

**Pacific Coast Cooperatives:
Selected Characteristics and Major Challenges**

By

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Printed in the United States of America

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Acknowledgements

The author wishes to thank the three persons who participated in a "blind" review process of this manuscript. Their contributions were very useful and most were incorporated in the final report. The author also wishes to thank Dr. Kenneth R. Farrell, Interim Director, Center for Cooperatives, who conducted the blind review process and whose many valuable comments were also incorporated in the final product. Errors of omission or commission remain the responsibility of the author.

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This publication was made possible with funding from a grant provided by USDA Rural Development.

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Executive Summary

In 1998, a U.C. Center for Cooperatives survey on the U.S. West Coast generated 647 responses from 963 known cooperatives. These included agricultural, childcare, consumer, housing, worker, utility, arts and crafts and funeral cooperatives. Respondents provided substantial information on revenues, membership, governance, education, history and legal organization.

The focus of the survey and of this report is on challenges faced by cooperatives. Respondents, typically general managers or their representatives, were asked to examine 16 issues of periodic concern to cooperatives and to indicate which were major issues for their cooperatives during each of three different periods: 1) since 1995, 2) 1988-95 and 3) pre 1988.

The survey indicated that five specific issues were relatively frequent concerns for virtually all types of cooperatives included in the survey. Those five issues are:

- Changing laws and regulations
- Rapid financial growth
- Difficulty in attracting qualified directors
- Loss of membership
- Competition that threatened the survival of the cooperative

The main conclusion of this survey is that the issues of greatest concern to most cooperatives are, at their roots, *business, competitive and regulatory issues*. These are not unique to cooperatives. The strictly cooperative challenges appear to be those of attracting and retaining directors and managers capable of dealing with the more general issues.

A strong implication of these findings is that future research and education should identify and inform about programs that make cooperatives better able to compete. Research and education should look specifically at incentives created for members, directors and management in a user-owned, user-controlled environment, and at programs that strengthen member, director and management performance, and therefore patron service, in a competitive environment.

DIFFERENT COOPERATIVES: A COMPARATIVE OVERVIEW

Introduction

Cooperatives in different economic sectors share common features. As food consumers, food producers, housing residents, worker-owners, utility buyers or others, members own and control their cooperatives and share benefits in proportion to use.

At the same time, cooperatives vary greatly in terms of size, membership, approaches to governance and other features. These variations arise because cooperatives have different objectives and different markets, as well as specific needs and concerns unique to their members. These differences affect the issues that concern cooperative members and their leaders as they strive to achieve varied missions in rapidly changing environments.

The primary objective of this report is to identify the principal issues facing cooperatives and to determine how these vary by type of cooperative. It does so by analyzing the findings of an extensive survey of West Coast cooperatives conducted in 1998.¹

Some of the survey data are first used to compare cooperative sectors in terms of size, membership, governance and other factors. These may provide useful background for the design of further research to sharpen understanding of keys to cooperative success and the approaches used by cooperatives to address their principal challenges.

Survey and Response

During 1998, the Center for Cooperatives conducted a population survey of cooperatives in California, Oregon and Washington. The survey focused on the agricultural, childcare, consumer food, housing and worker sectors. Common questions were asked of all cooperatives, but questions unique to some cooperatives were also included. The survey was also sent to arts and crafts cooperatives, funeral and memorial societies, and utility cooperatives. This report addresses all of these sectors.

Surveys were sent to all known cooperatives of each type.² As Table 1 shows, the response rate exceeded 69 percent for agricultural cooperatives and 66 percent for non-agricultural cooperatives. Thus, for many purposes, these data, which reflect substantial majorities of cooperatives in California, Oregon and Washington, can be regarded as broadly representative of the population.

The classifications in Table 1 are used throughout this report.

¹ The survey was conducted as part of a study called "Tools for Cooperative Development" funded by Cooperative Services-USDA

² Lists of cooperatives in California, Oregon and Washington were developed from mailing lists and surveys conducted by the Center for Cooperatives, lists compiled by the USDA and other cooperative support organizations. These represent all cooperatives known to these sources and, as such are the best available approximation to population data.

Table 1. Responses to Survey by Type of Cooperative

Kind of Cooperative	Complete Data*	Partial Data	No Data or** No Response	Total Surveys Sent
AGRICULTURAL	222	8	103	333
Agricultural Marketing		8		
Over \$100 Million Sales	21			
\$20-\$100 Million Sales	24			
\$4-\$20 Million Sales	32			
Under \$4 Million Sales	39			
Supply	47			
Bargaining	14			
Service***	45			
NON-AGRICULTURAL	384	18	213	615
Childcare	177		99	276
Consumer Food	31		12	43
Worker	57		25	82
Housing				
Student	10	18	5	33
Non-Student	81		49	130
Arts & Crafts	13		4	17
Funeral & Memorial	6		9	15
Utility	9		10	19

* Most analyses are conducted with 222 agricultural cooperatives. Of these, 204 provided complete data, 10 provided nearly complete data and 8 provided sufficient information to include in most analyses. Therefore, observation totals do not always equal 222.

** Includes duplicate responses from branches or outlets.

*** Service cooperatives include gins, hullers and packers.

The distribution of responses by state is seen in Table 2. While we report data by state, no further analysis is used to compare cooperatives by state. In the absence of any reasonable hypothesis to test, it is more logical to explore differences in cooperative conduct and performance based on sector and function than on geography.

The West Coast cooperatives vary greatly in size, membership and economic importance to their communities. In terms of total revenue, the larger agricultural firms dwarf the worker, consumer, housing and other cooperatives.

Table 2. Distribution of Responses by State

Kind of Cooperative	California	Oregon	Washington	Total
AGRICULTURAL				
Marketing				
Over \$100 Million	14	1	6	21
\$20-\$100 Million	11	6	7	24
\$4-\$20 Million	22	1	9	32
Under \$4 Million	27	4	8	39
Supply	15	10	22	47
Bargaining	9	4	1	14
Service	36	2	7	45
NON-AGRICULTURAL				
Childcare	169	7	1	177
Consumer Food	14	7	10	31
Worker	44	4	9	57
Housing				
Student	28			28
Non-Student	79		2	81
Arts & Crafts	11		2	13
Funeral & Memorial	6		1	6
Utility	2		13	9

Revenue

Cooperative revenue, particularly in agricultural cooperatives, varies greatly by year. Therefore, the data presented in Table 3 are useful mainly as a means of demonstrating the variation in relative size by type. The revenues for bargaining associations do not reflect the substantial crop volumes affected by their activities, but rather service fees paid to associations for their services

Table 3. Annual Revenue by Type of Cooperative: 1997

Kind of Cooperative	Mean Annual Revenue (\$000)	Cooperatives Reporting*	Distribution by Quartile** in (\$000)
AGRICULTURAL			
Marketing			
Over \$100 Million	\$482,058	21	188,600;251,000;691,810
From \$20 to \$100 Million	\$46,583	24	30,151;41,500;61,723
From \$4 Million to \$20 Million	\$10,814	32	5,750;10,500;15,163
Less than \$4 Million	\$1,548	28	473;1,550;2,200
Supply	\$8,225	37	2,700; 7,669;18,000
Bargaining	\$266	13	53;124;372
Service	\$9,729	39	900;2,768;6,650
NON-AGRICULTURAL			
Childcare	\$90	82	28;58;130
Worker	\$3,964	38	150;700;1,800
Consumer	\$4,942	29	650;1,894;5,252
Utility	\$7,219	7	2,750;10,185;10,425
Student Housing	\$1,089	7	57;250;878
Housing	\$319	41	30;184;450
Funeral and Memorial	\$33	4	28;33;37
Arts & Crafts	\$311	9	50;100;265

* The number of respondents does not always equal those in prior tables. Some responses are not complete.

