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A Study in Cooperative Failure: Lessons from the Rice Growers Association of California

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This case study on the former Rice Growers Association (RGA) analyzes the effects of a variety of business decisions and market changes, relative to the ongoing Farmers' Rice Cooperative (FRC). Interview and survey findings reveal that many respondents felt RGA's Board of Directors was passive and, despite its large size, lacked the necessary expertise to direct management and represent the best interest of the broader cooperative membership. In the midst of challenging market conditions, RGA's management teams were accused of making a number of poor business decisions that led to significant financial stress and the eventual dissolution of the firm.

Background

In August 2000, after nearly 80 years of operating in California's Central Valley, the Rice Growers Association of California (RGA) closed its doors. Once a dominant cooperative that handled more than 70 percent of California's total rice crop (23% of the U.S. total in 2000), RGA's market share dwindled to just five percent in its last year of operation (Kruger 1993).

RGA's performance and market share began to decline in the early 1980s. At the same time, the cooperative's primary competitor and occasional ally in the California rice industry, the Farmers' Rice Cooperative (FRC), grew steadily in size and significance. These circumstances provide a unique opportunity to investigate how cooperatives that once competed in the same geographic area experienced both success and failure at the same time. To help determine the origins of RGA's prob-

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lems and FRC's relative success, members and management of the failed RGA and the surviving FRC were interviewed, historical and financial documents were analyzed, and a survey of former RGA affiliates was conducted. From the collected information, a joint history of RGA and FRC is reconstructed to provide an ex-post evaluation of the business decisions made by both organizations.

Shared History

In the spring of 1912, the U.S. Department of Agriculture (USDA) sent agriculturalist Ernest L. Adams to California's Central Valley to develop a commercial rice variety (Wilson 1979). By 1915, a strain of short-grain rice was being grown profitably in California and regional rice growers formed a marketing cooperative known as the Pacific Rice Growers Association (PRGA). Fractionalization of the membership eventually led the PRGA to reorganize in 1921 as the Rice Growers Association (RGA) of California. In its first year of operation, RGA marketed 43 percent of the California rice crop. This figure grew to nearly 75 percent just five years later (RGA 1922; 1927).

After the Great Depression, RGA experienced several years of good sales and membership growth that eventually prompted the board to cap the cooperative's membership (RGA 1945). In response to these restrictions, a group of RGA members left and formed the Farmers' Rice Cooperative (FRC) in 1944, with other Central Valley rice growers (Wilson 1979).

Through the 1950s, RGA built or purchased a number of rice-processing facilities. Then in 1960 it bought the S.S. Rice Queen vessel, marking the cooperative's integration into the shipping industry. The S.S. Rice Queen was the first of three vessels the cooperative was involved with. The last vessel RGA would operate was the Valerie F., later renamed the CalRice Transport or CRT, a large and allegedly modern vessel that unfortunately experienced an engine fire on her maiden voyage. Although the vessel never ran as efficiently as promised, for many years the CRT jointly ferried both RGA and FRC rice to foreign ports (Kenward *pers. comm.*).

RGA did not originally own the CRT, the vessel that ferried the co-op's rice from Sacramento to Puerto Rico. But, RGA agreed to make all payments on the CRT should the original owners, Intercoastal Bulk Carriers (IBC), fail to do so (*RGA v. First National Bank of Minneapolis* (FNBM)). Thus, when IBC declared bankruptcy in 1977, the co-op was contractually obligated to take on all expenses of maintaining the frequently troubled vessel, in addition to making semi-annual lease payments.

Rumors of a possible RGA/FRC merger first surfaced in the mid-1970s. Informal conversations between management and board members of each organization reportedly occurred and a joint statement released by the management of both co-

operatives initially seemed to express a favorable view: "[f]or some years we have been making shipments of rice in the same vessels and, by arrangement, have been using the same loading and unloading facilities. As a result of this close association, it is only natural that some thoughts should be directed towards merging operations" (Grundmand 1970). In addition to sharing facilities and shipping expenses, RGA and FRC routinely brokered their rice through the same agent, Grover Connell, of Connell Rice & Sugar (Cook *pers. comm.*; Huffman *pers. comm.)*. However, no merger occurred and the two cooperatives remained separate entities.

