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People Helping People

The Texas Agricultural Cooperative Board Chairman

Texas Agricultural Extension Service • Zerle L. Carpenter, Director
The Texas A&M University System • College Station, Texas

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THE TEXAS AGRICULTURAL COOPERATIVE BOARD CHAIRMAN

William E. Black and Ronald D. Knutson*

The chairman of the Board of Directors is the primary leader in agricultural cooperatives. He influences how the board functions. He also determines the distinction between board and executive decision-making responsibilities, and he has a major impact on the life of a cooperative.

A good chairman of the board brings out the best from the board, achieves a business interface with the chief executive officer, provides leadership and stability, conducts productive board meetings and speaks understandably for and about the cooperative. The board chairman must understand the role of law in the life of the cooperative. He must understand parliamentary procedure to conduct well-organized, effective meetings. And, he must understand the laws affecting the boards' and cooperatives' responsibilities to the members and society at large.

Who are today's agricultural cooperative board chairmen? In earlier years, the board chairman usually was a farmer who had a big hand in founding the cooperative. But, we are now in the second or third generation in the life of a typical agricultural cooperative. Many of today's chairmen cannot remember the beginnings of the business. How do they view the role of the cooperative, the board, the members? How do they view their own role?

This study was conducted to get answers to these questions. Questionnaires were mailed to 417 Texas agricultural cooperatives. Responses were received from 148 board chairmen in January and February 1985, of which 127 were completed and tabulated.

Description of Cooperative Board Chairman

Age

The average age of the responding Texas agricultural cooperative board chairman was 54 years. One-third of the board chairmen were under 48 years of age, one-third were 48 through 58 years old and one-third were 59 years old or over. The average board chairman was approximately the same age as the average board member.

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Table 1. Age of Texas Agricultural Cooperative Board Chairman, Texas, 1985.

Age	Percent
Under 48	34
48 to 58	33
59 and Over	33

Education

The responding Texas agricultural cooperative board chairmen ranged in formal education from eighth grade through a masters degree, with the average chairman having completed high school. Last year's survey of Texas cooperative members indicated that an average of 1 year of college had been completed. Therefore, interestingly, board chairmen have somewhat less formal education than the average member.

Table 2. Relationship of Education to Age of Cooperative Chairman, Texas, 1985.

	Age			
Education	Under 48	48 to 58	59 and Over	All
	— — — — Percent — — — —			
12 Years or Less	31	56	63	50
1 to 3 Years of College	24	22	25	24
4 Years College Through Masters	45	22	12	26
Total	100	100	100	100

While the average cooperative chairman completed high school, 9 percent did not. About one-fourth completed 1 to 3 years of college and one-fourth completed one or more college degrees. As expected, younger board chairmen had more education, with seven out of 10 under 58 years old going to college and 45 percent completing it. By comparison, only 12 percent of the chairmen 59 years old or over completed college.

Membership

The average board chairman was a member of three cooperatives, slightly more than the average Texas cooperative member. The average board chairman was a member of his cooperative for 21 years. One-third of them were members of the cooperative where they now serve as chairman for 3 to 15 years, 36 percent for 16 to 28 years and 31 percent for 29 years or longer. Membership duration was strongly influenced by the age of the chairman. None of those under 48 years were members 29 years or longer, while 71 percent of the chairmen who were 59 years of age or older had memberships that long.

Table 3. Relationship to Membership Duration to Age of Chairman, Texas, 1985.

	Age			
Membership	Under 48	48 to 58	59 and Over	All
	— — — — Percent — — — —			
3 to 15 Years	62	24	12	33
16 to 28 Years	38	54	17	36
29 Years or Over	0	22	71	31
Total	100	100	100	100

Today's average Texas agricultural cooperative board chairman was a cooperative member for 9 years before being elected to the board. He then served on the board for 8 years before being elected chairman. He has served as chairman an average of 4 years, but this varied widely. Today's board chairmen were members of from one to nine cooperatives. Their membership in the cooperative where they now serve as chairman ranged from 3 to 54 years. They have served on the board from 1 to 43 years and have served as chairman from 1 to 37 years.