**Quartiles are values in a distribution that define four groups with equal frequencies. For example, the revenue of cooperatives with over \$100 million in revenue are distributed as follows: 25% have less than \$186.6 million, 25% have from \$186 to \$251 million, 25% have between \$251 and \$691.8 million and 25% have over \$691.8 million.

to the industry and their members. In terms of member and non-member revenue, their impacts are industry-wide, affecting all growers.

While these data provide an appreciation for the relative size of cooperatives by type, the food industry is rapidly changing. Production agriculture is characterized by increasing size and decreasing number of farms and has been for decades. The impact of these changes on farmer marketing cooperatives is clearly accelerating. Five of the largest cooperatives for which data are included have substantially changed their structures since the survey and operate under new names. The national consolidation of three dairy cooperatives, the bankruptcy of Tri-Valley Growers, and the replacement of five CEOs in California's largest cooperatives reflect an industry in flux.

Rapid changes (consolidation) in the retail grocery industry have cooperatives asking how they will serve fewer, larger and more demanding customers. Indeed, current changes in the structure of agricultural cooperatives are a response to some of these questions. In addition, changes in retail grocery structure may have some impact on the competitive positions of consumer food cooperatives.

Membership

In terms of revenue, the largest firms in the survey are agricultural marketing cooperatives, but the number of members in those cooperatives is small compared to those of consumer, utility and memorial cooperatives, as shown in Table 4. The significance of this fact will become apparent as we examine the issues listed as most critical by cooperatives with large memberships.

Table 4. Membership by Type of Cooperative 1997

Cooperative Type	Average Membership	Number of Cooperatives Reporting	Distribution by Quartile*
AGRICULTURAL			
Marketing			
Over \$100 Million	1317	21	340;900;1500
From \$20 to \$100 Million	285	22	74;139;401
From \$4 Million to \$20 Million	201	32	44;80;200
Less than \$4 Million	134	39	22;45;135
Supply	1172	38	127;394;2110
Bargaining	496	13	135;297;700
Service	101	43	33;54;107
NON-AGRICULTURAL			
Childcare	47	176	28;40;60
Worker	27	57	5;12;25
Consumer	7480	31	953;2200;5150
Utility	3946	9	2500;2859;6000
Student Housing	116	28	33;52;77
Housing	161	80	24;60;104
Funeral and Memorial	11854	5	6000;6500;10000
Arts & Crafts	30	13	13;25;28

* Quartiles are values in a distribution that define four groups with equal frequencies. For example, the membership of cooperatives in the category with over \$100 million in revenue are distributed as follows: 25% have fewer than 340 members, 25% have between 340 members and 900 members, 25% have between 900 and 1500 members and 25% have over 1500 members.

Employment

The importance of cooperatives to their communities is also reflected in the numbers of people they employ. Tables 5A and 5B report full and part time employment by type of cooperative.

Table 5A. Full Time Employees by Type of Cooperative, 1997

Cooperative Type	Average Employees	Cooperative Respondents	Distribution by Quartile*
AGRICULTURAL			
Marketing			
Over \$100 Million	544	20	123;400;825
From \$20 to \$100 Million	70	23	16;35;80
From \$4 Million to \$20 Million	22	31	5.5;11;22
Less than \$4 Million	17	35	2.5;5;11
Supply	21	38	11;21;37
Bargaining	4	11	1;2;5
Service	23	40	4;7;14.5
NON-AGRICULTURAL			
Childcare	3	74	1;1;2
Worker	19	35	4;7;16.5
Consumer	41	27	7;25;42
Utility	20	9	12;17;25
Student Housing	8	4	1.75;4.5;11
Housing	4	46	1;2.5;5
Funeral and Memorial	NA	NA	
Arts & Crafts	6	2	4.5;6;7.5

*Quartiles are values in a distribution that define four groups with equal frequencies. For example, the number of employees in cooperatives with over \$100 million in revenue are distributed as follows: 25% have fewer than 123 employees, 25% have from 123 to 400 employees, 25% have between 400 and 825 employees and 25% have over 825 employees.

Table 5B. Part Time Employees by Type of Cooperative, 1997

Cooperative Type	Average no. Employees	Cooperative Respondents	Distribution by Quartile*
AGRICULTURAL			
Marketing			
Over \$100 Million	1418	20	75;136;850
From \$20 to \$100 Million	125	18	6.25;45;187.5
From \$4 Million to \$20 Million	50	20	6.25;35;100
Less than \$4 Million	21	26	5;17;29.5
Supply	17	28	3;7;17.5
Bargaining	4	6	1;1;1
Service	56	35	15;30;60
NON-AGRICULTURAL			
Childcare	3	134	1;2;4
Worker	10	43	3;6;11
Consumer	19	29	7;13;21
Utility*	2	4	1.25;2.5;4.5
Student Housing	30	2	5.5;10;30
Housing*	10	35	1;2;3
Funeral and Memorial	1	6	NA
Arts & Crafts	2	3	NA

*Housing and Utility Cooperatives use as many or more management or outside services as part time personnel. Outside management personnel are included as part time.

Age of Cooperatives

Agricultural cooperatives are the oldest. In terms of average age, worker cooperatives and arts and crafts cooperatives are among the most recently created. And, as indicated below, the dates of incorporation reported in Table 6 often reflect changing policies or development unique to their industries at the time.

For example, agricultural cooperatives in the largest size class average 73 years old. Some of these sought to sell their products in distant markets. Other growers used cooperatives to assure markets as industrialization and subsequent market concentration limited their options.

The average agricultural supply cooperative is 60 years old. The impetus for their emergence was the rising importance of commercial inputs in agricultural production, especially petroleum and fertilizer products. While supply cooperatives were more common on the Great Plains than in California, their importance is also seen in Washington and Oregon. In those states, extensive crops and relatively homogeneous needs of farmers with similar crops are more common than in the heterogeneous fruit, vegetable and nut production regions of California.

Service cooperatives, those that provide cotton ginning, almond hulling and shelling and packing services, also emerged with the early industrialization of agriculture. They were created in response to clear and common needs of growers that could be met cost-effectively through joint action.

The utility cooperatives average 68 years of age. These were organized in response (1) to rural demands for services to which investor-owned utilities could not respond profitably and (2) to the incentives created by public policies in support of rural electrification.

Most childcare cooperatives were formed in the 1950's, 1960's and 1970's. Rapid urbanization, access to employment outside the home, rising expectations and other social changes led to more two-earner households and the growing need for child care services.

The average consumer cooperative is 27 years old, although some are much older, formed during or in response to the depression. In the late 1960s and early 1970s, several forces converged to create consumer cooperatives — new subcultures, interest in lower cost bulk purchases, food safety and health issues, organic foods and a desire of members to control their own destinies in an industrial society.

These motives were further reflected in the more recent growth of worker cooperatives, which average 17 years of age. These more recent creations rode the crest of interest in consensus management, “no boss” and other “democratic” approaches to management.

Table 6. Age By Type of Cooperative (As of 2001)

Cooperative Type	Mean (Years) Since Operations Began	Cooperatives Reporting	Quartiles-Years *
AGRICULTURAL			
Marketing			
Over \$100 Million	73	21	57;77;91
From \$20 to \$100 Million	48	23	17;56;71
From \$4 Million to \$20 Million	59	32	46;62;72
Less than \$4 Million	51	39	30;44;72
Supply	60	38	52;65;69
Bargaining	34	12	24;34;47
Service	44	43	32;41;50
NON-AGRICULTURAL			
Childcare	37	140	30;40;49
Worker	17	57	6;17;26
Consumer	27	30	23;27;29
Utility	68	9	62;64;79
Student Housing	36	10	19;29;55
Housing	30	76	17;27;39
Funeral and Memorial	43	6	41;43;44
Arts & Crafts	20	13	13;21;28

*Quartiles are values that define four groups with equal frequencies. For example, the ages of cooperatives in the category with over \$100 million in revenue are distributed as follows: 25% are less than 57 years old, 25% are between 57 and 77 years old, 25% are between 77 and 91 years old and 25% are more than 91 years old.