In 1975, the elimination of U.S. domestic acreage controls under the Farm Bill resulted in an estimated surplus of 18-23 million cwt. of rice in California, or more than 50 percent of annual U.S. medium-grain rice production (Halprin 1975). Five years later, the surplus was gone and in 1980 RGA's members were enjoying such good returns that one manager was compelled to describe them as "the best we've had, the best in the industry, the best in the world" (Kirk 1981). But high prices ultimately resulted in large surpluses of rice and lower returns in the early 1980s. RGA entered this critical decade by warehousing rice in whatever space was available, including a vacant Safeway shopping center and a retired Libby's canning plant (Conner 1983).

Large stocks of U.S. rice in the early 1980s contributed to an international marketing scandal that became known as "Koreagate." The incident began when Comet Rice, a private mill in Colusa County, contracted with the South Korean Government to deliver 370,000 tons of medium-grain, 1981 crop rice, when the firm had just 120,000 tons available. The only other mills with sufficient stocks of this type of rice were RGA and FRC who refused to sell rice to Comet unless Grover Connell of Connell Rice & Sugar was allowed to act as their agent (Cox 1983). Because Connell had earlier accused a high-ranking Korean official of bribery (a charge that would later be confirmed), the Korean Government rejected the agent's brokering services (Conner 1985).

A two-year stalemate ensued, ending in 1983 when Ralph Newman, the newly hired president and CEO of FRC, issued a public apology to the Korean Government and brokered a deal through a third party (Malone 1983). By breaking ranks with RGA and negotiating the sale of rice without the involvement of Connell Rice & Sugar, the tradition of collaboration between FRC and RGA ended and a new era of competition began.

Description of RGA's Failure

Soon after the "Koreagate" scandal was resolved, RGA sought to purchase the facilities of Pacific International Rice Millers Inc. (PIRMI) in Woodland, California (Shallit). This action prompted the U.S. Department of Justice (DOJ) to file an

antitrust suit in order to prevent RGA's acquisition of the PIRMI rice-milling facility and other assets. The U.S. DOJ argued that PIRMI and RGA represented two of the five largest rice mills in California and that the purchase would "substantially increase concentration in the purchase of paddy rice in California" (USA *v.* RGA). Ultimately, RGA lost the case on the grounds that it had violated Section 7 of the Clayton Act (USA *v.* RGA).

While RGA dealt with the fallout from antitrust violations, including divesting itself of the PIRMI facilities, FRC developed a new strategic direction that focused on providing higher returns to its membership (Long *pers. comm.*; FRC 1983-84). To meet this goal, FRC's management implemented new programs in marketing, finance, accounting, manufacturing, field services, and communications. The co-op also ended "costly and ineffective discount programs", increased its emphasis on medium- and short-grain rice production, and "established direct sales relationships with all international trading firms and major foreign buyers of U.S. rice" (FRC 1983-1984). As part of the renaissance at FRC, the cooperative also eliminated its dependence on the CRT shipping vessel.

FRC's joint lease of the CRT was essential to RGA's ability to cover its cost of operations. In order to justify the expense of operating the ship, RGA was also dependent upon a phosphate backhaul and strong demand for rice via the PL-480 "Food for Peace" foreign aid program and the Puerto Rican consumer market. When all sources of demand for the CRT's services declined significantly in the early 1980s, the vessel became a source of tremendous financial losses for the RGA.

Over the next few years, FRC prospered and was compelled to limit its membership in 1985 as "any significant additional volume will potentially have to be allocated to lower return markets: it could also require additional plant capacity" (FRC 1985-1986). In contrast, RGA closed a large mill in Biggs and, as a result of poor sales; bills were issued in lieu of a final pool return to growers for their 1985 crop (Cox & Shallit 1985). Recognizing a need for significant change, in 1987 RGA's management announced it would shift the co-op's focus away from bulk shipments and pursue a domestic-oriented, value-added strategy centered on creating packaged consumer rice products featuring the patented Zip-pack technology, new rice varieties, and recipes (Gardner 1987).

