

IOWA STATE UNIVERSITY

Extension and Outreach / Department of Economics

Cooperative Challenges and Pressure on Leadership

How Do Cooperative Businesses Develop Future Leaders?

Master of Agribusiness Program, Cooperative Symposium

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A Fundamental Difference

“By construction, cooperatives put the economic interests of a particular class of patron in front of all other stakeholders and look to patron owners for risk capital and leadership...”

Brent Hueth, Anne Reynolds

Governance

Cooperative businesses are unique in their governance compared to investor-oriented / owned firms (IOFs).

The board has two overarching responsibilities:

- Ensure the sustainability of the organization
- Represent the members' interests

➤ *In what way is this unique?*

➤ *What difference does it make?*

Governance

Given that board members are also producer-members of the co-op, in what decisions will there be conflict or competition in those responsibilities?

- Investments that have unequal benefits to member segments (spatial, temporal, etc)
- Decisions that prioritize co-op profitability over member-level profitability, or vice versa
- Others

Value is a Heavy Load

- Price
- Patronage
- Service
- Existence Value
- Governance
- Community

Principal-Agent Framework

The principal-agent models recognize the costs and potential inefficiencies that arise when one party is charged with acting on behalf of another and **goals, preferences, and risk appetites are not aligned.**

Members: Principals

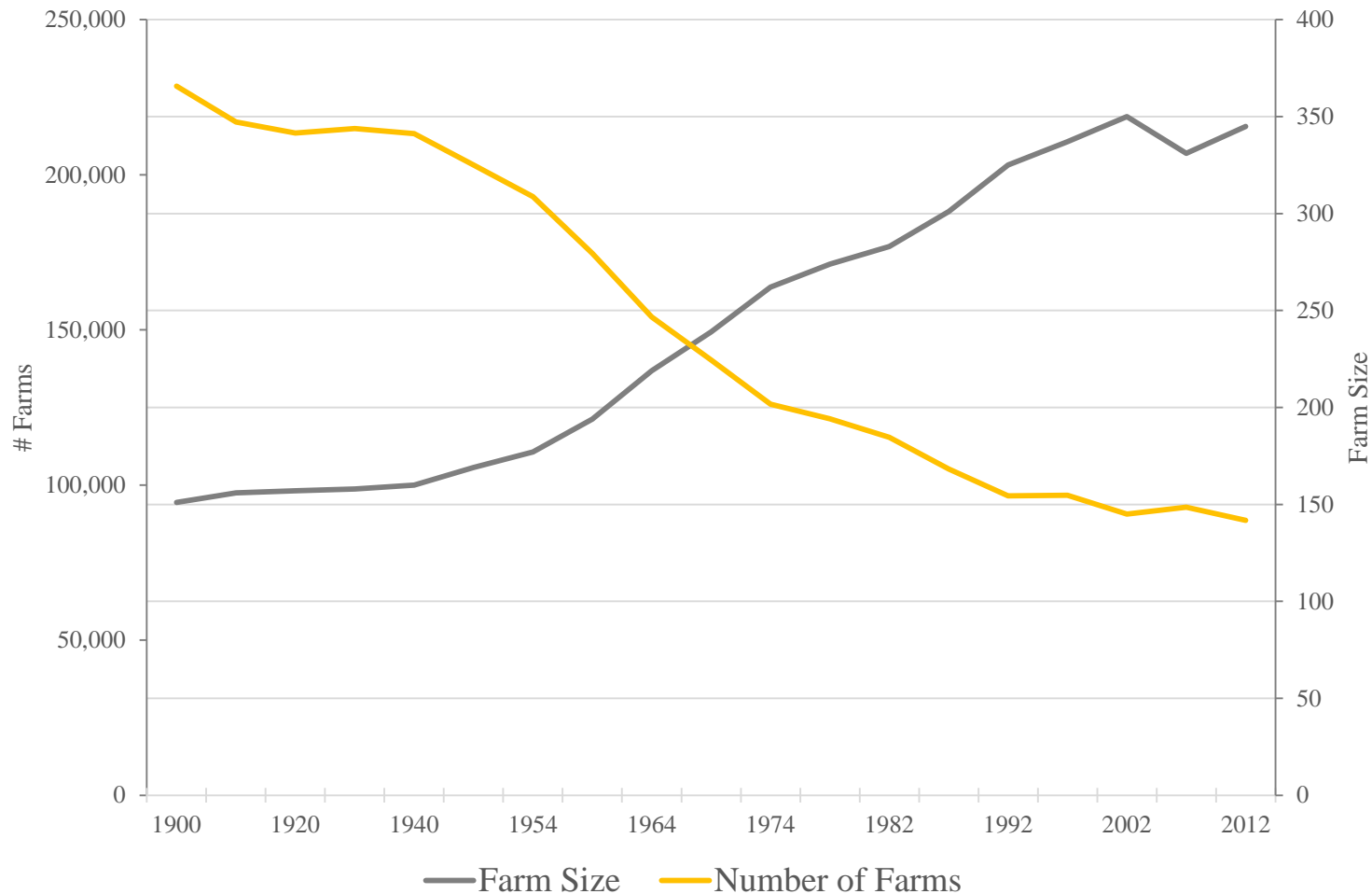
Board Members: Principals **and** Agents