Table 4. Relationship of Years on Board to Age of Chairman, Texas, 1985.

	Years on Board		
Age	1 to 9	10 to 15	16 and Over
	— — — — Percent — — — —		
Under 48	56	36	5
48 to 58	30	38	31
59 and Over	14	26	64
Total	100	100	100

Table 5. Number of Cooperative's Chairman is Active Member, Texas, 1985

Number of Cooperatives	Percent of Chairman
	%
1	21
2	23
3	20
4	19
5	10
6 to 9	7
	100

Board chairmen usually purchase most of their supplies from cooperatives. Of the supplies that were handled, board chairmen, on the average, purchased 87 percent from their cooperative. Older board chairmen were better supply patrons than younger ones. However, all age groups purchased a majority of their supplies from their cooperative.

Table 6. Relationship of Age of Chairman to the Percent of Inputs Purchased from the Cooperative, Texas, 1985.

Percent of Inputs Purchased from Co-ops	Age: Under 48	48 to 58	59 and Over	All
	---- Percent ----			
50 to 79	32	29	19	26
80 to 90	39	23	40	35
90 to 100	29	48	41	39
Total	100	100	100	100

Seventy percent of the board chairmen marketed all of their production, that the cooperative can handle, through the cooperative. Education or scale of farming had little influence on the chairman's cooperative patronage. In contrast with supplies, age was not a factor in determining patronage regarding products marketed.

Table 7. Relationship of Age of Chairman to Percentage of Marketings Through Cooperative, Texas, 1985.

Percent of Products Marketed Through Co-op	Age: Under 48	48 to 58	59 and Over	All
	---- Percent ----			
Up to 100	29	32	30	30
100 Percent	71	68	70	70
Total	100	100	100	100

Size of Farm

The average Texas agricultural cooperative board chairman owned 736 acres and leased 1,100 acres, for a total of 1,836 acres. This compares with about 1,150 acres farmed by the average Texas cooperative member. Board chairmen usually are larger farmers.

Average Acres Owned and Rented by the Chairman of the Board, Texas, 1985.

Those Owning Land	112 Farmers
Those Leasing Land	105 Famers
Acres Owned	736 Acres
Acres Rented or Leased	1,100 Acres
Total	1,836 Acres
Cropland Acres Per Farm	1,423 Acres

In terms of land tenure, 75 percent of the chairmen farmed both owned and rented land. Average rented acres exceeded owned acres. Eighty-eight percent of the chairmen were owners of part or all of the land farmed. Four percent of the chairmen did not farm but rented land that they owned.

Gross Sales

Board chairmen were larger farmers when measured by gross farm sales also. Only 28 percent of the chairmen had gross farm sales under $100,000 annually, compared with 56 percent of Texas cooperative members. Twenty-seven percent of the board chairmen had gross sales of from $100,000 to $199,999 compared to only 17 percent of members. That leaves 45 percent of the chairmen with annual gross farm sales of $200,000 or more, compared with only 16 percent of cooperative members. Thirteen percent of the chairmen had more than $500,000 in sales, compared with only 4 percent of the cooperative members.

Table 8. Distribution of Gross Sales of Co-op Board Chairman, Texas, 1985.

Gross Farm Sales	Percent of Board Chairman	Percent of Members*
(Dollars)	— — — — Percent	— — — —
Less than 20,000	5	30
20,000 to 39,999	5	17
40,000 to 99,999	18	20
100,000 to 199,999	27	17
200,000 to 499,999	32	12
500,000 or More	13	4
Total	100	100

**Attitudes and Opinions of Texas Agricultural Cooperative Members*, Bulletin B-1483, Texas Agricultural Extension Service, page 5, 1984.

