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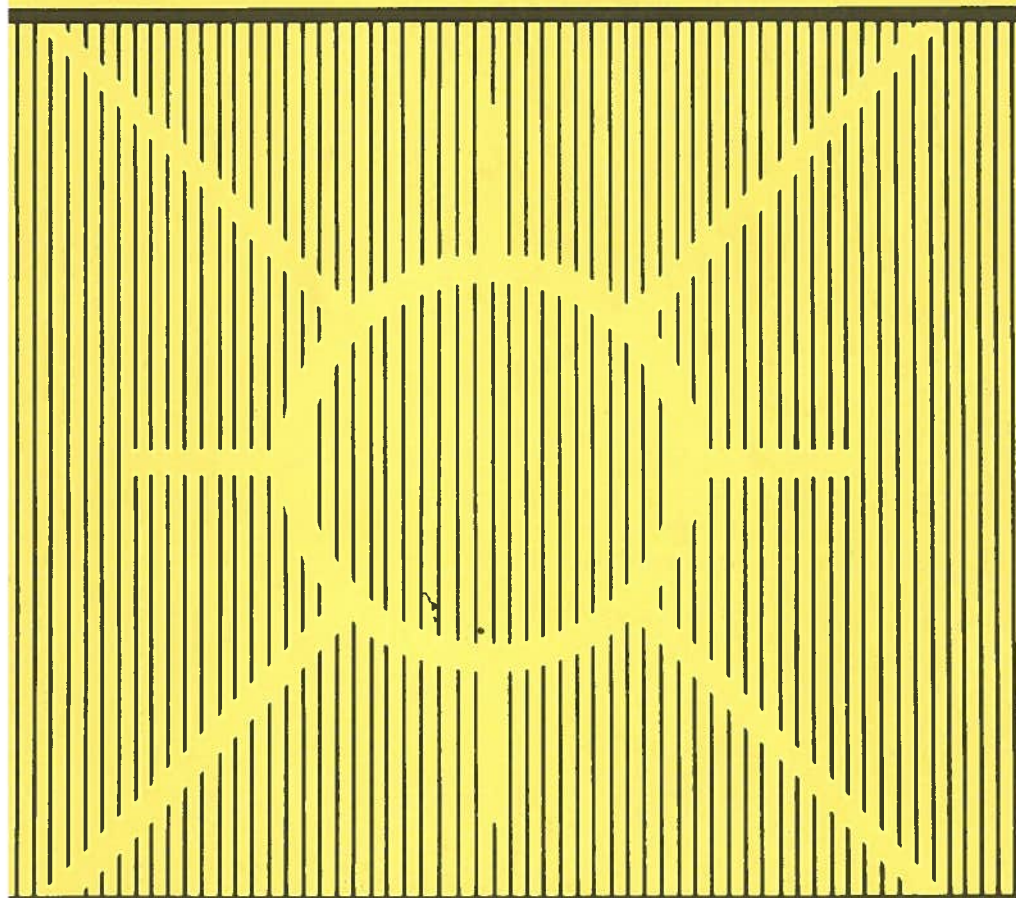
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AGRICULTURAL COOPERATIVES AND THE PUBLIC INTEREST

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CORPORATE INVOLVEMENT IN COOPERATIVES

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INTRODUCTION

One of the major cooperative policy questions today is the nature and extent of corporate involvement in cooperatives. Of particular concern has been the extent that publicly held corporations have become involved in cooperatives as members, on boards of directors and in business and financial arrangements. Much has been written and spoken on the topic and concern has been expressed by Congress, government agencies, business interests and the public. Opinions, rather than hard facts, have been the basis of much of the discussion in the past. No one knows the real extent and nature of corporate involvement in cooperatives.

This problem was recognized several years ago by government and industry leaders. Subsequently, a national research study was funded by the Farmer Cooperative Service, USDA, and contracted to the Texas Agricultural Experiment Station, Texas A&M University.

The purpose of this study was to determine the *actual* extent and nature of corporate involvement in cooperatives. A national sample of 873 farmer cooperatives, representing nearly 7,000 farmer cooperatives in the U.S., was randomly selected as a basis for the study. The sample survey was broken down by 10 major commodities, six major geographic areas and by type of cooperative.

In addition, the 120 top farmer cooperatives were arbitrarily selected and contacted regarding corporate involvement.

The mail survey was broken down into two stages—**Stage I** was designed as an *indicator* of corporate involvement, and **Stage II** was designed to measure the *actual* nature and extent of corporate involvement in the cooperative.

