Strategies and Structures in the Agro-food Industries

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5 Organizational Structure and Globalization: The Case of User Oriented Firms

Michael L. Cook

Leaders of U.S. agricultural cooperatives face two overriding strategic questions as they plan for the 21st century: can their organizations compete in an increasingly global market place, and can their organizations compete in an increasingly industrialized food and fiber sector (Barkema et al., 1993; Handy and Henderson, 1991; Torgerson, 1990; The Economist, 1991; Urban, 1991; Sexton, 1991; Cook 1995; Sporleder 1992). The answers to these questions are, of course, complex and multifaceted. Trade and agricultural policy factors, economic endowments, human resource, financial and market strategy all influence the answer. But, perhaps as important an element for cooperative leaders to consider is the organizational structure factor. Is the traditional organizational form of a user owned, user controlled, user benefited cooperative the most effective in achieving producer objectives in an increasingly industrialized and globalized food and fiber market place?

Background

Most U.S. agricultural cooperative organizations originated in the early 1900s due to a combination of economic, farm organization and public policy factors. During the ensuing years, U.S. farmer cooperatives slowly but consistently increased their aggregate market shares of inputs handled, farm marketings, and services provided. That is, until reaching a peak in the 1982–1984 period. Subsequent to the 1982–1984 period U.S. cooperatives market share decreased for the rest of the 1980s as they adapted to the worse economic depression since the 1930s. Nevertheless, as the end of the 1980s approached, cooperatives began to reverse the decline and by 1994 aggregate market shares had reached or surpassed 1982–1984 levels of inputs handled (Table 1).

Table 1 U.S. Farmer Cooperatives' Share of Farm Marketings and Farm Production Expenditures, 1950–1994, in Percentages

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<td>Percent of Cash Receipts of Farm Marketings</td>
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<td>Percent of Farm Production Expenditures</td>
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Source: USDA-ACS, Farmer Cooperatives, and Cooperative Historical Statistics.
Market shares by commodity exhibited a wide range from a low of 9 percent in livestock to a high of 82 percent in dairy. Market shares for grains and oilseeds were 38 percent, cotton 34 percent, fruits and vegetables 18 percent, fertilizer 41 percent, petroleum 45 percent, and feed 22 percent.

Public Policy Support for Cooperatives

Public support for agricultural cooperatives in the U.S. includes (a) limited immunity from antitrust laws, (b) beneficial tax treatment, (c) access to favorable credit terms, and (d) technical assistance.

Limited Immunity from Antitrust Laws

Since the passage of the Clayton Act in 1914 and the Capper-Volstead Act in 1922, U.S. agricultural producers are free to “act together in associations” to collectively process, market, bargain and handle commodities and products they produce. Furthermore, farmers, through their associations, may contract, initiate agreements, and/or establish marketing agencies in common, subject to member definition and organizational conditions. Nevertheless, as broad as these two federal laws are, they do not fully exempt cooperatives’ antitrust provisions. Neither may farmer cooperatives be used by nonfarmers to fix prices nor can farmer cooperatives engage in predatory practices harmful to other business organizations (Knapp, 1973).

Beneficial Tax Treatment

At the federal level, net income of farmer cooperatives is generally taxed according to the single-tax principle instead of the double-tax principle usually applied to investor oriented firms. This single-tax principle ensures that cooperatives’ net income is taxed at each the cooperative firm level or the member-patron level but not both. This favorable tax treatment evolved out of provisions first passed in the 1909 Corporation Tax Statute. This law placed a tax on corporate and joint-stock firms’ net income but exempted agricultural and horticultural associations operating on a mutual basis (Knapp, 1969).

Access to Favorable Credit

The U.S. government helped create and implicitly supports the Farm Credit System. The System is a nondepository, structurally complex, farmer-owned-and-controlled agricultural lender entirely dependent for its loanable funds on sales of debt instruments in financial markets. Its origins can be traced to European roots and the 1916 birth of the Federal Land Bank System followed by the legislated emergence of two siblings, the Federal Intermediate Credit Bank and its companion Production Credit Associations and the Banks for Cooperatives. In addition to the initial seed money provided to start each of these banks, the federal government has supported the system by maintaining its ‘agency status’ – a set of unique characteristics that help ensure the financial markets will remain receptive to the amount of system securities needed to be sold.

