

# How Kentucky Farm Supply Purchasing Cooperatives

## Are Controlled

By

ELDON D. SMITH

and

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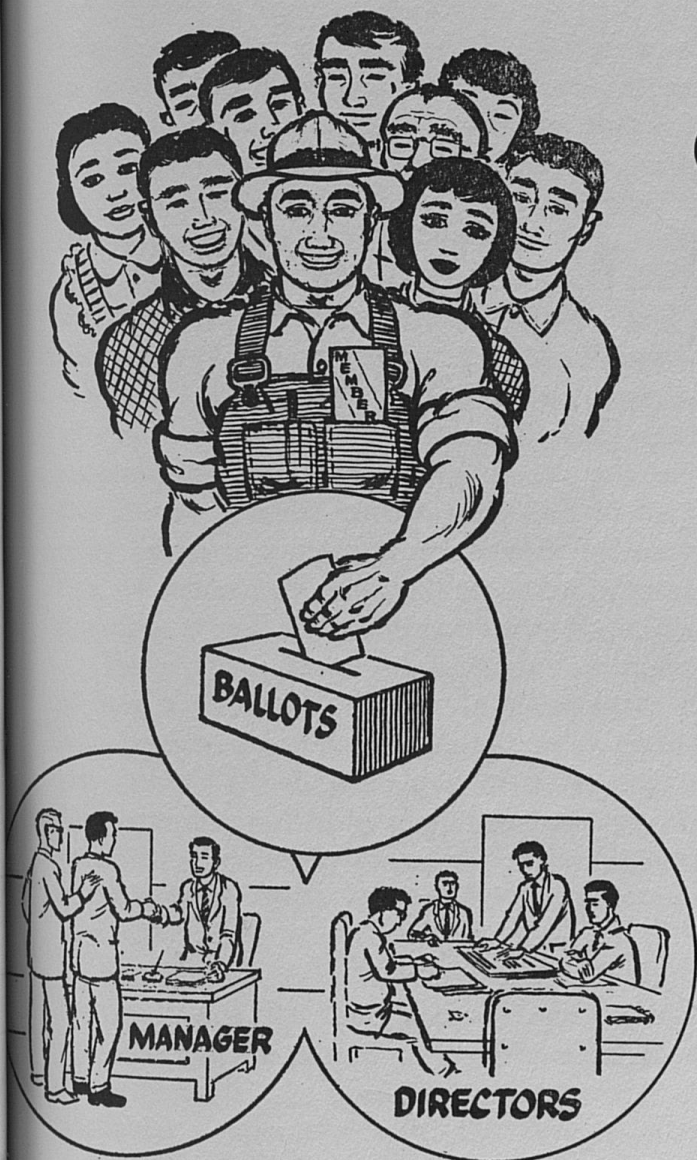
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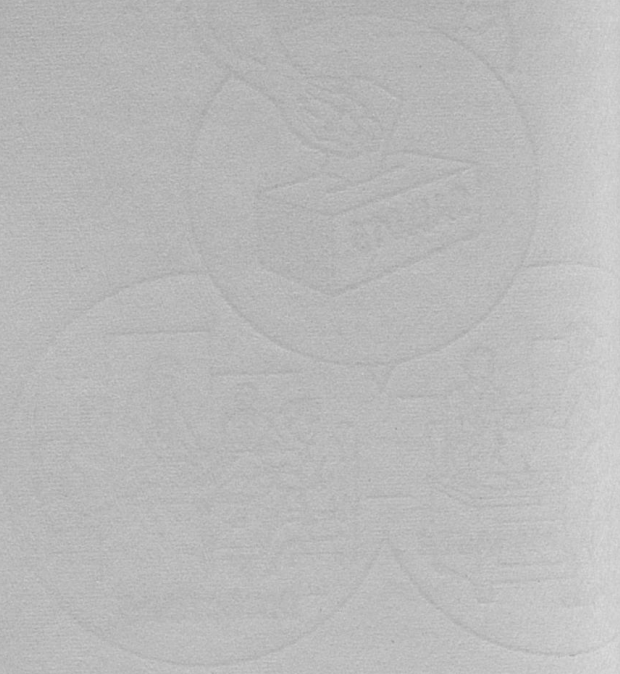
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## PREFACE

This report is designed primarily for use by managers, boards of directors, and other personnel within the "management" of farm supply purchasing cooperatives. It attempts to bring to the attention of these key decision-makers some important facts and questions of policy which may be facing these organizations.

Farm supply purchasing cooperatives have made significant improvements in their operation in the past, and their accomplishments have been important. However, if a report such as this is to be useful to their "management," it must focus attention on possible future improvements and unsolved problems, that is, on situations where some evaluation of alternative policies may be needed.

When we draw attention to such situations we do not imply that they are necessarily "bad" or that improvements have not been attempted or made. The determination of desirable policy is the job of the board of directors, the managers, and other personnel within cooperatives. It involves many factors beyond the scope of information collected in the study. The situations described, questions raised, and alternatives suggested in this report may appear unduly critical if the purpose and the intended audience are not kept clearly in mind. Our intent is to be constructive and to help Kentucky cooperatives carry on their important work with increasing effectiveness. To do this, we believe we must call attention to those perplexing unanswered questions which appear important to their future as cooperatives.

The report is based primarily on information supplied by managers of local retail cooperatives. In some cases these managers may not have possessed complete information on various points, particularly on activities in which personnel of a regional association participated. Information supplied by managers has been checked, as far as possible, with that supplied by personnel of the regional associations. Throughout the report we have attempted to call attention to the source of our information and its possible weaknesses.

Finally, the data were collected in 1955. Many changes have occurred since that time, and we regret it was not possible to compile the report at an earlier date. However, in most cases this will not seriously impair its usefulness. Comparing an existing situation in a particular cooperative with the general situation described by the data will establish whether the questions raised by the data are pertinent to the situation existing presently in that cooperative. How-

ever, at various places we have attempted to recognize the likelihood that changes have occurred and to incorporate more up-to-date data supplied by personnel of the two regional associations serving these local units.

The authors are grateful to all the managers of the 40 farm supply cooperatives who willingly gave their time in answering many questions and providing information from their files and records. The personnel of Valley Counties of Kentucky Cooperative and Southern States Cooperative have provided many items of information and other services too numerous to mention. Without such cooperation the study could not have been made.



# How Kentucky Farm Supply Purchasing Cooperatives Are Controlled

By ELDON D. SMITH and WENDELL C. BINKLEY

## INTRODUCTION

A cooperative can be no better than its management. Management involves a vast number of decisions by members, by their elected representatives (the board of directors), and by the paid employees of the association. Therefore, an understanding of cooperative problems involves, among other things, the following factors: (1) understanding some of the ways decisions are made by the various parts of the management team; (2) understanding who makes individual types of decisions; (3) understanding how the members of the management team relate themselves to each other in making management decisions; (4) understanding the overall structure of powers and responsibilities in the organization; and (5) understanding the legal and social forces that impinge upon management.

This study is based on a rather comprehensive survey of some selected phases of these management processes. It was conducted in 1955 and covered 40 of approximately 48 retail farm supply cooperatives in the state.

The study attempts to do three things: (1) to make an inventory of existing organizational structures and management practices; (2) to focus attention on important questions relating to the management of local farm supply purchasing cooperatives; and (3) to analyze the possible consequences of existing practices to the types of cooperatives represented in the survey.

### **Farm Supply Purchasing Cooperatives Today and Yesterday**

Of the 48 local farm supply purchasing cooperatives in Kentucky in 1955, 34 operated under the provisions of a management contract with Southern States Cooperative, Richmond, Virginia. Southern States is a regional manufacturing and distribution cooperative. Four additional local retail farm supply cooperatives which operated on a full-time basis were affiliated with the Valley Counties of Kentucky Cooperative, a small federation of independent cooperatives. Through franchise arrangements, these four also handled materials supplied by the Southern States Cooperative. Of the two other cooperatives





covered in the survey, one was affiliated with Southern States Cooperative through a franchise arrangement, and the other was affiliated with the Indiana Farm Bureau Cooperative Association. Only two of the unsurveyed cooperatives had no direct affiliation with any regional cooperative. In addition to the 48 specialized retail farm supply cooperatives, some other types of cooperatives handled small amounts of fertilizers and other farm supplies.

In this study, data are analyzed for the 34 Southern States retail farm supply cooperatives and for 6 independent farm supply cooperatives. While this is not a complete census, it represents substantially all of the business volume done by local retail units as well as the memberships in local retail farm supply cooperatives. The four specialized petroleum cooperatives are not included because some problems and relationships are unique to them. The study is focused on general farm supply purchasing cooperatives at the retail level.

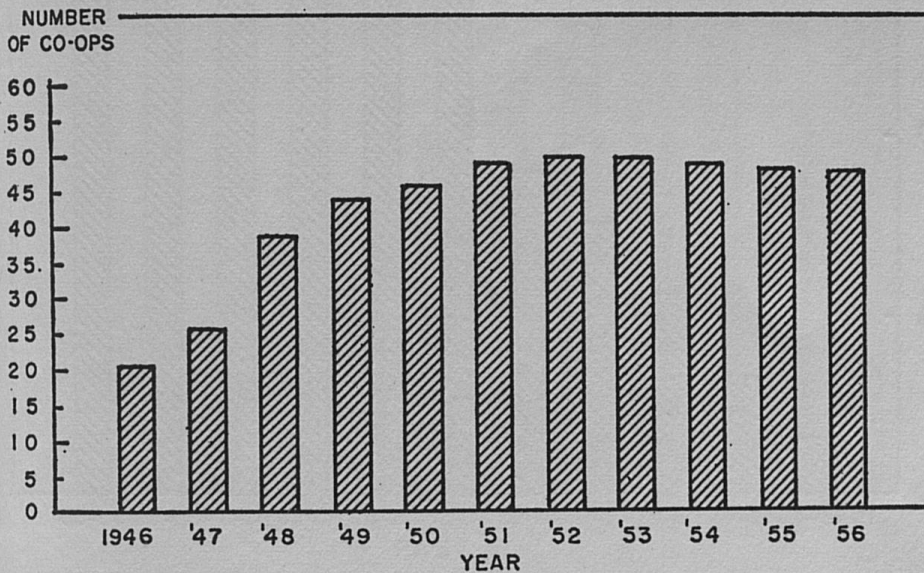


Fig. 2.— Number of farm supply purchasing cooperatives in Kentucky, by years.