Two categories of corporation were identified in the study—*publicly held* corporation (any individual of the general public can own shares of stock) and *closely held* corporations (limitation on who can become a shareholder, such as closely held family corporations, limited partnership and Sub-Chapter S corporations). In this report, only the involvement of publicly held corporations in cooperatives will be covered. The nature and extent of corporate involvement of closely held corporations will be reported later.

The sample size and response are shown in Table 1, as well as the response from the top 120 cooperatives.

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Table 1: Summary of Stage I and Stage II questionnaires sent in the sample and top 120 and the response in each category.

	Questionnaires		
	Sent	% Responses	% Response
Sample			
Stage I	873	592	67.8
Stage II	175	118	67.4
Top 120			
Stage I	120	111	92.5
Stage II	43	29	67.4

INVOLVEMENT OF PUBLICLY HELD CORPORATIONS AS MEMBERS OF COOPERATIVES, BY COMMODITIES

Of the 592 cooperatives responding in the sample in Stage I (Table 2), there was an indication of corporate involvement in 57 or 9.6% of the cooperatives. However, when actual involvement of publicly held corporations was established in Stage II, only 19 or 3.2% of the 592 cooperatives responding had publicly held corporate members. The commodities with the highest percentage of corporate members were grain with 10.2%, and farm supplies with 11.1%. Four commodity groups—dairy, poultry, rice and sugar—did not indicate any publicly held corporate members.

Table 2. Numbers of Cooperatives in the *sample* which were sent Stage 2 because of possible involvement of publicly held corporations as member and *actual* publicly held corporate members as reported by responding cooperatives, by *commodities*.

Commodity	Total Responses	Sample			
		Possible Corporate Members		Actual Corporate Members	
		#	%	#	%
Cotton	102	7	6.9	2	2.0
Dairy	95	1	1.1	0	0
Fruits & Vegetables	112	10	8.9	3	2.7
Grain	49	8	16.3	5	10.2
Livestock	37	4	10.8	1	2.7
Poultry	21	1	4.8	0	0
Farm Supplies	54	15	27.8	6	11.1
Rice	40	3	7.5	0	0
Sugar	35	2	5.7	0	0
Miscellaneous	47	6	12.8	2	4.3
TOTALS	592	57	9.6	19	3.2

A higher percentage of corporate involvement was found in the top 120 cooperatives studied (Table 3). Corporate involvement was indicated in 26 or 23.4% of the 111 cooperatives responding in Stage I. However, this number dropped to 10 or 9.0% in Stage II where more specific questions were asked with regard to corporate involvement. The greatest frequency of publicly held corporate members is found in fruit and vegetable cooperatives with five of the 20 responding listing

corporate members. Four commodity groups—grain, rice, sugar and miscellaneous—reported no publicly held corporate members.

Table 3. Numbers of Cooperatives in the *Top 120* which were sent Stage 2 because of possible involvement of publicly held corporations as member and *Actual* publicly held corporate members as reported by responding cooperatives, by *Commodities*.

Commodity	Total Responses	TOP 120			
		Possible Corporate Members		Actual Corporate Members	
		#	%	#	%
Cotton	6	2	33.3	1	16.7
Dairy	23	4	17.4	1	4.3
Fruits & Vegetables	20	10	50.0	5	25.0
Grain	17	0	0	0	0
Livestock	13	3	23.1	1	7.7
Poultry	2	1	50.0	1	50.0
Farm Supplies	23	3	13.0	1	4.3
Rice	2	1	50.0	0	0
Sugar	3	2	66.6	0	0
Miscellaneous	2	0	0	0	0
TOTALS	111	26	23.4	10	9.0

INVOLVEMENT OF PUBLICLY HELD CORPORATIONS AS MEMBERS OF COOPERATIVES, BY GEOGRAPHIC AREA

The Stage I and II responses were also broken down by geographic areas. In the sample, (Table 4) there was an indication of publicly held corporate involvement in all six of the geographic areas with the highest percentage, 12.3%, in the Great Plains followed by the North Central and Pacific regions with 11.3% and 10.8% respectively. When the actual involvement of publicly held corporate members was established in Stage II, seven of the 102 cooperatives in the Pacific area, or 6.9%, had publicly held corporate members, followed by the Intermountain Areas, with 4.2%, 3.4% and 1.9% respectively. Cooperatives in two areas, the Northeast and Southeast, did not list any publicly held corporate members in the sample.