Table 9. Relationship of Gross Sales to Chairman's Age, Texas, 1985.

Age	Gross Farm Sales ($) Under 100,000	200,000 or Over
	— — — — Percent — — — —	
Less than 49	21	36
49 to 58	33	31
59 and Over	46	33
Total	100	100

Younger board chairmen having more formal education had somewhat higher gross farm sales than older, less educated board chairmen.

Table 10. Relationship of Gross Sales to Chairman's Education, Texas, 1985.

Education	Gross Farm Sales ($) Under 100,000	200,000 or Over
	— — — — Percent — — — —	
12 Years or Less	59	44
1 to 3 Years College	24	23
College Graduate	17	33
Total	100	100

Previous Office Held

Twenty-five percent of current agricultural cooperative board chairmen have held an office in another cooperative. Of those who held an office, 74 percent were a board chairman or president, 32 percent were a secretary and 29 percent were a vice-chairman or vice-president.

Table 11. Held Office by Board Chairman in Any Other Cooperative, Texas, 1985.

	Percent
Yes	25
No	75
Total	100

Table 12. Office* Held by Board Chairman and for How Long in Other Cooperatives, Texas, 1985.

Office	Percent	Average Number of Years
Chairman, President	74	7
Vice-Chairman, Vice-President	29	3
Secretary	32	6
Treasurer	3	2
Secretary/Treasurer	6	8

*Some chairmen held more than one office previously.

In addition, 20 percent of the current chairmen had previously served as chairman of the cooperative where they now serve. Most of them had prior experience as vice-chairman and/or secretary.

Table 13. Previous Office Held by Chairman in Cooperative Where He Now Serves, Texas, 1985.

Office	Percent*
	%
Chairman	20
Vice-chairman	38
Secretary	29
Treasurer	1
Secretary-Treasurer	1
None	26

*Same chairman held more than one office.

Committee Service and Attitudes

In Texas, committees are structured within the board; thus committee members are predominately board members. This is true for nearly all committees except the nominating committee. Thirty-nine percent of the board chairmen had served on a committee of a cooperative.

Table 14. Have You Ever Served on a Committee of Any Cooperative, Texas, 1985.

	Percent
Yes	39
No	61
Total	100

The names of the committee served on by the board chairmen, in order of frequency, were as follows:

1. Nominating
2. Executive
3. Advisory
4. Finance
5. Building
6. Planning
7. By-laws
8. Pool
9. Study
10. Audit
11. Chemical
12. Cotton
13. Employee compensation
14. Feedlot
15. Fresh fruit sales
16. Grain handling and facilities
17. Harvesting equipment
18. Investment
19. Logistical
20. Management compensatio
21. Manufacturing
22. Membership
23. Merger
24. Policy
25. Products
26. Public relations
27. Purchasing
28. Redistricting
29. Sales
30. Search
31. Textile pool
32. Wages

Surprisingly, 63 percent of the agricultural cooperative boards operated without committees. Only 37 percent of the chairmen reported having one or more committees within their board.

Table 15. Cooperative That Have Committees Within the Board, Texas, 1985.

	Percent
Yes	37
No	63
Total	100

Those that had committees named the following, in order of frequency:

1. Nominating
2. Executive
3. Finance
4. Insurance
5. Policy
6. Annual meeting
7. Audit
8. Building
9. Legislative
10. Long-range planning
11. Merger
12. Planning
13. Research
14. Bereavement
15. Building and maintenance
16. Budget
17. By-laws
18. Commodity
19. Contracts
20. Credit
21. Developments
22. Differentials
23. Entertainment
24. Environment
25. Facilities planning and construction
26. Fellowship
27. Fresh market
28. Grain
29. Investment
30. Lint block
31. Liquidation
32. Logistic

33. Manufacturing
34. Member recruitment
35. Member relation
36. Oil rent and royalties
37. Organization
38. Purchase and sale of property
39. Product sales
40. Purchasing
41. Repair
42. Retirement sales
43. Sales and acquisition of assets
44. Store
45. Updating common stock

Assigning members to committees is one key way to achieve involvement and to create a feeling that the cooperative belongs to the member. It facilitates the development of cooperative spirit. Seventy-one percent of the board chairmen said that non-board members should serve on the cooperative committees.

