Lessons in Cooperative Failure:
The Rice Growers Association Experience

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Introduction

Recently, several large California cooperatives including Tri-Valley Growers (TVG) and the Rice Growers Association (RGA) have closed while others are experiencing financial difficulties. These developments suggest that California cooperatives may be finding it increasingly difficult to compete in today's agribusiness climate. Given the size and national importance of California's agriculture industry, a decline in the role of the state's cooperatives may be indicative of a larger, countrywide trend.

The Department of Agricultural and Resource Economics at the University of California at Davis has conducted a study to investigate causes behind the RGA failure.[1] The goals of this case study were to determine the origins of RGA's problems and identify lessons learned that might be useful to other cooperatives. RGA closed in August 2000 after nearly 80 years of operation. The cooperative's dramatic swing in fortunes, from a dominant firm that handled upwards of 70% of the total California rice crop in the early 1980s, to one that handled approximately 5% at the time of its closure in 2000, makes this a particularly interesting research subject.

In the current report, RGA's evolution is described in the context of both the internal and external environment surrounding the cooperative. To gain a better perspective on the internal environment of RGA, multiple interviews were conducted with management, grower members, and employees of the Association. A survey of former affiliates provides further support for the research objectives and extends the current literature by revealing ex-post perceptions and attitudes of former cooperative members.

The study provides answers as to why California cooperatives have been struggling in recent years and identifies areas in which cooperatives may improve. Among the study's conclusions is that RGA's board of directors failed to actively exercise its duty to supervise the management. In turn, the

[1] Financial support for this study was provided by the USDA RBS—Cooperative Services.

management fell short of expectations to fully evaluate complex business decisions and was remiss in planning for future contingencies. As a consequence, RGA's performance suffered, members lost confidence and trust in their organization, and the cooperative spiraled towards failure. These and other findings help us to formulate several recommendations that may help other struggling cooperatives to identify and solve issues with cooperative governance, member trust, and strategic management.

In the proceeding paper, a brief history of RGA is presented. Next, a retrospective strength, opportunity, weakness, and threat (SWOT) evaluation of several critical decision points including the cooperative's incorporation is performed. The proceeding section discusses the changing finances and fortunes of RGA and it's largest competitor, Farmer's Rice Cooperative. The results of the former RGA affiliates survey including a description of the analytical framework, analysis of survey results including a discussion of respondent characteristics, attitudes and perceptions, and relative strengths and weaknesses of RGA are presented next. Conclusions and recommendations for change bring to paper to a close.

RGA History

A few years after Ernest L. Adams introduced commercially viable rice strains to California farmers, a cooperative rice marketing organization know as the Pacific Rice Growers Association (PRGA) was formed (Wilson). Fractionalizations of the membership eventually lead the (PRGA) to reorganize in 1921 as the Rice Growers Association (RGA) of California (Wilson). The newly formed cooperative would grow to dominate the California rice industry until the early 1980s when RGA and its largest competitor, Farmer's Rice Cooperative, were involved in a standoff with the smaller Comet Rice Inc, and the South Korean government (Dodson). Resolution of the Korean rice scandal is often regarded as the symbolic parting of the ways between the traditionally cooperative RGA and FRC (Dodson; Keppel, 1985) and the beginning of the end of RGA (Kenward).

Soon after resolving issues with Korean government, RGA purchased the facilities of the Pacific International Rice Millers, Inc. in Woodland (RGA Annual Report, 1985). However, an anti-trust suit filed by the Department of Justice "(sought) to prevent RGA's acquisition of the PIRMI rice milling facilities and other assets (United States of America v RGA, PIRMI)." The plaintiff argued that RGA and PIRMI represented two of the five largest rice mills in California and RGA's purchase of the PIRMI facilities would "…substantially increase concentration in the purchase of paddy rice in California (United States of America v RGA, PIRMI)." Two years later in 1985, RGA closed a large mill in Biggs and hired Mike Cook of Farmland Industries (RGA Annual Report 1985). In lieu of a final return to growers for their 1985 crop, bills were issued to members (Cox and Shallit, 1985).

In 1987, RGA's management announced a change in its marketing focus from bulk to value-added packaged products (RGA Annual Report, 1987). Shortly after the announcement was made, RGA defaulted on a $1.4 million lease payment for its bulk shipping vessel, the California Rice Transport (CRT) (Kenward, Cook 2001). By 1989, RGA's deteriorating financial condition and shrinking membership numbers forced the cooperative to mothball or sell facilities in Williams, West Sacramento, Westside, and Willows (Grell, Kenward, RGA Annual Report, 1989). In this year, as the last CRT-related suits are resolved, RGA was sued by PIRMI and Cal Rice Bran Inc (PIRMI. v. RGA, 1989; Graebner). David Long replaced Mike Cook as RGA's president (RGA Annual Report 1989; Brank).

The next year, RGA was nearly forced into receivership when the cooperative's major lender, CoBank, moved to close the firm after stating, "we believe it would be better to have an outside party assume control of the company (Martin)." RGA's line of credit was also cut off, preventing RGA from paying dozens of employees and leading to a protest outside the Sacramento CoBank offices (Martin). CoBank alleged that RGA owed $42 million in overdue debt and interests (Martin). To stave off an imminent closure, RGA sold assets in Puerto Rico, West Sacramento, Biggs, and Cheney (Long).

Bill Ludwig assumed the presidency of RGA in 1993 after David Long was terminated (RGA Annual Report, 1993). RGA's workforce was substantially cut and the cooperative was now estimated to control just 5-10% of the rice crop, down from a reported 70% in just 10 years prior (Kruger, 1993). RGA's membership now numbered 250 down from 2200 in early 1986 (Kruger, 1993).

In 1997, RGA announced that it would form a business with Applied Phytologics Inc. of Sacramento (Glover). As part of the agreement, some RGA growers would produce genetically modified (GMO) rice that would then be milled and malted so that proteins could be extracted for industrial and medical use (Glover). Tragedy struck in February when a 13-year-old girl fell to her death while playing at the abandoned RGA mill in West Sacramento (Wiley). The property and mill had not been used by RGA since 1990 (Wiley). Crews later dismantled and recycled much of the mill materials at a reported cost of over $1 million to RGA (Wiley). In July, RGA was served with a wrongful death suit by the mother of the 13 year old (Brenton).

Over the next three years, RGA was further reduced in size and by May of 2000 only 120-150 member growers remained (Schnitt and Ferraro). During this time RGA focused its marketing efforts on supplying niche markets and in mid-2000 announced that the cooperative had reached a series of novel trade agreement with The Philippines (Schnitt, 2000). The deal developed in two parts, the first part stipulating that RGA would help The Philippines grow organic rice which RGA would then buy and resell in USA (Schnitt, 2000). The second part of the deal required RGA to ship processed rice to The Philippines were it would be traded for canned fruit, fruit juices, tuna, and other agricultural products which RGA would then sell in America (Schnitt, 2000). Benefits from the trade agreement may have come too late for RGA. In August, RGA announced that it had missed payments to employees for about one month due to credit line problems (Ferraro, 2000a).

Later in August of 2000, Bill Ludwig announced that cooperative was going to be dissolved and restructured as a for profit company, a move managers of the cooperative had reportedly been considering since 1997 (Ferraro and Schnitt). Ludwig stated that the cooperative was simply unable to compete in the market place and aimed to reopen the new company in November of 2000 (Ferraro and Schnitt). However, several lawsuits were pending against the cooperative that needed to be resolved prior to restructuring (Ferraro and Schnitt). Among the pending lawsuits were claims by L&S, RGA's largest California distributor, that it was owed $51,000 (Ferraro and Schnitt). The California Rice Commission also claimed that it was owed more than $100,000 in back assessment from the 1995-96 crop years (Ferraro and Schnitt). Takenaka and Co., an investment-consulting firm from Los Angeles, also sued the cooperative for $15,000 in unpaid expenses (Ferraro and Schnitt). In November, Pacific Basin Rice Products LLC agreed to buy RGA's Woodland mill and rights to the Hinode brand name (Ferraro, 2000b). Upon the dissolution of the cooperative he had run since 1993 Bill Ludwig summed up the struggles of RGA stating "there is no future and no ability to truly make a profit in the rice industry in California (Ferraro and Schnitt)."

Strengths, Opportunities, Weaknesses, and Threats

In analyzing the chain of events that lead to RGA's closure, it is natural to question whether the correct strategic business decisions where always made. When courses of need to be decided on, it is recommended that firms perform an analysis of strengths, weaknesses, opportunities, and threats (SWOT) (Learned; Rapp, 1986; USDA/RBS, 1997). An honest evaluation of the internal and external factors effecting the entity's position in the framework of a SWOT analysis can guide the decision making of both the management and the board of directors. Performing SWOT analyses as part of strategic planning is said to "clarify relationships, promote understanding of established objectives, and assign specific responsibilities, tasks, and times schedules (USDA/RBS, 1997)." It is unclear; however, whether the RGA's management and/or board performed SWOT analyses when critical junctures in the cooperative's history were met.

