Invited Paper

The Role of Management Behavior in Agricultural Cooperatives

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Mintzburg's managerial working role model is used to explore the ways roles and behavior of the general manager of a user-oriented firm differ from those of the manager of an investor-owned firm (IOF). It is argued that, in the roles of conflict resolution, resource allocation, information spokesperson, and leadership, the challenges of a user-oriented manager are not only significantly different but often more difficult.

It is concluded that managers comfortable with complexity; technical-operation, people-oriented resource allocation; multi-stakeholder communication; and with strong coalition-building skills are most successful in user-oriented organizations.

The role of management behavior in the economic performance of agricultural cooperatives has received limited attention from management science, organizational behavior, and economics research scholars. This is consistent with the premise of many early cooperative writers who concluded there was little or no role of/for management in cooperatives (Aizsilnieks 1952, Aresvik 1955, Clark 1952, Emelianoff 1948, Phillips 1953,[1] Robotka 1957). These authors stated cooperative decision making emanated solely from member firms. Helmberger-Hoos (1962), Savage (1954), and Trifon (1961) counter this behaviorally naive assumption by arguing cooperative management behavior does affect the economic performance of their organization and the performance of their patron-members' firms. Their arguments, however, were couched in narrowly defined and tightly constrained single-firm optimization models. More recent research on the role of management in the theory of the firm supports the work of this second group of writers (Alchian and Demsetz 1972, Fama 1980, Jensen and Meckling 1976, Fama and Jensen 1983, Arrow 1951, Williamson 1964, Staatz 1987, Cotterill 1987). These authors suggest that managers act as agents of principals and attempt to optimize the value of their pecuniary and nonpecuniary rewards. The management behaviors implied by agent utility maximization allow for differences with the profit maximization or per-unit price optimization objectives of IOFs and cooperatives.

Unfortunately, empirical results in most areas of cooperative management behavioral hypotheses are limited or nonexistent. Although this

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paper is not an empirical study of cooperative management behavior, it is a single observation about the degree of difficulty in managing a user-oriented organization. Several authors have suggested that managing a user-oriented organization such as an agricultural cooperative is different, if not more difficult, than managing an IOF (Axworthy 1990, LeVay 1983, Murray 1983, Perrault 1983, Shaffer 1982, Staatz 1987).

The objective of this paper is to expand on these authors' thoughts by exploring organizational differences between investor- and user-oriented firms. It is argued that organizational differences influence management behavior by affecting managerial working roles. Recognizing these behavioral influences, though they may be subtle, on managerial roles might often be difficult but is important to prepare an individual to participate in cooperative management.

The following comments emanate from the author's experiences while serving in numerous management and director positions with IOFs and cooperative and nonprofit organizations. The author shares these observations with the hope they will generate thought and discussion by cooperative practitioners and thinkers in their attempts to better understand the performance of user-oriented organizations.

Background

Numerous authors have introduced general theories of management (Fayol 1949, Koontz 1964, Frederick 1963, Odiorne 1966). The first phase of each new theory usually includes an examination of the nature of managerial work. Fayol (1949), Carroll and Gillen (1987), and Mintzberg (1971) each introduce different but complementary approaches. For this paper, Mintzberg's managerial role categorization is used because of its detail and intuitive appeal.

Managerial Roles. Mintzberg (1971) describes managerial work in terms of three general categories: (1) activities concerned primarily with *interpersonal* relationships (figurehead, liaison, and leadership roles); (2) activities dealing with the transfer of *information* (monitoring, disseminating, and spokesperson roles); and (3) activities essentially involving *decision making* (entrepreneur, disturbance handler, negotiator, and resource allocator roles). Managerial role is defined as an organized set of behaviors belonging to an identifiable office or position (Sarbin and Allen 1968, Mintzberg 1971). *Consequently, the three interpersonal roles* derive from the manager's[2] formal status and authority giving rise to the three informational roles that, in turn, enable the manager to perform the four decisional roles.

Interpersonal Roles of Management. In the *figurehead* role, the manager is seen as an authority symbol carrying out social, legal, and ceremonial duties on behalf of the organization. In the *liaison* role, the manager, by virtue of authority and associated status, develops external horizontal relationships in which information is traded for mutual benefit. *Leadership* involves interpersonal relationships between the leader and the led. In this role, the manager is responsible for staffing, training, motivating, and activating subordinates. These interpersonal roles facilitate acquisition of information. The external contacts bring special outside information, and

leadership activities serve to make the manager the nerve center for organizational information.

Informational Role of Management. In the role of *monitor*, the manager seeks and receives information from internal and external sources. The manager then processes this information into positive and normative categories preparing it for selective dissemination. In the informational role as *disseminator*, the manager disperses externally and internally generated information to subordinates and peers. In the role of *spokesperson*, the manager communicates information internally to the strategic core (including the board of directors) and externally to other stakeholders (suppliers, creditors, trade associations, government, the media, customers).

Decisional Role of Management. The manager's interpersonal activities give him/her unique access to information. Possessing authority and unique information places the manager in the key strategic decision making position. In Mintzberg's categorization process the four decision-making roles include entrepreneur, disturbance handler, negotiator, and resource allocator, described as follows:

- *Entrepreneur*—In this role, the manager initiates and designs much of the controlled change within the organization. Entrepreneurialism allows for proactive approaches to improving organizational performance.
- *Disturbance handler*—In this role, the manager becomes a reactor to externally and involuntarily initiated change.
- *Negotiator*—In this role, the manager becomes involved when the organization engages in important negotiations internally or with external organizations.
- *Resource allocator*—As chief resource allocator, the manager oversees the allocation of capital, human, and reputation resources. This is played out in strategic planning processes that ultimately result in: (1) capital budgets, (2) operating budgets, (3) human capital budgets, and (4) ad hoc allocations. By maintaining control over resource allocation, the manager can integrate and interrelate information and the dynamics of decision implementation. Therefore the manager becomes not only the chief planner, but also is ultimately responsible for executing the strategic plan. Allocating resources is simplified when operating with a coordinated organizational purpose and mission. The mission evolves from the manager's role as leader, monitor, spokesperson, and agent of the board of directors.