Technical Assistance

Dating from the 1926 passage of the Cooperative Marketing Act, the U.S. government has supported the development of agricultural cooperatives. The U.S. government provides technical assistance to individuals interested in forming or improving cooperatives by conducting economic, legal, financial and governance analysis; by assisting in the establishment of cooperatives; by expanding the concept of cooperative development to assist in rural development; by supporting research into the theoretical foundations of American agricultural cooperation; by conducting international comparisons of cooperative policies, strategies and structure; and by collecting, analyzing and maintaining a large historical and statistical data base (Torgerson, 1993).

Guiding Principles of U.S. Agricultural Cooperatives

In the struggle to attain legal recognition and approval, U.S. cooperative advocates relied on economic and philosophical arguments. The two most frequent economic justifications for forming cooperatives cited to legislative sponsors of collective action were: (1) individual producers needed an institutional mechanism by which to bring economic balance under their control and because of excess supply induced prices, and (2) individual farmers needed countervailing power when confronted with monopsonistic and/or monopolistic market structures (Cotterill, 1984).

The 40-year evolution of major cooperative legislation, which lasted from 1890 to 1930, produced more than 85 state cooperative incorporation laws, the Sherman Antitrust Act, the Clayton Act, and the Capper-Volstead Act, each in some way attempting to address these real and perceived market failures (Suhler and Cook, 1993).

The philosophical arguments evolved from the principles and practices developed by the Rochdale Society members during the mid-1800s in England. By the 1920s these rules had been consolidated into the three hard-core principles of democratic control, service, and, limited return on equity. Further refinement of the cooperative principles was summarized by the U.S. Senate-requested study coordinated by the U.S. Department of Agriculture’s Agricultural Cooperative Service in 1987 (USDA, 1987). From that study the current cooperative principle semantics have evolved: a cooperative is a user-owned, user-controlled, user-benefited agricultural producer organization. More explicitly:

- The farmer stockholding owners are the major users of the cooperative;
- The benefits received by the farmer-owner stockholder who contributed equity capital to a cooperative are tied to the concept of use of the cooperative in the form of patronage;
• The control of the cooperative by the owner stockholder user must be structured democratically in that voting power is not proportional to equity investment although it may be in certain situations structured in proportion to usage.

These principles ultimately define the property rights of the user member in the U.S. agricultural cooperative organization. Consequently, these property rights establish incentives and disincentives as to the investment, patronage and control behavior of the user-member. These incentives-disincentives in some cases are quite distinct from the investment, patronage, and control behavior of non cooperative (IOF) structured business organizations. These differences present governance, management, and financing challenges to cooperative leaders. Some of these challenges are explored in more depth in the second part of this paper.

A Taxonomy of U.S. Agricultural Cooperatives

U.S. business structures are legally, financially, and organizationally complex. Current agricultural-related cooperatives are no different. Their structural evolution has created a plethora of formations and classifications. In order to simplify this maze, a simple taxonomy is introduced. In developing a taxonomy it is preferable to utilize a paradigmatic or theoretical model to serve as the basis for identifying separable categories. Unfortunately the multitude of agricultural cooperative types encumbers meaningful categorization. Consequently, function-based, geography-based, and commodity-based elements are combined with neo-institutional arguments in the development of the taxonomy advanced in this paper. Seven cooperative types are described: (1) Farm Credit, (2) Rural Utilities, (3) Sapiro I (Bargaining Cooperatives), (4) Sapiro II (Marketing Cooperatives), (5) Nourse I (Local Supply and/or Marketing), (6) Nourse II (Regional Supply and/or Marketing), and (7) New Generation Cooperatives.

Farm Credit System: Twelve Federal Land Banks were the first components of the Farm Credit System when it was chartered by Congress under the Federal Farm Loan Act of 1916. Subsequently the Federal Intermediate Credit Banks were created in 1923 to provide short- and intermediate-term credit; the Production Credit Association in 1933; the Banks for Cooperatives in 1933; and the regulator, the Farm Credit Administration. The motivating forces behind the efforts to organize the system came from concerns about the unavailability of agricultural and real estate loans, extremely high rates and the length of terms (federal law prohibited national banks from making loans with maturities beyond five years). After an initial surge of lending, the Farm Credit System loan volume continued to increase steadily until hitting a peak of more than $80 billion in outstanding loans during the 1980s.