Table 16. Should Non-Board Members Serve on Committees, Texas, 1985.

	Percent
Yes	71
No	29
Total	100

Only 21 percent of all cooperatives had non-board members serving on committees. However, of the cooperatives having committees, a majority used non-board members on their committee.

Table 17. Non-Board Members Serving on Committees, Texas, 1985.

	All Cooperatives	Cooperatives With Committee
	— — — — Percent	— — — —
Yes	21	54
No	79	46
Total	100	100

Internal Board Policy and Operation

Whether the terms of directors should be limited is as old an issue as cooperatives. Managers and chairmen of boards generally oppose a compulsory rotation policy. One reason is that cooperatives need strong, qualified and experienced individuals to discharge the important responsibilities of directors. Continuity of service, especially by good directors, is viewed as a plus in the cooperative. Some directors, however, stay beyond their usefulness as a cooperative leader. Rotation eliminates this tendency and provides more individuals an opportunity for cooperative leadership.

Table 18. Should the Number of Consecutive Years a Board Member Can Serve Be Limited, Texas, 1985.

	Percent
Yes	39
No	61
Total	100

In this survey, 39 percent of the chairmen favored limiting the number of consecutive years a director can serve. Also, 42 percent favored a compulsory retirement age for board members, with the majority of those voting "yes," wanting a compulsory retirement age of 65 or less. The vote for compulsory rotation or retirement was not affected by the age, education or gross farm income of the responding chairman.

Table 19. Should There Be a Compulsory Retirement Age for Board Members, Texas, 1985.

	Percent
Yes	42
No	58
Total	100

If Compulsory, at What Age?

Age	Percent
Under 65	11
65	48
66-70	33
71-75	8
Total	100

Most newly elected directors begin service on the board without any prior experience or training. One way to get experience is to serve as an associate director. Associate directors cannot vote, but they are permitted to enter into discussion of issues during regular board meetings. In this survey, 46 percent of the chairmen supported the idea of an associate director who is elected or appointed to the board for training.

Table 20. Do You Support an Associate Board of Directors, Texas, 1985.

	Percent
Yes	46
No	54
Total	100

Number of Years to Serve as an Associate Director Before Being Eligible for Election to the Board.

1 year = 65 percent
2 years = 25 percent
3 years = 10 percent

Education, age or gross income made little difference in how the chairman voted on the associate board issue. Nearly two-thirds of the respondents indicated that members should serve 1 year as an associate member before being eligible for election to the board; another 25 percent favored 2 years service.

While nearly half the cooperative chairmen favored having associate board members, only 14 percent actually had them.

Table 21. Members Serving on Associate Board, Texas, 1985.

	Percent
Yes	14
No	86
Total	100

Under Texas law, a minimum of five directors is required to be elected to the board. Thirty-six percent of the responding cooperatives had the minimum number of directors.

Table 22. Number of Members on Board, Texas, 1985.

Number	Percent
5	36
7	49
9	10
More than 9	5
Total	100

Forty-nine percent had seven members and 10 percent had nine members. Cooperative with more than nine members were usually regionals. Three percent of the Texas agricultural cooperative directors were women.

Attendance at board meetings by the chairmen is critical to the business affairs of any cooperative. Seventy-four percent of Texas cooperative chairmen said they attended all board meetings.

Table 23. Percent of Board Meetings Chairman Attended Last Year, Texas, 1985.