Cooperatives. The two most frequently cited economic justifications for forming cooperatives during the evolution of U.S. cooperative legislation, were: (1) individual producers needed an institutional mechanism by which they could bring economic balance under their control, and (2) individual farmers needed countervailing power when confronted with monopsonistic and/or monopolistic market structure.

These economic concerns were addressed legislatively through the eighty-five state cooperative incorporation laws, the Sherman Antitrust Act, the Clayton Act, and the Capper-Volstead Act. Simultaneously, opera-

ting rules developed beyond the conceptual stage. Subject to U.S. legislative constraints, organizational and operating rules 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 three hard-core principles of democratic control, service at cost, and limited return on equity (Suhler and Cook 1993).

These principles have been consistently reexamined and modified since the 1920s, with the most recent redefinition occurring in the U.S. Senate-requested study coordinated by the U.S. Department of Agriculture's Agricultural Cooperative Service (USDA-ACS) in 1987. The definition emanating from that effort emphasizes the importance of cooperatives being user-oriented: "A cooperative is a user-owned and controlled business from which benefits are derived and distributed equitably on the basis of use" (USDA-ACS 1987, 12). More explicitly:

1. The farmer stakeholder *owners* are to be the major *users* of the cooperative;
2. The *benefits* received by the farmer owner who contributed equity capital to a cooperative are to be tied to the concept of *use* of the cooperative in the form of patronage; and
3. The *control* of the cooperative by the farmer owner *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 legislative and historically developed operating rules have molded cooperatives into "tied equity" firms in which residual claims on the association's income stream are tied, not to the member-investor capital, but to the user-member patronage. This most distinguishing and essential property right distribution of ownership and control to patronage rather than investment has considerable influence on a cooperative's structure and performance. Staatz (1987), Condon (1987), and Caves and Peterson (1986) argue that this unique allocation of rights to residual claims has a more discernible effect on the incentives faced by managers of agricultural cooperatives compared to the incentives faced by managers of IOFs. These authors hypothesize property right differences between cooperatives and IOFs influence incentives particularly when managers confront the following issues: objective function optimization, equity capital acquisition, portfolio risk distribution, information flows, patron commitment, horizon problems, and the transaction costs of control. These differences in incentives may, in turn, lead to differences in how managers perform their interpersonal, informational, and decisional roles. In the next section, Mintzberg's (1971) "managerial working roles" approach is employed to explore these hypotheses regarding differences in the behavior of cooperative and IOF managers.

Decisional Role Differences

This author argues property-right induced differences in managerial behavior and incentives between cooperatives and IOFs have their most significant effect on Mintzberg-defined *decisional roles*. Their influence on

informational roles is also important, but less so than on the decisional roles. Their effect on *interpersonal roles* is the least discernible.

Decisional Role Differences. The decision roles of entrepreneurship, conflict resolution (disturbance handler), negotiation, and resource allocation form the core of the strategy-making process. It is in this management process of making, interrelating, and implementing decisions that the direction and ultimate success of the organization is determined. Decisions, according to Mintzberg (1971), range along a continuum from voluntary-proactive (entrepreneurship) to the involuntary-reactive (conflict resolution), with negotiation and resource allocation in between these two extremes.

Entrepreneurial Differences. Mintzberg (1971) employs a more limited definition of entrepreneurship than does the economics profession. He limits the definition of entrepreneurship to initiating and designing controlled change within the organization. This role encompasses scanning, initiating improvement projects (sets of mini-decisions that move or discontinue the exploration of new ideas), and acquiring resources to implement controlled change. Numerous authors have implied that the entrepreneurial role for a cooperative manager is more limited than for an IOF manager because cooperatives (1) have limited access to equity capital, (2) experience the horizon problem (situation where an owner's claim on the net cash flow generated by an asset is shorter than the productive life of the asset), (3) need to engage in building costly consensus-seeking coalitions in order to initiate change, and (4) are strategically defensive in nature (a la Nourse's [1922] correction-of-market-failure/competitive-yardstick strategy). These points lay the groundwork for a conservative, defensive, operation-oriented corporate culture, one that is almost anti-offensive. Yet many second and third generation Nourse I and Nourse II, Saprio II, post-1987 Farm Credit, and New Generation cooperatives (Cook 1993) have been aggressively innovative and expansion oriented. This more offensive attitude might be explained by any of the following:

1. Relatively lower costs (lower scanning costs because of relatively better access to more and higher quality information from the member),
2. More creative management,
3. A start-up threshold with a lower expected return because of user demand,
4. Increased threat to financial survivability, or
5. Because of a change in the organization's objective function (members developing a set of more investor-oriented expectations from their cooperative compared to more complex, broader-in-scope, user-driven objectives).

In this author's opinion, it is a combination of these factors (varying to some degree for each cooperative), which has led to this recent, more aggressive entrepreneurial thrust by cooperative management and boards of directors. Cooperatives that have not addressed the naturally anti-entrepreneurial horizon problem (through more proportional capital acquisition and redemption programs) or that have not invested in higher-

quality and more focused communication with members appear to be less open to entrepreneurial management behavior.

Conflict Resolution Differences. In the role of disturbance or conflict handler, the manager takes charge when the organization is threatened. At any single moment managing conflict takes precedence over involvement with any of the other managerial roles.

In general, there are three types of disturbances: (1) the loss of resources or the threat thereof (catastrophic human or physical disaster, loss of a major customer), (2) conflict between organizations (price wars, sudden changes in a government regulation), and (3) conflict between stakeholders (employee strikes, a board coup, a forced exit). The conflict between stakeholders occurs because of (1) an overlap in responsibilities, (2) personality conflicts, and (3) allocation of resources.

