

**Minutes for NCR-194 Research on Cooperatives**

**Wednesday, October 30-31, 2001**

**Tropicana Hotel  
Las Vegas, Nevada**

Administrative Advisor:  
Dr. Wallace Tyner, Head  
Department of Ag Econ  
Purdue University  
West Lafayette, IN 47907

Chair:  
Dr. Kimberly Zeuli  
Department of Ag Econ  
University of Wisconsin  
Madison, WI 53706

Vice Chair:  
Dr. David Trechter  
Department of Ag Econ  
U of Wisconsin-River Falls  
River Falls, WI 54022

Secretary:  
Dr. Robert Cropp  
Department of Ag Econ  
University of Wisconsin  
Madison, WI 53706

Members in Attendance:

David Barton, Kansas State University  
Michael Boland, Kansas State University  
Thomas Carter, USAID  
Faabio Chaddad, University of Missouri—Columbia  
Robert Cropp, University of Wisconsin Center for Cooperatives  
Joan Fulton, Purdue University  
Brad Gehrke, USDA/Rural Business – Cooperative Service  
Roger Ginder, Iowa State University  
Brian Henehan, Cornell University  
Susan Hine, Colorado State University  
Julie Hogeland, USDA/Rural Business – Cooperative Service  
Steven Holland, University of Minnesota  
Elaine L. Krumpelman, University of Missouri  
Steve Klose, Texas A & M University  
Steve Lauck, CoBank  
William Mathews, University of Missouri  
William Nelson, Cooperative Foundation  
Bill Nelson, Quentin N. Burdick Center for Cooperatives  
Jay Noel  
Rod Nielsestuen, Wisconsin Fed of Co-ops/Minnesota Assoc of Co-ops  
Jody Padgham, University of Wisconsin Center For Cooperatives  
Chris Peterson, Michigan State University  
Burton Pflueger, South Dakota State University  
Dick Poorbaugh, Pennsylvania State University  
Anne Reynolds, University of Wisconsin Center for Co-ops

Dixie Watts Reeves, Virginia Tech  
Bruce Reynolds, USDA, Rural Business – Cooperative Services  
Soren Svendsen  
Eric Thor, Southwest Cooperatives  
Randall Torgerson, USDA, Rural Business – Cooperative Services  
David Trechter, University of Wisconsin – River Falls.  
Wallace Tyner, Purdue University  
Natalia Usmanova, University of Arizona  
James Walti, South Dakota State University  
Micki Young, Virginia Tech  
Kim Zeuli, University of Wisconsin Center for Cooperatives

Guests Present:

Roy Hammarlund, Kansas Department of Commerce

Members Absent:

Bruce Anderson  
Juan C. Batista  
Michelle Beshear  
Michelle Bielik  
Sanjib Bhuyan  
Joe Coffey  
Michael Cook  
Paul Christ  
Dennis Conley  
Sam Cordes  
Ron Cotterill  
Joel Ebbertt  
Vernon Eidman  
Charlie Forrest  
John Fox  
Marty Frick  
John Foltz  
Murray Fulton  
Glen Glover  
Gary Goreham  
Allan Gray  
David Hahn  
Milton Halberg  
Steve Halbrook  
Wes Harrison  
Bill Heffernan  
David Holder  
Will Hughes

Constantine Iliopoulos  
Leroy Jushak  
Robert King  
Mahlon Lang  
Randall Little  
Greg Lawless  
Brian Oleson  
Emmanuel Onunkwo  
Claudia Parliament  
Timothy Richards  
Richard Rogers  
Jeffrey Royer  
Carlo Russo  
Richard Sexton  
Edward Smith  
Karen Spatz  
Thomas Spordleder  
John Staatz  
David Swanson  
Michael Thomsen  
Mike Turner  
Dave Weatherspoon  
Robert Weaver  
Ruby Ward  
Lionel Williamson  
Timothy Woods  
David Zimet

## **BUSINESS MEETING**

Agenda:

1. Approval of Past Minutes
2. Financial Report
3. Report from Nominations Committee
  - a. Election of Officers
4. Report on past NCR 194 activities
  - a.
5. Organization of future activities, including volunteers
  - a.