Percent of Board Meetings Attended	Chairman	Other Board Members
	%	%
75 to 95	12	12
95 to 99	14	14
100	74	74
Total	100	100

This record was unaffected by the chairman's age, education or gross farm income. The chairman said that other board members attended board meetings at about the same rate as the chairman.

Characteristics of the Cooperative

Ninety-four percent of the responding chairmen represented local cooperatives while 6 percent were from regionals. The most common type of cooperative

Table 24. What Type of Cooperative Chairman of, Texas, 1985.

Type of Cooperative	Percent Cooperatives
	%
Farm Supply	53
Cotton Gin	51
Grain Sales	38
Grain Storage	35
Other	13
Other Commodities	9
Cotton, Other	8
Fruit and Vegetable	2

included among the survey respondents was farm supply, followed by cotton gins, grain sales and grain storage.

Only 14 percent of the cooperatives surveyed did $10 million or more in business in 1984. Thirty-five percent of the cooperatives did $1 million or less in business in 1984; 26 percent did from $1 to $2 million in business volume.

Table 25. Dollar Volume of Business Done by These Cooperatives in 1984.

In 1984	Percent
(Dollars)	
1 million or less	35
2 million	26
3 to 10 million	25
10 million or more	14
Total	100

Three out of four cooperatives showed a positive net margin in 1984. Cooperatives represented by chairmen with a high school education or less usually have above normal rates of negative net margins. Remember, older chairmen usually have less formal education and served a longer time as chairman. This suggests that age and length of service is not as critical to cooperative success as is the level of formal education.

Membership

The survey indicated that median membership per cooperative was 141 while the mean was 394. Sixty-one percent had fewer than 200 members.

Table 26. Number of Members per Cooperative, Texas, 1985.

Number of Members	Percent
4 to 99	33
100 to 199	28
200 to 399	16
400 and Above	16
Total	*100*

In spite of declining farm numbers, Texas cooperatives appear to be holding on to their membership reasonably well. Forty-three percent of the cooperatives increased membership in 1985 while 28 percent experienced a decrease. During the last 5 years, 47 percent of Texas cooperatives experienced an increase in membership and 37 percent decreased.

Table 27. Change in Membership in Cooperatives Surveyed, Texas, 1985.

	Since 1984	In Last 5 Years
	— — — Percent — — —	
Increased	43	47
Decreased	28	37
Stayed Same	29	16
Total	100	100

Those cooperatives that have lost members reported losing primarily moderate-sized farmers. These farms are being displaced most rapidly everywhere in the U.S. because of economies of scale, lags in adoption of new technology and

Table 28. Size of Members Cooperatives Are Losing, Texas, 1985.

Size of Member	Percent
Small	16
Moderate	56
Large	28
Total	100

lower quality management. In East Texas, moderate-sized farms are being divided into smaller parcels for city buyers; while in West Texas, moderate-sized farms are acquired to make another farm bigger. Small farms are generally quite resilient because off-farm income is high relative to farm income—they farm for the enjoyment of living in the country, not for the income.

The study indicates that large farms are dropping from cooperative membership at nearly twice the rate as small farms. This is serious. In any cooperative, a relatively small percentage of members account for the bulk of the business. Losing large farms as members usually strongly impacts the cooperative's business volume and per unit operating costs.

Cooperative chairmen gave the following reasons for losing members, in order of frequency:

1. Retirement of member
2. Going out of business, bankruptcy or changing occupations
3. Competition from private firms or member integration
4. Death
5. No net profit; low price
6. Bad economy
7. Lack of credit
8. Farm consolidations—another farmer buying out
9. Cotton moving out of area
10. Poor management by member
11. Dissatisfaction with cooperative management

12. High land values, high interest rates, high production costs
13. Urban development
14. Children don't want to carry on business

Continuous turnover exists in patronage of cooperatives. It, therefore, is necessary for a cooperative to aggressively pursue new business and retain member patronage. Unfortunately, most cooperatives have no programs for winning back lost members.