Despite the existence of several appealing arguments in favor of entering the table rice market, two primary weaknesses prevented its success. First, RGA lost several hundred members after management issued bills in lieu of a final return in 1985 (Cony 1986). The loss of members made it more difficult to cover fixed costs and, to avoid losing additional members; management felt pressure to provide competitive returns despite market realities. On net, the need to pay existing expenses while appeasing remaining members resulted in small monetary reserves at a time

when the co-op needed large capital outlays to finance the differentiated products strategy (Gardner 1987).

Second, the U.S. domestic table rice market was still relatively small, using an estimated three million cwt. of medium-grain rice annually. By comparison, RGA's annual throughput at the time was estimated at seven million cwt., indicating that the value-added market would likely never absorb all of RGA's medium-grain production (Dodson *pers. comm.*; RGA 1985). In addition, the market was crowded with established and well-known competitors such as Uncle Ben's, Mahatma, Near East, and others (Gardner 1987). Many of these brands were owned by large food companies with significant advertising budgets while RGA planned to rely on a small advertising campaign and a "grass roots effort" to get the word out about their new branded products (Long *pers. comm.*; Hardesty *pers. comm.*).

Not long after the new and expensive strategy was implemented, RGA defaulted on a US$1.4-million lease payment on the CRT shipping vessel, initiating a series of costly lawsuits (Gardner 1989). By 1989, RGA's deteriorating financial condition and shrinking membership numbers obliged it to mothball or sell facilities in Williams, West Sacramento, Westside, and Willows (Cony 1989).

While RGA struggled to compete, FRC gained ground by following a bulk-oriented business strategy. Instead of pursuing shelf-space in the tight consumer marketplace, FRC became a high-quality supplier to domestic food processors, brewers, and re-packaging firms. Investments in state-of-the-art milling equipment further differentiated FRC from RGA and other competitors while also allowing the co-op to cultivate a reputation as a customized rice processor.

In contrast to FRC's success, the early 1990s continued to be a time of struggle at RGA. As the last CRT-related lawsuits were being resolved, PIRMI sued RGA for trademark infringement and Cal Rice Bran Inc. sued the co-op for contract violations. The following year, RGA was nearly forced into receivership when the cooperative's primary lender, CoBank, moved to close the firm stating, "[w]e believe it would be better to have an outside party assume control of the company" (Martin 1990). RGA's line of credit was cut off, preventing it from paying dozens of employees and leading to a protest outside the Sacramento CoBank offices (Burnham 1990). CoBank alleged that RGA owed US$42 million in overdue debt and interest and to stave off imminent closure, RGA sold some of its remaining assets in Puerto Rico, Biggs, Cheney, and a second West Sacramento facility.

Two years after replacing Michael Cook as President, David Long was released and Bill Ludwig assumed the presidency of RGA in 1993. Recognizing the need to take dramatic action to save the cooperative, Ludwig moved quickly to substantially cut RGA's unionized workforce and streamline all operations. At this time, the struggling co-op controlled only five to ten percent of California's rice crop, down from 70 percent just 10 years earlier (Kruger 1993). RGA's membership now

numbered 250, compared to 2,200 in early 1986. In contrast, FRC's membership had grown over time from an initial base of 60 members in 1944 to 1,350 in the cooperative's 50th year.

RGA tried to stay alive by exploiting niche-marketing opportunities. In February 1997, RGA announced it would form a business, Ap-Rice, with Applied Phytologics Inc. (API) of Sacramento. As part of the agreement, some RGA growers would produce genetically modified (GM) rice that would be milled and malted so proteins could be extracted for industrial and medical use (Glover 1997). Amid controversy, RGA ended the agreement for undisclosed reasons.

Over the next three years, RGA's membership base further declined and by May 2000, just 120–150 members remained (Schnitt and Ferraro 2000). Marketing efforts continued to focus on pursuing high-cost, low-volume niche channels rather than exploiting opportunities in bulk markets. The niche strategy was somewhat successful in mid-2000 when the cooperative announced it had made a series of novel trade agreements with the Philippines (Schnitt 2000). Despite some success, the benefits of the trade agreement were not realized quickly enough to salvage RGA. In August 2000, the organization missed payments to employees due to credit-line problems and, later that month, Bill Ludwig announced that the cooperative was going to be dissolved and restructured as a "for profit" company (Ferraro 2000a). According to Ludwig the cooperative was "simply unable to compete in the marketplace" and aimed to re-open in November 2000 (Ferraro 2000b).