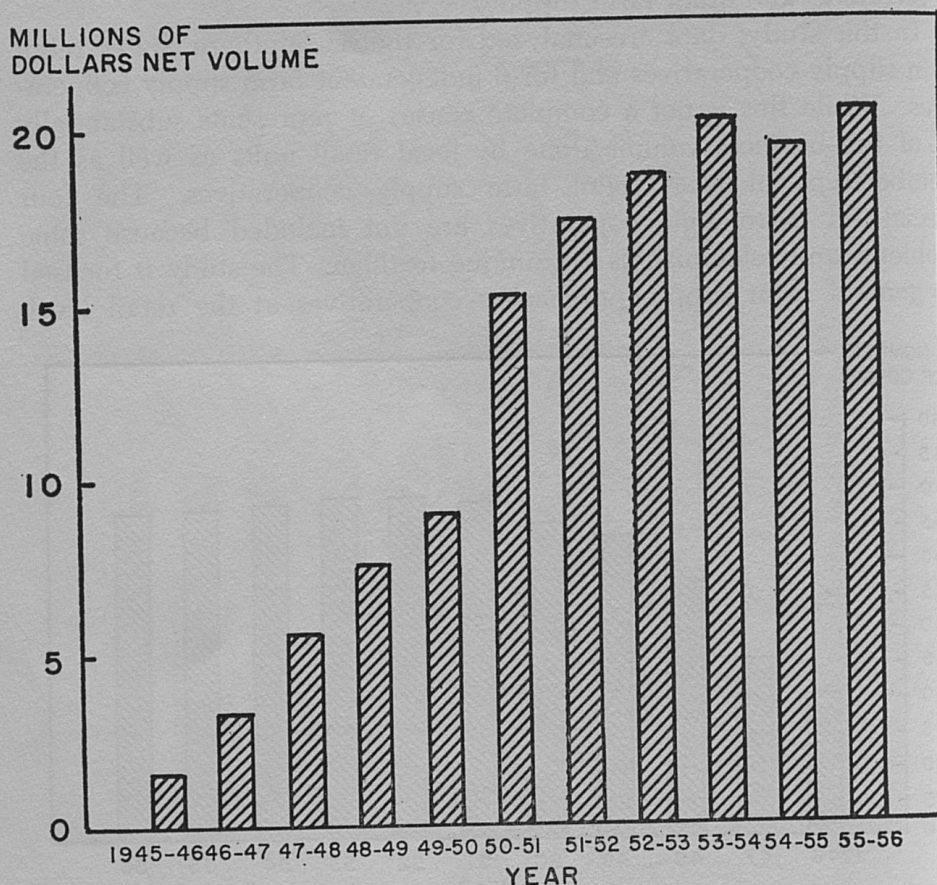
Source: Estimated from materials compiled by Department of Ag. Economics, University of Kentucky. Excludes several small co-ops operated in conjunction with 4-H clubs.

The 40 cooperatives surveyed handled about \$9,440,000 worth of supplies in the 1954-55 season. Crude computations indicate this was about 75 percent of all supplies handled by general farm supply retail cooperatives and marketing cooperatives in Kentucky.<sup>1</sup> These 40 cooperatives represent about 84 percent of the memberships in

<sup>1</sup> Estimates are based on (1) survey data, (2) data supplied by Southern States Cooperative, and (3) data from the Farmer Cooperative Service, USDA. The figures above do not include approximately \$7,000,000 business done in Kentucky by private (retail) dealer agencies of Southern States Cooperative.

retail farm supply cooperatives in Kentucky.<sup>2</sup> (See Fig. 1 for location of cooperatives, cooperative affiliates, and facilities.)

These cooperatives were, in most cases, relatively young organizations. Of the 40 included in the survey, 36 were organized after 1944; only one was organized prior to 1940. During the post World War II years, the number of farm supply cooperatives increased from 21 in



**Fig. 3.— Dollar volume of business by farm supply purchasing cooperatives in Kentucky, by years.<sup>1</sup>**

Source: Statistics of Farmers Marketing Farm Supply and Service Cooperatives, U.S.D.A., Washington

<sup>1</sup>Includes all cooperative farm supply purchases at the first level. Sales by Southern States Cooperative to private dealer agents are included.

<sup>2</sup> In computations, no allowance is made for membership in marketing or other cooperatives which may engage in incidental purchases of farm supplies. Farmers who purchase farm supplies from private dealer agencies of Southern States Cooperative receive wholesale patronage refunds directly from Southern States Cooperative in the form of stock and/or other equity in the regional cooperative, thereby becoming members. These memberships appear in the statistics provided by Farmer Cooperative Service, USDA, but are not included here as membership in retail farm supply cooperatives, although they do constitute approximately 10 percent of all Kentucky membership in purchasing cooperatives, wholesale and retail.



1946 to 50 in 1951. As of 1955, the number of retail farm supply cooperatives had decreased to 48, including four part-time operations (Fig. 2). Memberships and volume of business continued growing throughout the period. From the modest volume of \$1,700,000 in the 1945-46 season, total cooperative purchases expanded to \$20,433,000 in the 1955-56 fiscal years (Fig. 3). In the same period, memberships increased from about 7,100 to 108,700 (Fig. 4).

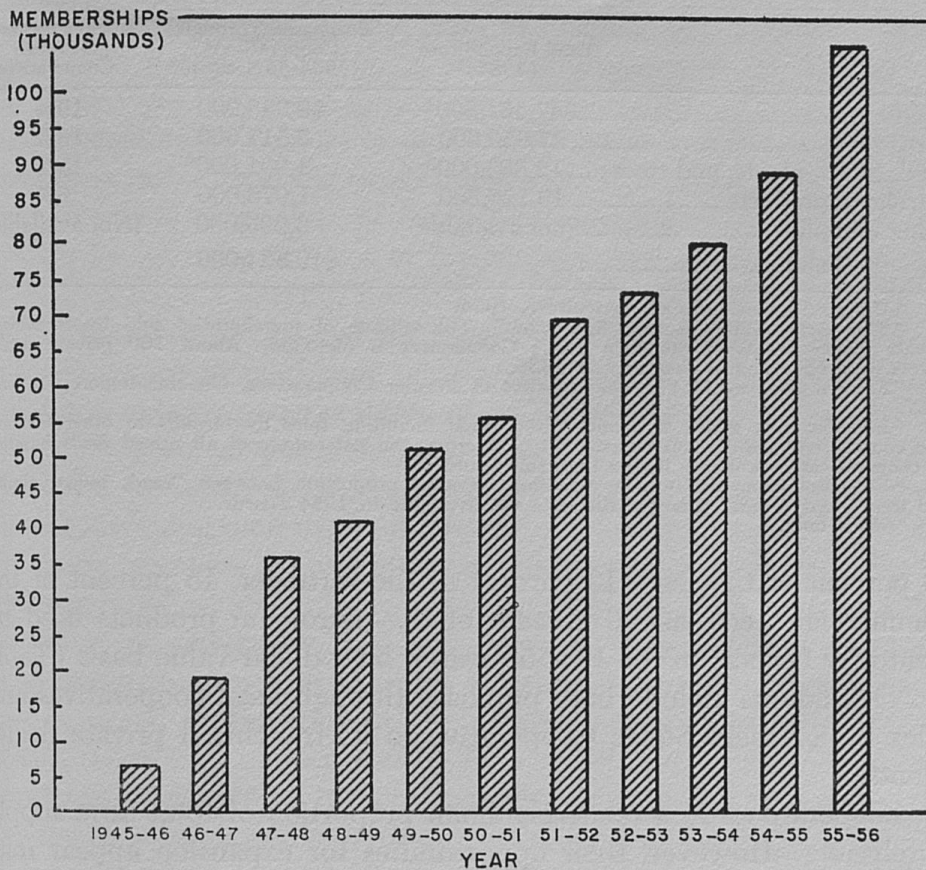


Fig. 4.— Estimated memberships in farm supply purchasing cooperatives in Kentucky, by years.

Source: Estimated from materials compiled by Dept. of Ag. Economics, University of Kentucky. (Excludes members of several small cooperatives in conjunction with 4-H clubs but includes direct memberships in Southern States Cooperative by farmers procuring farm supplies through private dealer agents.)

Investments by farmers in farm supply cooperatives have also attained sizeable proportions. Crude computations indicate that the net worth (subscribed capital and retained earnings) of retail purchasing cooperatives was about \$3,872,000 at the end of fiscal year 1954-55.<sup>3</sup>

<sup>3</sup> Actual net worth figures were used for the 40 cooperatives surveyed. Estimates were made for other cooperatives. The figure does not include investments in Southern States Cooperative by patrons of private dealer agencies in Kentucky.

The proportion of all farm supplies which were purchased through cooperatives is impossible to estimate accurately. However, for selected items of supplies, some general indication is possible based on government statistics and survey information provided by cooperatives (Table 1). Indications are that cooperatives handled approximately

**Table 1.— Total Value of Selected Farm Production Supplies Purchased by Kentucky Farmers and Value of Those Purchased Through Cooperatives**

	Total Expenditure (1954) <sup>1</sup>	Purchased Through Cooperatives <sup>2</sup> (1954-55 Season) <sup>3</sup>	Percent Purchased Through Cooperatives
Feed .....	\$47,461,800 <sup>4</sup>	\$9,048,000	19%
Fertilizer .....	27,950,000	3,517,000	13%
Seed, bulbs, plants, and trees ....	12,883,000 <sup>5</sup>	1,901,000 <sup>6</sup>	15%
Petroleum products .....	19,126,800	1,073,000	6%
Other supplies .....	(not available)	3,995,000	(Not available)
Total .....		\$19,534,000	

<sup>1</sup> United States Census of Agriculture, 1954.