NCR 194 Annual Meeting

Chairperson Zeuli called the meeting to order at 1:30 p.m.

Motion/second and acceptance to approve the minutes of the December 12, 2001 annual meeting.

There were 6 scholarships provided by the Cooperative Foundation awarded to graduate students to attend this year's annual meeting.

David Trechter gave the financial report. As of October 12, 2001 NCR-194 had a balance of \$726.48 (report attached). Joan Fulton recommended the NCR-194 should build a surplus of funds to be used for expenses of outside speakers and scholarships. The Executive committee will take this recommendation under consideration.

Wally Tyner, NCR-194 Administrator, reported that the NCR-194 mid-term report was excellent and that he was very pleased with the accomplishments of NCR-194. He put forth two challenges for NCR-194:

- 1) To improve upon objective #1: Coordination of research efforts among the membership.
- 2) To improve upon objective #2: Stimulate collaboration among researchers; achieve more industry involvement.

Joan Fulton reported on the nominations committee. The nominations were:

Chair—Roger Ginder

Vice Chair—Robert Cropp

Secretary—Evert Van der Sluis

Treasurer---Mike Boland and David Barton

Motion made and second to approve the list of nominees and to cast a unanimous ballot. Motion approved.

Reports on NCR-194 activities:

- 1) Steve Lauck, CoBank: CoBank is working with Texas A&M to develop an on-line delivery system for improved business management skills. The web site will be information sharing and inter-active. The site will be available to cooperatives, universities, extension and others.

Steve also announced a Food Safety Conference to be held November 15-17, 2001 in Chicago

- 2) AAEA presentations: Members of NCR-194 should give consideration to submitting papers to AAEA, organizing symposium and/or participate in the poster session.

- 3) NCR-194 Website at Kansas State: Mike Boland indicated that the website continues to be modified and improved. NCR-194 papers are placed on the website if authors submit them.
- 4) Richard Poorbaugh, Penn State, passed out a report, “Education and Training Needs of Cooperatives.”

David Trechter re-introduced the following resolution: The NCR-194 Research on Cooperatives Committee resolve to strongly urge annual funding of a minimum of \$2 million for the Rural Research on Cooperative Opportunities and Problems Program (RRCOP) administered by the USDA’s Rural Business-Cooperative Service. This program funds cooperative agreements enabling a partnership between the university research community and the USDA’s Cooperative Service program. The synergies between these programs leads to creation of new knowledge and insights for improving the operations of cooperatives nationwide.

Motion to approve the resolution was second and passed. The executive committee as well as individual members are encouraged to write letters on behalf of NCR-194 to appropriate senators and congressman in Washington DC.

#### Brainstorming session:

How can we improve coordination/collaboration of research?

- 1) USDA-RB-Funds
- 2) Newsletter with abstracts as well as brief research report from each university/college---Julie Hogeland volunteered to pursue this idea.
- 3) Need to establish a research agenda
  - Based on a survey of industry and universities
  - Two parts: 1. What is out there in research; and 2. What research is needed?
  - Chris Peterson volunteered to chair a committee to address this research agenda
- 4) Have a national paper conference—invited papers
- 5) Writing a book—consider after establishing a research agenda and have written papers.

NCFC is considering changes in NICE and director leadership programs. This opens an opportunity for NCR-194 to relate to NCFC and the cooperative industry. Roger Ginder volunteered to pursue these opportunities.

#### Future meetings:

NCR-194 annual meeting could be held separately or jointly with:

NICE

AAEA (pre/post conference)

Farmer Cooperatives Conference  
In connection with an annual meeting of a cooperative  
Others

The Executive committee will take all in consideration

Business meeting adjourned at 5:30 p.m..