Cooperative managers face a unique set of conflicts. These emanate primarily from conflicts over resource allocation among major stakeholders, rooted in vaguely defined and poorly communicated property right differences. These conflicts are aggregated into three cooperative principle related categories: (1) potential conflicts among members about *ownership rights* and responsibilities; (2) potential conflicts among members, board, and management regarding *control issues* and distribution of decision-making authority; and (3) potential conflicts among members, board, and management about *benefits* derived from cooperative membership. The ownership and control conflicts are discussed here; the benefit distribution conflicts are examined later in the resource allocation role discussion.

Acquisition of equity capital and overall evaluation of the cooperative's performance are the two major sources of non-legal[3] cooperative ownership rights and responsibilities conflicts. Cooperative management should be aware that, at the root of these potential conflicts, are the free-rider and horizon problems. The free-rider problem, as it relates to the equity acquisition challenge, can be described as the possible tendency by members to under-invest in their organization because capital investments in cooperatives earn limited or zero returns.[4] The horizon problem emanates from the illiquidity and nonappreciation in value of cooperative stock. Since future earnings cannot be captured by cooperative stockholders, there is a tendency to pressure cooperative leadership (management and board) to maximize short-term benefits to members even though such a policy may be detrimental from the long-run perspective. What determines short-term benefits at the expense of long-term benefits depends on whether a member is under- or over-invested from a proportional equity capital contribution point of view. It also depends on whether a member is classified as active (current) or inactive.

Historically there has not been an "explicit amount" principle regarding equity capital contribution other than "equity is provided by patrons" and "equity ownership share of individual patrons is limited" (Barton 1989, 27). But as the Rochdale principles evolved into the contemporary principles of user-owned, controlled, and benefitted, the practice of providing capital in proportion to patronage has achieved increasing interest and acceptance. Some cooperatives have addressed these inherent, free-rider horizon, problem-rooted conflicts by tying patronage rights in the cooperative to the provision of equity capital.[5]

A second major potential user-ownership conflict surfaces during the evaluation of the cooperative's performance. For a manager accustomed to simple return-on-assets (ROA) or return-on-investment (ROI) measurements of IOF performance, evaluating whether one's cooperative is achieving its objective(s) is far more complex. Staatz (1987) hypothesizes 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 also more diffuse because the cooperative must treat each member as a separate cost locus giving rise to collective choice problems.

For a cooperative manager, this broader, more diffuse objective function contributes to a more complex decision matrix. This complexity in measuring cooperative performance often leads to vagueness and lack of clarity in the eyes of the member. This member confusion often leads the manager to query: Who is the member? What is good performance? These are important but complex questions. Good performance for the inactive or over-invested member is measured by the amount of the member's equity that is returned, but good performance for the under-invested or new member is measured by the competitiveness of current prices or services. For other members, separate or joint profit maximization might be the main criteria for evaluating performance. One manager's objective function might be an increase in market share or revenue growth, whereas the wise old-timer, from the competitive yardstick school, might think the key to cooperative success is: Did the cooperative keep the IOFs honest? Consequently, we are faced with a plethora of objectives, enough to make the identification of the cooperative's objective function one of the cooperative manager's most challenging tasks (a lesson never learned at school, perhaps one never even known to the school master).

The bottom line is this: The user-owner uniqueness of cooperatives forces a cooperative manager interested in minimizing conflicts between members to take a more integrated view of the fixed costs of the cooperative's owner-user when attempting to optimize the vaguely defined objective function of the association. It also encourages cooperative managers to be more interdependent and interactive with user-owners in executing interpersonal and leadership roles. Consequently, conflict resolution for the cooperative manager probably means peace-keeping sojourns to the country more frequently than his/her IOF counterpart.

The cooperative manager faces another set of potential conflicts, although more subtle, when confronting the unique cooperative characteristic called "user-control." Conflicts arise when the distribution of equity capital ownership is held by a small group of active patrons and voting power is in the hands of a broad range of inactive, smaller patrons. Because of the amount of capital they might have invested, large patrons are more reluctant to exit a cooperative. This leads to "voice" pressure on management in the terms of Hirschman (1970). This pressure, exerted through informal channels, might conflict with signals communicated by the numerical majority through more formal channels. The diffusion of political power as a result of the one-person, one-vote principle raises the

possibility that a majority of members who may contribute only a small part of the patronage and capital may approve policies that exploit the minority of larger patrons who own the non-revenue-bearing capital. Another conflict emanating from this unique control characteristic is in determining the cooperative's performance objectives. If inactive members are enfranchised (many cooperatives do not disenfranchise inactive members), the horizon problem might have a considerable effect on the selection of board members and their subsequent preferences as to residual claim distribution.

Conflicts generated by control issues are the most delicate and difficult to address for a cooperative manager. They also involve considerable risk. Yet, without political (governance) stability, managing a cooperative becomes extremely difficult and stressful.

Negotiator Role Differences. Negotiation *among* cooperative stakeholders was covered in the conflict resolution discussion. The role of negotiation *on behalf* of the cooperatives' stakeholders is briefly discussed here. One of the constants in negotiating on behalf of a cooperative is that the group of user-owners has already demonstrated willingness to vertically integrate. Combining cooperative members' legal protection under the Capper-Volstead Act, a track record of previous horizontal and vertical integration, and the "assurance leverage" of ability to supply or buy gives a negotiator a strong starting position when dealing with potential buyers or suppliers.