Since 1987 the Farm Credit System has restructured through consolidation and merger. Currently there are eight banks remaining (two of them lending to agricultural cooperatives and six lending to cooperative credit associations). When the restructuring began, there were 37 Farm Credit System banks.

Rural Utilities. Formed to provide a missing service due to the high per unit cost of serving a low density customer base, the rural electric and telephone cooperatives were formed in 1936 and 1949. The resulting systems are a combination of approximately 1,200 cooperatives and 950 non-cooperatives providing telephone and electric service to more than 45 million rural customers.

Sapiro I Cooperatives: Bargaining Cooperatives. Bargaining cooperatives address market failures through horizontal integration. Producers organize these Sapiro-inspired associations in an attempt to affect the terms of trade in favor of members when negotiating with first handlers (Sapiro, 1921). The functions of bargaining cooperatives can be described as twofold: (a) to enhance margins and (b) to guarantee a market. These types of associations are found most often in perishable commodities in which temporal asset specificity creates a situation of potential post-contractual opportunism. The most recent activity in bargaining cooperatives is in the growth of poultry growers associations – a reaction to the industrialization of the broiler sector.

Sapiro II Cooperatives: Marketing Cooperatives. Marketing cooperatives are a form of producer vertical integration pursuing a strategy of circumventing and competing with proprietary handlers. They usually can be categorized in one of two ways, single or multiple commodity. The objectives are similar – to bypass the investor-owned firm, enhance prices, and in general, pursue the Sapiro goals of increasing margin and avoiding market power. Because of property rights and benefit distribution issues, management and governance functions are considered more complex in a multiple commodity marketing cooperative.

Nourse I Cooperatives: Local Associations. Local cooperatives are economic units operating in geographical space where achieving scale economies in commodity assembly (usually grains or oilseeds) and input retailing might dictate the presence of a spatial monopolist/monopsonist. Founded to provide a missing service or to avoid monopoly power or to reduce risk or achieve economies of scale, they epitomize the Nourse philosophy of cooperation that of a ‘competitive yardstick’ with the objectives to keep investor-oriented firms competitive (Nourse, 1992). Today, after much consolidation, local associations still are the most numerous type of U.S. agricultural cooperative in number.

Nourse II Cooperatives: Multi-functional Regional Cooperatives. Competitive yardstick-driven regional cooperatives usually perform a combination of input procurement, service provision, and/or product marketing. Many integrate forward or backward beyond the first handler or wholesaling levels. They might be organizationally structured as federated, centralized or a combination. They differ from Nourse I local cooperatives in that there is little probability of being a spatial monopolist/monopsonist in their geographic market.
New Generation Cooperatives. New Generation cooperatives are the result of recent collective action-oriented founders attempting to address market failure situations, excess supply price depression, traditional cooperative property rights structural weaknesses, and free rider issues. Specific solutions in the form of asset appreciation mechanisms, liquidity creating delivery right clearinghouses, proportional patronage distributed control, base equity capital plans, and membership policies controlling entrance, are established in their by-laws and operating practices.

Current Strategies

Post-1985, U.S. agricultural producers addressed their organizations’ economic dilemmas by pursuing one of three generic user-oriented strategies: (a) conversions, (b) refinement of traditional cooperative practices and principles, and (c) formation of new generation cooperatives.

Conversion refers to the strategy taken by cooperative members whereby they restructure themselves as investor-oriented corporations, sell the business, or reorganize segments of the business as ordinary corporations with minority public ownership. According to Schrader, 1989, and Collins, 1991, the economic rationale for conversion lies in the inability of financially successful farmer cooperatives to reward equity capital in the traditional form of return on investment. Conversion is a producer investment strategy that has gained increasing attention since the mid-1980s in countries such as Australia, Germany, the Netherlands, Ireland, and Canada (Barton, 1992).