Before RGA could proceed with restructuring, several lawsuits had to be resolved. Among the pending suits were claims by L&S Distributors, RGA's largest California distributor, that the co-op owed US$51,000 for services rendered (Ferraro & Schnitt 2000). The California Rice Commission also alleged that it was due more than US$100,000 in back assessments from the 1995–96 crop years and Takenaka and Co., an investment-consulting firm from Los Angeles, sued the cooperative for US$15,000 in unpaid expenses (Ferraro & Schnitt 2000).

In November, Pacific Basin Rice Products LLC agreed to buy RGA's one remaining mill in Woodland and rights to the Hinode brand name. The sale of RGA's processing facility and flagship brand indicated that RGA would not be restructured as planned; instead, the 79-year-old co-op would cease operations (Ferraro 2000b). Upon the dissolution of the cooperative he had run since 1993, Bill Ludwig summed up RGA's struggles stating, "[t]here is no future and no ability to truly make a profit in the rice industry in California" (Ferraro & Schnitt 2000).

Conceptual Framework

Outcomes of the very different goals and business strategies pursued by the RGA and FRC boards and management are especially evident when financial records

of the two cooperatives are compared. A number of other cooperative studies (e.g., Parliament, Lerman, & Fulton 1990; Royer, Wissman, & Kraenzle 1990; Babb & Boynton 1981; Schrader, et al. 1985) have used financial analysis methods to evaluate individual and relative co-op performance. A similar approach is followed here and includes values indicating the relative liquidity, solvency, activity, and profitability of the two cooperatives.

To complement the financial investigation and collect information on RGA's internal and external business environment, a survey and analysis were also conducted. The survey findings further serve to distill opinions on strategic choices made by RGA's managers and board.

Financial Analysis

Liquidity

To provide insight into RGA and FRC's relative liquidity, we present a current ratio calculated as current assets over current liabilities. According to Bragg (2002), a current ratio of two indicates a "healthy" mix of debt and assets. Although RGA's current ratio was never above two, the ratio was steady between 1964–1988 with an average of 1.15 and a standard deviation of 0.13. However, between 1988-1989 RGA sold assets to raise funds to support its differentiated products strategy and to pay off legal debts and settlements, resulting in a dramatic drop (-25% and -31%) in the co-op's current ratio. A sharp decrease in current liabilities in 1991 resulted from an infusion of long-term debt financing that was used to pay off numerous short-term obligations, thus improving RGA's current ratio and working capital position. Nevertheless, from 1980 to 1991, RGA's average current ratio dropped to 1.01 with a 0.18 standard deviation.

In contrast, FRC's current ratio improved by nearly 20% from 1980 to 1991 (1.04 to 1.26), with a fairly low standard deviation of 0.08 over this period. This indicates that the cooperative had a relatively healthier, more stable, current ratio than RGA. Only in more recent years has FRC's current ratio changed dramatically. Specifically, in 1998, a small crop and strong export demand resulted in high prices that allowed FRC to retire some current liabilities (FRC 1998–99). In 1998, FRC also sold a former packaging and processing plant in Puerto Rico, the proceeds of which helped further reduce short-term debt (FRC 1998–99). As a result, the co-op's current ratio reached 1.95 in 1999 and rose to an even healthier 2.28 by 2000.