The challenges of negotiating for a cooperative, of course, depend on the situation, but at least three areas of caution must be considered by the cooperative manager:

1. The more heterogeneous the membership, the higher will be the transaction costs in forming consensus and viable internal coalitions;
2. The more sub-coalitions that need to be formed, the more log-rolling (tying the negotiation of one issue to another) that needs to take place (this results in higher negotiation costs plus decreases the probability of finding the optimal resource exchange solution); and
3. Both the strategic and tactical aspects of negotiation demand the need to possess and the ability to use asymmetric information. Because of the user-ownership and control uniqueness of cooperative organizations and the consequent economic effect on users of negotiation results, possession and use of asymmetric information places an added challenge on the cooperative manager-negotiator.

Resource Allocation Differences. The managerial role of resource allocation is the heart of the organization's strategy-making system. The key resources subject to allocation are: human capital; time; reputation; plant, material, and equipment; and money. According to Mintzberg (1971), resource allocation comprises three essential elements: (1) allocating and scheduling time, (2) programming work, and (3) authorizing actions. Here, allocating time and authorizing actions will receive the most attention since programming work was addressed in the discussion on the entrepreneurial role.

The cooperative manager's allocation of time plays a critical role in the success of the agricultural cooperative. As previously noted, conflict management takes precedence over all other managerial roles. It was argued that cooperatives have a higher potential for conflict among stakeholders than IOFs because of the unique way cooperatives resolve residual claims, property rights, and control issues. Therefore, a cooperative manager must allocate more of his/her time to conflict resolution. This disturbance-handling portion of member relations (member relations is discussed in greater depth in the informational section) must be managed very effectively. Both collective choice option identification and coalition building consume considerable blocks of time and replace time that could be spent on other decisional roles.

The authorizing action aspect of a cooperative manager's resource allocation process is affected by three important factors: (1) the need to have a more integrated view of the boundaries of the cooperative firm, (2) the norms of distributing and acquiring internally generated risk capital, and (3) the user-owner attitude toward risk.

The resource allocation decision in a cooperative takes place in a more vaguely defined boundary than does the resource allocation decision in an IOF. In other words, a cooperative manager will be expected to have a more integrated view of his/her suppliers' or customers' (members') operation than will an IOF manager. Why? There are a number of reasons.

1. Cooperative user-owners behave as *users* of the organization's goods and services on an almost daily basis. Cooperative user-owners (if current and active) behave as owner-investors only several times a year (tax day, equity redemption day, dividend day). This frequent-use interface relative to investor interface by the cooperative member affects the resource-allocation decision making by voicing and reinforcing a constant message that price and quality of the cooperative's services and goods affect the member-owner's bottom line, which is more important (in the short run and for the individual member) than the bottom line of the cooperative.
2. For Sapiro II and the marketing function of Nourse I and Nourse II cooperatives, open membership has the economic implication of providing a home for all of the members' product. In essence the cooperative is taking into account the need to amortize their members' fixed-farm investments (Staatz 1987). To the IOF, these fixed costs are transformed via the market into variable costs. These integrated, fixed-variable cost views, from the cooperative vantage point, have complex and potential conflict-creating, physical capacity allocation implications.
3. Because the decisions made at the cooperative level have an effect on the value of the member's fixed assets and working capital, the member will have a tendency to inspect resource allocation decisions on an individual basis.

The cooperative principle of developed norms of distributing internally generated risk capital also has important implications for the resource allocation process.

1. Cooperative members are interested in the income distribution consequences of their association's marketing and cost allocation decisions. Usually the benefit of the cooperative to the individual member-user depends more on the prices of goods and services purchased from the cooperative or the cost deducted from products sold than on the cooperative's profitability, so pricing and cost allocation policies might have significant short-run cash flow effects on the performance of the member's firm. But they also have significant working capital and profitability implications for the cooperative. Because of this interconnectedness, the price-policy decision-making process[6] (1) might be more costly (need to develop pricing-policy consensus), (2) might constrain cross-subsidizing tactics for market share strategies, and (3) might inhibit cross-subsidization needed to enter new product fields.
2. *Pricing policy affects distribution of income to the cooperative patrons* by affecting their tax liability and cash flow (see Peterson 1992 for detailed discussion) resulting in conflicts between high marginal tax bracket members and cash-flow-deficient, low tax bracket members.
3. Many cooperative managers and writers have argued 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 industries.
4. 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 current customer/supplier-oriented direction. Cooperative management—usually a proponent of growth for numerous agent and non-agent reasons—must referee this potential conflict objectively.

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. 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.

Informational Role Differences

In the information role of monitor, disseminator, and spokesperson for an organization, the manager performs a "nerve center" function. In the monitor role, the manager becomes informed about the organization and its environment, and in the disseminator and spokesperson roles, selected information is transmitted to different sets of stakeholders. As in the decisional role, the unique characteristics of a cooperative modify the manager's behavior in performing the informational role.

Monitoring Role Differences. As monitor, the manager seeks and receives information that enables him/her to detect changes, opportunities, and problems. According to Mintzberg (1971) the information received falls into five categories: (1) internal operation, (2) external events, (3) analyses, (4) ideas, and (5) pressures.

Because the owner is the user in a cooperative, the member-user would have different preferences as to price, cost allocation, and equity retirement policies. These policies affect the members as well as the cooperative's cash flow and financial structure. Consequently, setting these policies in a cooperative is a complex and delicate undertaking—far more so than in an IOF.[7] Therefore, the cooperative manager, who is ultimately involved in the formulation and implementation of these policies, must actively seek information useful in discovering the optimal choice.

Since cooperative members, especially those with large equity holdings, have a disincentive to exit, "voice" is an important instrument in expressing concern to the decision makers. The ability to monitor and screen "substantive voice" from "noise voice" is an important skill for cooperative managers. Not developing this ability leads to a policy of "pleasing everyone all of the time" in the short run. In the long run, the economic integrity of the organization can be jeopardized by pursuing non-decisive, "please all" collective choice policies. Consequently, critical monitoring of "voice"

is important to the conflict resolution and resource allocation decision roles of a cooperative manager.