### Research Reports

The following research reports were presented. The entire papers may be found on the NCR-184 web site ([www.agecon.ksu.edu/accc/nacr194](http://www.agecon.ksu.edu/accc/nacr194)):

<b>Paper Session I: Governance/Operations</b> Moderator: Bob Cropp	
“The Changing Federated Relationship”	Julie A. Hogeland, USDA/RD-CS
<p>Increasing consolidation has brought a stronger market presence for several mega-IOFs, such that locals are increasingly asking whether such companies are, in some cases, a better partner for them than regional cooperatives. They ask, “What can a regional cooperative do for me over and beyond what an IOF can do?”</p> <p>Based on interviews with over 30 local cooperative managers, directors, and executives of regional cooperatives (occurring from June 2000-June 2002), and secondary data where appropriate, this study will identify expectations locals have of regionals and regionals’ response. Of particular concern are the culturally-mandated expectations of regionals, such as (1) competitive yardstick; (2) creating change in the way industries are being run; (3) being a purveyor of technical change to locals; (4) having facilities commensurate with those of mega-IOFs; (5) being a low cost supplier; (6) being a multipurpose, multi-service organization; (7) generating income [returning patronage, revolving equity]; (8) being a supplier of last resort [i.e., petroleum during shortages]; (9) providing an integrated food system from farm to grocer; and (10) staying power as a long term supplier. The proposed study will identify role conflicts and appropriateness, given recent changes in the marketing environment affecting cooperatives. .</p>	

<p>“Organizational and Operating Structures of a National Pork Producers Cooperative; Evaluation of Alternatives for Implementation of the Pork America “Umbrella” Model”</p>	<p>Brad Gehrke, USDA/RD-CS</p>
<p>This paper summarizes the structural components, activities and processes evaluated during the implementation of the Pork America national pork producers’ cooperative. It reviews and compares the various organizational structures considered and identifies the components, activities and processes that would best allow Pork America to fulfil its mission. The paper describes the structural design of Pork America as a truly national cooperative as opposed to Pork America as a start-up business.</p> <p>Methodologically this report is a descriptive case study of the Pork America Cooperative and an outline of the structure of the pork industry in which the cooperative is operating. It develops the aspects of the New Generation Cooperative structure that are applicable to this cooperative. Furthermore the paper identifies alternative activities and processes that Pork America considered or will be considering to implement this structure. Advantages and disadvantages of potential activities and processes are identified and compared.</p> <p>The organizational models discussed are based on those actually considered by the NPPC Task Force and the Pork America Board including: (1) a large scale three-plant model; (2) a large-scale single-plant format, (3) a service company model, (4) a joint marketing model and (5) a national cooperative model. Finally, the paper identifies those alternatives that were judged to best fulfill Pork America’s objectives given the structural components implied in the umbrella model and the changing structure of the pork industry.</p>	

<b>Paper Session II: Development and History</b> (Moderator: Kim Zeuli)	
“The Economic Impacts Associated with Locally Owned Agricultural Cooperatives: A Comparison of the Great Plains and the Eastern Cornbelt”	Kevin T. McNamara, Purdue University; Joan Fulton, Purdue University; and Susan Hine, Colorado State University
<p>Rural economic development has been a topic of importance to community and government leaders for some time, but is of even greater importance today given recent changes in the rural and agricultural marketplace. Locally owned agricultural cooperatives, whose businesses have typically centered on farm supply and grain marketing, have historically been an integral component of the local economy. While the impact of locally owned agricultural cooperatives is expected to be significant in all areas, it is important to evaluate both the impacts of locally owned agricultural cooperatives on the rural economies as well as examine the differences in impact across different regions of the country. The employment and income impacts are calculated with the use of input-output multipliers from state input-output models (IMPLAN) of Colorado and Indiana. The data for the analysis in the paper was obtained from 70 locally owned cooperatives in Colorado and Indiana (35 cooperatives in each state). In-person interviews with the managers were conducted in the spring of 2000 and data was collected on level of sales, number of employees and the volume of business that would be lost to the local economy if the cooperative were not operating. The economic impact of locally owned agricultural cooperatives is significant in both the Great Plains and the Eastern Cornbelt, especially in remote communities.</p>	
“Cooperative Infrastructures for Small Water Systems: A Case Study”	Micki Young, Virginia Tech
<p>Small water systems (SWS) can serve as many as 3,200 people and as few as twenty-five people, compared to large waterworks that serve thousands of people in metropolitan areas. In Virginia, more than ninety percent of water suppliers fall into this category of public “rural” SWS. In 1997, 304 Virginia waterworks reported violations of drinking water standards, fifty-three percent of which were rural SWS. The overall goal of this project is a market analysis of cooperative structures which are proposed to reduce costs, optimize operational efficiency, increase revenue, increase the exchange of technical information, aid in obtaining suitable operational capacities, and therefore decrease the amount of NPDWS violations in those participating SWS.</p> <p>Twelve SWS in the study area were selected to test this hypothesis based on certain criteria including: number of NPDWS violations, geographic proximity, population served, physical condition of facilities, and owner/operator interest. Personal interviews were conducted with each SWS operator using questions from a four-part survey. The results of this research reveal the effects of a cooperative structure on a group of participating SWS in terms of business management and meeting drinking water standards.</p>	