In the current paper, a basic SWOT analysis is performed retrospectively for RGA at several critical decision points including RGA's incorporation, Valerie F. bulk shipping vessel construction, Korean rice impasse, and product differentiation. These analyses help to reveal the logic, rationalization, and in some cases, possible flaws in the strategic management decisions made by RGA's leadership.

RGA's Incorporation:

In 1921, the Rice Growers Association of California was officially incorporated as an information cooperative and marketing exchange where buyers and sellers met (RGA Annual Report, 1922). The choice to incorporate the new cooperative was made shortly after the dissolution of the Pacific Rice Growers Association (PRGA), opening a new cooperative soon after the failure of the PRGA was fraught with potential problems. It is likely that RGA's founders investigated the various external and internal factors that could contribute to the success and or failure of the new venture. Below is a brief description of the strengths, opportunities, weaknesses, and threats that RGA faced prior to the coop's incorporation and shortly thereafter.

Strengths:

Although the PRGA officially closed in 1921, the cooperative's facilities, market connections, and many staff members became part of the RGA when it was incorporated in 1921 (Wilson). In this manner, the newly formed RGA had an infrastructure on which to build. Furthermore, prior to RGA's formation, the controversial board of PRGA resigned and was replaced by new directors when the cooperative was reorganized (Wilson). This action served to assuage disputes between grower/members and board members that existed at PRGA and created a more collaborative environment at RGA (Wilson). In addition, a popular and well-known food administrator, Ralph P. Merritt accepted an offer to serve as the first president and general manager of RGA (RGA Annual Report, 1922). Merritt had previously declined an offer to serve in the same capacity at the PRGA (Wilson).

Recognizing the need for increased organization, the management of RGA developed five administrative departments: information, finance, office administration, grading and warehousing (RGA Annual Report, 1922). With the formation of separate departments, RGA gained organization and efficiency. Reportedly, members were particularly drawn to RGA's commitment to make rice market information readily available through a weekly newsletter (RGA Annual Report, 1986). No other marketing entity at the time performed this service for its membership (RGA Annual Report, 1922; Skinner).

Under the leadership of Merritt, growers were able to secure sufficient credit from lenders by using warehouse receipts as security for loans (RGA Annual Report, 1922). This in turn gave RGA greater flexibility than competitors in determining when to market rice which led to more orderly marketing and smaller rice carryovers (RGA Annual Report, 1922). Having a smaller carryover may have saved the Association members significant amounts of money in warehousing fees.

Growers gained security by joining RGA instead of a competitor through the cooperative's implementation of long-term five-year marketing contracts (RGA Annual Report, 1922). These contracts likely gave the new organization a greater sense of permanence and encouraged loyalty from members. RGA introduced an innovative rice sampling system that resulted in the most accurate grading in the industry (Wilson). Through these and other early actions, RGA gained an additional strength in membership size and by April of 1922, RGA's producers represented 75% of rice acreage in California (Wilson).

Weakness:

Despite RGA's many internal strengths, some weaknesses still existed that could threaten the formation and early growth of the cooperative. Most notably, the new organization had to overcome the stigma of being associated with the former PRGA and establish itself as a permanent fixture in the California rice industry. In particular, RGA needed to show that it had the ability to unite diverse grower groups. This would be no easy task and Ralph Merritt, the new president and general manager charged with the unification, was hired despite having little or no documented cooperative leadership experience (Skinner). In addition, RGA would face the task of marketing a large percentage of the total rice crop grown in California without the ability to control the milling and drying operations of its membership. It was not until 1929 that RGA purchased its first milling facility, the California State Rice Milling

Company, and had the capabilities to mill member rice (Wilson; RGA Annual Report, 1930). Until this time, the Association would have to rely on third party millers and dryers to deliver member rice on time and of specific quality.

Opportunities:

The California rice industry was still very new at the time of the RGA's formation and lacked a high level of organization (RGA Annual Report, 1922). In 1921, the opportunity existed for a strong leader with a well-organized management team to step in and create a more orderly marketing environment. In the process, RGA had the potential to attract members who desired to be part of the process of positive change in the California rice industry. At the time, growers had difficulty acquiring sufficient credit (RGA Annual Report, 1922). By increasing farmer security, RGA had the ability to provide a loyalty inducing service to growers.

Furthermore, rice buyers demanded consistency from suppliers but if growers were unorganized, large contracts would have to be filled by several organizations that may have different grading standards and levels of accuracy. RGA met the challenge of providing consistency by greatly improving their grading systems such that they could combine both high volume and high degrees of accuracy to buyers (RGA Annual Report, 1923).

Threats:

Early in its history, the PRGA boasted that 70% of the rice acreage of the state was controlled by its membership (Wilson). In time, however, growers came to view the management as ineffective and mass defections from the cooperative occurred (RGA Annual Report, 1922). Some of the former growers and independents formed their own rice marketing organizations that still existed when the PRGA was reorganized as the RGA in 1921 (RGA Annual Report, 1922). These entities were potential competitors with the RGA and some such as Koda Farms (1919), C.E. Grosjean Rice Milling (1915), and Rosenberg Brothers & Company (1918) had well-established reputations, supplier and customer bases (Wilson).

Large rice crops early in the industry's history had resulted in carryovers of rice in some years (RGA Annual Report, 1922). As a result, domestic prices had at times been very depressed (Wilson). To ameliorate some of the excess supply problems, rice firms looked to export markets in Japan and other nations (RGA Annual Reports, 1922 and 1986). When overseas markets had poor rice crops, RGA and competitors could warehouse stored rice and bolster domestic prices (Wilson). However, if overseas competitors had good crops, California rice marketers would have to manage unsold rice stocks and find ways to overcome low domestic prices (Wilson).

Rice grown in California at the time of RGA's formation was almost exclusively medium grain while the American consumer preferred long grain varieties grown in the Southern States (Wilson; Skinner; Moore). Advertising campaigns organized by RGA had only minimal effects on stimulating domestic consumption, thus the cooperative and others were largely dependent upon selling rice domestically for industrial uses (Wilson). In the capacity of an industrial raw material, medium grain is largely interchangeable with long grain thereby increasing the number of competitors RGA faced to included Southern producers.

Valerie F. Construction:

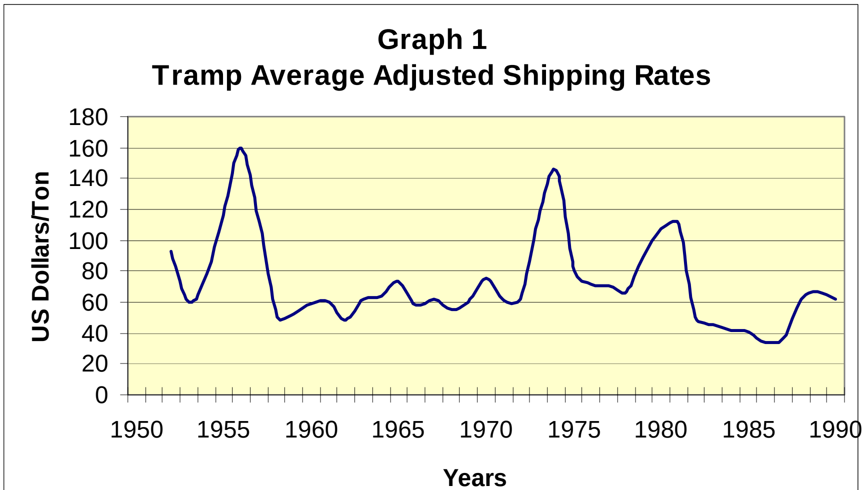
In 1973, trade between Puerto Rico and the RGA was still thriving while shipping rates were becoming increasingly expensive (Graph 1) and cargo space harder to come by (Kenward, Hummels). RGA saw this as an opportunity to employ a larger more efficient ship and plans were made to construct an innovative tug-barge bulk rice carrier (RGA Annual Report, 1973).

Strengths:

The new ship would have a crew of 41 Union labor workers; a significant savings over the 59 laborers required to operate the S.S. Rice Queen and would increase hauling capacity from 20,000 tons to 30,000 tons of rice per trip (RGA v. First National Bank of Minneapolis). The vessel would also run on cheaper diesel fuel rather than more expensive lighter fuels (Kenward, Huffman). In addition, the U.S. federal government was encouraging the building of US flagships and agreed to guarantee $27 million dollars in bonds that would be used to finance the building of the tug-barge for RGA (MTS, 1999; Kenward).