MEMBER CONTROL

Democratic control is a longstanding cooperative principle. Voting rules (one member, one vote or limited dividends) are a condition of Capper-Volstead protection.

Voting Rules

As reflected in the time and circumstances of their emergence, the motives for cooperative formation differ. These differences are reflected as well in the ways that cooperative members exercise control.

There is little or no disagreement about whether cooperatives should be democratically controlled. There is disagreement about what democratic control is. That issue is not explored in this research. However, different interpretations of democratic control are listed. For some, it is one member, one vote. For others, democratic control is logically shared in proportion to the use of the cooperative. For the latter, voting rights are allocated on the basis of tons delivered or acres harvested. For others, consensus voting is the norm.

As Table 7 shows, a clear majority of cooperatives uses the one-member, one-vote rule. The exceptions are worker and housing cooperatives for which consensus decision making is widely used.

Allocation of votes based on patronage is most common among agricultural cooperatives, bargaining cooperatives in particular. There are many variations, ranging from the most recent two or three years' patronage (tonnage or acreage), to historic patronage as reflected in equities

or retains collected, to combinations of tonnage, acreage, equity and others. The data in Table 7 reflect consolidated responses, which include share-based voting reflecting historic patronage.

Table 7. Member Control and Voting by Type of Cooperative. 1997

	Voting Rules: Percent Coops Using				Members Voting In
	One-mbr/ One vote	Patronage	Consensus	Other	Board Election Percent
AGRICULTURAL					
Marketing					
Over \$100 Million	71	19	10	0	50
From \$20 to \$100 Million	74	26	0	0	56
From \$4 Million to \$20 Million	74	16	9	0	68
Less than \$4 Million	82	18	0	0	64
Supply	82	18	9	0	31
Bargaining	54	31	0	15	50
Service	84	16	0	0	67
NON-AGRICULTURAL					
Childcare	86	0	4	10	82
Worker	54	2	42	0	88
Consumer	90	0	10	0	9
Utility	100	0	0	0	13
Student Housing	56	0	44	0	71
Housing	65	23	10	2	71
Funeral and Memorial	100	0	0	0	-
Arts & Crafts	92	0	8	0	76

The relatively high use of patronage-based voting among agricultural cooperatives is driven by the facts that the economic stake of members is greater for those who market more through the cooperative, and that patronage-based voting is consistent with user-ownership and user control.

As Table 7 also shows, voting rates differ by cooperative. The highest voting rates (as measured by the percentage of members voting in board elections) are seen in worker, arts and crafts and agricultural marketing cooperatives. The lowest rates are seen in utility, consumer and agricultural supply cooperatives. There are two probable explanations. First, the number of members in consumer and supply cooperatives tends to be much higher (Table 4) than in most marketing cooperatives, and it is more difficult to get high voting percentages with larger groups. Second, while financially important to members, goods and services provided by cooperatives account for a smaller share of total income (or expense) than the activities of the marketing (agriculture, art) and worker cooperatives. In some cases, members may receive all their income through the cooperative.

Board Size and Representation

Member control is most directly exercised through the election of the board of directors and secondarily through voting on bylaws and articles of incorporation. The size of the board varies by type of cooperative. For agricultural marketing cooperatives, Table 8 shows a clear and direct correlation between cooperative revenue and board size. A major exception is bargaining associations, which tend to have relatively large boards. The very direct impact of the bargaining associations' activity (price negotiations) on member revenue creates an incentive for broad representation and communication with members.

Table 8. Board Size by Type of Cooperative, 1997

	Average Board Size	Number of Cooperatives Reporting	Range Board size
AGRICULTURAL			
Marketing			
Over \$100 Million Revenue	15	21	7-52
\$20 to \$100 Million in Revenue	9	23	5-18
\$4 to \$20 Million in Revenue	7	31	5-13
Under \$4 Million in Revenue	6	37	3-13
Supply Cooperatives	7	38	5-26
Bargaining Cooperatives	17	14	7-33
Service Cooperatives	7	43	3-25
NON-AGRICULTURAL			
Childcare	10	169	4-61
Worker	8	53	3-38
Consumer Food	8	30	5-11
Utilities	8	8	5-9
Student Housing	14	10	5-30
General Housing	7	79	3-50
Funeral and Memorial	9	6	7-12
Arts and Crafts	12	12	5-26

But board size alone does not fully reflect how members are represented in their cooperatives. Board size relative to total membership may be a better indicator. As Table 9 shows, if board size is taken as a share of total membership, worker cooperatives, arts and crafts cooperatives and student housing cooperative boards have much higher levels of voice per member than do the larger cooperatives, agricultural or otherwise. In childcare cooperatives, about 20% of members are on the board. In worker cooperatives, over 31% of the members are on the board and in arts and crafts cooperatives nearly 40% of members are on the board. This is in stark contrast to the marketing cooperatives, with 1.14% of members on the board, and the supply or consumer cooperative boards, which include only 0.62% and 0.10% of their members.

Table 9. Board Numbers as Share of Total Membership, 1997

	Average Board Size	Average total Membership	Average Board Size as Share of Membership
AGRICULTURAL			
Marketing Cooperatives			
Over \$100 Million Revenue	15	1317	1.14%
\$20 to \$100 Million in Revenue	9	285	3.13%
\$4 to \$20 Million in Revenue	7	201	3.59%
Under \$4 Million in Revenue	6	134	4.83%
Supply Cooperatives	7	1172	0.62%
Bargaining Cooperatives	17	496	3.41%
Service Cooperatives	7	101	6.69%
NON-AGRICULTURAL			
Childcare	9	45	20.00%
Worker	8	27	31.13%
Consumer Food	8	7480	0.10%
Utilities	8	3946	0.19%
Student Housing	14	95	14.67%
General Housing	7	161	4.64%
Funeral and Memorial	9	11854	0.00%
Arts and Crafts	12	30	39.57%

Outside Directors and Other Votes on the Board

Outside directors have been used increasingly by agricultural cooperatives as they recognize the challenges of global marketing in an increasingly complex and industrialized food system and the need for outside perspective. The largest agricultural cooperatives have most often chosen to use outside directors.

However, this practice is not common. As Table 10 shows, only 14% of the largest cooperatives have outside directors. In contrast, 60% of student cooperatives have outside directors. Student members are more transient, so outside directors and advisors are a source of continuity and knowledge of the university setting in which student cooperatives operate.

If a cooperative has outside directors, the directors are likely to have voting rights. As Table 10 indicates, eight types of cooperatives had outside directors. In seven of these types of cooperatives, the majority afforded voting privileges to those directors.

The opposite was true with general managers and CEOs. In most cases, top managers did not have a vote on the board. Clear exceptions were in consumer food cooperatives (manager voted in 83% of cases) and in worker cooperatives (general manager voted in 50% of cases).

Table 10. Outside Directors and Other Votes on the Board, 1997

	Percent of Cooperatives With Outside Directors	Percent of Outside Directors Voting	Percent of GMs And CEOs Voting
AGRICULTURAL			
Marketing			
Over \$100 Million Revenue	14	67	10
\$20 to \$100 Million in Revenue	4	100	13
\$4 to \$20 Million in Revenue	10	100	0
Under \$4 Million in Revenue	0	0	14
Supply Cooperatives	0	0	3
Bargaining Cooperatives	7	0	23
Service Cooperatives	0	0	7
NON-AGRICULTURAL			
Childcare	12	55	24
Worker (57)	9	40	50
Consumer Food (31)	0	0	83
Utilities (9)	0	0	0
Student Housing (10)	60	67	12
General Housing (81)	10	88	21
Funeral and Memorial (5)	0	0	0
Arts and Crafts (17)	0	0	*

* Less than one percent

Director Education

The Rochdale Pioneers recognized continuing education as a cooperative principle. As directors become responsible for increasingly complex organizations in more challenging markets, the case for this principle becomes even more compelling. However as Table 11 shows, there is great variation in the extent to which directors are offered education programs and the extent to which they take advantage of these opportunities.