<p>“A History of African-American Farmer Cooperatives, 1938-2000”</p>	<p>Bruce J. Reynolds, USDA/RB-CS</p>
<p>Currently there are about 30 African-American (black) farmer cooperatives operating in the southeastern states and a few additional associations in other parts of the U.S. Membership in most of these associations is relatively small, about 50 members, and they are generally classified as low resource businesses. Although the number of black farmers in the U.S. is about 18,000, there has recently been increased outreach efforts to encourage cooperative membership and new associations, such as the New North Florida Cooperative, are being formed.</p> <p>This paper reviews initiatives for cooperatives that served black farmers in the late 1930s and traces developments up to the present. The paper discusses the concept of “independent farmer,” and the sense in which it is a necessary condition for cooperatives. This concept, and its relation to cooperatives, has special relevance in the 20th century history of black farmers and in the current challenges they confront to sustain in agriculture. The influence of New Deal programs on the revival of cooperatives during the Civil Rights movement is examined. Formation of the Federation of Southern Cooperatives in 1967 was a turning point in the development of black farmer cooperatives. Its formation and cooperative development studied by Marshall and Godwin are updated in this paper. Lastly, observations on current and future developments in the relevance and use of cooperatives by black farmers are discussed.</p>	

<p><b>Paper Session III: Organization &amp; Development</b> (Moderator: David Trechter)</p>	
<p>“Expected Returns From Starting a Large Scale Closed Dairy Cooperative Under Price and Biological Uncertainties”</p>	<p>Roger G. Ginder and Marty Dreischmeier, Iowa State University</p>
<p>This paper evaluates the feasibility of starting a large-scale dairy closed cooperative in northeastern Iowa or southern Wisconsin by incorporating both price and biological uncertainty in a stochastic simulation to determine the monthly cash flows for the cooperative. The motivation for this paper is to determine if a large-scale dairy closed cooperative could be one way for farmers in a given location to increase and or diversify their returns from their current enterprises. By forming a closed cooperative, farmers could receive the economic benefits of a large modern dairy operation without investing the large amount of capital required or having the technical skills to manage a large-scale dairy operation.</p> <p>From the simulations, performed a probability distribution of returns for the farmers who form the cooperative are calculated, The average returns expected from the cooperative as well as the variation in those returns are examined and reported. A monthly financial model is used to determine the cash flows for the cooperative during the first ten years of operation using simulated prices and biological variables. The model tracks the flow of groups of cows through each month to determine how many cows will be in each age class and stage of lactation. It appears that forming a large-scale closed cooperative dairy operating will provide the potential for Iowa and Wisconsin farmers to increase and diversify their returns.</p>	