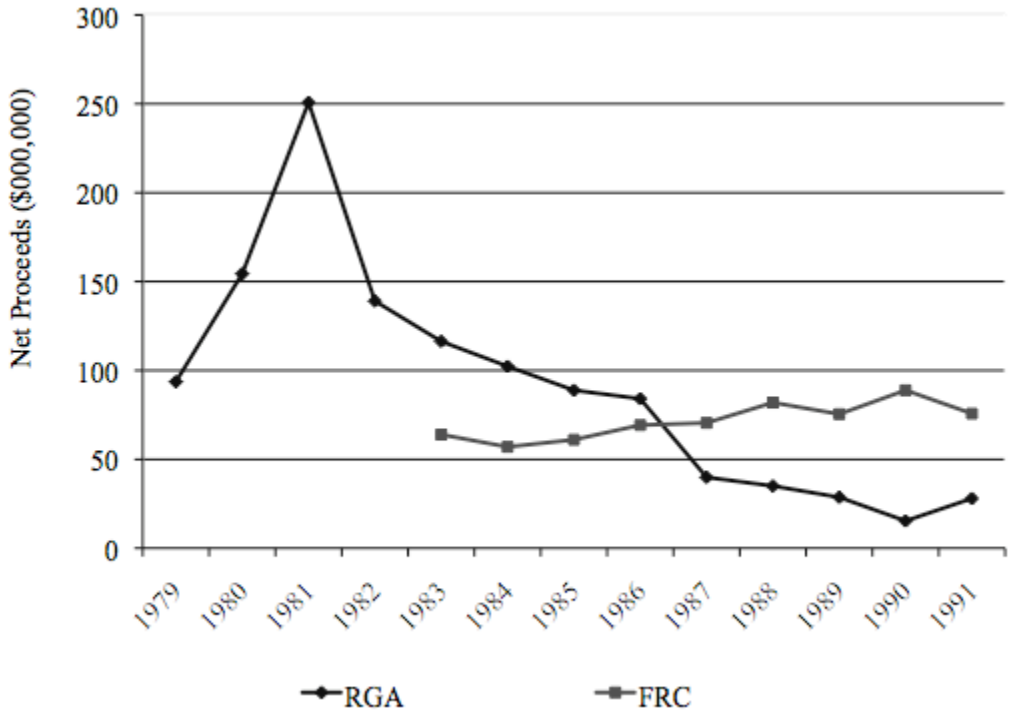
Profitability

Net proceeds are regularly used to evaluate and compare cooperative performance. Frequently calculated as sales less cost of goods sold, interest expenses,

and any taxes, net proceeds are similar to business profits in that they represent a bottom line measure of profitability but, because cooperatives operate on a "service-at-cost," basis, profits or "net proceeds" are returned to members unless they are retained as permanent equity. In figure 1, total nominal net proceeds (the sum of both patron- and non-patron-attributed proceeds) for FRC and RGA are compared from 1979 to 1991.

RGA's net proceeds were maximized just prior to the Korean rice scandal that began in 1981. It is generally accepted that the resolution of the Korean rice scandal in 1983 signified FRC's rise in prominence over RGA. This notion is supported when viewing the co-ops' net proceeds from 1983 forward: RGA's net proceeds declined steadily over the next eight years, while FRC's net proceeds increased annually by an average of 10.8 percent. By 1990, RGA's net proceeds were 1/16th the size of a decade earlier.

Figure 1. RGA and FRC Net Proceeds, 1979–1991



Source:RGA and FRC Annual Reports, 1979–1991

Agency theory and oversight

RGA's declining net proceeds were also facilitated by the co-op's decision to change course and pursue an expensive differentiated products strategy. Managers told members that the new focus was designed to "phase-out dependence on the government, domestic and export bulk sales, and concentrate on high profit margin, value-added packaged products" (Cony 1987). In the midst of modest commodity rice prices, growers reacted positively to the plan and the prospect of earning higher returns on at least part of their deliveries.

Board and grower support for the plan was further strengthened by the belief that, unlike stagnant and declining export prospects, the domestic table rice market was in a period of growth. According to Childs et al. (2002) per capita consumer demand for table rice increased fivefold, from five pounds in 1970 to 26.5 pounds in 2000. Grower uncertainty about entering a new market channel may have been further eased with the hiring of Michael Cook as President. Prior to his installation as RGA's president and general manager, Cook gained experience implementing a differentiated products strategy at Farmland Industries (Cony 1987; Cook *pers. comm.*).

As the cooperative attempted to overcome the roadblocks and gain a foothold in the competitive value-added marketplace, revenues declined while expenses increased, resulting in the ongoing drop in net proceeds. Multiple asset sales eased the financial strain somewhat, but the value-added strategy itself failed to deliver competitive returns to the co-op's shrinking membership. Retrospectively, the change in strategic focus from bulk to table rice stands out as an expensive and unwise decision that firmly set RGA on a path of slow but steady decline.