Table 29. Do You Have a Program for Winning Back Members Lost, Texas, 1985.

	Percent
Yes	23
No	77
Total	100

Volume discount is most commonly used by those who have a program for winning back lost members. Programs for winning back members include:

- Volume discount
- Personal contacts and relations
- Give best service possible
- Use of non-qualified allocations
- Demonstrate efficiency in ginning
- Faster revolvement of equity stock
- Put them on the board

Board Review of Member Business

Fifty-four percent of the chairmen indicated that their board reviewed the volume of each member's business. Over 90 percent of their reviews took place annually. The boards with chairmen having larger gross farm income were more apt to review member business.

In Texas, non-patronage means that the member did not do business with the cooperative for 2 consecutive years. Among the cooperatives that reviewed member business, 38 percent dealt with non-patronage by dropping members. In about half these cases, the dropped member was asked to return his common stock. Fourteen percent of the cooperatives advised the member of his non-patronage through a visit to determine the reason. An almost equal number (13 percent) advised the non-patron in writing with an additional 9 percent asking for a reason for non-patronage. Eight percent of the boards dropped non-patrons from membership only if the reason was considered unsatisfactory. Eighteen percent reviewed patronage by individual members but took no action against non-patrons.

Table 30. Action Taken by Board on Member's Lack of Business, Texas, 1985.

Action	Percent
Drop Member from Membership	19
Drop Member from Membership and Call for Return of Common Stock	19
Visit, Find Reason for Non-patronage	14
Write a Letter Advising Member of Finding	13
Request Reason for Non-patronage	9
Drop Member Only if Reason for Non-patronage is Unsatisfactory to Board	8
No Action Taken	18
Total	100

Regional Affiliation

The responding Texas cooperatives were affiliated with 27 regionals in 1985. The most frequent affiliation was with Farmland Industries (54 percent); Plains Cotton Cooperative Association (33 percent); Plains Co-op Oil Mill, Inc. (28 percent); Farmers Cooperative Compress (20 percent); and Union Equity Co-op Exchange (16 percent). Several respondents were a member of more than a single regional cooperative.

Table 31. Regional Affiliation of Texas Local Cooperatives, Texas, 1985.

Regional Affiliation	Percent of Cooperatives
	%
Farmland Industries, Inc.	54
Plains Cotton Cooperative Assn.	33
Plains Co-op Oil Mill, Inc.	28
Farmers Cooperative Compress	20
Union Equity Co-op Exchange	16
American Cotton Growers	9
Plainview Cooperative Compress, Inc.	9
Texas Bank of Cooperatives	8
Far-Mar-Co, Inc.	8
Gulf Compress	6
Ne-Texas Cooperative Oil Mill	6
Valco	6
Mississippi Chemical Corporation	5
Producers Grain Corporation	5
Producers Exchange Cooperative	5
Voluntary Purchasing Group, Inc.	5
Rolling Plains Co-op Compress	4
Valley Cooperative Oil Mill	3
Agri-Industries	3
American Rice, Inc.	3
Cooperative Finance Association	2

Table 31. Regional Affiliation of Texas Local Cooperatives, Texas, 1985 (concluded).

Regional Affiliation	Percent of Cooperatives
	%
Six Others	1 (each)

Board Evaluation of Decisions and Programs

Sixty-two percent of the responding chairmen said that their board evaluated its decisions and programs.

Table 32. Does Your Board Evaluate Its Decisions and Program, Texas, 1985.

	Percent
Yes	62
No	38
Total	100

Those that evaluated did so usually after the fiscal year began, that is, between fiscal years. One-half the chairmen said the board received assistance in the evaluation. The most common sources of assistance were the auditor or the manager.

Major Sources of Evaluation Assistance, Texas, 1985.