Table 4. Numbers of Cooperatives in the *sample* which were sent Stage 2 because of possible involvement of publicly held corporations as member and *Actual* publicly held corporate members as reported by responding cooperatives, by *geographic area*.

	Total Response	SAMPLE			
		Possible Corporate Member		Actual Corporate Member	
		#	%	#	%
Pacific	102	11	10.8	7	6.9
Intermountain	52	2	3.8	1	1.9
Great Plains	146	18	12.3	5	3.4
Southeast	103	7	6.8	0	0
North Central	142	16	11.3	6	4.2
Northeast	42	3	6.4	0	0
TOTAL	592	57	9.6	19	3.2

Among the Top 120, from one to three publicly held corporate members, were found in five of the six geographic areas. No corporate members were reported in the Intermountain area (Table 5).

Table 5. Numbers of Cooperatives in the top 120 which were sent Stage 2 because of possible involvement of publicly held corporations as member and actual publicly held corporate members as reported by responding cooperatives, by geographic area.

	TOP 120					
	Total Response	Possible Corporate Member		Actual Corporate Member		
		#	%	#	%	
Pacific	24	12	50.0	3	12.5	
Intermountain	5	0	0	0	0	
Great Plains	12	2	16.7	1	8.3	
Southeast	20	5	25.0	3	15.0	
North Central	40	4	10.0	2	5.0	
Northeast	10	3	30.0	1	10.0	
TOTAL	111	26	23.4	10	9.0	

PUBLICLY HELD CORPORATIONS SERVING ON COOPERATIVE BOARD OF DIRECTORS

Cooperatives in the sample and the top 120 were asked to list the publicly held corporate directors serving on the board (Table 6). Among the top 120, six of the 111 cooperatives, or 5.4%, listed publicly held corporate directors. Four of the 20 fruit and vegetable cooperatives reported corporate members on the board. Seven of the ten commodities—cotton, dairy, grain, livestock, poultry and miscellaneous—did not report any publicly held corporate members. In the sample, only nine of the 592, or 1.5%, cooperatives reporting publicly held corporate board members. Six of the 10 commodity areas did not report any board members from publicly held corporations.

Table 6. Publicly held Corporate Members Serving on Cooperative Board of Directors in sample and top 120, by Commodity.

COMMODITY	TOP 120			SAMPLE		
	TOTAL	ON BOARD	%	TOTAL	ON BOARD	%
Cotton	6	0	0	102	1	1.0
Dairy	23	0	0	95	0	0
Fruits & Vegetables	20	4	20.0	112	4	3.6
Grain	17	0	0	49	3	6.1
Livestock	13	0	0	37	0	0
Poultry	2	0	0	21	0	0
Farm Supplies	23	1	4.3	54	0	0
Rice	2	0	0	40	0	0
Sugar	3	1	33.3	35	0	0
Miscellaneous	2	0	0	47	1	2.1
TOTAL	111	6	5.4	592	9	1.5

Only two geographic areas, the Pacific and the Southeast, reported publicly held corporate members serving on boards of directors among the top 120 (Table 7). In the sample, three geographic areas—Pacific, Great Plains and North Central—reported a total of nine out of 592 cooperatives with publicly held corporate members of the boards of directors. Three areas—Intermountain, Southeast and Northeast—reported no publicly held corporate board members.

Table 7. Publicly Held Corporate Members Serving on Cooperative Board of Directors in sample and top 120, by geographic area.

	TOP 120			SAMPLE		
	TOTAL	ON BOARD	%	TOTAL	ON BOARD	%
Pacific	24	4	16.7	102	4	3.9
Intermountain	5	0	0	52	0	0
Great Plains	12	0	0	146	4	2.7
Southeast	20	2	10.0	103	0	0
North Central	40	0	0	142	1	0.7
Northeast	10	0	0	47	0	0
TOTAL	111	6	5.4	592	9	1.5

INVOLVEMENT OF PUBLICLY HELD CORPORATE MEMBERS OF LOCAL AND REGIONAL COOPERATIVES

Questions have been raised as to the extent of corporate involvement at the regional and local level. Of the 592 cooperatives who responded in the sample, 462 were classified as locals and 130 as regionals (Table 8). The percentage of cooperatives with publicly held corporate members was approximately the same in both cases, 3.2% for locals and 3.1% for regionals.