Activity

The inventory turnover ratio is calculated as the cost of goods sold, divided by the average value of inventory, and it gives an indication of the share of a firm's assets that are tied up in inventory (Harrington 1993). Inventories are a relatively liquid asset; therefore, having a high inventory turnover ratio is generally positive while a relatively (compared to same-industry averages) low inventory turnover ratio implies poor sales and/or excess inventory (Harrington 1993).

RGA had a more variable inventory turnover ratio relative to FRC over the period reported. RGA also appeared to have a higher average inventory turnover ratio (2.98), which is usually viewed as a positive. However, this measure may have been unusually large, due to members leaving the cooperative. As producers left RGA, the cost of processing rice and maintaining RGA's facilities was spread over a smaller volume of rice, hence the cost of processing each unit of rice increased, resulting in a higher cost of goods sold, and thus a higher inventory turnover ratio.

A dramatic decline in the inventory turnover ratio in 1985 and 1986 may be partly due to RGA's effort to divest itself of expensive fixed assets, which resulted in a decline of costs of goods sold. In addition, the average value of RGA's inventory increased significantly due to value-added processing. The net effect of these changes was a significant drop in inventory turnover.

In 1990, the cooperative's inventory turnover ratio again declined, but this time the root cause, according to auditor Peat Marwick and Associates, was a US$9 million inventory overvaluation (Marysville AP 1990). The overvaluation inflated the average value of the inventory and thus helped lower the inventory turnover ratio. This scheme, combined with other problems at the cooperative, caused the auditor to express "substantial doubt about RGA's ability to continue as a going concern" (Marysville AP 1990).

While FRC experienced less volatility in its inventory turnover ratio than RGA did, it also had a lower average measure during this period (1.77). In an interview FRC management, it was stated that the cooperative had an annual throughput goal that maximized the use of the co-op's fixed assets (Huffman *pers. comm.*). Having a known supply base no doubt made it easier for the co-op to meet market demand for its product and hence develop stable retail relationships that served to smooth inventory levels and sales across years; this resulted in steady, though perhaps not high, inventory turnover ratios.

Solvency

The debt/equity ratio measures how much the company is leveraged by comparing what is owned to what is owed, and is calculated as total liabilities divided by total equity. A high debt/equity (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 (Harrington). According to one financial service, a D/E ratio of less than 0.5 is "ideal" (McClure 2003). From 1964 to 1974, RGA's average D/E ratio was 1.08 with a standard deviation of 0.18. However, from 1975 to 1988, RGA's average D/E increased to 2.42, indicating that RGA took on a relatively large amount of debt without commensurately increasing its equity base.

A sharp increase in the D/E ratio occurred in 1989 when RGA divested itself of valuable assets in Colusa County and West Sacramento without using the proceeds to reduce liabilities (Cony 1989). In addition, a number of unplanned expenses were incurred as a result of courtroom loses. The most expensive judgment against the co-op required RGA to pay US$4.8 million dollars to settle the CRT-related suit (Gardner 1990). These asset divestitures, legal fees, and judgments coupled with the US$9 million inventory overvaluation resulted in dramatic fluctuations of the debt equity ratio from 1988 to 1991.

By comparison, FRC's D/E ratio remained relatively consistent over the same period, reminiscent of RGA in earlier years. In general, FRC's D/E ratio declined over the long-run with an average of 2.22 from 1983 to 2002 and a standard deviation of 0.71. FRC's declining D/E ratio was driven primarily by a more than 50 percent decline in total liabilities and increases in total equity (FRC 1983–2002).

Financial Analysis Summary

This investigation of relative financial performance has provided affirmation of RGA's post-Koreagate decline and FRC's steadily improving financial position. In particular, the detrimental impacts of RGA's decisions to enter the shipping business and to pursue a differentiated products strategy are confirmed. These, and other choices taken by the executive team and directors, made the co-op vulnerable to legal action. By comparison, our analysis shows that FRC that received greater financial benefits from pursuing a business strategy that focused on the cooperative's strength and core competency as a high-quality bulk rice processor.