Weaknesses:

Intercoastal Bulk Carriers (IBC) would own and operate the ship while a division of RGA known as Elvalsons agreed to make payments on the ship should IBC fail to do so (RGA v. First National Bank of Minneapolis). Despite making payments in IBC's stead after that firm closed, RGA would never actually own the vessel (RGA v. First National Bank of Minneapolis). In the event that RGA was unable to make payment on the ship, the cooperative would be liable for the full amount of money left on the 20-year vessel lease (RGA v. First National Bank of Minneapolis). Lease payments annually totaled nearly $3 million (Cony, 1988a).



Sources: UNCTAD, MarAd, and Hummels, David, " Have Shipping Costs Declined"?, University of Chicago, Graduate School of Business. July 1999

In 1973, RGA had a membership base of 1,600 growers (RGA Annual Report, 1973). If RGA had to assume lease payments on the Valerie F., it would spread the costs of running the ship across a large number of growers, however, should the membership base shrink, a smaller grower base would be responsible for covering the ships costs, potentially causing RGA's grower returns to decrease.

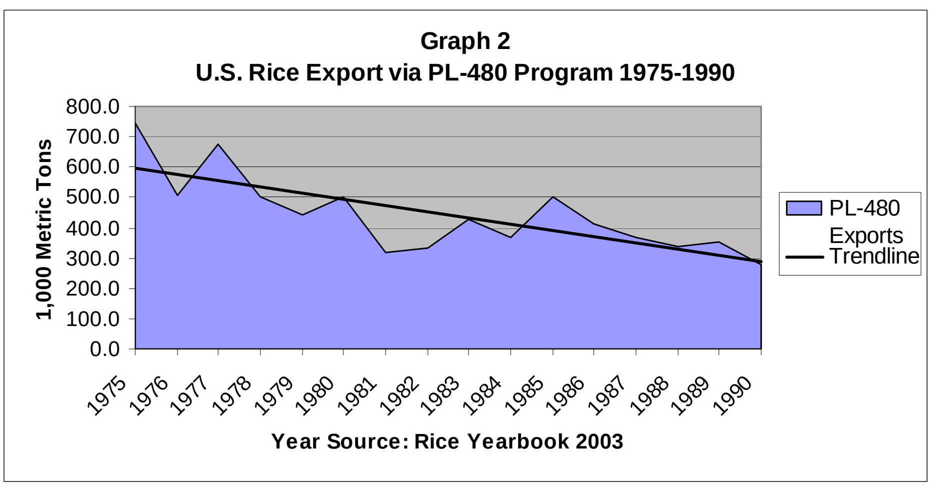
Opportunities:

Shipping rice to the major Puerto Rico market had become expensive in the early 1970's (Cony, 1988b). Potential cost savings existed if RGA could find a way to deliver paddy rice at cheaper rates to its mill in San Juan, Puerto Rico. As designed, the Valerie F. provided potential costs savings through technological advances, fuel efficiency and a smaller crew. For example, the Valerie F. incorporated an innovative unloading design that eliminated the need to utilize damaging heavy equipment to empty the haul (Cony, 1988b).

The ship would also be able to participate in the Food for Peace programs by delivering rice and other commodities through government sponsored aid programs (Dodson). Opportunities existed for RGA to defray the cost of the ship through partnerships with FRC and Occidental Chemical to transport rice and rock phosphate (Dodson).

Threats:

The Valerie F. was an expensive ship to operate and relied on a phosphate backhaul and contractual agreements with FRC to avoid being a liability to RGA (Dodson). If these cost-saving arrangements were ended the ship could



become prohibitively expensive for RGA to operate (Dodson). When the ship was built RGA sent a large volume of rice to Puerto Rico, should that market dry up, RGA may not be able to justify owning a bulk transport vessel to service that market (RGA Annual Reports, 1973-1977).

In addition, RGA relied heavily on Public-Law 480 (PL-480) exports to generate sales revenue (RGA Annual Reports, 1970-1972; Kenward; Noel). When these sales were made, RGA vessels were used to transport the cooperative's rice to the destination country thereby spreading fixed costs of leasing the vessel over more voyages. However, PL-480 export sales levels were variable and generally declining (Graph 2). The variability of demand for RGA's rice was noted by Executive Vice President Robert Freeland in the 1972 report, "the export level…can be subject to large fluctuation depending upon the supply and demand situation in the world and the willingness of the U.S. Government to budget funds for PL-480 programs (RGA Annual Report, 1972)."

Finally, the choice to commission the building of the ship was made at a time when shipping rates were very high and increasing (Hummels). Under these conditions, leasing and operating the Valerie F. made good financial sense. However, if the shipping industry were to lower rates in the future, it may have saved the cooperative money to wait out the period of high shipping rates.

Korean Rice Impasse:

Resolution of the Korean rice scandal is often regarded as the symbolic parting of the ways between the traditionally cooperative Rice Growers Association of California (RGA) and its closest competitor, Farmers' Rice Cooperative (FRC) (Dodson; Kenward; Huffman). Soon after the spilt, FRC would grow to dominate RGA and other entities by becoming the largest rice marketing entity in California while RGA would shrink in size and significance.

Strengths:

When the South Korean government awarded a large contract to Comet rice in 1982, RGA was financially superior to nearly any other cooperative or independent rice marketing entity (RGA Annual Report, 1982). The cooperative had a long history of business with Grover Connell who promised a swift and profitable resolution to the Korean scandal (Cox, 1982). To back RGA up, the cooperative and Grover Connell had a large number of supporters in Washington. RGA's political allies included Congressmen Vic Fazio of West Sacramento, Tony Coelho of Merced, and Rep. Eugene Chappie (Donner; Malone; Conner, 1985). All were recipients of Connell Rice and Sugar campaign contributions (Donner; Malone; Conner, 1985).

Weaknesses:

The South Korean Government made it known that they would not do business with Grower Connell after his attorney, Joseph Alioto, filed a $10 million bribery suit against some of the South Korean government's top officials on March 4, 1981 (Cox, 1983b; Lachica). In light of this information, the cooperative could have chosen to sell the Koreans rice through a different broker, but RGA and FRC insisted upon carrying out any transactions through Connell (Cox, 1983a). By choosing to wait out the Korean rice situation, RGA incurred large warehousing costs and by saving the rice for Korea, may have ignored other outlets for the stored rice (Lachica).

Opportunities:

By refusing to sell to Comet other than at prohibitively high prices, RGA and FRC may have believed they could force Comet to default and thus step in and fill the Korean contract themselves (Lachica). In years past, Grover Connell had been a valuable asset to RGA, by standing by him through much of the scandal, RGA demonstrated loyalty for their agent (Kenward). Furthermore, by taking a stubborn stance against Comet rice, RGA reportedly hoped to defend itself against Comet's so called "co-op busting" scheme and reaffirm its position as the most powerful rice marketer in California (Cox, 1983a).

Threats:

In order for RGA and FRC to step in and fill the rice contract independently, the Korean government needed to enforce all three tenets of its contract with Comet (Dodson). Without the cooperation of RGA and FRC, enforcing the contract would cause Comet to default (Dodson). However, the Korean government was in a position to grant a series of contract extensions to Comet in the event of a large Korean rice crop (Conner, 1983). If Comet did not purchase the rice that FRC and RGA had set aside for the expected sale, the cooperatives would be forced to warehouse a substantial portion (50%) of all rice produced in California in 1981(Conner, 1985).

Product Differentiation:

Soon after his appointment as president and CEO of RGA, Mike Cook stated, "bulk handling of rice (is) not going to be cost effective for members and the options (are) either to diversity or declare bankruptcy (Cook 1988)." In 1987, RGA officials reported that they would pursue a differentiated products strategy in order to phase-out dependence on the government, domestic and export bulk sales and concentrate on high profit margin, "value-added packaged products (Cony, 1987)." Mike Cook was quoted as saying "We decided to pursue a road that is less traveled…It's a strategy that gives us some control over our own destiny (Gardner, 1987)."