<sup>2</sup> This is the value at the "first level." The volume of merchandise sold by franchised private dealer agents of Southern States Cooperative is included. About 100 private dealer agents were operating in Kentucky in 1955.

<sup>3</sup> Farmer Cooperative Service, Statistics of Farmer Cooperatives, General Report 31, June 1957.

<sup>4</sup> Includes hay, grain, salt, and mixed feeds including sales by farmers to other farmers. The cooperatives mainly sell mixed feeds; therefore, the percentage of all mixed feeds handled by cooperatives is probably higher than this figure.

<sup>5</sup> Estimated from 1950 data assuming constant proportion between "seed, bulbs, plants, and trees" and "feed." Comparable data not available in 1954 census.

<sup>6</sup> Seeds only.

19 percent of the feed, 13 percent of the fertilizer, 15 percent of the commercial seeds, and 6 percent of the petroleum products used by Kentucky farmers in the 1954-55 season on a dollar-value basis (Table 1).<sup>4</sup> All figures include both purchase through local cooperatives and sales by Southern States Cooperative to its franchised private dealer agents.

Cooperatives do a relatively small proportion of total farm supply purchasing. However, their opportunities for expansion appear relatively good if such things as management practices, structure of

<sup>4</sup> Based on analysis tags issued by the regulatory departments of the University of Kentucky, the estimated proportions were about 11 percent for feed, 17 percent for fertilizer, and 17 percent for commercial seeds. These data were independently compiled from existing records and are not available in published materials. The wide discrepancy in the two feed figures is not easily understood. It seems likely that some under-reporting of feed purchases occurs in the census enumeration because feed is purchased in small quantities over several months. However, comparisons of the sale value of manufactured feeds in the Census of Manufactures and expenditures by farmers for animal feeds in the Census of Agriculture do not suggest any large under-reporting. Expenditures were about \$3.9 billion and manufactures were \$2.7 billion. The expenditures items include all straight grains and hays while the manufactured items do not. Also, wholesale and retail margins are not included in the manufactures figure. The relative magnitudes suggest that under-reporting, if any, must be relatively small.



organization, and member participation in cooperative affairs are geared to the needs of modern agriculture and modern economic conditions. The preceding comments have provided an indication of the present situation and history of farm supply purchasing cooperatives. The following discussion directs attention to some of those elements of management that may affect future progress.

### The Cooperative Form of Business Organization

A cooperative is a unique form of business organization. Its purpose is to benefit its members economically *as patrons*, i.e., as users of its services. In order to achieve this purpose, the right to control the organization's policies or mode of operation is given to the patron-members rather than the capital investors. In Kentucky, each member has one vote regardless of his capital investment or the extent to which he uses the services of his cooperative.<sup>5</sup> In some other states members have a varying number of votes depending on the amount of cooperative services which they use. This situation, when found, usually occurs in marketing or service cooperatives, rather than farm supply purchasing cooperatives.

In addition, cooperatives operate within a special legal framework. In order to enjoy certain privileges, they must obey several special laws concerning their mode of operation. These are primarily designed to assure members the organization will operate in a manner consistent with patrons' wants and needs. A restriction on the return to capital investors is mandatory, and any accruals above necessary expenses and reasonable reserves must be returned to patrons. These accruals are returned to the user of the cooperative services on a pro rata basis. They may be returned in the form of cash, capital stock, other evidence of equity in the organization, or evidence of indebtedness by the association to the patron.

### What is Cooperative Management and Who Does It?

*Management* is the process by which decisions are made regarding the way a business will function. Management is the responsibility of one or more persons. When it involves more than one, a problem arises about the way to distribute these decision-making responsibilities among the various people involved.

In any cooperative, the members have ultimate authority.<sup>6</sup> Norm-

<sup>5</sup> Required by Kentucky law under which cooperatives are organized, and by the Virginia Cooperative Marketing Act, under which "management contract" Southern States retail cooperatives in Kentucky are organized.

<sup>6</sup> Exceptions would be those cooperatives chartered under special legislation in which certain powers are given to a supervisory agency such as the Farm Credit Administration.

ally, however, members do not directly determine the rights and responsibilities of employees. Usually this is left to the discretion of their elected representatives. Primarily through their votes in electing their representatives, members have the power to determine jointly the rights and responsibilities of (1) the individual members, (2) the elected representatives of these members, and (3) the appointed (salaried) personnel hired to perform the actual operations of the business. This system of rights and responsibilities, enforced and supplemented by law and custom, establishes the overall framework in which management takes place. It establishes the scope of management assigned to each person or group of persons connected with the cooperative. Of course, management in a cooperative is partly an indirect process. The elected members of the board of directors have wide discretionary powers. They usually determine most of the broad policies governing the operation of the business. They can decide, within broad limits, what responsibilities are delegated to the salaried manager and to his subordinates. Within these established limits, the salaried manager exercises discretionary powers over his subordinates, and so forth. Thus, hiring and firing of nonsupervisory personnel is usually delegated by the board to the hired management. A salary schedule may be developed by the board in some cooperatives; in others a budget may be established which the hired management may split up according to its own best judgment.

When local cooperative associations are combined into "regional" associations, additional delegations of rights and duties are involved. Decisions must be made regarding the relations of members of local associations to the management of the local and regional associations. Local associations, in some cases, virtually maintain complete responsibility for the management of their own local cooperative's operations; in others much of this responsibility is delegated to the regional association.

Membership by a local association in Valley Counties of Kentucky Cooperative, for example, involves virtually no surrender of local autonomy. While the regional offers assistance in training bookkeepers, hiring auditors, providing legal service, conducting educational and business meetings, and the like, none of the responsibilities is mandatorily delegated to it.

The manager of Valley Counties of Kentucky Cooperative may counsel with local managers and boards of directors and facilitate communication among them, but he has no authority over these associations. He provides liaison between local cooperatives and private suppliers or associations of cooperatives which provide ma-



materials handled by the cooperative, but he has no authority to dictate the brand or source that an individual retail cooperative may use. A similar relationship exists between these associations and Southern States Cooperative, of which they are also members.

The relationship of 34 Kentucky local retail farm supply purchasing cooperatives to Southern States Cooperative is established largely by the terms of a management contract with the regional association. This provides an example of a very different degree of delegation to the regional association. By this contract, which has been modified and refined over the years, the local association conveys a limited power of attorney to Southern States for management of certain aspects of its local operations. A legal document of such complexity cannot be adequately summarized in a few words. However, a few simplified statements of key provisions will illustrate its effect on the responsibilities of the local and regional associations. For example, the contract:

(1) Delegates responsibility for personnel recruitment and training to Southern States.

(2) Requires joint approval of candidates for local manager positions by Southern States and by the local board.

(3) Delegates primary control over purchase of commodities for resale to Southern States.

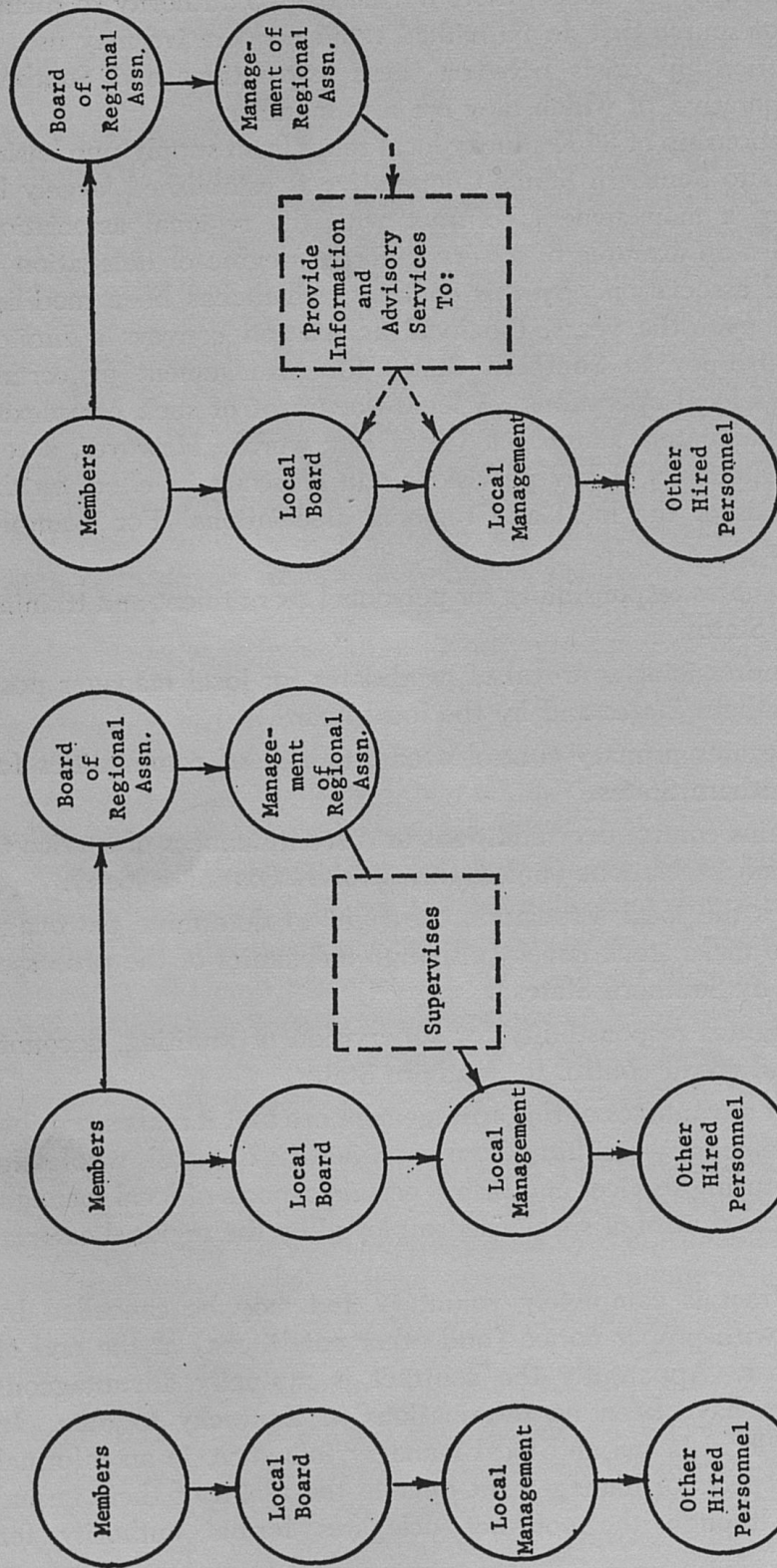
(4) Retains control over additions or discontinuances of service to the local retail associations (unless this involves floating a loan).