In only one category, utilities, did all cooperatives offer education programs to directors. And even in cases when training was offered, participation rates varied. Directors of consumer and worker cooperatives were much more likely than directors of agricultural cooperatives to take advantage of programs offered. Participation rates in housing, childcare, consumer, worker and arts and crafts cooperatives varied from 66 to 100 percent.

Table 11. Board Education Offerings and Uses, 1997

Types of Cooperatives	Percent of Cooperatives Making Director Education Available	Percent of Directors Participating
AGRICULTURAL		
Marketing Cooperatives		
Over \$100 Million Revenue	63	57
\$20 to \$100 Million in Revenue	52	35
\$4 to \$20 Million in Revenue	33	51
Under \$4 Million in Revenue	33	50
Supply Cooperatives	59	42
Bargaining Cooperatives	18	50
Service Cooperatives	26	36
NON-AGRICULTURAL		
Childcare	39	66
Worker	15	89
Consumer Food	57	86
Utilities	100	47
Student Housing	67	71
General Housing	36	70
Funeral and Memorial	0	0
Arts and Crafts	8	100

ISSUES FACING COOPERATIVES

Central questions addressed in this report are:

- What are the primary concerns or issues faced by cooperatives?
- Do these issues or concerns differ by type of cooperative? If so, why?
- What do the findings imply for needed research?

To address these questions, respondents were asked to examine 16 different issues or challenges that may occupy managerial and board time. They were asked to indicate which, if any of the issues in Table 12 their cooperative experienced during each of three specific time periods.

Table 12. Issues Considered by Respondents

1-Rapid Financial Growth	9-Major Change in Board Size, Selection or Decision-Making Process
2-Financial Loss	10-Change in Purpose
3-Rapid Increase in Membership	11-Major Change in Structure (e.g. Merger)
4-Loss of Membership	12-Bankruptcy (or threat)
5-Changes in Statutes or Regulations	13-Competition that Threatens Survival
6-Access to Credit	14-Difficulty Recruiting Qualified Manager
7-Access to Member Equity	15-Difficulty Retaining Management
8-Lawsuit Threatening Viability of Cooperative	16-Difficulty Recruiting Qualified Board

A positive response to an issue does not always clearly define the specific concerns faced by individual cooperatives. Each is subject to interpretation by respondent and researcher alike.

Issues and Their Meaning

The list of 16 “issues” or “challenges” which were presented to respondents are of necessity general, since the list and the wording were designed for use by the wide array of cooperatives surveyed. Therefore, responses to some of the questions are difficult to interpret since they can be no more precise than the issue statements themselves. In particular, issue one (Rapid Financial Growth) and issue five (Change in Statutes or Regulations) merit comments, whereas other issues are less ambiguous.

Rapid Financial Growth. This variable could be interpreted in either of two ways. First, the issue could be achieving economies of scale to permit rapid financial growth. Alternatively, the issue could be arising from having achieved rapid financial growth - production scheduling, inventory management, timely delivery of products, for example. The first interpretation has been adopted for purposes of this analysis.

Changes in Statutes or Regulations drew responses from virtually all sectors, but clearly has different meaning for each. Issues include food safety, labor practices, childcare liability, housing codes and others. For example, marketing cooperatives are liable for production and processing practices related to products they sell. Supply cooperatives are especially sensitive to regulation regarding the handling of pesticides, herbicides and related labor issues. Bargaining cooperatives' concern is the increasing number of agricultural production regulations with which their members must deal and for which the associations sometimes lobby. Housing cooperatives must conform to changing housing codes. Childcare cooperatives are liable for the care of their young charges and must be insured accordingly.

Each respondent was asked to indicate, for each issue, and for each period (Since 1995, 1988-1995, before 1988) whether the issue was or was not experienced by their cooperative or if they did not know. The responses were coded as one for “yes” and zero for “no”. These responses were summed and averaged for each issue, for each period and for each cooperative group to create a variable (ratio) between zero and one for graphic presentation and statistical analysis. The "don't know" responses were disregarded in this analysis. These ratios were used to create

15 tables (one for each cooperative type) each showing three separate time periods for each of 16 issues. Except as otherwise noted, discussion of the issues in the text is limited to the "since 1995" period.

In the graphs, the ratios are relative frequencies with which a cooperative responded to an issue. A ratio of one would mean that every respondent in the group indicated that it was an issue for that period. A ratio of 0.5 would mean that half of the respondents found it an issue.

Agricultural Marketing Cooperatives

Several issues stand out when we examine the response of agricultural marketing cooperatives. Whether large or small, the leaders of marketing cooperatives were concerned with growth (Issue One), changing laws and regulation (Issue Five), and competitive threats (Issue Thirteen) in each time period. Nearly half list rapid financial growth as an issue. Fully half find regulatory issues to be of concern. As indicated before, these companies are concerned with how to compete in an increasingly concentrated and regulated environment.

Figure 1. Issues Facing The 21 Largest Marketing Cooperatives

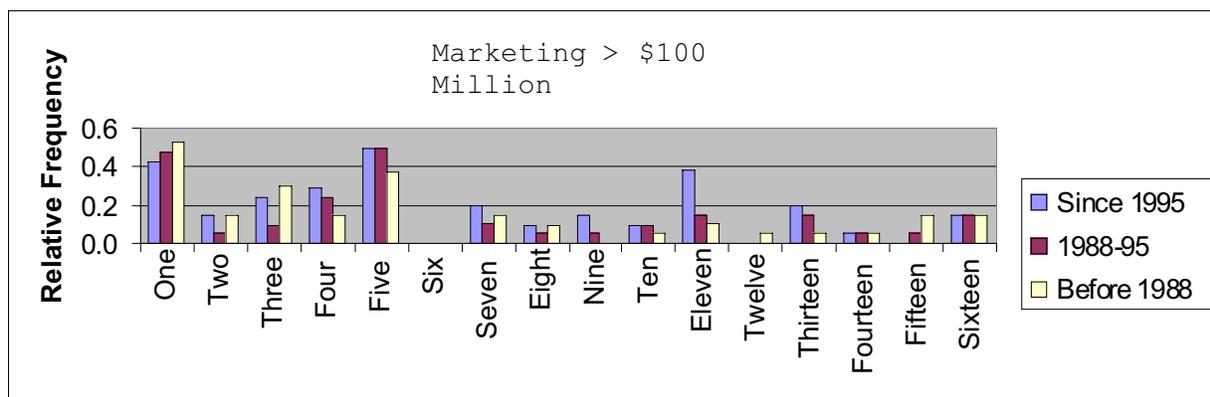
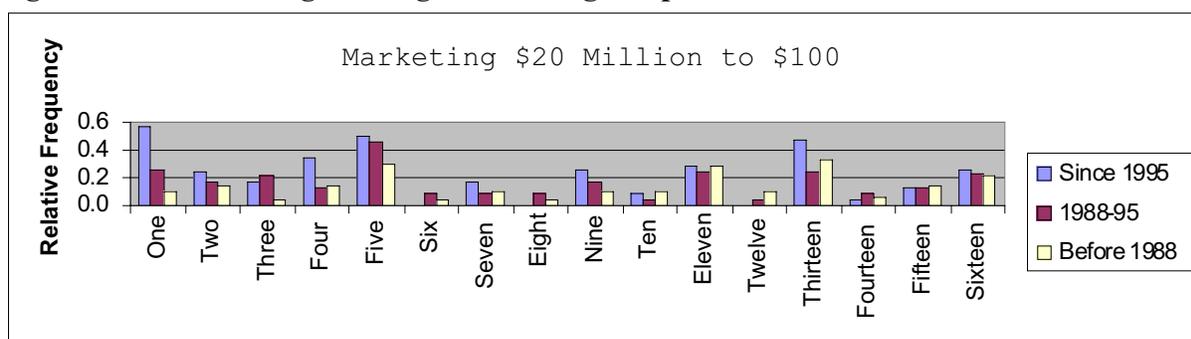
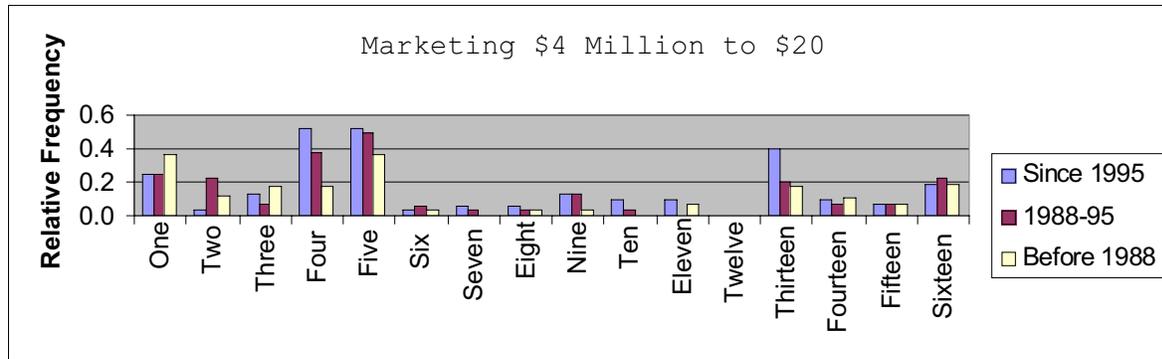