Most U.S. cooperative organizations have opted, however, for the refinement of cooperative structure rather than conversion to the investor oriented model. The refinement strategy maintains that with some adjustments to the current structural model independent producers are best served by the cooperative model – especially if the maintenance-founder issue is addressed (Cook, 1992a). Adjustments have ranged from radical restructuring in the form of rationalizing assets, establishing strategic alliances, and redefining ‘singleness of purpose’ to addressing the horizon-portfolio-undercapitalization problem by implementing innovative equity acquisition-redemption policies to proportionalizing the ‘current’ ownership and control mechanisms. Certain scholars argue that the optimal or near optimal refinement strategy is the ‘proportionality’ solution (Royer, 1992; Barton, 1989; Dunn, 1988). Royer, 1992, however argues that some of the refinement measures being adopted are not only economically and legally sound, but inconsistent with the proportionality solution.

The third cooperative organization strategy gaining importance in the U.S. since the post-1985 period is the formation of ‘new generation cooperatives.’ Producers in adapting ‘value-added’ strategies encouraged by the same forces creating the industrialization phenomenon and reacting to structural-organizational weaknesses of traditional cooperatives, are organizing and financing a new form of cooperative organization. By formally defining property rights, this new generation cooperative addresses the free-rider, horizon, and portfolio constraints encountered by traditional cooperatives (Cook, 1993). In the past several years producers and their cooperatively owned lenders have invested more than $1 billion in these new cooperative ventures in the upper Midwest (Egerstrom, 1994).

Globalization

The food and fiber sector is becoming increasingly global in both scope and behavior. At the global level, the value of further-processed or value-added trade in food products surpassed the value of commodity trade during the 1980s. Continued domestic and global consolidation and integration have vaulted a number of investor oriented food processing and marketing firms into the global rankings for total sales volume and profit. Most of these firms established considerable market share strength in their domestic markets before successfully expanding into global ventures. Meanwhile, cooperatives in Europe, Japan and the United States concentrated on building domestic market share positions in commodity-related first handling levels, and in some cases, processing levels. A small number of cooperatives in the advanced agricultural countries have been active in establishing well-defined global marketing strategies. This is especially true for U.S. agricultural cooperatives. Before addressing the challenges this industry and firm strategic set of issues create, a brief review of globalization from a U.S. point of view is presented.

Global Industry Environment

Increasingly, firms competing in the food chain are becoming less domestic in their strategic choices (Henderson and Handy, 1993; Van Zwanenberg, 1992; Shaw, 1992; Taylor, 1992). Not only are these firms becoming more export-import goods trade oriented, but also more foreign investment driven and more international commercial relationship seeking. But in this acceleration toward globalness a high degree of variability in degree and scope of competitiveness among commodity and agricultural input food products is observed. In other words, the pattern of international competitiveness between industries differs considerably. The recognition that each international industry as a distinct competitive environment creates complex strategic challenges for agricultural and food firm decision makers.

Industries have been classified at the extreme as being ‘multi-domestic’ or ‘global’ (Bartlett and Ghoshal, 1987; Porter, 1986; Prahalad and Doz, 1987). Multi-domestic industries are characterized by competitive forces that are constrained structurally by country. Consequently,
national competitive environments are isolated and competition is analyzed in much the same way as domestic competition. The international industry is essentially a set of domestic industries although a number of the competitors may be multinational firms who extract little advantage from being multinational. ‘Multi-domestic’ international industries include many types of retailing, wholesaling, life insurance, consumer finance, and consumer food products (Porter, 1990).

At the other extreme are global industries. They can be characterized as a series of linked domestic industries where structural forces combine to produce a single competitive arena which transcends national competitive environments. Competing in a global industry exposes decision makers to an interdependent competitive environment where strategic actions taken in one country affect competitive situations in other countries. Therefore, an important difference between the international multi-domestic and global industry is the degree of interdependency existing across national borders. Market interdependencies result when a competitor that internationally externally or internally integrates operations compels rivals to respond in kind or risk a loss of competitiveness. In a global industry firms compete against each other on a worldwide basis, utilizing competitive advantages that grow out of their entire network of global activities. Businesses coordinate advantages created at their home base with others that result from a presence in many nations, such as economies of scale, the ability to serve multinational and multi-origin customers, and a transferable brand reputation. Global industries, as defined here, include textile machinery, semiconductors, oil field machinery, civil commercial aircraft, and insecticides and fungicides.

Since World War II industries have become increasingly global (Porter, 1990). In identifying these industries as global, trade flow levels as well as considerable degree of tangible and intangible asset linkages are important conditions. Even though globalization is accelerating, most industries are not global (Morrison and Roth, 1989).