(5) Gives the local association the right to determine patronage refunds or to make stock issues (although mechanics of the processes are handled by Southern States).

(6) Delegates responsibility for supervision of auditing, accounting, and retail credit control to Southern States.

Important advantages of this arrangement are that it makes possible increases in efficiency resulting from coordination of retail, wholesale, and manufacturing services and brings certain aspects of local management under the control of specialists employed by the regional association.

This contract is completely voluntary and may be cancelled by either party with proper notice (and other conditions) at the end of any fiscal year. Apparently the contract is mutually advantageous because there have been no terminations in Kentucky to date. In addition, the local board and local manager influence, in an informal way, many aspects of management outside the realm of their formal authority. Although the contract delegates formal authority for



**Type C: Associations Affiliated Without Management Contract.**

**Type B: Associations Operating Under Management Contract.**

**Type A: Unaffiliated Associations.**

**Fig. 5.— How members manage their local cooperatives.**



personnel decisions to Southern States Cooperative, characteristically a manager of a local cooperative is neither hired nor removed without the sanction of the local board of directors.

This contrast in the channels through which members exert control over management decisions is illustrated in Fig. 5. It should be noted that in both cases some managerial decisions are made by both elected and hired personnel of the local. However, in some cases, a majority of these responsibilities are delegated to others; in other cases many are retained by the local cooperatives. In the management contract type of association (represented by Southern States locals), individual farmer members may have much influence over local management, but this influence is to a large extent channeled through the regional organization. In the *non-management* contract ("independent") associations, more decisions are delegated directly by the local board of directors to the local hired management, or are made directly by the board of the local association.<sup>7</sup>

To summarize, the smaller Valley Counties of Kentucky Cooperative depends, to a much greater extent, on informal "family type" relations between it and its member associations. Fewer delegations of authority to the regional occur and when they do, they are, in most cases, neither contractual nor legally binding. These same generalizations apply to any of the so-called "independent" associations which operate under franchise arrangements with Southern States or by memberships in other regionals which are not tied to management contracts. The more complex, far-flung operations of the Southern States organization require that more of these relations be formalized. In addition, some differences in point-of-view regarding the importance of coordinating the activities of the regional and local associations are probably reflected in these more extensive contractual delegations of authority to Southern States Cooperative.

<sup>7</sup> In addition to these differences in delegations of responsibility, some differences in formal organization are recognized. In the Southern States system, as we have noted elsewhere, patrons of franchised non-cooperative retail dealer agents become members in Southern States (Regional) Cooperative upon accumulating a patronage refund equal to one share of membership stock (\$1.00). These members elect representatives to district election meetings who have voting rights equal to delegates representing local cooperative associations. The relation of these individuals to Southern States Cooperative is formally similar to the so-called centralized type of organization, since they have no affiliation with an organized local association. However, we are concerned here with functional relationships in management rather than formal organizational structure. In some cases an individual may be a member of a management contract cooperative and, by virtue of patronizing one or more private dealer agencies, he may also be a member in Southern States Cooperative. In these cases, the member may exercise his vote in Southern States Cooperative and in the local cooperative.

## Determinants of Management Decisions

The hired management of a regional association or a local cooperative has a wide range of discretion. Furthermore, at any level, the hired management is in a position to know more about the detailed operations of the cooperative than the board of directors. The board must therefore depend upon him for information and advice on a wide range of subjects. For this reason, the manager often influences the decisions of his board regarding policies directly affecting the rules under which he operates. He is often in a position to exert considerable influence over the way the annual membership meeting is conducted and over the selection of nominees from which the members elect their directors. The hired manager is in a most strategic position to shape the management of the entire organization. Consequently, a major part of this study is based on facts, opinions, and attitudes obtained from interviews with managers of local retail farm supply cooperatives.

### Decisions by Hired Managers

In making managerial decisions hired managers are assumed to be influenced by at least three interrelated sets of factors. The first, which has been discussed before, is the scope of their assigned responsibilities. The second is knowledge of things important to these decisions, including knowledge of the scope of their assigned responsibilities. The third is the group of things which they consider important to the job as a cooperative manager. We will call this the manager's *job perspectives*. For any manager, these, in turn, may depend upon the way he views the organization and its purposes, which involves knowledge of the organization's purposes.

### Perspectives of Managers—What They Consider Important to their Job

One manager may view his organization as "just another business." He is likely to make different decisions from one who views his job as a managerial employee of a group of farmers and whose purpose is to help them increase their net incomes from farming. Similarly, a manager who considers the unique legal status of a cooperative business organization to be important will make different decisions than one who does not. One manager may maintain the view that his job is to serve only the existing patrons. Such a manager may be less likely to concern himself with advertising and public relations than one who believes it is his job to acquire additional patrons as a means of increasing volume and possibly reducing unit costs.



## Manager Knowledge

The way a manager views his job may be important. However, if he does not understand how to accomplish the various things he considers important, these jobs perspectives will have little influence. The manager who thinks his job is that of serving member needs will fail if he cannot ascertain their needs, or if he does not know how to achieve business efficiency in serving these needs. A man who has developed no public relations ability will probably fail, regardless of his awareness of this aspect of his job.

In the following discussion, an attempt will be made to describe how several aspects of cooperative management are conducted. That is, we shall examine some of the practices being followed in managing relations between members and their elected representatives, between the board of directors and the hired manager, between the organization and its patrons, and other factors. As a basis for our remarks we shall use primarily the answers which managers gave to a series of questions. Data from managers are supplemented from other sources whenever possible. Existing practices reflect the knowledge and perspectives of all levels of management as well as the organizational framework (the relations between local cooperatives and the regional associations with which they are affiliated), and other factors.

## THE ANNUAL MEMBERSHIP MEETING

The annual membership meeting is, for most cooperatives, the only time when members have a legally guaranteed opportunity to evaluate past performance and to exert their collective influence over the way their organization is operated. By electing directors, by voting on amendments to the Articles of Incorporation and/or by-laws, and by resolutions, etc., at the annual membership meeting, members control the way their organization functions. If members do not participate in these management decisions, in effect they delegate to those who do participate the right to control the affairs of the organization. By law, the members of farm supply purchasing cooperatives are guaranteed the right to control their cooperative by the legal mandate to hold annual membership meetings.<sup>8</sup> Additional meetings may be called by petition of certain stated proportions of the total membership (10 percent under Kentucky law) or by vote of the board. The

<sup>8</sup> Kentucky law (KRS 272.160) states: ". . . shall provide in its by-laws for one or more regular meetings annually." A similar provision exists in the Virginia law under which the Southern States "locals" in Kentucky are incorporated.

right of member-patrons to control by vote the management of their organization and the mandatory legal provisions for membership meetings at which such right may be exercised are important features of cooperative organizations.

The annual meeting may be held at any time during the year consistent with established by-laws. Characteristically, Kentucky farm supply purchasing cooperatives (a total of 35 out of 40 in the survey) held their meetings during the months of July, August, and September, shortly after the end of their fiscal year. Exceptions were the "independent" local retail cooperatives which operated on a calendar year basis.

### Attendance

Attendance at annual meetings varied widely. Member attendance varied from a low of 30 to a high of 1,170, *according to estimates by local managers*. In terms of proportions, managers estimated an average of about 38 percent of the total membership attended the annual meeting. This is extremely high compared with other areas. Such estimates varied, however, from 5 to 90 percent. Several managers had no idea at all about *member* attendance (but rather precise information on *total* attendance), and the estimates given tended to be in intervals of 50 or 100. This suggests that estimates of *member* attendance *by the managers* were not reliable and, in the opinion of those who have attended similar meetings, quite excessive in some cases. Although personnel of Southern States Cooperative keep records of ballot counts, local managers apparently did not have the information in some cases.

While members are the only ones legally entitled to vote, attendance at these meetings included many nonmembers. Public officials, family members, educators, and others are invited, presumably so the meeting can serve both business and nonbusiness (public relations, information, and education) objectives. While these latter objectives may be worthwhile, "mixed" attendance makes it difficult to know how many members participated in the business meeting. It is mechanically difficult at the time of the meeting to screen those present for voting eligibility or to make sure that only members are allowed to vote. This situation persists despite continuing efforts to correct this weakness. (For discussion of managers' views of purposes and evaluation of annual meeting, see page 34.)

### The Business Meeting

Although business considerations provided the primary justification for holding the annual meeting, a substantial part of such meetings



was devoted to such nonbusiness activities as entertainment, meals, and refreshments. Most managers did not indicate clearly how much time was devoted to business. An average of only 2½ hours was devoted to the entire meeting (2.6 for Southern States local retail cooperatives and 1.8 for the six independents). Nonbusiness activities, which will be discussed later, would have used up a major part of this time.

With one exception, all supply cooperatives in the survey reportedly had an audit of their financial records shortly before the annual meeting. Thirty-three associations reported providing members with abbreviated copies of the financial report. The remainder did not. In most cases, these were handed out at the meeting, and the managers in 30 cooperatives reported reading the report. When asked how the report was presented, only seven managers indicated they usually explained or discussed it; only four reported using charts or other visual aids.<sup>9</sup> On the average, local managers reported that about 15 minutes was devoted to the financial report.