Table 8. Involvement of Publicly Held Corporate Members of local and regional Cooperatives, by commodity (Sample).

	LOCALS			REGIONAL		
	TOTAL	COOPS WITH CORPORATE MEMBERS	%	TOTAL	COOPS WITH CORPORATE MEMBERS	%
Cotton	95	2	2.1	7	0	0
Dairy	76	0	0	19	0	0
Fruits & Vegetables	96	2	2.1	16	1	6.3
Grain	43	3	7.0	6	2	33.3
Livestock	30	1	3.3	7	0	0
Poultry	15	0	0	7	0	0
Farm Supplies	43	5	11.6	11	1	9.1
Rice	38	0	0	2	0	0
Sugar	0	0	0	35	0	0
Tobacco	26	2	7.7	21	0	0
TOTAL	462	15	3.2	130	4	3.1

At the local level, the greatest percentage was involved in farm supplies with 11.6%. Four commodity groups—dairy, poultry, rice and sugar—reported no cooperatives with corporate members. At the regional level, only three commodity groups—fruits and vegetables, grain and farm supplies—reported corporate members.

When corporate involvement in local and regional cooperatives was analyzed by geographic areas, the Pacific area represented the greatest number of cooperatives with involvement (Table 9). However, several local cooperatives in the Great Plains and North Central Area reported corporate members.

Table 9. Involvement of Publicly Held Corporate Members of local and regional Cooperatives, by geographic areas (Sample).

	LOCALS			REGIONAL		
	TOTAL	COOPS WITH CORPORATE MEMBERS	%	TOTAL	COOPS WITH CORPORATE MEMBERS	%
Pacific	65	4	4.7	16	3	18.8
Intermountain	30	0	0	22	1	4.5
Great Plains	135	5	3.7	11	0	0
Southeast	68	0	0	35	0	0
North Central	116	6	5.2	26	0	0
Northeast	27	0	0	20	0	0
TOTAL	462	15	3.2	130	4	3.1

INVOLVEMENT OF PUBLICLY HELD CORPORATIONS IN FOUR DIFFERENT TYPES OF REGIONAL COOPERATIVES

Corporate involvement in the top 120 cooperatives was also analyzed as to the type of region, i.e., federated, centralized, mixed and inter-regional. Centralized regionals reported the greatest number of corporate members, seven out of 53, and the highest percentage (13.2%) (Table 10). As expected, inter-regionals did not report any corporate members as their members are cooperatives as defined in their articles and by laws.

Table 10. Publicly Held Corporate Involvement in Four Different Types of Regional Cooperatives in Top 120.

TYPE	CO-OPS WITH CORPORATE MEMBERS		
	Responses	Corporate Members	Percent
1. Federated Regional	28	2	7.1
2. Centralized Regional	53	7	13.2
3. Mixed Regional	19	1	5.3
4. Inter-regional	7	0	0
TOTAL	107*	10	9.3

*Four of the 111 "Top 120" Cooperatives who responded did not classify themselves as to the type of regional.

NUMBER OF PUBLICLY HELD CORPORATE MEMBERS OF COOPERATIVES COMPARED TO TOTAL COOPERATIVE MEMBERS AND DIRECTORS

Another way to view the involvement of publicly held corporations in cooperatives is to compare the number of publicly held corporate members and directors with the total number of members and directors of all cooperatives. In the sample, 249 of the 349,809 total members were publicly held corporations. In the top 120, only 166 out of 2,296,483 members were publicly held corporations.

In the case of directors, 25 of the 4,401 directors in the sample were publicly held corporations. Only nine out of 2,071 total directors were publicly held corporations in the top 120.

Table 11. Number of Publicly Held Corporate Members and Directors of Cooperatives compared to Total Members and Directors of Cooperatives and in *sample* and *top 120*.