Figure 2. Issues Facing 24 Large Marketing Cooperatives



Exceptions were the largest agricultural cooperatives that were affected by structural change (Issue 11) more so than competition (Issue Thirteen) and the group of 32 medium sized (\$4 to \$20 Million) cooperatives that listed loss of members (Issue Four) instead of growth (Issue One) as a top issue.

Figure 3. Issues Facing 32 Medium-Sized Marketing Cooperatives

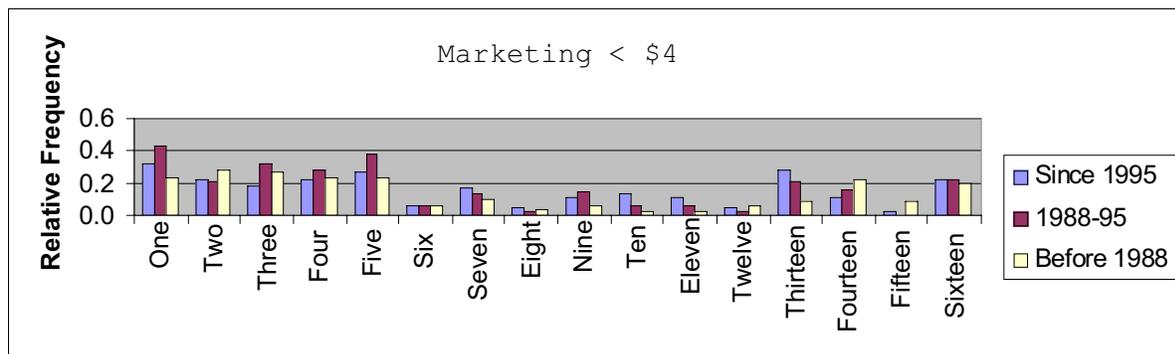


These responses may well be related since the loss of members in a cooperative is typically incompatible with growth. Cooperatives seeing shrinking margins understandably look to growth as a means of compensating with increased volume — but at the same time face a changing structure of production agriculture in which some of their traditional members disappear or go elsewhere.

Another issue, while not ranked as high as the first three, was clearly among the top concerns for each kind of cooperative. Issue Sixteen, the ability to attract qualified directors, was consistently ranked above average for agricultural marketing cooperatives.

Important to the larger firms was changing structure (Issue Eleven). Dairy cooperatives were involved in or affected by nationwide consolidation during the last years of the decade, and many other cooperatives were considering alternative structures as means of achieving growth.

Figure 4. Issues Facing 39 Small Marketing Cooperatives



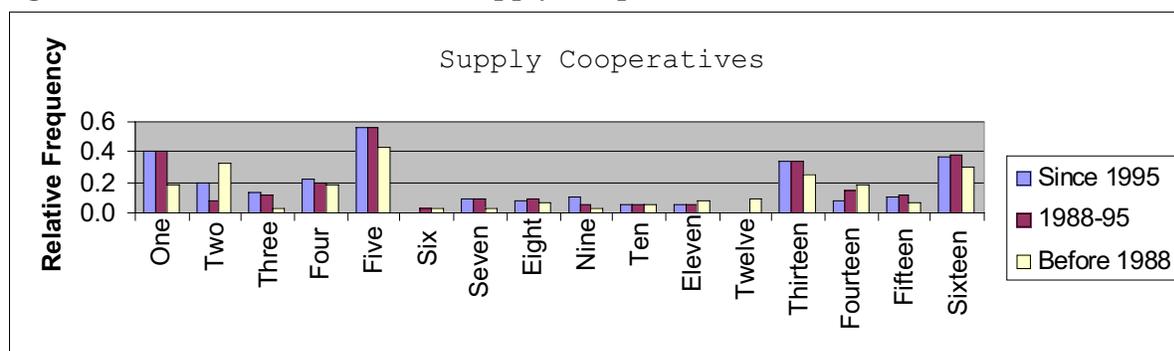
Agricultural Supply Cooperatives

The issues facing supply cooperatives are much like those of concern to marketing cooperatives. However, the importance of changing laws and regulation (Issue Five) *relative to other issues* is clearly greater for supply cooperatives, which deal directly with controlled or regulated chemicals.

Also relatively more important for supply cooperatives is the challenge of attracting qualified board members (Issue Sixteen). This is consistent with a hypothesis that members are more willing to serve as directors when the cooperative markets all of their products than when it supplies a fraction, albeit large, of their inputs.

Supply cooperatives have more competitors than marketing cooperatives. For this reason, competition (Issue Thirteen) is also critical for supply cooperatives. Furthermore, they seek to grow (Issue One) to achieve economies in competitive environments.

Figure 5. Issues of Concern to 47 Supply Cooperatives



Bargaining and Service Cooperatives

In bargaining cooperatives, laws and regulations (Issue Five) along with the challenge of attracting qualified directors (Issue Sixteen) were most frequently mentioned. However, it is apparent that none of the issues mentioned as important to other cooperatives are of equal importance to bargaining cooperatives as might be expected from their nature and purposes.

The concern most frequently voiced by bargaining cooperatives (about one-fourth of respondents) dealt with regulatory issues (Issue Five). Again, specific statutory or regulatory issues are unclear, but fair practices legislation is a periodic concern of bargaining associations. In addition, bargaining association leaders may lobby on behalf of their members' general agricultural interests. The listing of regulation as an issue may also reflect sympathy with the concerns frequently mentioned by their members.

Service cooperatives are relatively small and serve local areas as gins, hullers, shellers and packing houses. They had much more widely stated concerns. Their issues included loss of members (Issue Four), regulation (Issue Five) and continued competitive threats (Issue Thirteen) arising from the loss of members as part of continuing reduction in the number of small scale growers who require their services.