Another monitoring difference between IOFs and cooperatives involves the evaluation of the organization's performance. Because of the broader, more diffuse scope of optimization in a cooperative, single indicators such as ROA are less meaningful as measures of organizational performance. Additionally, there are no objective third-party indicators such as secondary markets for cooperative-issued stock to assist shareholders in the task of evaluating performance. Cooperative management is, therefore, faced with developing an information network more complex than the performance monitoring systems employed by IOFs.

The cooperative manager has an advantage in monitoring information sources for problems, opportunities, and pressure. Cooperatives' shareholders are the users, and it is probable that a user would be more willing to provide higher quality, more frequent, and greater amounts of information than would a customer or supplier of an IOF where "exit" might be a less expensive option than "voice." Because of the more complex accounting system needed to track each member's transactions (Remember: equity is sourced and benefits distributed according to patronage), cooperatives have a list of every patron and, in some cases, detailed information about each member-patron. Cooperative members also have more channels to access the formal governance structure than in an IOF, although they might be more indirect.

Disseminating Role Differences. Perhaps the most challenging day-to-day decision confronting cooperative management is determining what information should be disseminated and to whom. The dissemination role answers this question as to who internally receives what information. The difference between this managerial role in an IOF and a cooperative is in the need to prepare a cooperative's employees to understand basic cooperative characteristics. If the employees understand the behavioral implications of vaguely defined property rights, user control, and benefits tied to patronage, their attitudes—and perhaps actions—will be more empathetic toward the owners and users of this unique, user-oriented type of business organization. Cooperative basic training for employees is becoming less common (USDA-ACS 1993), making the cooperative general manager's role of disseminating more challenging.

Spokesperson Role Differences. In this role, the manager transmits information to two major groups: (1) the set of key opinion makers and influencers—in a cooperative this includes not only the board of directors but also the members, and (2) the organization's public—suppliers, government agencies, trade organizations, the press, and customers (for Sapiro I and II, and New Generation cooperatives).

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 interrelatedness 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 their 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. As the spokesperson for a user-oriented firm, a critical challenge is to build a cooperative knowledge base within the membership. The spokesperson's role should include helping user-members understand:

1. Cooperative benefits are derived from patronage, not investment;
2. Loyalty can be economically rational (Loyalty is rational to Member X if the short-run performance of the cooperative can be improved if Member X patronizes the cooperative—assuming a downward sloping cost curve for processing or handling—and if the long-run discounted net benefits from Member X patronizing the cooperative are greater than the alternatives.);
3. The basics of market failure and the competitive yardstick concept; and
4. The scope of optimization for a cooperative is broader, more complex, and more diffuse than it is for an IOF.

If the spokesperson is successful in raising the basic-differences level of user-oriented organizations, fewer resources will be dedicated to log-rolling and coalition-building projects.

Interpersonal Role Differences

The interpersonal roles of figurehead, liaison, and leader are derived from the formal authority and status of the general manager's position. How well a manager performs in these roles influences the quality of information he/she is able to acquire, which in turn affects the manager's ability to perform well in executing decisional roles. These interpersonal roles are important in managing cooperatives.

Figurehead Role Differences. The manager performs the figurehead role because it is (1) required by law, (2) a social necessity, or (3) because it is a business necessity (i.e., someone wants to interface with the "person at the top").

Signing documents and performing the legal actions in a cooperative and an IOF appear to be quite similar. Fulfilling the social role of figurehead, especially at the chief executive officer level, is quite demanding but, again, is probably not much different in comparable cooperatives and IOFs. Performing the figurehead role for stakeholders who demand to be seen by and/or to see the person at the top can be different in a cooperative where members as users want the person at the top to be empathetic and knowledgeable about the symbiotic and interdependent relationship between the cooperative and the member's farm firm. Therefore, the person at the top must be available and is expected to be interested not only

in the business but also in the technical aspects of the firm's services and products.

Liaison Role Differences. In the liaison role, as defined by Mintzberg (1971), the manager deals with horizontal external relationships that are leveraged into positive exchange relationships. The management literature and this author have little to offer to help us understand how this role might be different in a cooperative and an IOF.

Leadership Role Differences. User-members know that the real test of cooperative leadership lies not in personality or behavior, but in the coordinated performance of the cooperative and farm entity. The management leadership literature (Bass, Avolio, and Goodheim 1987) suggests that when groups are free to do so they select as leaders people who create the expectation that they will be able to maintain goal direction, facilitate task achievement, and ensure group cohesiveness.

Fulfilling the demands of these three elements of leadership is a challenging task to a manager employed by a cooperative—perhaps more difficult than in an IOF. The behaviors that further task accomplishment are not necessarily the same as those that foster group cohesiveness. Some leaders might be particularly effective in goal identification or strengthening group cohesiveness while others might be more skilled in furthering task achievement. Accomplishing these tasks in a cooperative, however, is complicated by the democratically oriented user principle. The challenge to cooperative leadership is to reduce increasingly heterogeneous interests to more homogeneous interests in order to capture the benefits of coordination (Staatz 1983). Integrating individual needs with organizational goals is complex in any business organization, but when the user-investor conflict (epitomized by horizon and free-rider problems) is combined with a principal-agent conflict (represented by the addition of members to the management-employee relationship) the challenge of accomplishing group cohesiveness and task achievement is indeed monumental. The magnitude of this challenge is a function of numerous factors, but is probably most affected by the leadership abilities of the cooperative's board of directors. Nothing can improve the probability of meeting this challenge more than a strong, cooperative-knowledgeable, articulate board of directors.