**Global Food Firm Strategies**

Agricultural and food firm decision makers have four basic options to consider when analyzing the role of globalization or internationalization in their future competitive strategies: (a) importing, (b) exporting, (c) foreign direct investment, and (d) commercial relationships.

U.S. agricultural exports and, to a lesser extent imports, are classified as to how close they are to their final consumer form. There are three categorizations: bulk (basically unprocessed such as wheat, cotton, coarse grains); intermediate (partially processed such as soybean meal and cattle hides or used as inputs on the farm such as seed and animal feeds or used by food manufacturers such as sweeteners and flour); and consumer oriented (primarily shipped for consumption in the retail market and food service sectors such as frozen dinners, processed meats, fresh fruits and vegetables). In the 1960s, 70 percent of U.S. food and agricultural exports were in bulk form. By 1990 approximately 50 percent were shipped in bulk form, 25 percent in intermediate form, and 25 percent in consumer-oriented form. The pattern is reversed for most European countries. Since 1990 export growth of intermediate and consumer-oriented products have grown at 6 percent a year and bulk exports have continued to decline (Greene, 1994).

Foreign direct investment is a strategy primarily designed to exploit cost differentials and coordination efficiencies across countries. Such options as investing in countries with low factor costs, minimizing tax liabilities through favorable transfer pricing, or investing in countries which offer passive or direct investment incentives are unique to businesses with international operations (Cook, 1992b). In the U.S. alone, food manufacturers supply their products to foreign market consumers primarily through investments in local production in foreign markets. In 1992 processed food sales from U.S. owned foreign affiliates totaled $89 billion – almost four times U.S. export sales of processed foods. Even though U.S. exports of processed foods continued to grow, the gap between them and foreign affiliate sales more than doubled between 1982 and 1992 (Malanoski, 1994).

International commercial relationships is the fourth strategy option available to food firms. They often take one of the following forms: co-packing, joint ventures, coventures, franchising, or licensing of trademarks, patents, and copyrights. Henderson and Sheldon, 1992, expand on the advantages of commercial relationships – particularly licensing. They identify three particularly important factors: ownership, location, and internationalization. Their findings also suggest that U.S. food firms were more aggressive in outbound licensing than inbound licensing.

In observing trends in food firms’ global strategies, Henderson and Handy, 1993, conclude the following: (1) as firm size increases, food firms tend toward foreign investment and away from product trade; (2) as firm dominance in its home market increases, food firms tend toward foreign investment and away from product trade; (3) as the diversity of food products produced by a firm increases, the firm tends toward foreign investment and away from product trade; (4) a firm’s investment in intangible assets is positively associated with its investment in foreign operations, but has no significant impact on product trade; (5) the greater a firm’s specialization in food, the greater its tendency for foreign sales through both exports and overseas operations; and (6) international commercial relationships in the form of licensing, joint ventures, and strategic alliances appear to be an increasing part of food firms’ global strategic portfolio.

What does this global industry and food firm strategy analysis mean for agricultural cooperatives?
Cooperative Structure and Globalization

The process of increasing global competitiveness appears to create a particularly complex strategic challenge for cooperatives. As discussed in previous sections, agricultural business organizations have found that competing in a global environment is more than expanding exports from a single origin base in commodity form. Because of more open markets, domestic-oriented firms have found that reacting to increasing inflows of competitive import demands as much attention and resources as efforts to expand exports. In expanding overseas sales, the firm must decide whether to produce at home and export to a foreign market or to locate production overseas. This decision is normally based on a comparison of delivered costs, and is a function of production costs, transport costs, tariff-nontariff barrier considerations, fiscal issues, and transaction costs. But for the agricultural cooperative the analysis is usually more complex.

According to the aforementioned definitions, most of the industries in the food sector would be considered multi-domestic rather than global. Nevertheless, as previously documented, certain industries within the food sector are rapidly moving toward becoming more globalized. Cooperative decision makers in confronting this challenge will have to overcome the following constraints if their objectives are to benefit their member owners through globalization. These constraints include: (a) mission clarity, (b) single origin, (c) capital availability, and (d) governance.