Strengths:

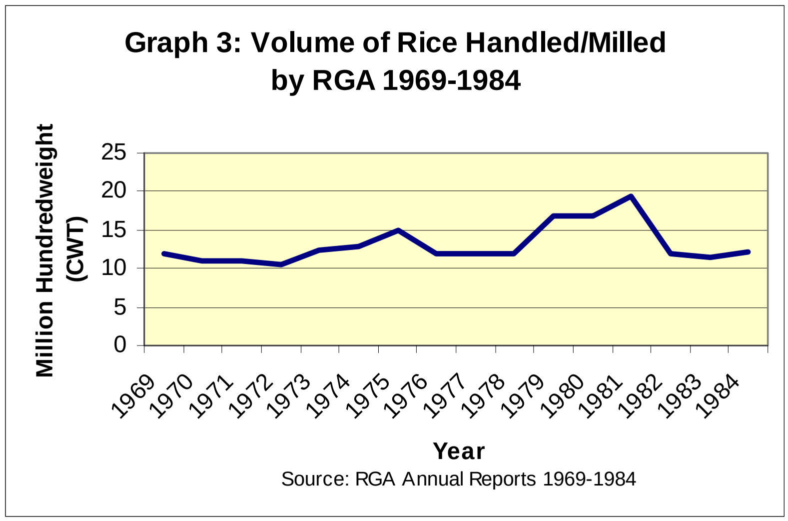
Over the years, RGA had reportedly cultivated a reputation for "marketing top-quality California rice, attention to consumer needs, and carefully targeted marketing and merchandising (California Food)." These attributes would aide RGA in its bid to establish the cooperative as a branded domestic retail rice business. In addition, RGA was an early adopter and innovator of the Zip-Pac™ resealable bag technology (RGA Annual Report, 1989). Use of the new technology along with application of attractive graphics won RGA the 1989 *Packaging* magazine's award for the most innovate packaging concept of the year (RGA Annual Report, 1989). Furthermore, Mike Cook had experience pursuing a product differentiation strategy from his tenure at Farmland Industries, a firm that was also developing niche markets at the time of Cook's employment (Cony, 1987).

To fill the market niches RGA developed, a consistent supply of high quality long, medium and short grain rice was needed (Gardner, 1987). When Cook took office, RGA utilized a long-grain production incentive program that paid a premium of $2/hunderweight over the government-set target price for long-grain rice (RGA Annual Report, 1985). The Association had already developed high quality varieties of short and medium grain rice and by 1991 RGA was recognized as the only major California producer of long, medium, and short grain rice (California Food).

Weaknesses:

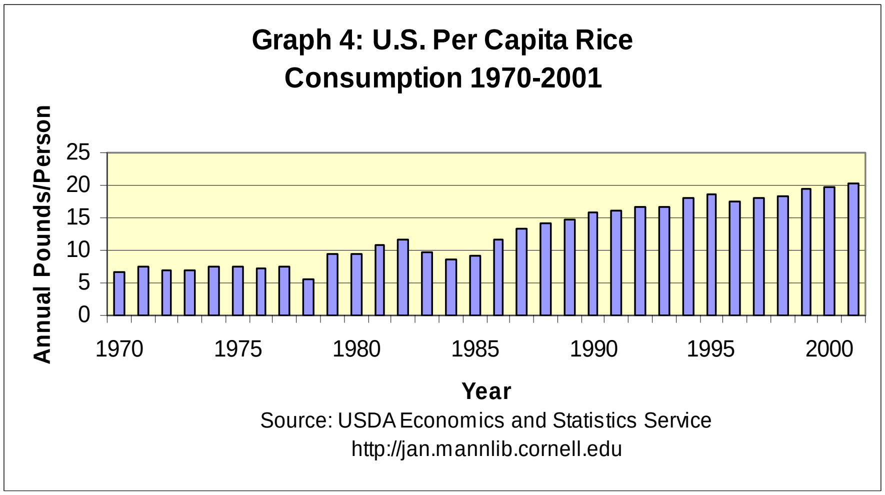
RGA lost several hundred members after issuing bills to members in lieu of a final return in 1985 (Cox and Shallit, 1987). The loss of members meant that the fixed costs of RGA's operations would be spread over a smaller pool of growers. Having relatively higher fixed costs meant there was now less working capital in reserves at a time when RGA would need much capital to get the differentiated strategy off the ground (Kenward, Dodson). Available cash was further reduced when the long grain premium program resulted in a loss of $3 million in its first year of use (Cox and Shallit, 1987).

Finally and most significantly, the domestic rice market was very small, estimated to use just 3 million hundredweight of rice annually (Dodson). At this time, RGA annually controlled as much as 16 million hundredweights of rice (Graph 3) (RGA Annual Report, 1969-1985). By focusing so much attention and money on penetrating the small differentiated market, RGA likely would neglect its interest in the bulk market (Dodson). This action had the potentially to endanger RGA's core bulk rice business and grower returns.



Opportunities:

The domestic branded rice industry was expected to grow owning to steady increases in the American consumer's annual consumption of rice (Childs et al., 2002). In Graph 4 per capita increases in rice consumption over the past 20 years are visible. Rice consumption has increased from just over 5 pounds in 1970 to an average of 26.5 pounds per year in 2000 (ERS Rice Briefing Room). Changes in government agricultural policy also occurred during the mid 1980s. In early 1986 Congress signed a deficit cutting budget package. The impact of the compromise budget on a typical Valley rice farmer with 200 acres was thought to be an annual loss of approximately $3,020 (Weiss). Target prices were also at risk for a reduction, which meant further potential subsidy decreases to farmers. Cook and his management team may have seen the decline in government support as an opportunity to change the focus of RGA towards a domestic market that appeared to promise higher profit margins per unit and greater long-term stability (Kenward; Grell).



Threats:

After sending bills to members, many former RGA growers resigned from the cooperative and planned to market their crop through Farmers' Rice Cooperative, Comet or other rice-marketing firms (Cony, 1986) It was reported that Comet expected to handle 33% more rice in 1986 and the Butte County Rice Growers Association also projected increases in volume between 30-40% (Cony, 1986). Meanwhile, some growers chose to patronize a new mill built by California Pacific Rice Millers (Cony, 1986). Hence, RGA's competition in the bulk rice marketing business was growing stronger and larger while RGA's share in this market was declining.

In addition, RGA's stated goal was to sell 55% of growers rice into the packaged foods market were they would face an uphill battle for shelf space with firmly established competitors such as Uncle Ben's, Mahatma, Near East, and others (Gardner, 1989a). Large food companies with deep advertising budgets owned most of these brands while RGA relied upon a small advertising campaign and a "grass roots effort" to get the word out about their branded products (California Food).

Finally, at this time the Association still sold a large percentage of members' rice on a world market that was depressed due to the harvest of large surpluses in countries that were traditional trade partners (Gardner, 1989b). As a result, the cooperative found it difficult to profit from the export market

(RGA Annual Report, 1989). Because less money was coming in from export sales, it would be still more difficult to find ways to fund a differentiated products strategy that required large capital outlays.

FRC Comparison

In 1944, a group of 30 dis-satisfied RGA growers left to form their own cooperative, the FRGC or Farmers' Rice Growers Cooperative (Wilson). In FRGC's first year of operations the organization marketed 300,000 hundredweight (cwt) of paddy rice, less than 1/8th the volume that RGA processed and packaged (FRC: Profile; RGA Annual Report, 1944). By 1965, FRGC had doubled in size, boasted 600 members, and marketed approximately 4 million cwt (FRC 50th Anniversary). That same year, RGA sold 10.3 million cwt (2.5 times FRC's volume) and membership totaled 1800. In 1965, the FRGC dropped "Growers" from their name and came to be known as the Farmers' Rice Cooperative or simply FRC (FRC 50th Anniversary).

Throughout the 1960's FRC expanded their operations first by purchasing the Stegeman bulk seed, drying, and warehousing facilities in Colusa County and later through the acquisition of the Dos Palos mill and warehouse facilities (FRC 50th Anniversary). In 1962 the cooperative built a packaging facility in Puerto Rican to supply the local short grain market (Wilson). The development of a packaging facility represented an increased FRC presence in the Puerto Rican market, a market RGA had dominated for decades (Kenward).

Despite the potential for bad relations, FRC and RGA maintained what has been recalled as a congenial "big brother (RGA), little brother (FRC)" relationship (Kenward). In fact, the two competing cooperatives shared a contract for use of the S.S. Rice Queen which was used to transport Puerto Rico bound rice out of the Port of Sacramento beginning in 1964 (Wilson; Glick). Later the two would also share a contract for use of a similar shipping vessel; the Valerie F. later renamed the Cal Rice Transport (Glick).

The degree to which the two entities' marketing strategies were interlinked is at first glance surprising; however, a closer inspection reveals that for much of their history, both cooperatives retained the same rice brokerage firm and agent (Kenward; Glick; Cook 2001; Huffman). In his capacity as dual agent, Grover Connell through the Connell Rice and Sugar Company, directed the marketing activities of both cooperatives for decades (Kenward; Glick; Cook 2001; Huffman). A former employee of RGA reported that while Grover was agent, rice markets and contracts for rice were shared roughly equivalent to the proportion of market size that the cooperatives had (Dodson). The relationship was historically profitable and only ended in the early 1980s after a scandal that became known as "Koreagate" (Kenward).