Summary and Conclusions

The objective of this article is to explore the degree of difficulty in managing a user-oriented firm relative to an investor-oriented firm. It is argued that organizational differences between user-oriented (Agricultural cooperatives are the example used.) and IOFs affect management behavior by influencing managerial working roles. Modifications of managerial behavior of user-owned, user-controlled, user-benefited principles and characteristics are evaluated using Mintzberg's (1971) managerial working role model.

The results of this non-empirical essay suggest that the user-oriented characteristics do modify IOF-benchmarked management behavior. In some roles, particularly the conflict resolution, resource allocation, information spokesperson, and leadership roles, the behavioral consequences

are significantly different. It is argued that, in some cases, performing these managerial roles in a cooperative is more difficult.

If the findings in this essay have any merit, one might conclude a successful manager of a user-oriented firm needs not only the skills of an IOF business leader but at least four additional qualifications.

1. Because of the broadness and diffuseness of the cooperative objective function, the potential top manager must be comfortable with vagueness, complexity, and conflict. Operational and financial measurements are often interrelated with trust in the evaluation of user-oriented management.
2. Cooperative management, because of the more limited source of equity capital and its user-orientedness, must concentrate more planning efforts on developing entrepreneurial and operating abilities rather than on portfolio-related objectives. This places a premium on the technical-operations, people-oriented resource allocation manager rather than on the financial-portfolio, diversification-oriented manager.
3. Authentically delivered communications, combined with an appreciation of the unique characteristics of cooperatives, are imperative. Understanding the potential investor-versus-user stakeholder conflicts is essential to becoming a professional spokesperson for members and the user-oriented firms' public audiences.
4. All boards of directors look for leadership skills in candidates for top management. The breadth of scope in goals makes defining task achievement more difficult in a cooperative than an IOF. Therefore, the cooperative manager must be not only strategically conceptual, but also skilled in defining measurable sub-goals. In addition, the cooperative leader must be comfortable with building coalitions, consensus, and inter-member loyalty—key components in developing group cohesiveness.

Notes

1. Staatz analyzes Phillips' treatment of this assumption in "A Comment on Phillips' Economic Nature of the Cooperative Association" in this issue of the *Journal of Agricultural Cooperatives*.

2. For this paper, the use of "manager" means the person reporting to a board of directors. In most cooperatives this position carries the title of general manager or chief executive officer.

3. For a discussion of potential ownership conflicts regarding stock versus nonstock incorporation, see Suhler and Cook (1993).

4. Whether members under-invest in their cooperative organizations is an empirical question. For a recent review of the literature addressing cooperative capital under-investment, see Lerman and Parliament (1993).

5. All New Generation cooperatives (Cook 1993) are financed on a proportional to patronage principle. Also see Royer (1992) for a description of some of the unique methods being employed to address these conflicts.

6. Pricing policy could be considered a key element in the development of equity acquisition programs.

7. The complexity of addressing the collective choice problem is a function of numerous factors—especially the heterogeneity of the membership.

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The Role of Management Behavior in Agricultural Cooperatives: Discussion

Bruce L. Anderson

This article is a significant contribution for cooperative managers, directors, and future leaders! Cook's article should be applauded by cooperative practitioners and academics. It deals with a critical subject in a rather applied way that can truly make a difference on cooperative performance. And as he correctly observes, "Empirical results in most areas of cooperative management behavioral hypotheses are limited or non-existent." Hopefully, this is just the beginning of studies on cooperative management behavior.

The article's objectives are to explore the organizational differences of cooperatives, how they affect management behavior, and what makes cooperative management more difficult. Cook makes a major step in fulfilling these objectives, but much is left to be accomplished.

The author tries to give the article structure by using Mintzburg's classification of managerial roles to organize his discussion (Mintzburg 1971). One major criticism is that this classification seems somewhat forced and at times awkward.

Another comment is that, in a couple of places in the article, the author refers to Nourse and Sapiro I and II cooperatives and to New Generation Cooperatives. It would have been helpful to the reader to briefly describe the characteristics of these organizations.

Cook is at his best when he begins to relax academic protocol and to share his presumably personal experiences objectively. This occurs about one fourth of the way through the article, when he starts discussing the primary differences of cooperatives.

The author feels the "most distinguishing and essential property right distribution of ownership and control to patronage rather than investment has considerable influence on a cooperative's structure and performance." He then goes on to neatly lay out and discuss the unique implications this has on cooperative management. Cook concludes that the inherent features of cooperatives "lay the groundwork for a conservative, defensive, operation-oriented corporate culture, one that is almost anti-offensive." But he does realize some cooperatives have been able to overcome this and "have been aggressively innovative and expansion oriented." While

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he does discuss some factors contributing to this change, the real question is: What can cooperatives do to make this change?

The discussion on the sources and causes of conflicts is excellent, especially as it relates to cooperative performance. It suggests cooperatives need to do a better job defining their goals and communicating them to members, and achieving their financial objectives. While I would agree that "conflicts generated by control issues are the most delicate and difficult to address for a cooperative manager. . .and involve considerable risk," problems with governance usually do not stem from member issues but, more likely, board-management relations.

Cook fails to identify major economic factors influencing cooperatives. For example, most agricultural cooperatives operate in mature or even declining markets. At the same time technical progress is increasing economies of scale. These two issues greatly complicate the lives of cooperative managers. Cooperatives seem to find it difficult to deal with over capacity, to successfully execute mergers, and to adopt aggressive marketing strategies.

The discussion on resource allocation differences is good. It weaves pricing issues with equity and redemption considerations. However, the reader is left wondering what can be done to change the situation and improve cooperative performance.

In discussing information role differences, Cook, like many writers, suggests cooperatives often have better information and communication channels than other types of firms. The assumption is that cooperatives should have a comparative advantage in this area. Why is it then that so few cooperatives capitalize on these advantages? The author provides no insight into this dilemma.