Although 27 co-op managers indicated they provided opportunity for discussion by the members, only 7 indicated any actual member participation despite the fact that the financial report is the only tangible evidence of the financial status and efficiency of the organization. Hardly any indicated specific advance planning to elicit questions and/or discussion by the members.

This fact seems to suggest (1) an element of apathy on the part of members toward the business affairs of the cooperative, or (2) a possible disinterest on the part of directors or managers in obtaining member participation in business matters. With this lack of direct concern for business matters, the election of competent men of high integrity to serve as directors assumes considerable importance. (See pp. 21-23 for discussion of election procedures.)

### **Entertainment and Other Nonbusiness Features**

An annual meeting can be conducted at practically no cost to the cooperative if business features are the only activity and if no prizes, refreshments, etc., are provided. However, local costs of annual meetings averaged about \$300 for the 23 cooperatives which provided data on this point. In all reported cases, these direct local expenditures were reportedly supplemented by equal amounts from the re-

<sup>9</sup> Reasons for this report on visual aids are obscure. Kits of visual aid materials, which illustrate various phases of local operations and Southern States operations, are normally supplied to local associations. Perhaps they were available but were not extensively used, or possibly managers failed to report these details.

gional association. (None of the independent associations supplied data.) For these associations, the total direct cost of the annual meeting was equal to about \$0.50 for each person in attendance but varied from a low of \$0.12 to a high of \$1.14 per person. Over half spent between \$0.40 and \$0.60 per person. Total costs per member attending the annual meeting were several times as high.

Among the nonbusiness features, "free" refreshments were usually served (36 out of 40) and door prizes or attendance prizes were usually provided (37 out of 40). Thirty-seven cooperatives provided some form of entertainment. In 27 cases this was amateur talent and in 5 cases paid professionals provided the entertainment. In three, both professional and amateur talent performed. A meal was served as a regular procedure in 29 associations, usually at no direct cost to those attending.<sup>10</sup>

These facts lead one to believe the annual meeting was much more than an occasion for reviewing past performance, making business decisions, and electing directors. Perhaps the business affairs of these particular organizations can be adequately handled with only this degree of emphasis at the annual meeting; or perhaps the emphasis on entertainment and other nonbusiness features is necessary to stimulate attendance and even nominal participation in the business meeting. In any event, this situation raises questions about the potential needs that the membership meeting might serve, their relative importance, and to what degree they may conflict. Evidence is not available to provide clear answers to these questions. However, it is important to remember that this is almost the only opportunity for farmer-members as a group to receive a comprehensive report on the business affairs of their organization and to express their will regarding its operation.

#### **Who Influences the Annual Meeting Program?**

In all but five cooperatives, some members, in addition to the directors, helped plan the annual meeting. All those which did not report having nondirector members assist were independent local cooperatives. Personnel of Southern States Cooperative encourage local associations to have several people involved in various aspects of planning the local meeting. In fact, most of the local retail cooperative managers reported 12 or more members were directly involved.

Southern States Cooperative provides detailed outlines and guides

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<sup>10</sup> Reportedly, in recent years there has been a gradual shift to a policy of charging some nominal amount for the meal so persons with no interest in the organization will not be encouraged to attend. Free tickets are usually issued to each member and his wife and a select group of invited guests.



to assist in program planning and execution. These materials are prepared by specialists with extensive experience and special talents for this type of activity. No doubt the smoothly coordinated membership meetings so characteristic of local management contract cooperatives affiliated with Southern States are, to a large extent, attributable to this assistance provided to local associations. However, we might ask whether these detailed plans, which are usually accepted with little modification, are flexible enough to meet the varying needs of local associations. Furthermore, we wonder whether they are entirely consistent with the objective of having stockholder members of local cooperatives participate meaningfully in the planning activity.

Presumably the objectives of member participation in planning are (1) to educate and interest the members in the functioning of their cooperative and (2) to assure that the annual meeting will serve as an effective means for member control. Would the annual meetings and member participation in planning accomplish these objectives in greater or smaller degree if the planning groups were given more encouragement to consider the objectives of the annual meeting, their relative importance, and the overall design of the program which implements them?

### **COOPERATIVE DIRECTORS—THE POLICY-MAKING BODY**

Cooperative members exert influence or control over their organizations in several ways. However, in selecting directors and delegating powers of decision to them, they probably exert more influence over the way the organization operates than in all other ways combined. Therefore, the process by which these elected representatives are chosen, and the type of men selected, are strategic to the overall success of the organizations they represent.

It is important to recognize that the duties and responsibilities of directors differ, depending upon the type of regional association with which they are affiliated and the mode of this affiliation. The so-called independent associations, which are not affiliated by management contract with regional associations, place almost the entire burden of management policy decisions of the local association on the local board of directors. On the other hand, the so-called "management contract" cooperatives, such as the Southern States retail units, considerably reduce the responsibility of local directors over local management matters. The terms of the management contract delegate to the regional association responsibility for guidance in establishing much of the local association's management policy.

### Election of Directors

Law establishes a minimum number of directors (not less than five, under Kentucky law). The most common number is seven in farm supply cooperatives. The term of office is usually three years, terms being staggered so that only part of the directors are changed in any given year. Directors of the Southern States retail cooperatives cannot succeed themselves, but in five of the six independent associations directors can succeed themselves, apparently for as many terms as the members elect them. This latter system makes possible more continuity of directorship and accumulation of experience by directors over the years. However, it has the disadvantage of allowing incompetent directors to continue in the event that membership apathy permits them to stay in office. In the other situation new men *must* be selected, insuring some infusion of "new blood," and directors with experience are eligible for consideration again after having been "off the board" for one year.

All but one cooperative reported using nominating committees. According to the managers interviewed, in 23 cases the committee was appointed by the president of the association; in 5, by the board; and in other cooperatives, a combination of directors, the president and/or the manager appointed the nominating committee. Usually either three or four individuals served on the committee, which was composed of (1) directors and members (24 out of 40), or (2) the manager, directors, and members. Nominating committees usually were selected several weeks before the annual meeting. All but two cooperatives required that two candidates be nominated for each vacancy.

The advantage of a nominating committee is that it provides additional opportunity for carefully considering the qualifications of various men for the job. However, to capitalize fully on this opportunity, it would appear desirable to inform members before the annual meeting of (1) the names of nominating committee members and (2) names and other pertinent information about the nominees selected by the committee. Managers' reports provided no evidence of this type of follow-through. However, reports from Southern States Cooperative officials indicate that the names of nominees, but not their qualifications, are usually published by management controlled retail cooperatives affiliated with this organization.<sup>11</sup> The annual meeting

<sup>11</sup> The names are published and notices mailed by Southern States Cooperative. Hence, the local manager may only see a copy of the notice which may be submerged in masses of merchandising materials and other mail. This may explain the failure of local managers to mention this procedure.



planning committee is usually advised of names of the nominating committee members and often submits suggestions for nominees.

All cooperatives in the study, according to managers' reports, provided an "opportunity" for floor nominations. This is probably important. The nominating committee system has advantages if properly used; but in the absence of an opportunity for floor nominations, the committee can become a tool for maintaining control of the association by a small group. Floor nominations provide a way for members to exercise directly their right to control their organization and provide a check against any incompetent or irresponsible selection of nominees.

While all cooperatives reportedly provided for floor nominations, such nominations were reported as "rarely" or "never" made. Interpretation of this is difficult: (1) it may reflect members' confidence in the ability and integrity of the nominating committee; (2) it may reflect membership apathy or reluctance to "speak up" in apparent disagreement with the committee; (3) it may reflect a farmer chairman's lack of experience in parliamentary procedure; or (4) it may reflect a tendency noted in many types of meetings, to close nominations too hurriedly after the report of the nominating committee is received. In cases where members have not known of the nominees in advance, this procedure provides little time to think of alternate candidates that might be acceptable to a majority. Perhaps the existing practice of notifying members of the nominating committee's selections at the same time notice of the annual meeting is published eliminates this as a major problem. However, a picture and "fact sheet" on each candidate might also be worthwhile.

Finally, in all cases the election was reportedly conducted by secret ballot, a procedure which assures the member freedom from social or economic pressures. This method may be particularly important in rural communities where tradition, friendship, and family ties are often strong forces in shaping individual decisions.

The survey revealed little evidence of any systematic procedure to assure that only those who were qualified members of the cooperative were allowed to vote.<sup>12</sup> Often a statement of qualifications for voting members was printed on the ballot, but its effectiveness could not be ascertained from the data. This may or may not be a serious problem.

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<sup>12</sup> This problem has been recognized by the membership relations personnel of Southern States, but the mechanical problems of screening those in attendance as to eligibility for voting has slowed remedial action. A small group of meetings will be held this year in a part of the Southern States operating territory outside Kentucky where experimental attempts at screening for voting eligibility will be made.

It does, however, raise the question of what rights and responsibilities are to be shared by whom. The cooperative legally does not "belong to everybody" who may be present at the annual meeting. If the cooperative handles its business affairs, including the election of directors, as if it does "belong to everybody" it is not using sound business procedures.

On the whole, Kentucky farm supply purchasing cooperatives appear to provide a system which, if properly used, would make for sound formal election procedures. In certain cases, these processes have no doubt broken down because of member apathy, lack of understanding of what qualifications are desirable in a director, misplaced confidence in local leaders, or other factors. Establishing sound procedures provides opportunity for intelligent group action. If members do not take advantage of this opportunity, incompetent or otherwise unworthy directors may be elected. Ultimately, only the members can assure themselves of competent direction of their collective off-the-farm business affairs.

#### **Characteristics and Tenure of Board Members**

Over half of the cooperatives had board members averaging between 40 and 49 years of age. Since directors in the 34 Southern States "management contract" cooperatives cannot succeed themselves, all directors had been on the board in continuous service for less than 3 years.<sup>13</sup> However, in the four independent cooperatives supplying data, the *average* uninterrupted tenure of directors was over 6 years in every association. Some of these directors had served for over twice this length of time. Many had served continuously since the cooperative was organized. All independent cooperatives reported that the average age of directors was 50 years or more.