Figure 6. Issues Facing 14 Bargaining Cooperatives.

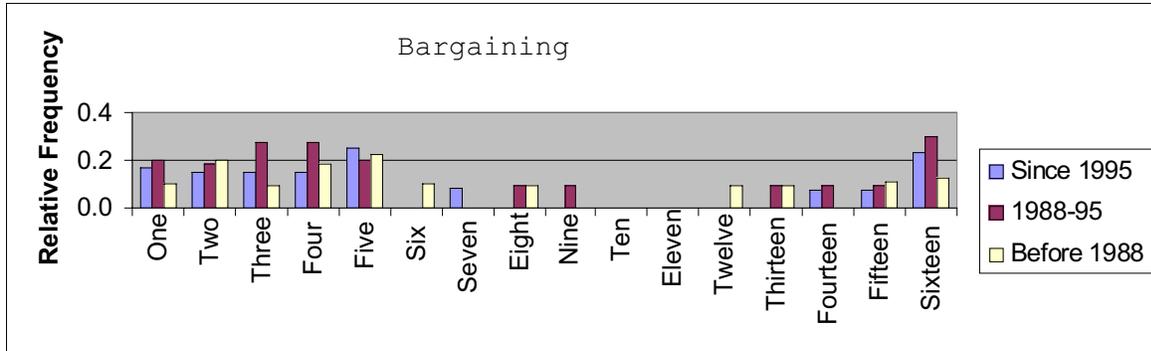
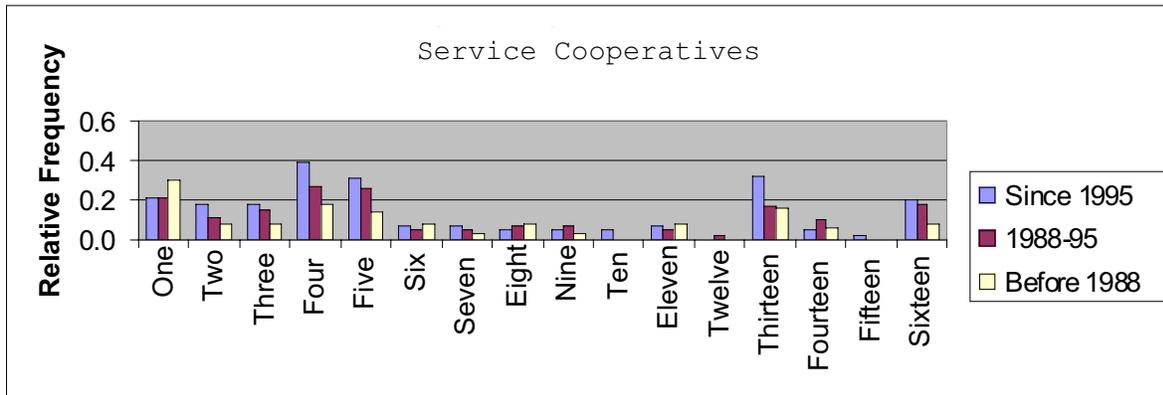


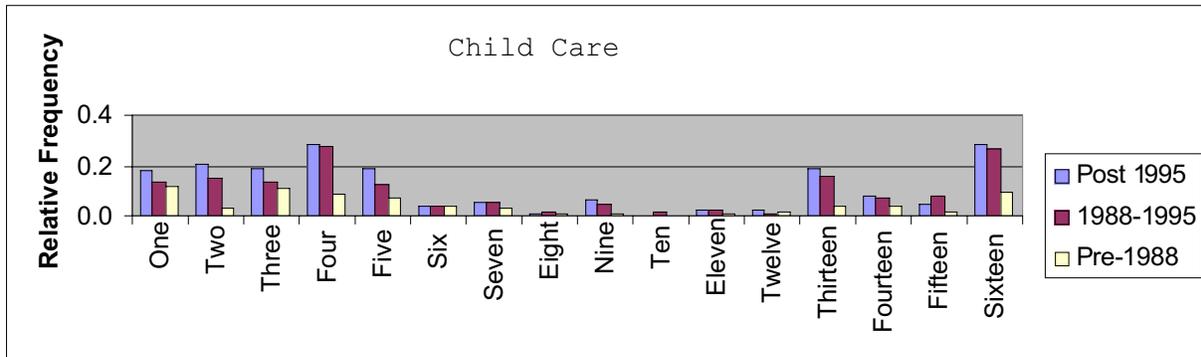
Figure 7. Issues Facing 47 Service Cooperatives



Childcare Cooperatives

Like agricultural, consumer, supply and other kinds of cooperatives in this study, childcare cooperatives find it difficult to attract candidates for their boards (Issue Sixteen) — one of the greatest single challenges they face. Equally important was the loss of memberships (Issue Four). Margins are squeezed, as reflected in financial losses (Issue Two), probably driven by competition from alternative childcare providers (Issue Thirteen) and surely by the challenge of satisfying changing laws and regulations related to childcare (Issue Five). With the exception of difficulty in getting qualified candidates for directors, childcare cooperatives face many of the same issues as other cooperatives, most of which are not related to cooperation *per se* but rather to competitive, business and regulatory issues.

Figure 8. Issues Facing 177 Child Care Cooperatives

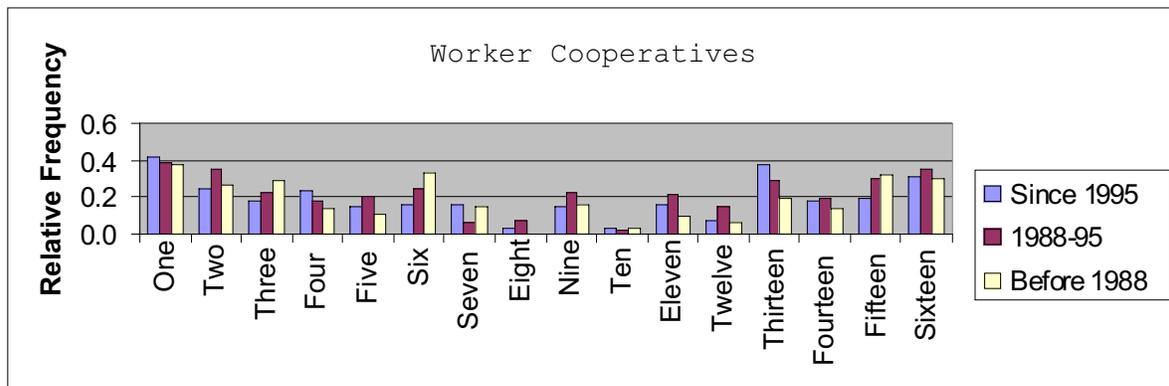


Worker Cooperatives

At first glance, it appears that no clear message about issues of concern is raised by worker cooperatives. However, closer examination shows that during post 1995 period, growth (Issue One), competition (Issue Thirteen) and qualified director leadership (Issue Sixteen) clearly stand out as principal issues.

Like other companies, worker cooperatives need to grow in order to offer competitive benefits to their members. As they do, they face competition and as they seek ways to be successful, they continue to require more capable leadership from their directors.