Scattered throughout the entire article, and specifically in discussing the interpersonal role differences, Cook implies that a cooperative manager requires a unique set of personal characteristics. In his summary and conclusions Cook lists four such characteristics. They provide a start at assuring there will be a good fit between the manager and the cooperative. But the questions is: How can cooperative boards know if these qualities are present in a new manager? This may be a fruitful area for further study.

Cook's article has several implications for cooperative boards and even provides the foundation for considering strategies to improve the economic performance of cooperatives. By outlining the parameters within which cooperative managers operate, he has identified the factors cooperatives must work on improving. The next logical step would be to spell out policies, strategies, and action plans that overcome inherent weaknesses and that exploit their advantages. The other step would be doing a sequel on "The Role of Director Behavior in Agricultural Cooperatives." That is the challenge Cook has provided us.

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The Role of Management Behavior in Agricultural Cooperatives: Discussion

Mahlon G. Lang

Professor Cook begins by observing that relatively little research on agricultural cooperative management has been conducted. He offers some reasons why and goes on to test claims by recent researchers that cooperative management is different, if not more difficult, than management of an investor-owned firm (IOF).

Cook uses Mintzburg's taxonomy of managerial roles to compare cooperative management to the management of IOFs (Mintzburg 1971). He concludes that the successful management of a cooperative requires all of the skills used in managing an IOF and, in addition, requires:

- comfort in dealing with vagueness, complexity, and conflict surrounding the objective function of the cooperative;
- superior human resource management skills because of limited access to risk capital;
- communication skills and understanding of the user/owner stakeholder conflict inherent in cooperatives; and
- leadership in managing a wider range of objectives and associated subgoals.

Professor Cook is correct. In a given market, the agricultural cooperative manager does indeed need all, and sometimes more, of the skills possessed by the manager of an IOF to successfully manage a cooperative. However, the degree of difference varies according to the type of cooperative. It should also be considered that if cooperatives make sense at all, there must be some aspects in which they are also *easier* to manage than their investor-owned counterparts.

First, in any single cooperative, the members and their directors may have a wide range of expectations. Some expectations are in conflict because the members are both users and owners. Still others are in conflict because of differences in the situations of individual members. As a consequence, the task of consensus-building (agreeing on an objective function) in a cooperative is substantial. In some cooperatives, this task is much more difficult than in others.

Second, because the consensus-building task is so great, superior conflict resolution, communication, and leadership skills are needed. At this

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point, I would restate Cook's first conclusion, that a cooperative manager has to be "comfortable with vagueness, complexity, and conflict." I am more inclined to say that the manager's ongoing challenge is to focus, simplify, and reconcile the vagueness, complexity, and conflict associated with the management of a user-owned business. Failure to do so puts the cooperative at an inherent disadvantage relative to competing firms. Top management must identify and understand the full range of member expectations and then show how those will be satisfied only through superior market performance.

Finally, cooperatives are not designed to attract risk (equity) capital. They are designed to reward use, not investment. This fact also puts greater demands on top management, since cooperatives must compete with firms that can reward investment *per se*. While Dr. Cook points out the resulting need for careful management of human resources, the fact that risk capital is relatively scarce for cooperatives suggests to me that their managers should also be judicious in using this resource.

Points of Agreement

This topic is timely at the Center for Cooperatives. In the summer of 1993, I interviewed twenty directors and chief executive officers (CEOs) of agricultural cooperatives. My aim, in an open-ended interview, was to identify director education needs. Several directors expressed a need for research on how to select and evaluate a cooperative CEO. Since then, interest in this topic has been independently and spontaneously volunteered by directors in several different settings. In response, the Center funded such research and will offer a conference on the subject late in 1994.

The reasons I agree with Professor Cook are shown by demonstrating how his analysis of Mintzburg's work applies to my independent experience with director education. Cook's claim is consistent with two sets of conclusions I recently presented at workshops for directors of California cooperatives. After outlining these conclusions, I will interpret them in light of Cook's analysis.

In a basic course for directors, the Center for Cooperatives maintains it is harder to direct a cooperative than to direct an IOF where there is generally a very clear relationship between market performance and the interests of *all* stockholders. Market performance that enhances earnings or earning potential will be reflected in yield and/or appreciation for all stockholders. Presumably, these are the principal interests of investor-stockholders.

In cooperatives, the link between market performance and member satisfaction is sometimes clear, but this is not always the case. Market requirements in a marketing cooperative (variety, quality, location, or other raw product characteristics) or in a supply cooperative (product lines and service levels) that best serve profitability goals of an investor-owned business may not directly serve the *immediate* interests of *all* cooperative members. If a truly market-driven approach is taken by a cooperative, members with less marketable inputs or those who have unusual or otherwise costly supply preferences may not, by comparison to other members,

feel their needs are well met. The pressure to match members' raw product supplies with market demands or to match profitable input marketing with member demands presents a major challenge for cooperatives that directors of an IOF would never face.

If these potential conflicts between user-owner and user-investor present a challenge to the board, they clearly challenge the CEO. He or she is one of the first to feel torn by the need to satisfy market demands as well as the conflicting needs of members. The CEO knows that if the market is not well served, all members will lose in the long run.

The CEO recognizes this challenge for the following reasons:

- A cooperative cannot "give" anything to its members that it does not earn by competing successfully in the food system
- Cooperatives must adjust to change in the competitive environment if they are to continue to provide benefits to members
- The single most important way for cooperatives to serve members is through superior performance in a rapidly changing food system

Cooperatives increase member returns only through market or "user" benefits that encourage member business. The efficiencies required to deliver these benefits are not created by forcing the market to meet producers' demands (in a marketing cooperative) or by expecting members to accept non-competitive performance (in a supply cooperative). They are, instead, achieved by *harmonizing* the interests of member-owners, as farm-product sellers or as farm-supply buyers, with the demands of the market.