Long continuous tenure is not objectionable if it indicates that the members believe the individual has demonstrated his ability to serve effectively and to keep abreast of changing conditions. However, some dangers are apparent. For example, membership apathy may result in keeping a board member in office even though he is, for any of several reasons, no longer serving effectively. He may not have been very capable to begin with, or he may have been capable at one time but served beyond his productive years. Continuous tenure by a single group may also tend to create the impression that it is futile for members to express their views or to vote.

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<sup>13</sup> Some, of course, had served a term, retired, and after a period of a year or so been re-elected.



### Frequency of Board Meetings

Most Kentucky farm supply cooperatives (29 out of 40) held board meetings quarterly, or quarterly and upon call of the president (4). The remainder met monthly, upon call by the president, or both. Twenty-eight cooperatives out of 33 providing data had held from three to six meetings in the previous year; 25 had held five or more meetings. Relatively few board meetings were regularly scheduled on specific dates. Thirty-three reported these meetings were not usually "open" to members.

Board meetings attended by members could sometimes become unwieldy and subject to pressures of loyalties and friendships. This would be especially true in times of crisis and would make objective appraisal of business matters difficult. Also some questions of merchandising strategy, etc., would be difficult to discuss if it were possible for competitors to learn about them through members attending the meeting. However, it would seem important to provide an easy way for members to bring their ideas and suggestions to the attention of all board members. As a minimum, members should probably be allowed to meet with the board on request.

Most board meetings were held in the evenings, frequently as dinner meetings, or immediately following board dinners. Agenda prepared in advance and sent to board members were the exception rather than the rule.

The survey data provide no information as to the actual way board meetings were conducted. We also have little or no basis for evaluating the effectiveness with which these boards of directors operated, either in board meetings or otherwise.

### Director Compensation

Questions are often raised regarding the policy of compensation to cooperative directors for their services. Managers reported the existing practice in 23 of these 40 cooperatives was to pay directors some nominal amount for attending these meetings, varying from the cost of a dinner to \$7.50. Most paid \$2 to \$5 per meeting and provided no mileage.

When directors must travel several miles or attend meetings during normal working hours, they evidently must sacrifice monetarily in order to serve. However, local farm supply purchasing cooperatives serve relatively small areas and usually hold their board meetings in the evening when they do not conflict with normal farm duties.

Whether the present compensation is high enough under the circumstances is difficult to say. Apparently many motivations other

than direct financial rewards prompt individuals to serve as cooperative directors. However, local cooperatives may need to review their policies regarding remuneration of directors for attending board meetings and other important functions. It is vitally important that the system of compensation, recognitions, and privileges accorded directors be such that: (1) directors with sound business judgment can be induced to serve, (2) they are motivated to learn and perform their functions in a creditable manner, and (3) those who would not perform in a creditable manner are not encouraged to seek office.

### **THE SALARIED MANAGER**

In most farm supply purchasing cooperatives in Kentucky, a full-time hired manager has immediate responsibility for credit control, advertising, membership information, inventory control, employee supervision, record keeping, and other details of local operations. He is responsible for carrying out the policies of the board of directors. Managers of retail management contract cooperatives also have responsibility for carrying out various policies of the Management Services Division of Southern States Cooperative. Therefore, the background, training and other characteristics of salaried managers, the various types of knowledge they possess, and the way they view their responsibilities are of some importance.

#### **Characteristics and Qualifications**

Most cooperative managers were relatively young, 30 out of 39 being less than 40 years of age. Only one manager was over 50 years old. The average age was 35.

Almost two-thirds of the managers interviewed had some college training (Fig. 6). Fifteen had completed high school but had not received training beyond this level. Twelve were college graduates. Generally speaking, their educational preparation was not specifically oriented to management of a cooperative retail business. Only one manager reported any specific cooperative training. Only two were specifically trained in the field of business or commerce. Thirteen had either vocational agriculture training in high school or training in an agricultural college. Twenty-one had no specific field of training either at the high school or college level. With only three exceptions, the managers had farm backgrounds.

Despite the fact that these are small retail businesses, 24 of 39 managers had been employed in some type of business other than a cooperative for over 1 year before their first employment by any



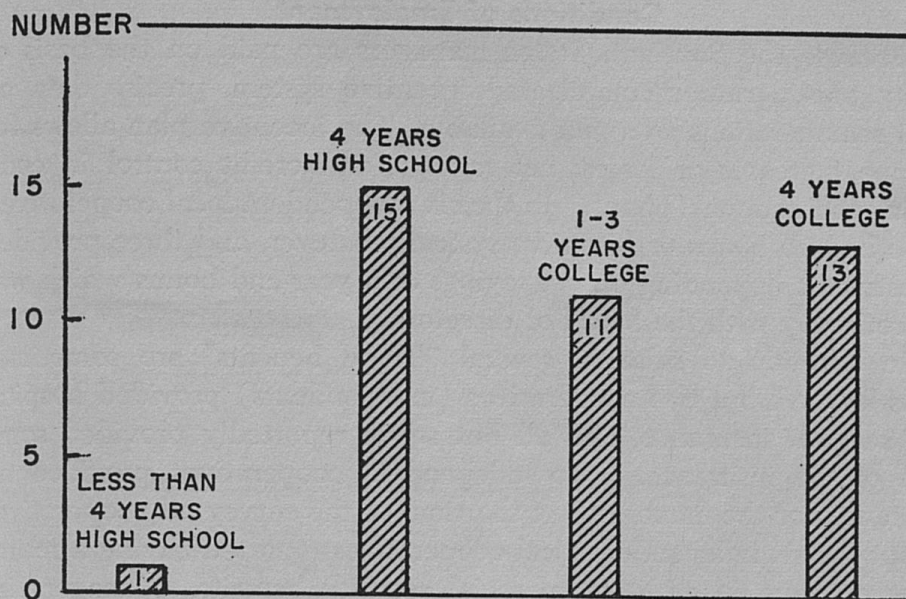


Fig. 6.— Years of school completed by managers of 40 retail farm supply cooperatives.

cooperative. These had an average of almost 6 years employment in noncooperative businesses.

The rate of manager turnover had been rather high during the years immediately preceding the survey. The average tenure of managers in their present position was only 3.4 years. This reflects a combination of resignations, and in the Southern States system, some transfers of managers from smaller retail cooperatives to larger ones. On the average, these retail cooperatives had changed managers three times during their comparatively brief period of operation (7 years average age).<sup>14</sup> At the time of the survey the total experience of these men in managerial positions (both cooperatives and other businesses) was about 4.7 years, including their present employment.

Most of the managers had apparently been employed directly as managers or had become managers after only a brief period of employment. Indications were that the average manager had worked for the specific cooperative of which he was manager only 1.4 years before becoming manager.<sup>15</sup> This reflects, in substantial part, a policy in the Southern States Cooperative system of advancing promising employees to managerial positions by transfers to other cooperatives if necessary.

<sup>14</sup> This situation may have changed since the time the survey was taken. Since then, the salary schedule for managers of local cooperatives affiliated by management contract with Southern States Cooperative has been adjusted upward, creating more incentive for continued employment. Also, the statewide system of distribution has become more complete and stabilized.

<sup>15</sup> Average total employment in the specific cooperative less average years employed as co-op manager.

### Conditions of Employment

Because the Southern States managers are paid on the basis of salary plus a rather complicated incentive system, precise data on total remunerations were not available. The incentive plan allows for volume increases or losses, net savings, and credit control in computing their annual "bonus." In the six independent local cooperatives, three had no bonus or incentive system whatever, and three provided adjustments depending on net savings or a year-end bonus which was discretionary with the board of directors.

In addition to salaries, several "fringe benefits" are sometimes provided. All but two cooperatives (independents) provided hospital and surgical insurance, and all but seven reportedly provided some type of life insurance. Two independent cooperatives provided no insurance for the manager. At the time of the survey all cooperatives except the six independent local cooperatives reported having a retirement program in addition to social security benefits. Managers indicated that all cooperatives, with the exception of three independents, provided 2 weeks vacation with pay annually. These three provided 1 week each.

Appraising the number and extent of these "fringe benefits" that can be justified is difficult. They are influenced, no doubt, primarily by what competing employers offer. The most important test is whether these benefits are adequate to recruit, hold, and motivate the type of employees necessary to efficient operation.

Data from the survey are not adequate to appraise the importance of these factors. Most industrial firms provide all these benefits for their employees, either voluntarily or as part of a contract with a labor union. Labor economists indicate that ordinary incentive systems such as profit sharing or piece-work have generally not been very successful in raising productivity *unless* other conditions have been met. These conditions have included protection against health hazards, insurance protection, worker participation in planning incentive systems and fringe benefit programs, adequate information about the purposes and provisions of these systems, and so forth.<sup>16</sup> These benefits indicate to the worker an element of concern for his welfare.

<sup>16</sup> For example, Solomon Barkin says, "Management has increasingly learned the limitations of the wage incentive system as a single stimulus to full worker cooperation."

"There is considerable realization among management leaders that proper social motivation and sanctions for greater personal application and cooperation in production by workers as a group . . . can facilitate both development of plant morale and an interest in financial incentives." See "Management Attitude Toward Wage Incentive Systems," *Industrial and Labor Relations Review*, Vol. 5, No. 1, October 1951, p. 106.



### Manager Knowledge

In addition to formal school training and experience, managers acquire knowledge in other ways. In the case of the Southern States Cooperatives, managers are given a period of "in-service" training before they assume their duties as managers and a continuing program of training in district managers meetings, training sessions at regional headquarters, and other activities. Managers who wish to do so can learn by studying various materials on cooperatives, business management, or other subjects pertinent to their jobs as managers, made available through government sources and public educational agencies. In addition, various agencies sponsor educational meetings which provide useful training for managers.

To what extent have managers taken advantage of these opportunities to increase their understanding of cooperative problems? Obviously the many fields of knowledge that would be useful to managers cannot be covered in a single survey. Available data provide only brief insights into a few categories of knowledge which may be of somewhat unique importance to cooperatives.