Figure 9. Issues Faced by 57 Worker Cooperatives

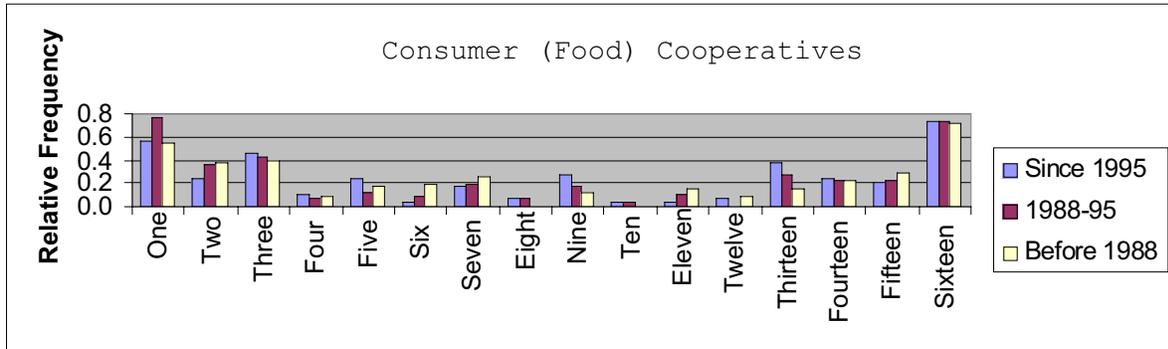


Consumer Cooperatives

Attracting capable directors is the principal issue for consumer food cooperatives and has been throughout the study period. (Agricultural supply cooperatives, also consumer cooperatives, have the same problem.) Directors are harder to recruit when they have less at stake financially, as in a consumer cooperative, than when they depend on the cooperative for all of their earnings, as in a marketing cooperative.

Meanwhile, issues related to rapid growth (Issue One) and membership growth (Issue Three) in the face of growing competition from investor-owned natural foods companies (Issue Thirteen) increases the need for capable directors (Issue Sixteen).

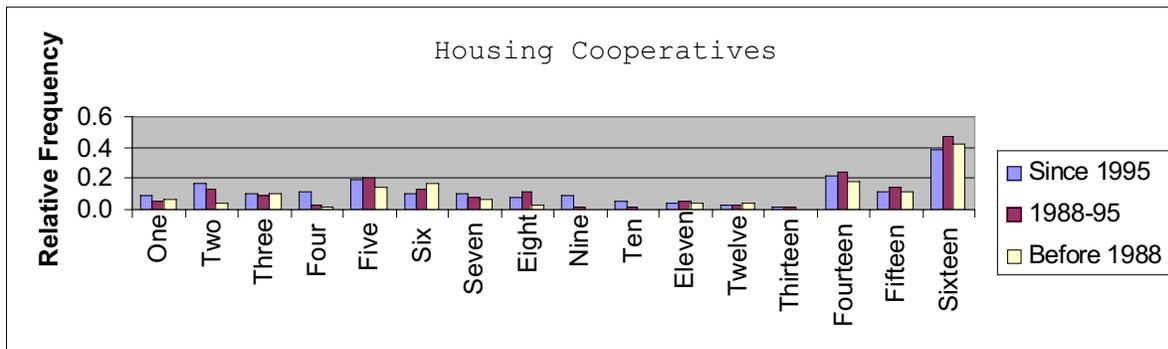
Figure 10. Issues Faced by 31 Consumer Cooperatives



Housing Cooperatives

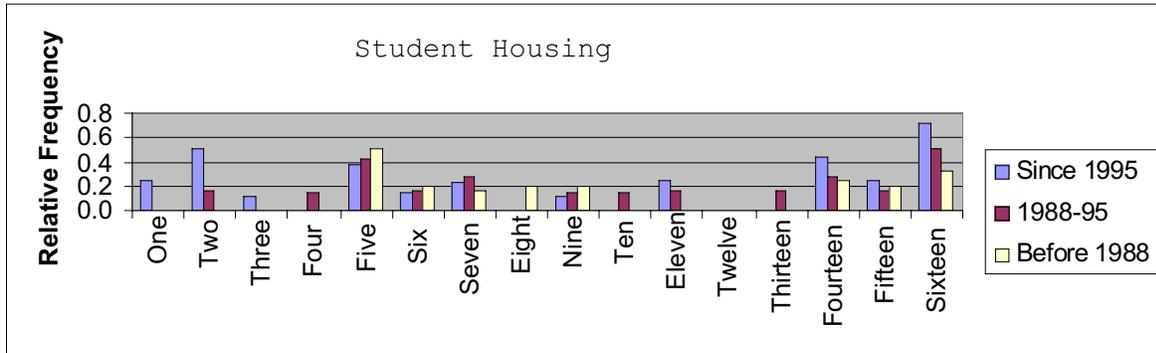
The search for leadership, mostly from directors (Issue Sixteen), but also from management (Issue Fourteen), represents the greatest issue facing general housing cooperatives and student housing cooperatives. The difficulty in attracting qualified directors is a long-standing concern of housing cooperatives in general and appears to be a growing issue in student housing cooperatives that, although represented by a small sample, show similar tendencies.

Figure 11. Issues Faced by 81 Housing Cooperatives



Concern with laws and regulations affecting housing is registered by one fifth of the respondents in the general housing cooperatives and by 40% of the student respondents.

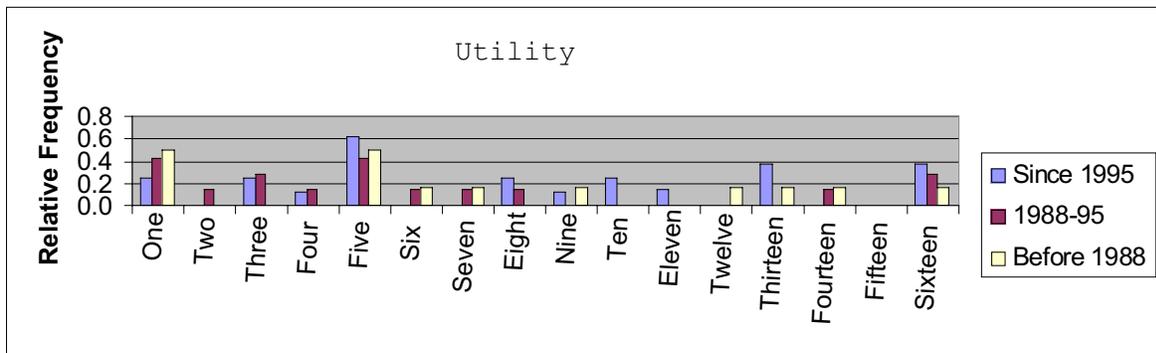
Figure 12. Issues faced by 12 Student Housing Cooperatives



Utility Cooperatives

Regulatory concerns (Issue Five) are a central and growing concern of the utility cooperatives. A likely explanation is industry deregulation as an issue facing cooperatives in California and considered by utilities nationally. In relative terms, attracting good directors (Issue Sixteen) and meeting competition (Issue Thirteen) are important issues to the utility cooperatives as well.

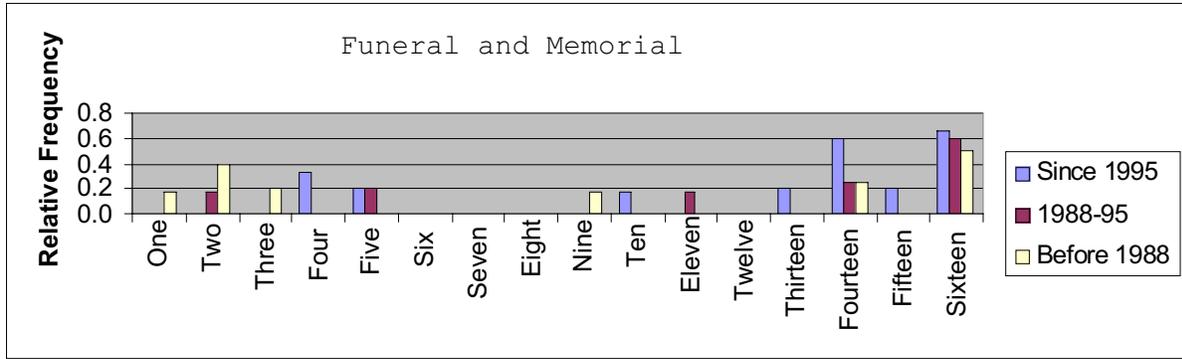
Figure 13. Issues Facing 9 Utility Cooperatives



Funeral and Memorial Cooperatives

Difficulty in attracting director (Issue Sixteen) and managerial leadership (Issue Fourteen) is virtually the exclusive concern of this group, although competition, loss of membership and legal issues were mentioned by a few of the respondents.