To harmonize the interests of cooperative members with the market is to define a viable market segment, show members how they can benefit by being responsive to that market, and/or make sure pricing, patronage refund, cash refund, and equity redemption policies all reward individual members for responding to market demands (marketing cooperative) or buying from the cooperative (supply cooperative). Harmonizing the interests of cooperative members with the demands of the market requires every form of managerial skill mentioned by Mintzburg (1971). It also requires that they be applied to a wider array of interests than would be addressed by the CEO of an IOF in the same industry.

When it is Most Difficult to Manage a Cooperative

In an investor-owned business there is a clear, close correspondence between rewards to the *investor* owners and market performance. The highest long-term rewards to investors will result from the highest long-term service to consumers.

In the best cooperatives, this is also true. However the relationship between market performance (as measured by long-term profitability of the firm) and the interests of *user* owners is not *naturally* clear and close. Further, the potential for harmony varies by type of cooperative. The greatest potential for close correspondence between the interests of the market and the interests of user-owners is found in marketing cooperatives. The greatest potential conflict between market performance and the interests of user-owners is seen in consumer (supply) cooperatives.

The potential for correspondence between market and user-owner interests is highest in a marketing cooperative because the greater the customer market satisfaction, the greater the potential market reward and the greater the potential cooperative earnings. This correspondence between market performance and user-owner benefit is *potentially* clear and direct. Management's efforts to reconcile interests of markets with those of members could be addressed at great length. In brief, they may appear as member resistance to discount and premium programs that reward members for meeting time, form, and place requirements imposed by the market.

There is an inherent conflict between market and member interests in a supply cooperative. The members are user-owners. As users, if all else is equal, they (like other customers) prefer low prices. As owners, they know, or must learn to know, that the ongoing maintenance of service capabilities and high levels of performance require investment to meet service and other market demands. These require earnings and capital accumulation.

Supply cooperative management is therefore challenged to provide supplies on highly competitive terms to all customers (member and nonmember) and, in the process, to generate earnings sufficient to maintain operations, distribute patronage refunds, and retire equities. Even then, members may argue that they would prefer direct benefits in the form of lower (even sub-market) prices, sometimes forgetting that capital is required to sustain performance and retire equities. Continued earnings are no less critical to the cooperative than to the IOF.

Still another challenge facing cooperative management is that of balancing interests of current members against interests of retiring members. Current members are more interested in customer service and return on equity. Retiring members are more concerned with the retirement of their equity. Treatment of both sets of interests is important in terms of the expectations they create for potential members who watch to see how the cooperative treats its members. While the board has the ultimate responsibility of allocating earnings, management may spend more time evaluating alternatives and framing the questions ultimately posed to directors.

When a Cooperative is Easier to Manage

Clearly, cooperative managers face many challenges that managers of IOFs do not need to address. However, the long-term success of many cooperatives is testimony to the fact that cooperatives *meet real needs* in the face of competition from IOFs. However frequently members take their cooperatives for granted, they continue to provide equity passively and actively for user-owned companies (cooperatives), even when investor-owned alternatives are available.

This fact alone suggests an advantage for managers of cooperatives relative to IOFs. If, in some circumstances, members prefer their cooperative over other firms, they are, in some respect, easier to manage than IOFs.

The source of advantage to cooperatives has to be in user value. The significant economic difference between a cooperative and an IOF is user

ownership. If there is an economic reason for cooperatives to survive, it is because there is something about user ownership that permits cooperatives to add value to or cut costs from the food system in ways that IOFs cannot. If such sources of user value cannot be found, there is no *private* economic reason for cooperatives to exist.

There is at least one *public* economic reason for cooperatives. This is the long-standing notion that cooperatives provide a competitive yardstick to keep IOFs "honest." In this regard, it is important to remember that cooperatives must operate efficiently to keep anyone honest. Therefore, it remains important to identify the source of user value in cooperatives.

If user ownership gives a cooperative a competitive advantage, this eases the management challenge. Therefore, the concept of user value is central. The full meaning of the term cannot be addressed here; therefore, I list only likely sources of user value. These include identity preservation and close coordination that add value to final food products. Critics rightly argue that these are achievable through vertically integrated firms of any sort, including cooperatives. This merely shifts the debate to the performance consequences of cooperative and investor-owned vertical integration. Other sources of user value include cost savings through risk reduction. Cooperatives that assure supplies or provide a "home" for crops reduce risk (costs) to members and may enhance stability in the food system.

The potential benefits of cooperatives to members (user value) also vary by commodity. Products vary in terms of perishability, continuity of production, homogeneity, value-weight ratios, raw product share of consumer product value, and others. A model that uses these characteristics to predict coordination requirements may offer hypotheses regarding where cooperatives work best and why. For example, such a model may indicate that potential user value is greatest where there is continuous production of a highly perishable commodity that is transformed relatively little before final consumption (milk) and explain why cooperative marketing is common in the milk subsector. The same model would identify other characteristics to show why cooperatives are less likely than other forms of coordination to be used in livestock marketing or more often in stonefruit marketing.

Conclusion

Cook has accurately identified the principal reason for difficulty managing agricultural cooperatives. The challenge of harmonizing inherently conflicting member interests to be responsive to the market is unique to user-owned (cooperative) firms. This requires more organizational, communication, resource allocation, and other leadership skills than is required of the managers of IOFs in the same market.

At the same time, and for the same reasons, the degree of difficulty in cooperative management varies according to the type of cooperative. The potential for high and clear correspondence between member and market interest is greater in marketing cooperatives than in supply cooperatives. This is because there is an inherent conflict between user and owner

interests in supply cooperatives that is not necessarily present in marketing cooperatives.

Finally, if there are economic reasons arising from user ownership for cooperatives to exist, there are surely circumstances that ease the relative management challenge in cooperatives. If user ownership adds to final product value or reduces producers' costs in ways that IOFs cannot, it reduces the management challenge in some respect.

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