Manager: Agent

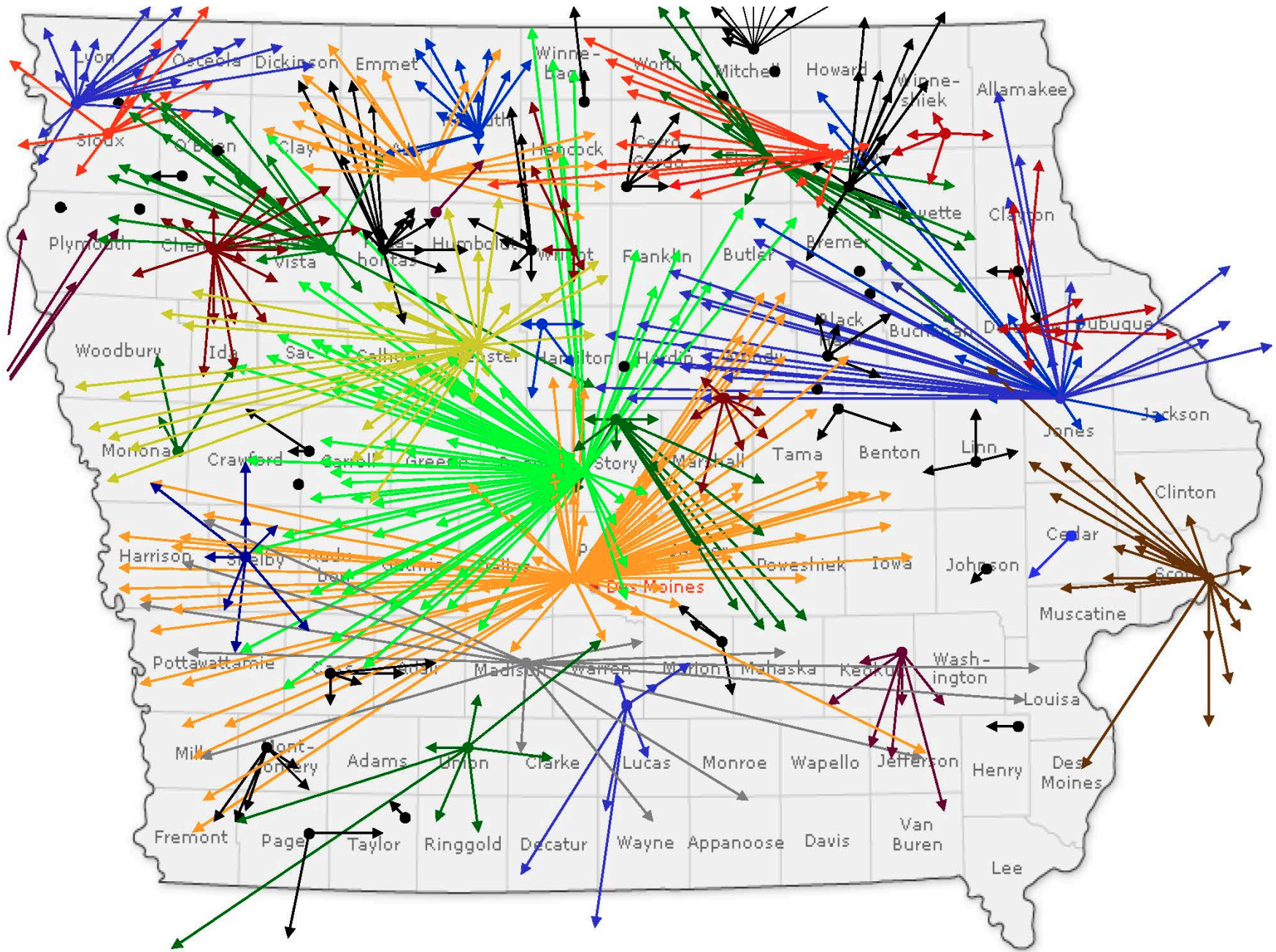
A Trend Challenging Leadership

- High profile mergers and buy-outs along the supply chain
- Consolidation of agricultural retailers (marketing and input supply)
- Increased diversity of producers' needs and operation sizes