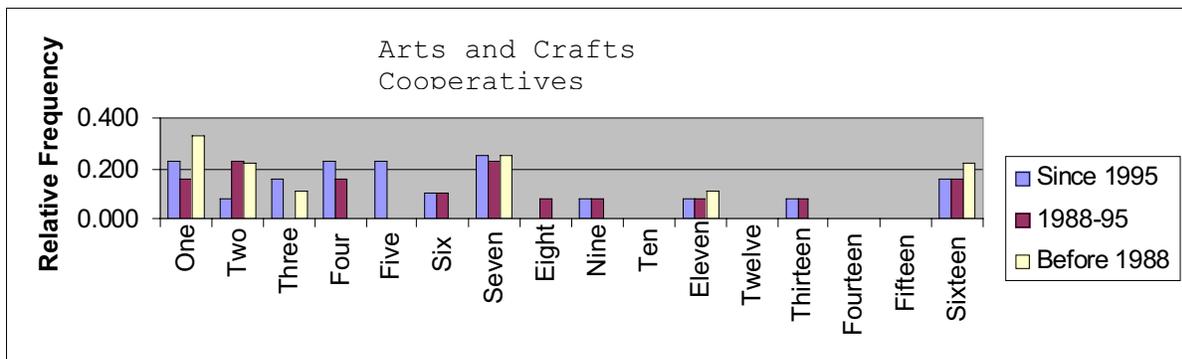
Figure 14. Issues Facing 15 Funeral and Memorial Cooperatives



Arts and Crafts Cooperatives

Arts and crafts cooperatives had many of the same concerns as other cooperatives, but this was the only group to mention access to member equity (Issue Seven) as a principal issue. Capital concerns (Issue Five), member losses (Issue Four) and the need for volume growth (Issue One) were frequently mentioned by this group — which was also one of the few that *did not* list searching for and retaining qualified managers as a principal issue.

Figure 15. Issues Faced by 13 Arts and Crafts Cooperatives



SUMMARY AND CONCLUSIONS

The survey reveals five overarching issues of significance to West Coast cooperatives as a group.

1. All types of cooperatives cited changing laws and regulations as an important issue. More frequently (14 of 15 times) than any other issue, it was listed among the top five. These issues differ in character (type of regulation) and statistical significance among supply, housing, utility and marketing cooperatives. The regulations in question include materials handling, food safety, labor, product liability, housing codes and many others.
2. Crossing agricultural and non-agricultural lines, rapid financial growth was held to be an issue for all but housing cooperatives. All of the cooperatives listing rapid growth as an issue have reason to seek growth to spread fixed costs and enhance returns to their members. Thirty percent of all respondents listed it. Twelve of 15 cooperative groups identified it as one of their top five issues.
3. A concern with attracting qualified directors is widely held, but particularly high among consumer and agricultural supply cooperatives. Housing and utility cooperatives also said it was a critical issue. Marketing cooperatives listed issues of greater concern, but over 20 percent of them also listed the attraction of qualified directors. Eleven of 15 cooperative types ranked this issue in their top five.
4. Loss of membership is predictable in agricultural cooperatives undergoing concentration of production agriculture. The impact is probably greatest on small scale, local service cooperatives, but certainly is a threat to any cooperative operating on relatively thin margins and relying heavily on member business. Childcare cooperatives as well identify loss of memberships with significantly greater frequency than do other cooperatives. This was among the top five issues for 10 of 15 cooperative types.
5. The existence of competition that threatens the viability of the cooperative was also identified as a critical issue by all but housing cooperatives. This should not be a surprise in any business with competitors. However, recent rapid increases in the concentration of food retailing and processing industries have intensified the sense of competition among (1) marketing cooperatives, (2) supply cooperatives that compete with national suppliers in urbanizing areas, (3) consumer food cooperatives, and (4) worker cooperatives that produce or market food products. Nine of 15 cooperative groups ranked this issue in their top five.

Three other issues are noteworthy.

- Structural change is a central concern to those large agricultural cooperatives that have either been involved in such change or are contemplating it.
- Attracting qualified management, while not a major issue for cooperatives as a group, is more important to worker, consumer and housing cooperatives.
- Growth of membership is identified as important only by consumer cooperatives. The meaning of this response is not clear. Based on responses to other issues, the most likely reading is that membership growth is not considered excessive and a management problem,

but rather is needed to achieve growth and strengthen the competitive position of the cooperative.

An overriding conclusion is that the issues of greatest and most frequent concern to cooperatives are, at their roots, *competitive issues that are not unique to cooperatives*. The principal exceptions are issues concerning how to attract qualified directors and managers. Respondents' emphasis on these competitive issues offers guidance on the questions future research might most usefully address. Indeed, excessive focus on the issue as *cooperative* issues as such is likely to divert attention from the most useful questions. Those questions are:

- Can cooperatives effectively address the competitive issues about which their leaders express concern? If so, how?
- Do members, directors and management have the resources and incentives required to foster an effective competitive response?

Implications for Future Research and Education

The findings of this survey have strong implications for future research and its use in cooperative education. In brief, the research might focus on:

1. How the unique features of cooperatives affect their ability to serve their member-owners in an economy dominated by investor-owned firms.
2. What tactics or strategies have been or could be effectively used by cooperatives to succeed in an investor-owned environment.

Member education should then focus on the communication of successful strategies to cooperative members, directors, managers and staff so that they might:

1. Recognize common challenges faced by cooperatives.
2. Determine which strategies would work in their circumstances.

How Might Research and Education Focus on The Unique Features of Cooperatives?

Cooperatives face many of the same challenges as their investor-owned counterparts, but three sets of relationships are unique to cooperatives. These are the owner-patron relationship, the director-patron relationship and the manager-owner-patron relationship.

Implicit in the owner-patron relationship is a potential (some might say inherent) conflict between a producer or consumer-driven organization and a market-driven world. Under these circumstances, the challenge to cooperative leaders is to respond to the need for unique marketing and financial strategies that, though transparent to others, provide long-term benefits to members.

Research is needed to assess the strength of patron, director, and management relationships in existing cooperatives. Where these relationships are strong, research and education should identify the features that make them so. Specifically, research is required to identify:

1. The knowledge and expectations of patrons, directors and management in cooperatives generally.
2. The knowledge, expectations and incentive structures in successful cooperatives and their effects on the ability of cooperatives to strengthen member relationships, attract qualified directors, retain managers, and effectively address competitive challenges.

How might this research be pursued?

Follow-up research planned as a part of this activity is to:

1. Survey cooperative experts and practitioners to identify characteristics of successful cooperatives that are unique to cooperatives.
2. Interview cooperative leaders to identify specific programs that address unique cooperative challenges.
3. Develop case studies which illustrate how these programs have worked in cooperatives.

How might this information be used in education?

The value of such information in education programs clearly is:

1. To show members and leaders the focus of essential change in successful cooperatives.
2. To identify the programs used by successful cooperatives to implement such change.
3. Increase interest and awareness of cooperatives as a business structure.

Additional Information Available

This report has focused on presentation and analysis of responses in the 1998 survey to common questions regarding characteristics and challenges addressed to all 12 types of cooperatives included in the survey. In addition, the survey provided data (not contained in this report) specific and unique to each of the 12 types of cooperatives. These data and supplemental statistical analysis are available upon request from the Center for Cooperatives, University of California, One Shields Avenue, Davis, CA 95616.