Cooperative Globalization Constraints

Mission Clarity

‘Cooperatives are counter-culture alternatives to mainstream business’ and are ‘hard-headed economic enterprises differing from investor-oriented firms in small details regarding ownership and voting structure.’ In addition, ‘cooperatives are exotic fringe phenomena’ and sometimes ‘prominent community institutions.’ They are also ‘methods for correcting market failures’ and ‘seeds of a new society acting as agents to social progress while holding over pre-industrial values.’ Fairbairn et al., 1991, in this facetious manner reminds cooperative leaders how important and difficult it is to have a clean mission – a singleness of purpose.

Agricultural cooperatives in the U.S. are increasingly faced with the dilemma of balancing community needs and commodity organization bottom line. Consequently, cooperative leaders are constantly addressing the ‘boundary of the firm’ challenge – a narrow set of products or a multipurpose organization. Additionally, determining the organization’s optimal allocation of resources is more complex because a single ‘return on investment’ mission statement objective immediately raises the query of ‘Who’s ROI?’ Staatz, 1987, suggested that the scope of optimization in a cooperative is broader and more diffuse than it is for a comparable IOF. He argues that most members prefer a joint profit optimization (a combined farm and cooperative objective function rather than optimization of separate profit functions). The scope of optimization is more diffuse because the cooperative must treat each member as a separate cost locus giving rise to collective choice problems.

Perhaps agricultural cooperatives do not deem it necessary to compete in the global marketplace as do investor-oriented firms and therefore more vaguely defined missions are justified. Or, perhaps the mission, objectives, and/or goals of the cooperative organization really are different from investor-oriented firms. Fulton and Ketilson (1991) argue that the role of cooperatives is not limited solely to economic considerations. Their findings conclude that cooperatives provide an important collective action function which has both social and economic consequences to member and community development. This ‘mission is different’ view of agricultural cooperatives might have significant strategic implications for Nourse II federated multipurpose cooperatives if their Nourse I locals opt for community-social objectives while they choose the global commodity-product direction.

As U.S. agricultural cooperatives consider entering the globalization fray, streamlining and achieving focus in the mission becomes an important strategic step.

Single Origin Constraint

A second possibility as to why cooperatives move cautiously into global competition is because they are ‘single origin’ in that their objective is to optimize the utilization of their member owners output, not to originate products in another area or country. Being single origin for a cooperative is rational because of the member owners’ high degree of physical, site, dedicated asset and temporal asset specificity. This asset specificity comes in the form of investments, land, machinery, perishable output, and location whereby their value in the next best use is often significantly lower. Consequently the member owner is most interested in extracting maximum rents from his/her asset specific investments. Owners of immobile assets, such as land, have fewer choices in playing the global game. With reluctance to participate in foreign direct investment, cooperatives are limited to remaining single origin exporters, thus limiting flexibility and subject to frequent periods of being ‘out of the market.’

Limiting their options to those of a single origin firm (similar to parastatal marketing boards) agricultural cooperatives have significant difficulties achieving scale economies in generating and utilizing global intelligence and risk management. Caves and Pugel, 1982, argue that these are the two most important factors for achieving economic success in international bulk commodity trading. It is near impossible to achieve these two scale economies without operating in a multiple-port, multiple-origin organizational structure. U.S. cooperatives have paid a very high price to learn the Caves-Pugel law.
Capital Availability
To strategists, globalization usually implies growth in one or more key performance measures. Investor-oriented firms grow in order to survive—that is, in order to attract equity capital from market sensitive risk capital investors. Numerous cooperative researchers argue that growth in the cooperative form of business, however, is constrained because of the tendency to underfinance the cooperative (Staatz, 1987; Peterson, 1992; Porter and Scully, 1987). The members’ disincentive to contribute risk capital is the result of a set of vaguely defined property rights. These constraints manifest themselves in the form of horizon problems, free rider problems, and portfolio problems. Fulton et al, 1995, in examining the largest U.S. and Canadian cooperatives, conclude that over the past 50-plus years their sample experienced little or no growth as measured by total assets.