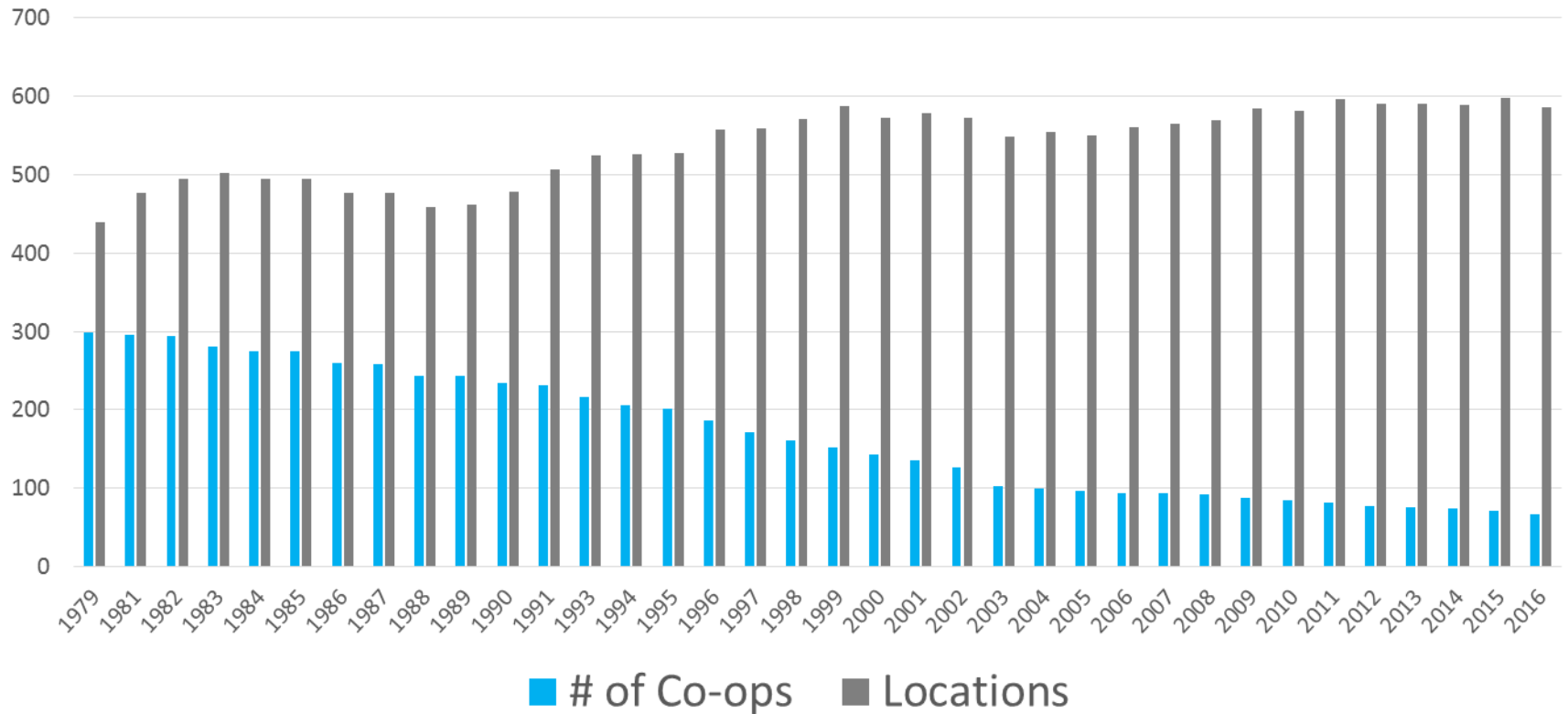
Consolidation of Iowa's Farmers



Data Source: National Ag Statistics Service, USDA



Consolidation of Cooperatives, Iowa 1979 - 2016



Mega-Mergers

Bayer – Monsanto, \$66 billion

Dow – DuPont, \$130 billion

ChemChina - Syngenta, \$43 billion

Economies of Consolidation / Integration

Economies of scale

- the change in output associated with proportional increases in all inputs
- technical production factor

“If we double in size, do we produce more than twice as much?”

Economies of size

- the change in per-unit average costs of output when production increases.
- long run economic cost factor

“Does growth allow us to reduce per-unit costs?”

What are the justifications in Iowa?

Most who pursue 'growth' in this way offer justifications:

- Enhanced cost efficiency in admin and operations (economies of size)
- More 'output' with few inputs (economies of scale)
- Access to strategic assets (location specificity)
- Value creation for producers

The Crux

Consolidation is fundamentally putting at odds members' values and perceptions with leaderships' values and perceptions.

- "The co-op is just another big business."
- "It's not my co-op anymore."

The frictions created through consolidation are not pecuniary, but have significant financial ramifications.

Underlying Issues

- Members perceive value being created for one segment of producers
- All producers share in the provision of value
- Degrees of free riding
- Horizon problem
- Membership heterogeneity
- Disconnect between shareholders and leadership

IMHO, members lost sight of **THE** most important function of their cooperative.

Solutions

A re-alignment of principals and agents though:

- Education
- Strategy buy-in
- Transparent value proposition
- Culture change
- Change management; finding common ground



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