In 1983, in the middle stage of "Koreagate", Joe Falconer retired as General Manager of FRC and Ralph Newman was hired to fill the vacancy (FRC 50th Anniversary). When Newman joined FRC, the competitive environment was said to change (Glick, Dodson). Instead of siding with RGA in the Koreagate scandal, Newman broke ranks, ended the stalemate, and terminated FRC's relationship with Grover Connell and the Connell Rice and Sugar Company (Dodson, Huffman).

Post-Koreagate FRC and RGA, managed by Newman and Mike Cook respectively, implemented very different strategic goals and long term plans (Cook 2001; Huffman). RGA downsized and focused on developing branded rice products (Cook 2001, Long). Responding to criticism over RGA's chosen business strategy, David Long stated "those who succeed in business are the ones who innovate and move ahead (California Food, 1991)." On the other hand, FRC purchased assets and developed a marketing plan that centered on being "the largest, most stable, and technologically advanced supplier of California rice (FRC 2003)."

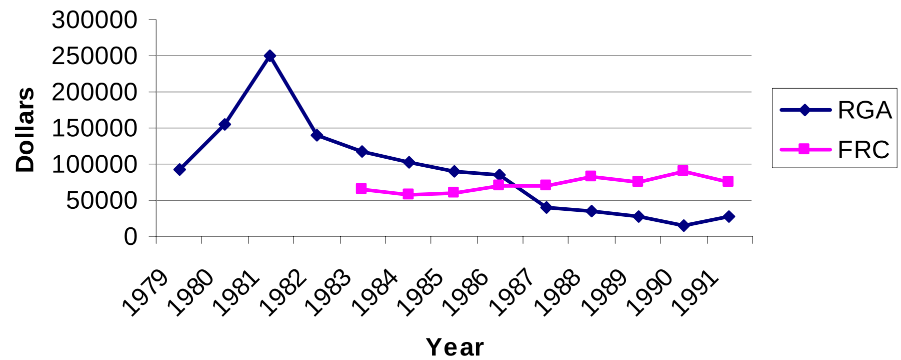
Clearly, the business strategies adopted by RGA and FRC in the mid-80s resulted in different outcomes as evidenced by the fact that today FRC produces and markets over 40% of California's annual rice crop while RGA has closed (FRC 2003). By examining financial differences between the cooperatives this section aims to illustrate how the different choice made by FRC and RGA translated into financial performance and firm health.

Financial Comparison

Using annual reports, figures depicting the financial history of RGA and FRC were constructed.[2] Due to changes in formatting and unavailability of some annual reports, it was not possible to construct a complete time series of all variables of interest for both cooperatives. However, records for the two cooperatives during the critical 1980s are comparable. In the following section, net proceeds and working capital at RGA and FRC are compared from 1979 to 1991. Next, classical ratio analysis is used to determine financial trends and differences at the two coops during the same time period.

Net Proceeds: Information on net proceeds is available from 1979 to 1991 for RGA and 1983 until 2003 for FRC. In Figure 1, net proceeds for both cooperatives are compared between years 1979 to 1991. Net proceeds increased at RGA between 1979 and 1981 primarily due to large sales into export markets. After 1981, net proceeds continually decreased at RGA and hit a low point in 1990 when net proceed were found to be just 1/16 what they were a decade earlier. Net proceeds changed by 82% in 1991 but the dollar amount was still far from what the cooperative had attained in the early 1980s. Tellingly, the large increase in proceeds in 1991 was due not to a large sale as had been the previous case, but rather to the increase is attributed to the closure of RGA's money draining Puerto Rican operations (Long).

Figure 1: Net Proceeds for RGA and FRC

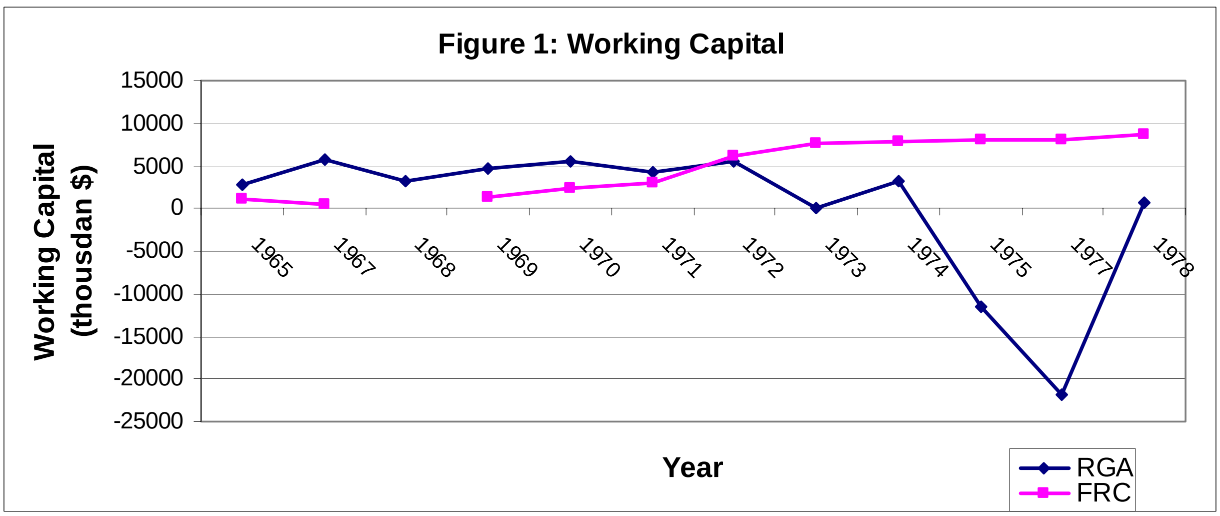


[2] Unless otherwise noted, all data and facts have been obtained from RGA and FRC annual reports

During the same period of time, FRC's net proceeds steadily increased (10.82% annual growth) and remained relatively stable compared to RGA. Increases in net proceeds were found to be driven by increases in net marketing pool proceeds which are analogous to RGA's net sales. Thus in the early 1990s, while RGA was increasing proceeds through asset liquidation and closures, FRC was growing net proceeds through market share gain and increased sales.

Working Capital

Working capital is calculated by subtracting total current liabilities from total current assets and indicates a firm's ability to meet short term obligations (Harrington). Due to changes in the format of FRC's annual reports, we are not able to construct a full time series for comparison to RGA, however,

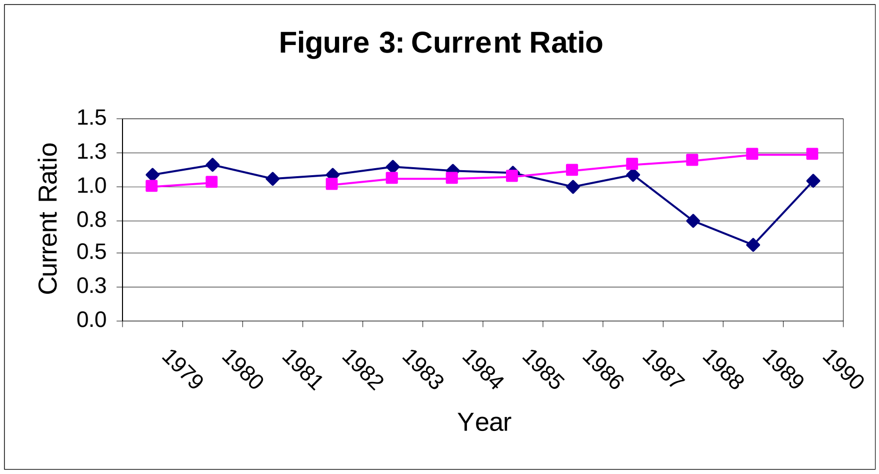


inferences that can be drawn from analysis of working capital during the 1980s and early 1990s for both cooperatives. Initially it is found that, while FRC experienced steady increases in working capital between 1983-1991, RGA's working capital shifted up and down unsteadily, though remaining positive, throughout much of the 1980s. Beginning in 1989, the year that David Long was hired as president and CEO of RGA, the firm experienced a dramatic decline in working capital. In 1990, RGA retired some debt resulting in a recovery of working capital to a positive level. Reportedly, RGA's working capital was erratic until the cooperative's end due to attempts to "jump-start" RGA through various asset sales and debt acquisition (Daddow). By comparison, FRC's working capital continued to increases and was found to have grown at an annual average of 24.29% between 1984-2002.

Classical Ratio Analysis:

In this section, several classical ratios have been calculated for RGA and FRC. Specifically, the current, payables turnover, inventory turnover, and debt equity ratios are analyzed.