Many cooperative managers and writers have agreed that the most difficult challenge in contemporary cooperative management is acquiring equity capital. Staatz, 1987, condenses their arguments to the following: Members are reluctant to contribute more equity capital to the cooperative because (1) the return on investment at the farm level is greater than return on investment in the cooperative; (2) for free rider reasons or because of heavy discounting of patronage refunds, the member underestimates the value of the cooperative; and (3) the member overvalues return on investment on the farm. Additionally, geographic and commodity scope may limit number of members and consequently the amount of capital that could be raised. As mentioned earlier, these arguments have been contested by numerous studies summarized in Lerman and Parliament, 1993.

Whether cooperatives are under-financed or not, the process in acquiring equity capital is considerably different from raising equity in an IOF. There is no entrepreneurial incentive unless delivery rights accompany membership entry, and there is no capital market interested in providing capital because of the illiquidity and nonappreciability characteristics of cooperative stock. Therefore, the cooperative decision maker in his/her resource allocator role must treat equity with extreme care. This difficulty in acquiring equity and the inherent conflicts created by the horizon problem have been blamed for the scarcity of cooperative investment in capital-intensive and global industries.

Other differences between the equity acquisition and redemption methods of IOFs and cooperatives have effects on the resource allocation role of management. In attempting to address the horizon problem, cooperative managers quickly encounter the fact that if equity is to be retired, new equity capital must be acquired just to maintain the same capital structure and level of working capital. If growth is an objective, the equity that is retired plus the incremental needed for growth must be added. Given the limited sources of equity capital, it is easy to understand why those who favor growth become attracted to the development of permanent equity reserves. Another difference in resource allocation might arise in the process of developing the capital expenditure budget.

Where the board is elected on a one-person, one-vote basis in many cases, small-in-number but large-in-patronage members might face difficult hurdles in attempting to move the cooperative in a new or more global customer/supplier-oriented direction. Cooperative management—a proponent of growth for numerous agent and non-agent reasons—must refer and this potential conflict objectively (Cook, 1994).

Because of site asset specificity (especially in Nourse I, II, Sapiro II, and New Generation cooperatives), cooperative members tend to pursue risk-conservative strategies when dealing with diversification and global investment. This risk averseness is reinforced by the fact that an investment in a cooperative is an investment in a related industry, thus decreasing diversification. These two factors could influence cooperative management to concentrate the allocation of resources less on portfolio or boundary assets and more on improving operating efficiencies—an influence that has important implications for globalization strategy choice.

Given slow growth, disincentives for providing risk capital and single origin constraint and the mission to move our members output—no one else’s globalization strategies beyond the exporting function will be a challenge. Foreign direct investment will be considered only for narrowly defined objectives—usually related to improving the return on the members’ output.

Governance
A final limiting factor in cooperative global venturing might be the importance and structure of membership control. Caswell’s research demonstrates that investor-owned corporate agribusiness firms maintained significantly higher levels of director and firm contact through board membership than did U.S. agricultural cooperatives. She concludes that this absence of a range of outside directors on cooperative boards serves the principle of democratic control but may have adverse effects on the breadth of board decision making (Caswell, 1989). Given the uncertainty and rivalrous nature of global market decision making, expectations regarding strategic information is a potential area of conflict between management and boards of directors.

Cooperative boards and members as user-owners of a tied-equity type of organization have high expectations as to how much operating and strategic information should be made available for their perusal. Lack of reliable third-party measures of organizational performance, the economic importance and inter-relatedness of the cooperative and their farming operation, and the mobility-decreasing influence of capital illiquidity in a cooperative are some arguments offered by members as justification for their high information expectations.

Management, on the other hand, takes the position that the more competitive the environment, the more valuable undistributed strategic information becomes. They add that cooperatives invest heavily in member communication, media, and networks, and that innovative communication methods should receive more respect and appreciation. To do more, they might argue, is too costly. Increasing heterogeneity of the
membership increases the complexity of fulfilling this critical role, and it is probably a given that managers of user-oriented organizations will never be relieved of the pressure generated by continual demand for strategic and operation information. A critical challenge for producer-oriented organizations is to build a cooperative knowledge base within the membership.

Globalization Advantages
U.S. agricultural cooperatives have a long history of being export oriented. But as the commercial environment becomes increasingly globalized, cooperative decision makers are reexamining their competitive advantages. They appear to be building their global strategies around three self-declared strengths: (a) access to the raw material supplier (Sapiro II) or customer (Nourse I and II), (b) reputation for assured supply and quality, and (c) persistent innovation in a rivalry intense set of industries.

