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## NEW COOPERATIVE DEVELOPMENT ISSUES

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This article briefly reviews the increased interest in new cooperative development, factors for successful cooperative development, and strategies to improve the performance of new and emerging cooperatives. The article highlights issues identified by a panel of cooperative leaders, USDA specialists and academic experts

### Cooperatives Offer Economic Alternatives

As an economic downturn affects many aspects of the economy and government operations, there is increased interest in exploring the potential of alternative economic enterprises or service delivery systems. Increased incidences of market failures are occurring as the required conditions for successful markets are being tested. Markets function best with: limited barriers to entry, an adequate number of well-informed buyers and sellers, and no excessive market power by any buyer or seller

A number of conditions for a perfect market are being challenged in today's world of giant global companies, too big to fail firms, and unbalanced access to market knowledge or information. Remedies to market failure can include: the removal of barriers to entry, price levels that encourage more competition, increased government oversight, or group action such as forming cooperatives to market or purchase products or services. Mutual, self-help strategies become more attractive in an era of downsizing government and shrinking public support for delivering a range of services, particularly for certain demographic groups or geographic areas where markets tend to fail more often, including: low-income populations, rural locations with sparse populations, poor physical infrastructure, or areas with limited access to market information.

In today's world of uncertainty and distrust, democratic decision-making and ownership brings control. Expert panel member, John Dunn who is Vice President for Cooperative Development with the National Cooperative Business Association (NCBA) sees greater interest in creating cooperatives during times of economic stress. NCBA is receiving requests from all kinds of organizations, such as churches wanting better electric rates and school districts considering joint purchasing, where people are becoming aware of the value of cooperatives.

Group action could prove beneficial to small to mid-sized enterprises (SMEs). SMEs are often the sources of economic growth and job creation. Purchasing, marketing or shared services cooperatives might allow SMEs to achieve greater economies of size, adopt new technologies, gain market intelligence, or expand the scope of operations otherwise not attainable by a single enterprise.

### Increase Social Justice

The challenge for many cooperative developers described by expert panel member and long time cooperative developer, John Zippert who is Program Director of the Federation of Southern States, is to bring together social and economic justice. Zippert works with low income people and spends substantial time educating them about owning a business. Cooperatives operate for the benefit of their members, who still must recognize the competitiveness and risks of the business. New cooperatives such as the South Plaquemines United Fisheries Co-op grew out of the hurricane Katrina disaster. Now, several local fishery cooperatives are considering a regional marketing system that will facilitate direct shipment of seafood to distant consumers. Since the multi-cultural group of fishermen may be even more independent than farmers, Zippert commented that providing the member education required to develop a

sound cooperative has been very challenging, as well as exciting. Zippert says disasters push people to want something different than they had; his team provides technical expertise and helps bring potential members together by challenging the status quo relationships.

### **Mixed Image of Cooperatives**

Recent high-profile cooperative failures and bankruptcies have conveyed a negative image of cooperatives in some prospective members' minds. In some economies transitioning from centralized planning, the term cooperative can be translated or stereotyped as a communist, top-down enterprise run by a government. For the purpose of our discussion, we are using the U.S. style cooperative enterprise model that is market-driven, owned and governed by members and is designed to create value for members. The success of U.S. style cooperatives relies on their ability to compete and survive within a given market as well as being driven by serving member interests.

### **Examples of New U.S. Cooperative Development**

A number of new agricultural cooperatives have been recently formed in the United States for a variety of purposes. One of the driving forces has been the dissolution of some federal or state marketing orders. Within a few years after the termination of the marketing orders, some producers found that they were competing among themselves and driving down prices. In order to obtain the potential protections provided by the Capper-Volstead Act which authorizes and gives certain antitrust exemptions to cooperatives, they opted to form information sharing cooperatives. Such relatively new cooperatives include the United Potato Growers Association of America, Central California Lettuce Producers Co-op, California Citrus Growers Association and Associated Fruit Producers. The cooperative structure enables members to share information about production plans, sales volumes, prices, and other market intelligence and/or to formulate price strategies; this collaboration increases the growers' market power and dissuades underbidding.

Some marketing orders have focused on improving product quality. After producers failed to reauthorize the state marketing order for the California Tomato Commission, a small group of producers created the California Tomato Farmers (CTF) in March, 2007 to develop and enforce voluntary food safety standards. CTF represents nine grower-shippers who produce 80% of California's fresh market tomato crop. The industry was damaged significantly in 2008 by a salmonella outbreak that sickened 1,400 people nationwide, although there was no evidence linking the California industry to the outbreak. CTF now posts its members' food safety audit information online for retail and foodservice buyers to view and assure themselves regarding the food safety integrity of the members' tomatoes.

The Oklahoma Food Cooperative created an innovative structure for cooperatives by including both producers and consumers as members. Expert panel member and Board President, Chelsey Simpson sees the cooperative's role as connecting farmers and consumers. The cooperative's 100 farmer-members set their own prices and nearly 4,000 consumer members make their food selections on-line, then pick up the products at designated times and locations. The Oklahoma Food Cooperative has inspired the formation of 18 similarly organized cooperatives; currently, it is investigating how to bring these daughter organizations together into one cooperative.

### **Importance of a Support Network**

The stakeholder expert panel identified the importance of a support network for successful cooperative development. A number of resources, both inside and outside the United States play an important role in new cooperative development around the world. On the domestic side, the USDA has played an important role in new rural cooperative development for many years. The USDA Rural Development Cooperative Services Program promotes the understanding and use of the cooperative form of business as a viable organizational option for marketing and distributing agricultural products.