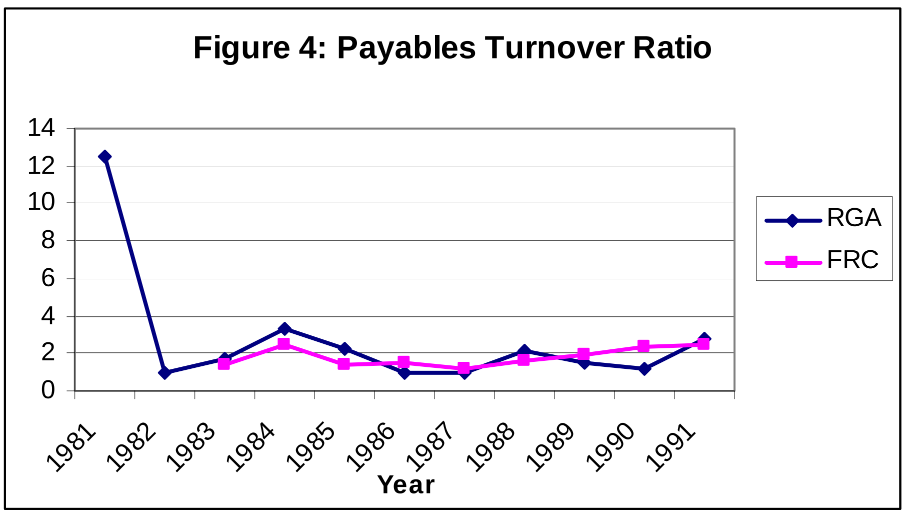
Current Ratio:



The current ratio is calculated as current assets over current liabilities. This ratio is considered to be indicative of a firm's ability to meet is current obligations and is the standard measure of any business' financial health (investopedia). According to one industry expert a current ratio of 2 indicates a "healthy" mix of debt and assets (Dodson). A quick look at the current ratio for RGA and FRC reveals that neither cooperative attained this value over the time period detailed in Figure 3. In more recent years (1999-2002), FRC has maintained a current ratio above 2, however, analysis of earlier annual reports (1964-1978) finds that even in RGA's heyday the cooperative did not attain the recommended "healthy" level. RGA's ratio was steady 1964-1988 but changed considerably in the years that followed. RGA's current ratio declined dramatically in 1987-1988, likely due to the sale of assets in 1988 and expenditures associated with pursuing a value-added products strategy. A sharp decrease in current liabilities in 1991 improved RGA's current ratio and working capital position however, the current ratio declined annually by negative 1% during the years under investigation with dramatic declines in 1988 (-25%) and 1989 (-31%). By comparison, FRC's current ratio remained relatively stable between 1979 and 1991. Only in more recent years has FRC's current ratio exhibited dramatic change. Specifically, in 1998, a small crop and strong export demand resulted in high prices for FRC and California rice, allowing FRC to retire some current liabilities. In 1998, FRC also sold a former packaging and processing plant in Puerto Rico, the proceeds of which also aided in reducing debt (FRC 1988 Annual Report).

Payables Turnover Ratio

This ratio indicates how quickly a firm is able to pay its bills. When this number is high, a firm waits a short time after purchasing goods and services before paying for them (Harrington). When the number is low, a firm may be chronically short on cash (Harrington). In 1980, RGA was the recipient of a large order of rice from Korea which resulted in record sales levels and grower returns (RGA 1981 Annual Report). Since cost of sales influences the payables turnover ratio, it is not surprising that in this year RGA's payables ratio was very high indicating that RGA did not have problem paying its bills in this year. A large crop of rice in the next year, flooded the export market and resulted in a dramatic decline in RGA's sales and hence the payable turnover ratio. In subsequent years until 1991, RGA's payable



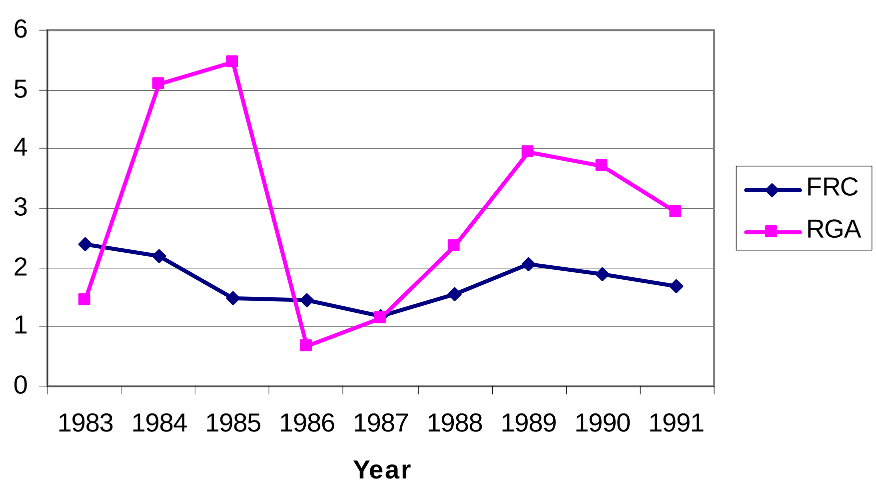
ratio continued to fluctuate primarily in concert with sales. Given this relationship, it appears that relative to RGA, FRC had more consistent sales. Evidence of this trend is that over the same time period the standard deviation around FRC's payables ratios is .43 while RGA's is nearly twice that at .84. In later years, FRC's payables ratio has increased significantly, commensurate with the cooperatives improved financial position and increasing share of rice sales in California.

Inventory Turnover Ratio

The ratio is calculated by dividing cost of goods sold by the average value of inventory and is represented for years 1983-1991 in Figure 4 (Harrington). This ratio gives an indication of how much of a firm's assets are tied up in inventory, keeping in mind that it is preferable to run a business with as little inventory on hand as possible (Investopedia). This ratio also indicates management's efficiency in turning over inventory as compared to other firms in the industry (Harrington). Because inventories are the least liquid form of asset, having a high inventory turnover ratio is generally positive while a relatively low inventory turnover ratio implies poor sales and/or excess inventory (Investopedia).

From Figure 4, we can see that over the time period in question, RGA had much more variable inventory turnover ratios relative to FRC. This result may, in part, be driven by FRC's mission to become the most stable supplier of rice in California. In an interview with FRC management, it was revealed that the cooperative had an annual throughput goal that maximized the use of the coops fixed assets (Huffman). Having a known supply base no doubt made it easier for the coop to meet market demands for their product and hence develop stable retail relationship that served to smooth inventory and sales across years and result in level inventory turnover ratios. RGA's unstable inventory turnover ratio indicates that there was variability in the number and size of sales made by RGA's management from year to year. In RGA's case, high ratios may in part be explained by the high cost of manufacturing rice and rice products at RGA, driving up the cost of goods sold, during this time. According to then CEO Mike Cook RGA's mills were in poor condition and it was becoming

Figure 5: Inventory Turnover Ratio



cost ineffective for RGA to continue to focus on the bulk rice market (Cook 2001). In addition, as members left RGA, the cost of processing rice and maintaining RGA's facilities was spread over a small volume of rice, hence the cost of processing each unit of rice increased (Cook 2001; Long). At the same time the average price of rice and average size of RGA's inventory did not increase and likely declined due to market conditions and member defections (Noel).

A dramatic decline in the inventory turnover ratio between 1985 and 1986 may in part be due to RGA's effort to divest itself of expensive fixed assets which resulted in decreased costs of good sold. During this year, the average value of RGA's inventory may have increased significantly due to value added processing. RGA was no longer processing only bulk rice, but also small high-value boxed rice products. As a whole, the instability of RGA's inventory ratio of this time indicates that management was struggling to efficiently manage their inventory.

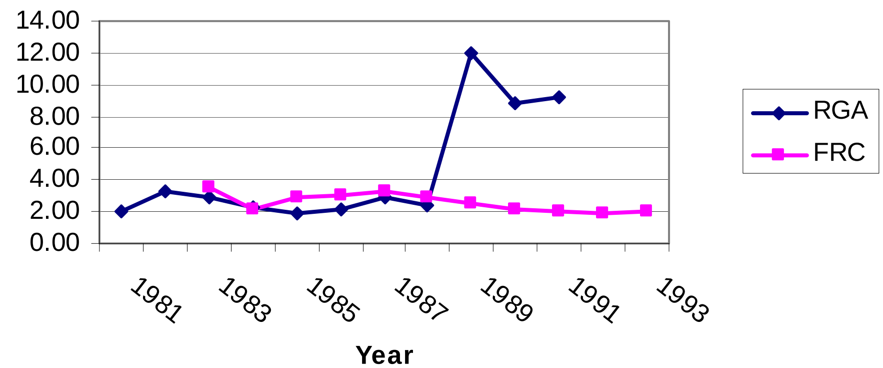
In reviewing Figure 4, it appears that RGA generally has a higher inventory turnover ratio than FRC. This result may be a function of RGA's age relative to FRC. Specifically, the RGA cooperative was 25 years old when FRC was formed, indicating the potential for many of RGA's assets to older than FRC's. As assets age, they depreciate in value resulting in a lower asset base for an otherwise identical firm (Harrington). Applying this logic, it is not surprising that the denominator in RGA's inventory turnover ratio is smaller than FRC's, resulting in a higher average inventory turnover ratio.

