes to temper their decision making for the long-run benefit of the cooperative organization.
5. *Cooperative managers will seek optimum short run returns from cooperative operations unless boards of directors provide direction and incentives to implement cooperative principles for the long-term development of the cooperative.* As an operating business which reports its financial success to the board on a monthly basis and to the membership annually, management is judged on short-term performance. Frequently, reward systems for compensation and promotion are based on annual results. Therefore, management decisions will gravitate toward short-run returns for the organization unless the board alters the reward system.

Building upon these assumptions, the following action steps are suggested to increase member voting participation.

1. Extend voting rights to all adults in member-user households. As Ruess (1985, p. 451) reports, more than one million women are solely or jointly responsible for individual farming and ranching operations in the U.S. Farm women, along with other farm partners (sons, brothers, etc.), are obviously involved in making farm decisions that involve cooperative patronage. Granting all adults voting rights increases the likelihood that at least someone from a farm operation will exercise voting rights. Melby (1985, p. 455) reports his cooperative's program to

extend spouses voting rights since 1966 has resulted in a membership made up of one-third women. He indicates spouses have been valuable contributions at board meetings and at the annual business meetings. This voting strategy complements suggestions for voting on proportion of business volume with the cooperative, since most farm operations supporting more than one family will likely be larger volume users of the cooperative. Thus, if the goal is to stimulate greater voting participation, expand the pool of eligible voters.

2. Change enabling legislation for member meeting quorums to require simple majority of members be represented in an official vote. If boards of directors may not conduct business without a simple majority quorum, the assembled membership should bind itself to the same quorum criteria. To satisfy this suggestion, cooperative leaders may well turn to representative governance procedure, mail ballots, etc. However, the net result will likely be more concerned among cooperative leaders to inform members about director election choices, key issues in resolutions as they attempt to "turn out the vote."
3. Establish delegate systems to expand representative governance systems. Establish delegations based on a representative criteria that will most likely reflect the nature of the membership. For some cooperatives with a homogeneous membership, delegates would be elected on a geographic basis. Criteria for other cooperatives could include type of farming enterprise, size of farming operation, use of cooperative products and services. The cooperative would benefit from member involvement in a meaningful delegate system which reflects the desires of a majority of members. Likewise, a delegate body provides training ground for future directors (Schomisch and Mirowsky, 1981, p. 46).
4. Appoint advisory groups of members to involve member users in decisions which impact on how the cooperative serves

their needs. These standing or temporary groups of members can provide counsel for routine and timely decisions to management and/or the board of directors. Service on these groups will help members relate the cooperative to their personal needs. Likewise, the cooperative has a better chance to be responsive to member preferences.

5. Create young member programs and young leader advisory groups. These educational programs and leadership experiences clearly have interested new generations in patronizing cooperatives, enhancing voting participation, and attracting future directors (Schomisch and Gray, 1985).
6. Invest in membership meetings. Attracting larger voting turnouts will likely require creative investment of staff time and education budgets. Returning patronage refunds at meetings, open houses with merchandise specials, gifts, incentives and recognition programs, and well planned meetings, all combine to draw members to use their vote. Voting participation is far from automatic. It requires an investment for long term membership development.
7. Use absentee or mail ballots. For cooperatives serving large trade areas, this voting procedure will permit a greater proportion of members to participate in decisions where alternate choices are known prior to meetings, i.e., director elections, bylaw changes, merger decisions.

To improve preparation of members for service as directors, cooperatives need to build understanding and commitment of their organization through the involvement programs suggested above. Cooperatives could also take the following steps to enhance board performance:

1. Have members elect some or all members to serve on nomination committee which is charged with securing qualified board candidates. If necessary, have board appoint balance of committee members. Nomination committee should interview

and nominate candidates with at least two individuals for each open position. Provide members a background profile and statement from each candidate.

2. Require completion of board certification units of instruction (schools or home study) during first year service as part of orientation to board service.
3. Have all directors meet with auditing firm to receive audit report and review items suggested in management letter. Ask auditor to monitor management changes requested on a year to year basis. Cooperatives operating in extremely volatile industries consider having auditor conduct semi-annual or quarterly audit.
4. Have corporate counsel report to board at least quarterly on any pending issues or upcoming changes board should be concerned about.
5. Change enabling legislation to permit appointment of a limited number of "outside" directors to give directors and management greater access to industry trends in cooperatives operating in turbulent industries. Draw these directors from areas of special expertise (finance, marketing, legal, etc.).
6. Compensate directors for time needed to prepare for meetings and represent cooperative at industry functions, as well as participation in board meetings.
7. Use board evaluation techniques where peer review provides overall measurement of board performance as well as individual board members evaluations from fellow board members.
8. Removal of directors absent from more than 25 percent of board meetings.

To prepare managers to implement cooperative principles, boards of directors should:

1. Provide manager with educational opportunities to learn how staff members can implement cooperative principles.
2. Require that employees at all levels of the cooperative learn ways cooperative principles are implemented in their daily work.

3. Provide manager incentives to implement principles for long term organizational development in addition to short term annual achievements. Include measurements of membership involvement in manager annual review and compensation adjustments.

## Summary

Building and maintaining producer control of agricultural cooperatives requires an investment of substantial funds, time, and creative programming. Failure to make these investments on a regular basis will be fatal to cooperatives within two generations of membership. Continuous educational opportunities for members, directors and managers will require the collaboration of cooperative institutions (primary, secondary and overhead cooperatives) and public education institutions.

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