In federal fiscal year 2010, the \$8.3M program partially funded 38 cooperative development centers in 28 states for the primary purpose of improving the economic condition of rural areas through the development of new cooperatives and improved operations of existing cooperatives. This group of centers has formed a network named Cooperation Works! The effectiveness and efficiency of the program could be improved with a 50-state strategy and multi-year center funding. Other USDA Rural Development grant programs that enhance cooperative development include the Small, Socially Disadvantaged Producer Grant program and the Value-added Agriculture Producer Grant program.

CooperationWorks! (CW, 2011) is a national organization of cooperative development centers and practitioners that span the breadth of the United States. Using innovative strategies and proven business practices, CW Centers

provide expertise across all aspects of co-op enterprise development, including feasibility analysis, business plan development, business launch and on-going training for CW staff.

A community of practice, comprised of university faculty, extension staff and supporters was formed to focus on education and research on cooperatives to create new online educational content on cooperatives for the eXtension internet resources (eXtension, ongoing)

A number of land grant universities across the United States have developed educational materials to support new cooperative development including the Cooperative Enterprise Program (2011) in the Charles H. Dyson School of Applied Economics and Management at Cornell University.

There are also a number of international cooperative development resources. The U.S. Overseas Cooperative Development Council (OCD, 2011) is comprised of eight member organizations that have engaged in a number of applied research activities focused on expanding the knowledge and use of the cooperative business model to foster development in countries throughout the world. The International Cooperative Alliance (ICA, 2011) is a member organization composed of cooperatives around the world. The European Commission has established a legal framework to encourage the formation of cooperatives in member countries, the Statute for a European Cooperative Society (SCE, 2011).

### **Factors Critical to Success**

There are a number of critical external and internal factors for successful cooperative development. Public entities can play a critical role in the formative stages of new cooperatives. In the United States., the federal government played an important role in the development of the cooperative Farm Credit System as well as rural electric cooperatives. Current federal funding helps to support the rural cooperative development centers that comprise the Cooperation Works! network. Publically funded seed grants or initial technical assistance may be helpful. However, to maintain the independence and viability of start-up cooperatives, public funding should be replaced by member investment and control as soon as feasible to insure a focus on creating value for members.

Internal factors critical to success can include insuring: adequate management, member investment and commitment, pricing and output management, as well as a high level of economic feasibility to compete in the target market (Sexton and Iskow, 1988)

### **Attract Talented Managers and Board Directors to New Cooperatives**

During the expert panel discussion Chelsey Simpson, the Board President of the previously discussed Oklahoma Food Cooperative, indicated that the cooperative has a difficult time getting people to run for the board. Many of the farms are run by women and half of the board members are women. In the beginning, the cooperative had a lot of people giving their spare time and all the information to run the cooperatives was in the heads of five or six volunteers. As they transitioned to paying some employees, volunteers who had worked for years without pay became resentful and distrusting of leadership. Efforts to change the structure over the past two years have been difficult as some early members are unclear about the role of the board and management.

### **Developing Partnerships Among Cooperatives and Along the Supply Chain**

In the discussion following the panel input, the issue of increased collaboration among cooperatives arose. Many consumer cooperatives have adopted the International Cooperative Alliance's sixth principle, "Cooperation among cooperatives" Consumer grocery cooperatives often support producer cooperatives by purchasing from them to strengthen the cooperative food supply chain. Additionally, numerous grocery cooperatives have purchased preferred stock issued by the well-known dairy producer cooperative, Organic Valley, and encouraged their consumer members to do so also A producer cooperative, Country Natural Beef, has been working closely with ranchers in other states, to form marketing cooperatives that would share its principles and have the same highly participatory structure.

Some established agricultural cooperatives are utilizing more alliances and LLCs for machinery sharing and cooperative-to-cooperative collaboration. Start-up cooperatives could benefit from interacting with the more experienced cooperatives. Cooperatives operating in overlapping membership areas like rural utility cooperatives are supporting new business and cooperative development in their service areas. Experienced or retired cooperative

managers or directors could be a source of valuable knowledge for new cooperatives on governance, financing and operational, and areas of cooperative performance. Innovative information and knowledge sharing could prove beneficial to both entities.

### **Strategies to Improve New and Emerging Cooperatives**

In many ways, new and emerging cooperative businesses face similar challenges to any start-up business: obtaining talented management, securing adequate financing and competing in a selected market. However, a number of distinctive organizational features and group dynamics can create characteristic challenges for newly developed cooperatives. Group decision-making can make for slower decision making. There can be a lack of advisors familiar with the cooperative formation and organization. There can be a lack of start-up capital as members are the primary providers of equity capital. Some lenders may not be familiar with this type of equity structure. Internal conflicts may arise as members, who may be raw products suppliers, attempt to determine prices and set terms of trade for marketing their individual farm output resulting in uncompetitive results.

### **Closing Comments**

Forming a cooperative enterprise can be an effective approach in to addressing market failures and improving the socioeconomic well-being of members. A supportive legislative and regulatory environment can enable more successful new cooperative development. A well qualified team of organizational, legal and accounting advisors can be beneficial to successful cooperative development. At the end of the day, well led, effectively managed, and adequately financed cooperatives with committed members have the best chance of growing into viable businesses that are able to create the expected benefits for members.

Just as any business, a cooperative must compete effectively in a given market to succeed. Cooperatives can help stimulate economic development and better position smaller scale producers, consumers, or SMEs in today's challenging markets that demand greater scale and scope than an individual player may be able to muster.

### **For More Information**

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