Debt-Equity Ratio

This ratio measures how much the company is leveraged by comparing what is owned to what is owed (Total Liabilities/Total Equity) (Harrington). A high D/E ratio indicates that a firm may be over leveraged while a low D/E ratio may indicate an opportunity for the cooperative to grow through the use of debt financing (Investopedia). According to one financial service, a D/E ratio of less than .5 is "ideal" (Investopedia). During 1964 to 1974, RGA's average D/E ratio was 1.08 with a standard deviation of 0.18. However, between 1975 and 1988, RGA's average D/E increased to 2.42 (.52) indicating that RGA took on relatively large amounts of debt without commensurately increasing their equity base. Major sources of variation in the debt equity ratio can be attributed to fluctuations in total current liabilities. RGA accrued large amounts of debt that were used to finance the coop's value-added marketing plan (Dodson; Long). During the same period of time, RGA intermittently sold assets and paid down debts (Long).

A large jump in the D/E ratio occurred in 1989 when RGA divested itself of two large assets, one in Colusa County and another in West Sacramento without paying down debts (Cony, 1989). It was during this same year that RGA was hit with several lawsuits (Long; Hardesty). RGA was ruled against in several cases, the most expensive of which required RGA to pay $4.5 million dollars to settle a suit involving the California Rice Transport vessel (Gardner, 1990). In addition, RGA auditors discovered in the same year that managers had overvalued the cooperative's inventory by $9 million dollars (Marysville AP, 1990). The confluence of these events was to decrease RGA's equity and increase the coop's debt.

Figure 6: Debt Equity Ratio



By comparison, FRC's D/E ratio remained relatively stable over the same period, reminiscent of RGA in earlier years. In general, FRC's D/E ratio has declined during the past 30 years with an average between years 1983 to 2002 of 2.22 (.71). Primarily FRC's declining D/E ratio has been driven by decreases in total liabilities and increases in total equity (FRC Annual Reports, 1983-2002).

RGA Affiliates Survey

In collaboration with the USDA-Rural Business and Cooperative Services Agency, a survey of former RGA affiliates was conducted in the spring and summer of 2003. Data for this study was collected primarily through a confidential mail survey administered between May and June of 2003. The survey instrument was designed to capture attitudes and perceptions of former management and members of RGA with regard to the state and future of California agricultural cooperatives, and the factors leading to the closure of RGA. Information on the personal background of participants was also collected and included such statistics as age, income, education, and employment status. Individuals who were involved in rice cultivation at the time of the survey were also asked to describe the characteristics of their farming operations and family history of farming and cooperative involvement.

In order to gain a better understanding of the structure and history of RGA and the rice industry as a whole, interviews with former managers, board of directors, and lay members were conducted prior to designing the survey. The interview process began in August 2001 with a meeting of former managers and continued until May 2003. During that period of time nearly 30 former RGA affiliates were interviewed, in many cases multiple interviews were performed.

The survey was targeted at the former management, membership, and employees of RGA. Membership lists were solicited from the former management; however, due to legal considerations complete membership lists were not available for the last 10 years of RGA's operations. In order to obtain a more complete sample of former RGA affiliates, a systematic random sample of rice growers from the 8 main rice growing regions of Central California were mailed surveys. Former members of RGA that could be identified were excluded from the random sample.

Lists of Central Valley rice producers were obtained from the USDA's Davis, California office. Sorting by entity size and other characteristics was used to provide the best coverage of the survey throughout the state. Table 1 shows the breakdown of survey responses by county.

Data collection included an initial and follow up mailing of surveys. To maintain confidentiality, individuals were assigned an identification number. The total number of usable responses was 412 resulting in a response rate of 24 %. Seventy-four percent of responses came from the four largest rice producing counties in California: Yuba, Glenn, Sutter, and Colusa. The balance of responses came from the smaller rice producing counties of Yolo, Placer, San Joaquin, and Stanislaus.

Results and Discussion

The sample population is spread over a relatively large area of the Central Valley of California. Results show that the vast majority of respondents are between the ages of 55-70. Nearly all (82%) of those surveyed work full time and earn most of their income (82%) directly from agricultural activities. Approximately 26% of respondents have a total income in the range of $50,001-$100,000. Notably, the second largest income bracket of the sample reported total income of over $500,001. Total income was not adjusted for subsidy and program benefits.

The average level of education is relatively high compared to other cooperative membership surveys (e.g. Bhuyan et al.). Fully one-half of survey respondents are college graduates and nearly a quarter have high school diplomas. Almost all survey respondents (96%) indicated they have a family history of farming and 82% have family histories of involvement in cooperatives. Given the great number of family ties to farming, it is not surprising that 40% of farmer/respondents have between 21-30 years of farming experience.

It is surprising, however, that despite numerous family histories of cooperative involvement, only 25% of those surveyed are currently members of an agricultural cooperative. In addition, very few of the respondents indicate that they have ever held a position of leadership at RGA. The majority of involvement occurred as a cooperative board member (7%), while the least common leadership position was as an advisory council member (4%). This finding is in line with the *a priori* expectation that members who held board positions generally remained on the board for several terms, thus there were fewer opportunities for other members to engage in a board leadership role. Low board turnover also reveals that cooperative governance and oversight duties at RGA tended to be held in the hands of a relatively small group of individuals.

The former affiliates of RGA were asked to describe their experiences with cooperatives and RGA and also their outlook for the future of agricultural cooperatives. Answers to these questions are summarized in Table 2. Notably, fully one-half of former affiliates said they have had extremely disappointing experiences with cooperatives. Somewhat fewer (33%) had extremely disappointing experiences with RGA. Although a percentage of affiliates had positive experiences with cooperatives and RGA, the majority of experiences tended to be negative.

Despite generally negative experiences with cooperatives, 72% of affiliates expressed agreement or strong agreement that agricultural cooperatives are a necessary part of the agricultural sector. Even more (77%) believe that agricultural cooperatives have a future in California. In spite of a positive outlook on the future of cooperatives, a large majority of affiliates (70%) feel that cooperative businesses were not managed as well as other types of agribusiness. In addition, a slight majority (54%) feel that cooperatives are generally less successful than other forms of business and only 41% feel that cooperatives are equally successful.

Respondents were then asked to describe both their reasons for joining the cooperative (Table 3). From Table 3, five reasons stand out as being the most important to cooperative members. In order of importance these reasons are: increase agricultural income, benefits from price pooling, reduced marketing risk, appealing differentiated products strategy, and increased voice in agricultural issues. Few respondents cite prestige or investment opportunities as reasons for joining RGA.

Table 4 summarizes perceptions of what factors contributed to the failure of RGA. Interestingly, several of the main reasons cited for joining RGA are directly related to what affiliates perceive to be the causes of RGA's failure. This indicates a fundamental gap between what members expected through cooperative membership and what was borne out in reality. For instance, some growers responded that RGA had an appealing differentiated product strategy, yet affiliates cite poor decision making by management, including the decision to pursue a differentiated products strategy, as a chief contributor to RGA's failure.

Former affiliates identify the high cost of maintaining both the cooperative's assets and contract with the California Rice Transport (CRT) shipping vessel, as important factors in RGA's failure. Expenses from maintaining numerous assets and the problematic CRT no doubt diminished the higher-than-industry average returns that initially attracted members to RGA. Consequently, members may have left RGA after realizing higher profits could be earned by marketing through competitors.

Lack of attention by the board of directors is reported as another important contributor to RGA's decline. In interviews, this survey finding was supported by former managers who frequently stated that the board was passive and ill equipped to scrutinize the business decisions it was charged with overseeing. Moreover, both lay members and even former directors acknowledged in interviews that RGA's board of directors were in need of greater management and financial expertise. The survey results corroborate the belief that affiliates perceived the board to be lacking adequate cooperative governance and control capabilities.

Numerous factors can be identified as having contributed to RGA's decline. However, it is also the case that many positives aided in the cooperative's survival through years of financial struggle (Table 5). Former affiliates identified relative strengths from a series of possibilities. Many of the respondents (>90%) agree that RGA's brand name, the volume of rice handled, and RGA's access to markets were all important relative strengths.

In contrast, the majority of members did not identify the skill of RGA's management team nor their attention to member needs to be a relative strength. Few of the responding affiliates participated in leadership positions at RGA, thus the perception that member needs were not met does not appear to have inspired increased grower involvement in the cooperative. This survey finding lends some support to the hypothesis that both membership and the board suffered from the "free-rider" notion that they did not have to contribute much effort to running RGA in order to benefit from the cooperative's strengths. Many members may have believed that others were paying attention to the administrative details of running RGA and thus there was no need to exert much time and energy in oversight.