Survey Analysis

To complement the financial analysis, former RGA members and management were surveyed to provide additional perspective on what factors contributed to RGA's failure. The survey targeted former affiliates of RGA located in the eight largest rice-growing counties of the California Central Valley. Membership lists were available for all but the last 10 years of RGA's operation, thus a systematic random sample of Central Valley rice growers was performed to provide the best coverage of the population in the target region. The total number of usable responses was 412, resulting in a response rate of 24 percent. Seventy-four percent of responses came from the four largest rice-producing counties in California: Yuba, Glenn, Sutter, and Colusa, with the balance of responses coming from the smaller rice-producing counties of Yolo, Placer, San Joaquin, and Stanislaus. An expanded discussion of the survey methodology and results is available in Keeling Bond (2008).

Reasons for Joining and Causes of Failure

Former members were asked to identify their reasons for joining the cooperative, to outline RGA's relative strengths, and to describe what factors contributed to the failure of RGA. In order of importance, the top five most important reasons for joining RGA were increased agricultural income, benefits from price pooling, reduced marketing risk, appealing differentiated products strategy, and an increased voice in agricultural issues. Few respondents indicated that prestige or investment opportunities were reasons for joining RGA.

Several of the noted top reasons for becoming an RGA member are directly related to what affiliates perceived to be the causes of RGA's failure (Table 1), indicating that a gap may have existed between what members expected and what was borne out in reality. For instance, some growers responded that RGA had an appealing differentiated product strategy, yet affiliates cited poor decision making by management, including the decision to pursue a differentiated products strategy, as a chief contributor to RGA's failure. The high cost of maintaining the cooperative's shipping vessel, the CRT, was also identified as an important factor in RGA's failure. Expenses of maintaining the troubled CRT and later, from legal battles and judgments related to the vessel, diminished the higher-than-industry average returns that initially attracted members to RGA.

Lack of attention by the board of directors was reported as another important contributor to RGA's decline. In interviews, former managers and members supported this survey finding, frequently stating that the board was passive and ill equipped to scrutinize the business decisions it was charged with overseeing. The survey results also indicated that lay affiliates perceived the board to lack adequate governance and business analysis skills.

Numerous factors can be identified as having contributed to RGA's decline. However, many positive attributes aided in the cooperative's survival through years of financial struggle and weak commodity markets. Over 90 percent of respondents agreed that RGA's brand name, the volume of rice handled, and RGA's access to markets were all important assets.

In contrast, very few members identified the skill of RGA's management team and its attention to members' needs as relative strengths. Unfortunately, many members may simply have felt there was little need to interfere with management or lend oversight to a cooperative that had been successful for decades and had overcome numerous other struggles.

Conclusions

This chapter reviews the life cycle of a once dominant and now defunct cooperative, the Rice Growers Association of California. The cooperative's failure is set against the backdrop of former California competitor Farmers' Rice Cooperative's growing success in the same regional market, making it possible to examine how two separate management teams, guided by divergent business philosophies, dealt with similar market circumstance and experienced opposite outcomes.

Collectively, the various components of this case study offer historical and financial insights, as well as insider perceptions on why the cooperative failed. Survey respondents and interviewees claimed RGA's initially passive approach to shrinking international demand and increasing domestic supply, in part a result of

Table 1. Factors Contributing to the Failure of RGA

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	23.1	34.8	17.4	13.0
High cost of maintaining assets	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 CalRice 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 govt' 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 coop issues by Board	4.4	4.4	13.0	4.4	73.9

*All responses calculated as percentage of valid responses.

Source: Former RGA Affiliates Survey

U.S. government incentives reduced the co-op's competitiveness in the global marketplace. RGA's Board of Directors was characterized as lacking both necessary financial expertise and the ability or will to direct management. Furthermore, former management teams were accused of making a variety of poorly timed and financially questionable business decisions. Additional financial analysis indicates that some of these choices (e.g., defaulting on the CalRice Transit vessel, refusing to sell rice to Korea, pursuing a differentiated products strategy) resulted in significant financial stress which reduced membership and hastened the cooperative's closure.

Other cooperatives may learn from RGA's failure and avoid the same fate by being proactive in the area of cooperative governance. Boards of directors should strengthen their financial and strategic management skills, while also familiarizing themselves with the legal obligations associated with a directorship. When critical junctures are reached, managers and the board need to focus on the co-op's core competencies and consider how possible strategies may strengthen or weaken the firm's competitive position.

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