<p>“The Effect Of Processing Margins On Cooperative Formation”</p>	<p>Steve Holland and Rob King, University of Minnesota</p>
<p>Agricultural cooperatives have often been hailed as remedies for market failure, vehicles to revive the family farm, and key tools for rural development. Cooperatives organize in “spurts,” implying that market factors, such as prices, technology, market structure and location, impact the incentives to cooperate. This study looks at the effect of processing margins on cooperative formation. Historical data suggests that cooperatives tend to form with greater frequency when there is a substantial difference between the price paid to farmers and the retail price received by processors. The paper develops a model to explain how an industry’s processing margin affects farmers’ decisions to form a cooperative and uses the dairy industry to show empirical support for the model’s prediction. The paper uses a modified version of Dixit and Pindyck’s real option-based method of valuing investment decisions to explore the effect of processing margins on a farmer’s choice of whether to join a cooperative. Data show that farmers are more likely to join cooperatives (and, consequently, cooperatives are more likely to form) when processing margins are high.</p>	
<p>“The Interdependence of Investment and Financing Decisions in Agricultural Cooperatives”</p>	<p>Fabio R. Chaddad, University of Missouri</p>
<p>In this paper, we address the issue of whether investment and financing decisions are interdependent in agricultural cooperatives. In particular, are cooperatives financially constrained when making investment decisions? Many scholars suggest financial constraints resulting from restricted residual claims and imperfect access to external sources of finance is the “Achilles’ heel” of traditional cooperatives in an increasingly concentrated and tightly coordinated food system. However, despite convincing theoretical arguments supporting the cooperative capital constraint hypothesis, the empirical evidence is not conclusive. This study attempts to fill a void in the literature by directly testing the financial constraint hypothesis with an econometric analysis of agricultural cooperative investment behavior.</p> <p>The empirical results support the hypothesis that agricultural cooperatives are financially constrained. In particular, the results suggest investment and financing decision-making are not independent in agricultural cooperatives. These empirical results hold across alternative econometric methods and model specifications. The study also attempts to identify what types of agricultural cooperatives suffer from more severe credit rationing by means of several sample splits. Small cooperatives, cooperatives with relatively high amounts of permanent equity capital, and low credit risk cooperatives are less constrained than their large, low permanent equity capital, and high credit risk counterparts.</p>	

**Session IV: Panel on Teaching and Research -- (Moderators: Joan Fulton, Purdue University and Dixie Watts Reeves, Virginia Tech)**

Joan Fulton presented a 5-week, one credit cooperatives course she teaches at Purdue. Joan uses various exercises to bring in real world cooperative examples. One assignment involves student debates over a cooperative issue.

Dixie Watts Reeves presented a cooperatives course she developed from scratch. This course is offered as a humanities course at Virginia Tech. The course focuses on how cooperatives are self-help tools. The course involves case studies of cooperatives and highly discussion oriented.

**Panel on funding cooperative research:**

The panel followed the October 30<sup>th</sup> evening banquet. Michael Boland moderated it.

Roger Ginder, the University Perspective:

- Universities struggle with private versus public funds
- Time frame of research often corresponds with a graduate student's program schedule
- Research results often written for journal publication and not for the decision maker
- The critical mass of university researchers with interest in cooperatives has been declining
- Interdisciplinary research is becoming more popular
- Sources of research funds include USDA, Foundations, commodity groups, trade associations, operating cooperatives
- University researchers have a set of skills that can be used to solve problems/issues for cooperatives

Randy Torgerson, the Government Perspective:

- USDA funding is limited for cooperative research; no line budget item
- NCR-194 needs to express their concerns for lack of research funds and the value of research to the cooperative community with Washington Senators and Congressman, members of the Agricultural Appropriations Committee

William Nelson, the Industry Perspective:

- The Economists and Planners once served as a link between universities and industry, but it no longer exists. NCR-194 needs to fill this gap.
- Need both qualitative and quantitative research
- Cooperative Foundations are a source of funding
- Universities need to partner/collaborate with industry on research

- Universities need to keep up to date on what is going on the cooperative world

Minutes submitted by Robert Cropp, Secretary