Conclusions

This paper has sought to utilize the closure of RGA as a case study in why a cooperative may fail and provide general lessons and recommendations for application to other struggling organizations. In support of these objectives, the evolution of RGA has been described in addition to the internal and external environment surrounding the cooperative. To gain a better perspective on the internal environment of RGA, multiple interviews were conducted with management, grower-members, and employees of the Association. A survey of former affiliates provides further support of the research objectives and fills a gap in the literature by revealing ex-post perceptions and attitudes of former cooperative members. To better understand the external environment that RGA operated in, a comparison between the successful FRC and the failed RGA is made.

Through this comparing and contrasting of RGA with Farmer's Rice Cooperative, several significant differences become clear. In particular, when examining each cooperative's actions soon after the Koreagate scandal we find that FRC installed a system of board education, asked financial experts to sit on the board, and encouraged younger growers to sit on the board. By comparison, RGA was slow to change and did not make major modifications to its governance system until several years later. The results of each cooperative's actions are striking. In contrast to RGA's shrinking of size and significance after the Korean rice sale, FRC became the more successful, dominant California rice marketer and cooperative.

Significant differences in RGA and FRC's marketing strategies also provide lessons for challenged organizations. Specifically, when the export market became unreliable, RGA refocused its marketing efforts on the domestic differentiated products market while FRC concentrated efforts on the cooperative's core strength as a high-quality supplier of bulk medium-grain rice. In fact, FRC's stated goal is to be "…the largest, most stable, and technologically advanced supplier of California rice (FRC Profile, 2003). Analysis reveals that FRC was able to create stable market relationships that resulted in steadily improving financial performance through the 1980s and 1990s. By comparison, RGA's financial performance deteriorated after pursing the differentiated products strategy.

Survey findings lend support to the notion that poor decisions by the board and management, such as the choice to pursue a differentiated products strategy, contributed to RGA's failure. Many former affiliates also felt RGA's board of directors lacked the cooperative governance skills necessary to effectively direct and control management. Furthermore, the survey findings indicate that RGA's management is perceived to have been deficient in the skills necessary to guide the cooperative through tough times that included periods of low world rice prices, industry scandals, and high costs of maintaining the coop's assets and shipping vessel contract (Childs; Evans). In addition, awareness of the cooperative's struggles and limitations does not appear to have inspired members to become active directors. At a 2001 meeting for former RGA managers, many agreed that members viewed the cooperative as the sole buyer of their rice instead of an organization that they owned and had responsibilities to. This suggests that free-rider problems were pervasive at the cooperative.

Ultimately, the survey findings support the initially hypothesis that RGA's closure was primarily the result of a lack of board oversight and education coupled with an ineffective management and passive membership. Many challenged organizations may identify with the experiences of the Rice Growers Association. However, if these organizations are able to identify and address the above problems and issues in their own cooperatives, and take advantage of the lessons provided by the relative success of Farmer's Rice Cooperative, they may avoid the same fate as RGA.

Recommendations:

Based on the research to date, the following courses of action are suggested for improving cooperative performance:

- The board of directors should be both engaged and sufficiently informed to make critical decisions about the direction of the cooperative. The board should realize that it is vested with the power to direct management. To help in discharging this obligation, it is recommended that the board regularly receive instruction in strategic management and business finance.
- To strengthen the board's business skills, it is recommended that one or more public members be elected or appointed to the board. The impartial industry expert should be well versed in areas of business management and operations that the board identifies as critical to the well being of the cooperative. The individual or individuals should be hired by the board of directors or by the membership at large.
- In establishing goals for the cooperative, the board and management should keep membership needs at the forefront. To avoid free-rider problems resulting from ill-posed goals, it is recommended that the board and management regularly solicit feedback from the membership, perhaps in the form of an annual survey.
- Managers are charged with making difficult business decisions. When critical junctures are met, mangers and the board should consider conducting an analysis of the cooperative's strengths, weaknesses, opportunities, and threats. This will give decision-makers a clearer perspective of the cooperative's internal and external environment and aid in strategic planning.

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Appendix

Table 1: Sample Size by County		
County	**Sample**	**Percent of Sample**
Glenn	64	15.5
Placer	12	2.9
Yuba	104	25.2
San Joaquin	24	5.8
Stanislaus	24	5.8
Yolo	47	11.4
Sutter	66	16.0
Colusa	71	17.2
Total	412	100

Table 2: Cooperative Attitudes and Issues				
	Response	**Number of Responses**	**All Counties**	
Overall Satisfaction with Cooperatives		412	Number	Percentage
	Extremely Disappointed		206	50.0
	Somewhat Disappointed		32	7.7
	Neutral		95	23.1
	Somewhat Positive		63	15.4
	Extremely Positive		16	3.9
Overall RGA Experience		412		
	Extremely Disappointed		137	33.3
	Somewhat Disappointed		103	25.0
	Neutral		103	25.0
	Somewhat Positive		52	12.5
	Extremely Positive		17	4.2
Is there a future for agricultural cooperatives in CA?		412		
	Strongly Disagree		32	7.7
	Disagree		0	0.0
	Neutral		63	15.4
	Agree		254	61.5
	Strongly Agree		63	15.4
What is happening to the volume of commodities handled by CA cooperatives?		412		
	Increasing		33	8.0
	No Change		82	20.0
	Decreasing		297	72.0
Are agricultural cooperatives managed as well as other agribusinesses?		408		
	Yes		119	29.2
	No		289	70.8
Are cooperatives ________ successful than other business types?		400		
	More		17	4.2
	Equally		167	41.7
	Less		217	54.2

Table 3: Main Reasons for Joining RGA					
All responses listed as percentage of valid responses					
Reason	**Very Unimportant**	**Unimportant**	**Neutral**	**Important**	**Very Important**
Reduce marketing risk…………..	0.0	0.0	25.0	25.0	50.0
Family Ties………………………	15.8	0.0	21.1	42.1	21.1
Prestige……………………………	15.8	21.1	42.1	15.8	5.3
Increase agricultural income…….	0.0	0.0	5.3	57.9	36.8
Access to a greater number of markets…………………………..	0.0	0.0	21.1	36.8	42.1
Benefits from price pooling……..	0.0	0.0	10.5	57.9	31.6
Increase voice in agricultural policies…………………………..	0.0	0.0	27.8	50.0	22.2
Eliminate the middleman………..	0.0	15.8	26.3	26.3	31.6
Improve community ties/Social reasons…………………………..	0.0	31.6	47.4	15.8	5.3
Investment opportunity………….	15.8	21.1	31.6	15.8	15.8
Appealing differentiated products strategy…………………………..	0.0	5.3	21.1	52.6	21.1
Leadership opportunities………..	5.3	5.3	57.9	21.1	10.5

Table 4: Perceived Factors Contributing to the Failure of RGA					
All responses listed as percentage of valid responses					
Reason	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
Changing competitive environment………………….	4.6	4.6	9.1	59.1	22.7
Increased cost of rice production……….………….	13.6	40.9	13.6	31.8	0.0
Increased environmental constraints……………………….	8.7	26.1	34.8	17.4	13.0
High cost of maintaining assets, i.e. warehouse, mills…………..	0.0	13.0	4.4	39.1	43.5
Poor decision making by management…………………….	4.4	0.0	0.0	17.4	78.3
Negative influence of competitors.	8.7	13.0	30.4	26.1	21.7
High cost of contract with California Rice Transport………..	4.4	0.0	8.7	17.4	69.6
Lawsuits and legal action………..	0.0	0.0	17.4	17.4	65.2
Change in level of government support of rice growers…………..	8.7	8.7	43.5	21.7	17.4
Lack of grower involvement…….	4.4	4.4	43.5	13.0	34.8
Lack of attention to cooperative issues by the Board of Directors…	4.4	4.4	13.0	4.4	73.9

Table 5: Perceived Relative Strengths of RGA		
All responses listed as percentage of valid responses		
Relative Strength of RGA	**YES**	**NO**
Brand name………………………........	90.9	9.1
Volume of rice handled…………………………	95.5	4.6
Service to customers………………………	71.4	28.6
Quality of products produced………………………..	86.4	13.6
Variety of product line……………..........................	77.3	22.7
Political Ties……………………………..	54.6	45.5
Skill of management team………………….............	36.4	63.6
Ability to develop markets…………………………	63.6	36.4
Technological advantages …………………………………	52.4	47.6
Grower returns……………………........	76.2	23.8
Access to markets…………………..........	90.5	9.5
Transportation network…………………………	50.0	50.0
Size and location of facilities…………………………	77.3	22.7
Attention to member needs……………………………	40.0	60.0