### Knowledge of Cooperative Principles

There are three basic cooperative "principles" which distinguish cooperatives from other types of corporations. These are:

- (1) business conducted at cost (through use of the patronage refund to equalize prices with costs),
- (2) democratic control of the organization by vote of patron-members, and
- (3) limited return on capital.

In an attempt to explore their grasp of these cooperative principles, managers were asked two questions. The first question asked the manager to define, in his own words, a "true" cooperative. The second question asked for some "cooperative principles that you feel should be kept before members of this cooperative."

The principle of "operation at cost" was mentioned specifically in answer to the first question by 34 percent of the managers, and in answer to the second by 36 percent. A few more alluded to the principle but only in a vague way. Yet, if a manager is to help farm people understand the advantages of purchasing through the cooperative, he should be able to explain in a clear, understandable manner the patronage refund or cost basis principle.

The idea of democratic control through votes of member-patrons was precisely stated by only a few managers. However, several

**Table 2.—Indications of Knowledge of Cooperative "Principles" by Managers of Farm Supply Cooperatives—1955**

ITEM	Mentioned in defining a "true" cooperative		Mentioned as "principles to be kept before members"	
	No.	% of those reporting	No.	% of those reporting
Cost basis operation—precise .....	13	34	13	36
Cost basis operation—suggestive only ....	7	20	2	5
TOTAL .....	20	54	15	41
Democratic control—precise .....	4	11	5	14
Democratic control—suggestive only ....	12	32	2	5
TOTAL .....	16	43	7	19
Limited return on capital—precise .....	0	0	0	0
Limited return on capital—suggestive only	1	3	0	0
TOTAL .....	1	3	0	0
General collective effort concept without precise mention all three principles .....	28	74	Not Applicable	Not Applicable
None of the above, or no definition .....	2	5	5	14
Total Reporting .....	37	100	36	100

managers indicated in some general way that patrons "owned the business," that it was "run by farmers," etc. (Table 2). It is difficult to say why so many more mentioned "democratic" control as a cooperative principle than mentioned it in their definition of a cooperative. In any event, a majority of cooperative managers apparently do not understand this idea. Certainly many would be unable to explain it clearly to others.

The principle of limited returns on invested capital is a more subtle concept. For this reason, perhaps, it was not well recognized by managers. However, it does qualify as a "true" cooperative principle because it assures the patron that any net savings over "normal" return to capital will go to patrons rather than stockholders. *Only one manager mentioned this principle as part of his definition of a cooperative. None mentioned it as a principle that should be kept before farmers.*

A majority of these managers seemed to have only a general idea that a cooperative was some kind of collective effort by farmers. This vague understanding by the manager may be sufficient for purposes of most business management functions in the cooperative. However, if the manager attempts to create an understanding of the cooperative on the part of employees, farmers, and others, one



wonders whether this vague general idea is adequate for such educational purposes.

### Knowledge of Legal Status and Requirements

What a cooperative manager needs to know about the legal requirements of the organization or its legal status may depend on the type of regional organization, if any, with which it is affiliated. For example, the Southern States management contract cooperatives have most of their legal and income tax matters taken care of by technically trained employees of the regional association. Therefore, it may not be very important for such local managers to know, for purposes of meeting legal and tax requirements, whether their cooperative is "exempt," that is, whether it has a Letter of Exemption from the Internal Revenue Service.<sup>17</sup> For those who do not have this service, knowledge of legal matters may be extremely important for purposes of meeting legal and tax requirements and avoiding costly litigation.

In view of the controversial status of cooperatives with respect to federal corporation income tax treatment, *all* managers should be able to discuss these matters intelligently with directors, employees, patron-members, and the public at large.

Managers should also be able to advise directors and members on other items so that legal infractions do not occur. This may be true regardless of their regional affiliation. These items include the law under which the cooperative is incorporated, the provisions of Articles of Incorporation and Bylaws, and knowledge of the procedures by which Articles and Bylaws are amended. For example, if bylaws are amended by nonlegal procedures, the change will be legally null and void. Operations conducted in accordance with a voided bylaw may create serious problems. In some cases, directors have been held personally liable for financial losses resulting.

Most of the managers were aware of the particular law under which their association was incorporated. However, very few had accurate knowledge of the legal procedures for amending bylaws; in many cases they did not even know whether action by the members, the Board of Directors, or both were required to make a change

<sup>17</sup> A "Letter of Exemption" is a document issued by the Internal Revenue Service to certain farmer cooperatives which apply for it and which meet all the numerous requirements set forth. (Subsection 521c, Internal Revenue Code of 1954.) The principal tax effect of this "Letter" is to exempt the cooperative from paying taxes at the usual corporate rate on sums paid out as dividends on capital stock outstanding. Payments of "patronage refunds" to patrons of the cooperative, when made pursuant to a prior contractual obligation, are excludable to the cooperative in computing its income for tax purposes, regardless of whether it has a "Letter of Exemption." This is also true of any other business corporation.

(Table 3). Evidently managers need further education in this area. Impressions of those participating in the survey were that knowledge of managers regarding the content of Articles of Incorporation or Bylaws was very sketchy. In several cases managers were unable to locate a copy of either document.

On matters of tax treatment and Letters of Exemption, a large number of managers were not very well informed. Three-fifths of those interviewed indicated little or no knowledge. However, all but one of the managers of the six independent associations had precise knowledge on these matters (Table 3).

**Table 3.— Manager Knowledge of Legal Status and Legal Requirements of Cooperatives—1955**

	Total	Yes (Number)	Doubtful (Number)	No (Number)	No Answer (Number)
Knowledge of law under which cooperative is incorporated .....	40	27	0	6	7
Knowledge of way bylaws can be amended .....	40	1	6	28	5
General knowledge of any special tax treatment of the cooperative .....	40	16	0	24	0
Knowledge of whether co-op has a "letter of exemption" from payment of federal income taxes .....	40	13	0	19	8
Knowledge of limitation on business with nonfarmers .....	40	19	9	11	1

### Perspectives of Managers

Partly as a result of training and understanding of the objectives of the organization, partly because of personality differences, and partly because of the demands of the job, managers become "sensitized" to different aspects of their potential functions and responsibilities.

Because a cooperative is set up so that its member-patrons may exercise ultimate control, the potential scope of the manager's functions and responsibilities is enlarged. Among other things, the manager is usually in a position to inform member-patrons about the nature of the cooperative organization, its problems, and both their opportunities and responsibilities as members of the organization. Second, the manager has considerable power to stimulate active interest on the part of members in the business organization which the law provides that they control jointly; that is, he can stimulate enlightened participation in the processes by which the organization is controlled.



**Table 4.—How Managers Viewed Their Jobs as Revealed in Responses to Opinion Questions Relating to the Annual Meeting—1955**

	Educational and Informational	Business Aspects and Member Interest and Participation <sup>1</sup>	Public Relations, Recreation and Social Activity <sup>1</sup>	Attendance	Total Answering Questions but Mentioning None of These Aspects	Number Answering Questions
	Aspects <sup>1</sup> (Number of Managers Mentioning)	(Number of Managers Mentioning)	(Number of Managers Mentioning)	(Number of Managers Mentioning)		
Reasons annual meeting was or was not worthwhile .....	8	9	6	8	6	35
Evidences that annual meetings are getting better or worse .....	0	8	2	16	2	24
Stated weaknesses and strong points of annual meeting .....	3	18	17	23	0	33
Stated purposes of annual meeting ..	30	18	9	(Not Applicable)	0	36

<sup>1</sup> Indicates the number of managers who mentioned one or more aspects relating to the respective categories.

Third, he may have some powers to persuade and influence public opinion directly without necessarily informing or educating. One aspect of this is called "customer relations" by most noncooperative businesses. Advertising is a part of customer relations. Where expansion in business volume is required to achieve operating efficiency, this may be as important in a cooperative as in any other form of business. Another public relations objective is to influence the various political bodies and social groups that establish the rules, laws, and customs under which cooperatives operate. Finally, the manager may if he chooses, attempt to induce members to accept, on irrational grounds, policies and ideas which he believes to be in their interest or ones that will benefit him directly. In the latter case, any degree of success achieved is basically inconsistent with the principle of member-patron control because it limits the ability of members to evaluate the policies of the organization in terms of their own interests.

While the relative interest in these factors cannot be precisely measured, managers' answers to several questions provide clues regarding the emphasis managers place on public relations, education and information, and participation of members in the control of the organization. In Table 4 responses to four of these questions, relating to the annual membership meeting, are summarized.

Managers emphasized "educational" aims in their statements of the main purposes of the annual meeting. Yet, in their evaluations of meetings held and why they thought they were getting "better" or "worse," education and information assumed a distinctly minor role. The emphasis placed on attendance without concern for matters of content also suggests that managers were not able to use their stated purposes in evaluating what actually happened at the annual meeting. This would seem to suggest that both managers and directors need intensive discussion of annual meetings and other membership contracts *in terms of the objectives they are designed to accomplish.*

Another interesting point is that public or "customer" relations and social and recreational objectives did not assume a dominant position in managers' expressions of the purpose of the annual meeting, despite the fact that a large part of the meeting was devoted to activities of this type. This fact suggests: (1) the manager may not have been influential in determining the content of the meeting; (2) the manager may have believed (rightly or wrongly) that recreational and social activity was necessary to stimulate attendance and participation in the business meeting and educational activities; or (3) the manager had given very little attention to the annual meeting.



## MEMBERS AND MEMBERSHIP EDUCATION

Members determine the type of directors elected, managers employed and their attitudes, and ultimately the entire cooperative structure and mode of operation. However, in many cases the members make policies and elect directors by default, that is, by simply acquiescing and accepting on faith the opinion and wishes of a small minority. Unfortunately, minorities do not always have the will of the majority as their objective. Therefore, a cooperative faces the very real problem of obtaining effective expression of the rationally determined wishes of the majority. This is the reason that the problem of membership education exists and a partial explanation of why many cooperatives use artificial inducements to attract farmers to the annual meeting and to exercise their right to vote. But while these inducements may be necessary to attract member attendance, they pose a real dilemma for the planners of the annual meeting. (See discussion of annual meetings pp. 17-20.)