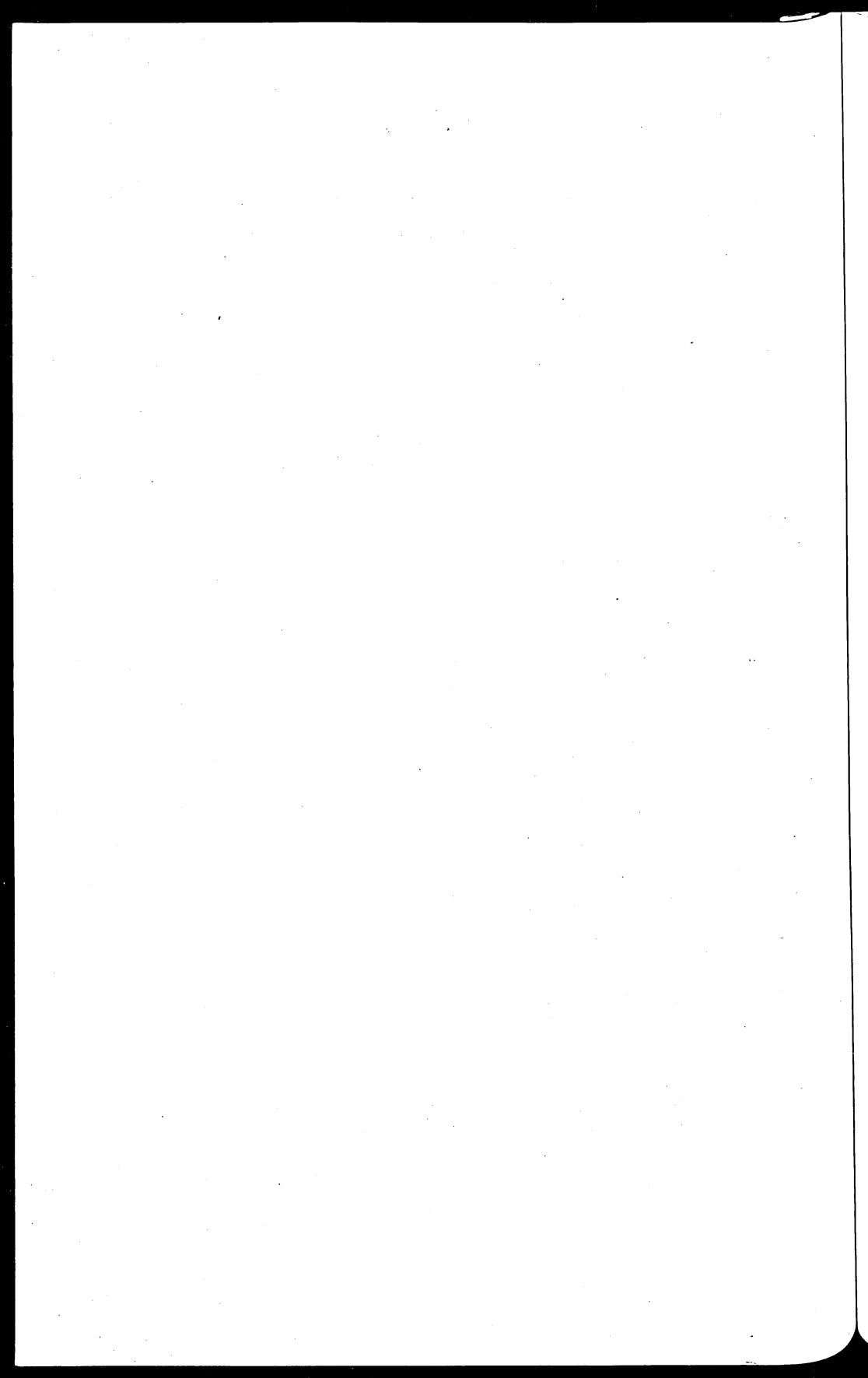
	Total Members and Directors	Publicly Held Corporate Members and Directors
Members		
Sample	349,809	249
Top 120	2,296,483	166
Directors		
Sample	4,401	25
Top 120	2,071	9

CONCLUSIONS

The U.S. farmer cooperatives are not being taken over by corporate interests in this country. While a relatively few publicly held corporations are members of cooperatives and serve on cooperative boards, the essential financial and management control of farmer cooperatives remains in the hands of agricultural producers. This is in keeping with the language found in the Capper-Volstead Act and other federal legislation designed to give agricultural producers control over the farm supply and marketing organizations they own and patronize. Further study on specific group of cooperatives with corporate involvement will be made to determine the extent of corporate control in those cooperatives.

NOTES

¹ In Stage 1, every attempt was made to identify cooperatives that *might* have corporate involvement. Cooperatives who listed corporate members and/or who indicated members whose primary business is not farming in Stage 1 were sent Stage II in order to establish *actual* corporate involvement. As used in this study, "*corporate indicator*" does not necessarily imply corporate involvement but only indicates that possible involvement of corporations as cooperative members, on the boards of director in financial arrangements.



**CHAPTER IV
POLICY ISSUES**