Access to Supplier/Customer
As the market share percentages suggest, U.S. cooperatives have close member contact in the milk, grain, oilseed, cotton, certain fruits, and the nut subsectors. They also have high market shares in plant food, feed, and long term credit. Most of the perishable commodities handled are subject to contract assurances. Increasingly the nonperishables are also moving to more formalized coordination mechanisms including marketing and production contracts. Lang, 1994, states it from the producers point of view, user value creates a relationship between cooperative and producer that is difficult to sever.

Reputation
Anecdotal evidence is offered to justify this advantage. Baccigaluppi, 1994, states that Sapiro II cooperatives are “generally quite savvy and sometimes ahead of the rest of the U.S. industry in developing international markets ... In general, however, cooperatives are U.S. trade leaders rather than followers. SunMaid Growers, Riceland Foods, Sun Diamond Growers, Blue Diamond Growers, Calco, Diamond Walnut, Sunsweet Growers, Goldkist, Harvest States, Sunkist, Ocean Spray, and Tri Valley are just a few cooperatives that derive substantial revenue from international business – up to two thirds in some cases.”

Persistent Innovation
Particularly in Sapiro II cooperatives, the mandate is to find new markets for increased production. It is argued that without that pressure IOP firms would optimize rents and consequently be less aggressive in international market expansion.

How Global are U.S. Agricultural Cooperatives?
A comprehensive overview of the degree of U.S. agricultural cooperative globalization is not available. Numerous partial studies on the role of cooperatives in grain or specialty crops exist, but they did not employ the taxonomy suggested in this preliminary paper nor were the globalization definitions used (Spatz, 1992; Bunker and Cook, 1980). A few studies, such as Reynolds and Spatz, 1991, and National Council of Farmer Cooperatives, 1995, attempt to analyze the property rights constraints role in fostering or inhibiting progress toward globalization. Table 2 is the author’s qualitative attempt at strategically describing where U.S. agricultural cooperative might be on the globalization continuum.

Table 2 Degree of Globalization by Type of U.S. Agricultural Cooperative

<table>
<thead>
<tr>
<th></th>
<th>Sapiro I</th>
<th>Nourse II</th>
<th>Farm Credit</th>
<th>New Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export (Bulk)</td>
<td>very active</td>
<td>active</td>
<td>active</td>
<td>NA</td>
</tr>
<tr>
<td>Export (Inter)</td>
<td>very active</td>
<td>limited</td>
<td>active</td>
<td>M</td>
</tr>
<tr>
<td>Export (Processed)</td>
<td>active</td>
<td>non-existent</td>
<td>active</td>
<td>M</td>
</tr>
<tr>
<td>Import</td>
<td>very limited</td>
<td>active</td>
<td>limited</td>
<td>limited</td>
</tr>
<tr>
<td>F.D.I.</td>
<td>extremely limited</td>
<td>limited</td>
<td>under exploration</td>
<td>very distant</td>
</tr>
<tr>
<td>Common Relationship</td>
<td>active</td>
<td>light activity</td>
<td>facilitative</td>
<td>potential</td>
</tr>
</tbody>
</table>

M = maintaining
I = increasing
NA = not applicable

Building on the work of previous cooperative and global strategy researchers, the argument contained in this paper is that the success of user-oriented agricultural firms in an increasingly globalized industries food sector will depend upon (a) their ability to understand the property rights constraints faced in attempting internationalization, (b) their ability to understand their sustainable competitive advantages, (c) their ability to develop globalization or multi-domestic strategies that are consistent with their constraints and advantages, and (d) their ability to create new institutions that simultaneously facilitate the enhancement of member needs and develop sustainable competitive advantages.
References


COTTERILL, R.W. 1984. ‘The Competitive Yacht Club School of Cooperative Thought.’ American Cooperative, American Institute of Cooperation, Washington, D.C.


Notes

1 Aaron Sapiro, a California attorney who promoted a centralized, single commodity, enforced commitment, market power oriented type of producer cooperative, was instrumental in the formation of many cooperatives in the 1920s.

2 Edwin Nourse, a Midwestern economist, advocated the competitive yardstick philosophy implying the correction of market failures by increasing the number of participants in the market.