### How Memberships are Acquired

The primary way that farmers become members of Kentucky farm supply purchasing cooperatives provides a clue to the source of many of the difficulties experienced in trying to get more general and effective membership participation.

Every manager reported that a farmer became a member upon doing enough business with the cooperative so that his pro rata share of savings equalled one share of common (voting) stock. Except in a few cases voting stock had a par value of \$1 per share. Four cooperatives reported \$5 per share and one cooperative reported \$10. Thus, if the cooperative in a given year returned a patronage refund of 5 percent on total sales, a farmer could become a member if he purchased only \$20 worth of merchandise. What is even more significant, he would in most cases, *remain a member* even if he never purchased from the cooperative again. Thus, the farmer would become a member: (1) probably without ever having made a decision to become a member, (2) perhaps without wanting to, and (3) only because he may have found it convenient to purchase a few sacks of fertilizer or feed when he was passing by.

In no case was there any screening of membership "applications;" it was simply automatic. In addition, according to local managers, very few local cooperatives made any special point of notifying the farmer he had become a member of the cooperative. Only six reported any official provision for sending a letter of notification to each new member. Another six indicated use of some informal method of

notifying each new member. However, a stock certificate is always mailed to him. In the course of another survey, it was found that even when a certificate is mailed many farmers did not recognize that it signified membership.<sup>18</sup>

In view of these facts, and because many small-scale farmers who are members have very little economically at stake in the cooperative, it is not surprising that membership participation is minimal in many cooperatives. It seems doubtful that the practice of making "members" of all farmer patrons is justified when many of them may have no interest in, or understanding of, the affairs of the cooperative. Whenever the practice is followed, it creates a real need for educating and informing "members" that are so acquired, regarding the nature of the cooperative organization, their rights and responsibilities as members, and existing programs and problems.

A combination of circumstances has evidently contributed to the rather prevalent system of more or less "automatic" memberships in these cooperatives. Understanding these circumstances help in solving the problem. Most U. S. farm supply purchasing cooperatives apparently have adhered generally to the so-called cooperative principle of "open membership," which was first generally recognized as the result of the success of the Rochdale Pioneers, a consumer purchasing cooperative organized in England in 1844.

To some extent, the existing laws affecting these cooperatives may be responsible for the practice of so-called "made members." Federal tax laws require that "exempt" farmer cooperatives do at least 50 percent of their business with members.<sup>19</sup> So also do the state laws under which these cooperatives are organized. Therefore, in order to remain "exempt," and to avoid other legal problems, it has sometimes been expedient to extend membership to any farmer more or less automatically when his patronage refunds amount to the cost of one share of common (voting) stock.

A general assumption has been that farm supply purchasing cooperatives tend to operate under conditions of decreasing costs, with increases in the volume of business. Perhaps the desire to build business volume and the presumed "good will" or "public relations" associated with making members of all farmer patrons has contributed to the "automatic" membership situation. Furthermore, cooperatives

<sup>18</sup> Survey of patronage and related factors in Tennessee farm supply purchasing cooperatives, conducted by Eldon D. Smith (unpublished).

<sup>19</sup> Federal tax laws also require of "exempt" cooperatives, that "substantially all" the voting control be in the hands of active members of the cooperative. Court decisions tend to indicate this may mean about 90 percent. This, if complied with, tends to require the "weeding out" of nonuser members periodically.

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may have felt that an impressively large membership list has distinct advantages for other, perhaps semipolitical, purposes. Possibly the sheer force of inertia plus the failure to recognize the actual dimensions of the problems created have been of major significance in this development. Cooperatives in general appear increasingly aware of this very real problem of cooperative membership.

### The Membership Education Program

Membership education activities reported by the managers of local cooperatives were usually confined to annual meetings, a few signs in the warehouse, some informal day-to-day personal contacts by the manager and/or employees, or, in some cases, use of membership committees. The manager and local board of directors planned the activities mentioned by the manager, usually with assistance from the regional cooperative with which the local cooperative was affiliated. The Southern States' women's programs and indirect work through county extension offices and vocational agriculture departments, activities which try to inform and educate members, were rarely mentioned, perhaps because the regional association has primary responsibility for these activities. Most managers failed to mention mailing lists and other communication channels, probably because of their primary use as advertising media. Member education is usually a secondary use of these media.

When asked the more specific question of what means were used

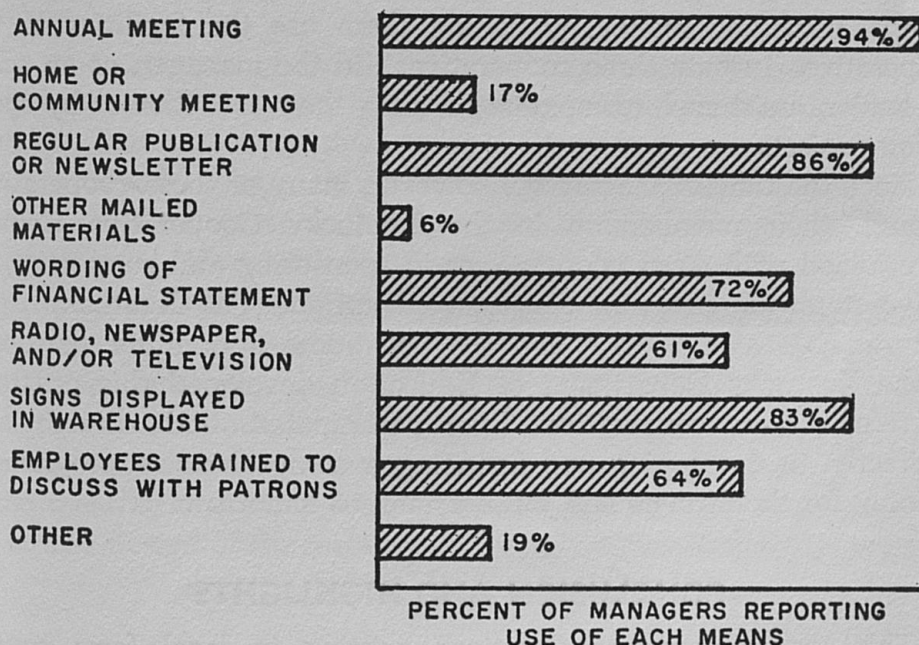


Fig. 7.— Means used by local associations to inform members about cooperative principles.

to inform members about the "principles" of cooperatives, local cooperative managers mentioned several other activities (Fig. 7). However, their efforts may not have been very effective because managers themselves seemed to have only a sketchy understanding of these principles. Furthermore, the extent or intensity of use of each means may have been nominal in some cases.

In addition, all but seven cooperatives reportedly made some attempt to inform farmers who were not yet members or patrons about the cooperative and/or services available. Special mailing lists and personal contact were the primary means used for this purpose.

### Youth Education Activities

Many people believe that, in the long run, informing and educating rural youth about cooperatives may be a more effective means of creating member understanding than trying to inform only adult farmers. Youth organizations and public schools provide means for contacting fairly large numbers of prospective farmers and future members of the business community at an age when their ideas are flexible and learning rates are rapid. Of the 38 cooperatives which provided data, 22 reported having no program of information or service to rural youth groups. Thirteen reported some work with Future Farmers of America (FFA); 10 reported working with 4-H clubs; and 7 worked with the veterans' agriculture training program. None reported working with the Utopia or "Teenage" 4-H groups. These youth group activities usually involved either talking to the groups, providing money, or letting them use the facilities of the cooperative. In only three cooperatives did the manager, as an adult lay leader, assist such groups, in planning their activities or by sponsoring projects.

Since the time of the survey, however, many of these cooperatives through their membership in the Kentucky Cooperative Council have joined with other cooperatives in sponsoring and supporting an active statewide program of youth education. The Kentucky Agricultural Extension Service and the vocational agriculture personnel of the Kentucky Department of Education developed this program. Therefore, these cooperatives have participated, both directly and indirectly, in developing and financing a comprehensive program of training for the farmers and businessmen of tomorrow.

### CONCLUSION AND HIGHLIGHTS

This report describes situations existing in local farm supply purchasing cooperatives which call attention to several possible



improvements and unsolved problems. These situations relate primarily to (1) procedures followed in annual membership meetings, (2) cooperative directors and the way they are elected, and (3) the hired local managers—their qualifications, attitudes, and selected elements of manager knowledge.

The main purpose of the study was to provide a basis whereby local managers and directors may compare their present situations with those generally found in other farm supply cooperatives in 1955, the time of the survey. Many of the conditions described may have changed, but the usefulness of the data for this purpose will not have been seriously impaired by its age. No attempt is made to determine whether improvements should be made, but some alternative policies are suggested which responsible boards of directors, local managers, and personnel of regional cooperatives may wish to consider.

The data appeared to indicate, among other things, that:

1. Relatively young, well educated managers were found in most local associations.

2. Very few managers had any training specifically oriented to cooperatives, their special characteristics, and their effect on responsibilities of boards and managers. Partly because of this fact, managers had a very sketchy knowledge of (a) cooperative principles, (b) the special legal framework of cooperatives, and (c) the importance of elections, review of cooperative performance, member participation, and other aspects of the business portion of the annual membership meetings.

3. The directors of most boards averaged 40 to 50 years of age. All 34 local retail cooperatives affiliated by management contracts with Southern States Cooperative do not allow two consecutive 3-year terms. This rule apparently resulted in younger directors, in addition to more rapid turnover on local boards. Boards of cooperatives not affiliated by contract with Southern States had no such rule. Their directors averaged over 50 years of age in all six cases.

4. The annual meeting appears to have been much more than an occasion for reviewing past performance, electing directors, and making business decisions. Perhaps some festive features are necessary to achieve even nominal participation by members. But the purposes of the meeting and their relative importance must be considered in the overall design of the meeting if it is to achieve its full potential.

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