Sources of Assistance	Percent*
Auditor or CPA	18
Manager	14
Bank of Cooperatives	5
Banker	4
Accountant	4
Regional Cooperative	4
Membership	4
Attorney	3
Consultant	2
All Others	2

*Some cooperatives had more than one source of outside assistance.

Twelve percent of the boards indicated that they evaluated their decisions and programs alone, without outside assistance.

Most boards that evaluated decisions and programs relied on financial statements or audit reports as their source of information. Other sources mentioned included member reaction and manager's report.

Board Policy Handbook

The board policy handbook provides a convenient and organized way for cooperative boards to conduct their business affairs. Eighteen percent of Texas agricultural cooperatives were using a board policy handbook in 1985.

Table 33. Does Your Cooperative Use a Board Policy Handbook, Texas, 1985.

	Percent
Yes	18
No	82
Total	100

Of those that had a handbook, 32 percent had started using them before 1970, but one-half of the cooperatives have adopted them in 1980 or later.

Table 34. When Did You First Use the Board Policy Handbook, Texas, 1985.

	Percent
Before 1970	32
1970 to 1980	18
1981 to 1983	23
1984	27
Total	100

Nearly half of those cooperatives without a handbook were interested in getting one.

Table 35. If You Do Not Have a Handbook, Are You Interested in One, Texas, 1985.

	Percent
Yes	46
No	54
Total	100

Member Education

Cooperation is an acquired trait. Competition comes naturally. Acquiring the cooperative trait requires much education. Eighty percent of the responding board chairmen said their cooperative should provide educational programs to members. Twenty percent said "no."

Table 36. Should Your Cooperative Provide Educational Programs to Members, Texas, 1985.

	Percent
Yes	80
No	20
Total	100

Only 29 percent of Texas agricultural cooperatives in 1984 provided educational programs to members.

Table 37. Does Your Cooperative Provide Educational Programs for Members, Texas, 1985.

	Percent
Yes	29
No	71
Total	100

Those cooperatives that provided educational programs to members spent from $150 to $20,000 on them during 1984. The larger expenditures came from regional cooperatives. One-half the cooperatives that paid for educational programs spent less than $1,000 and the other half spent $1,000 or more. Educational programs sponsored by Texas agricultural cooperatives included the following, listed in order of frequency:

1. Chemical Meeting
2. Young Farmer Couple Conference
3. Crop Production
4. Managers-Directors Conference
5. Livestock Production
6. Marketing
7. Seed Meeting
8. Animal Health
9. Fertilizer Seminar
10. Futures and Options
11. FFA Programs
12. 4-H Clubs
13. Grain Storage
14. Oil and Fuel Meeting
15. Peanut Clinic
16. Texas Institute of Cooperative Education
17. Will and Estate Planning
18. Youth Leadership

Member Communication

Ninety-one percent of the chairmen felt that members should know the decisions of the board. The chairmen named the following ways for communicating vital information about the cooperative to members in order of frequency of usage:

Methods of Communication with Members, Texas, 1985.

Method of Communication	Percent
Newsletter	38*
Word of Mouth	36
Annual Meetings	20
Director	12
Member Meetings	6
Bulletin Board or Blackboard	6
Manager	4
Minutes	4
Office Personnel	3
Newspaper	2
Telephone	1

*Some cooperatives had more than one source of information.

The most common practice among those who write a newsletter is to send it out less frequently than monthly. About one-third of the cooperatives maintain no fixed schedule for newsletters but send one out as needed.

Table 38. How Many Times Each Year Do You Send a Newsletter to Members, Texas, 1985.

Number of Newsletters	Percent
1	15
2	20
3	12
4	15
6	17
10	6
12	9
26	3
30	3
Total	100

In those cooperatives where the board or management does not send out newsletters, members must learn of the board's decision predominately by word of mouth, from annual meetings, bulletin boards, cooperative coffee shop and conversations with board members or manager. All of these methods are relatively imperfect.

Improved communication with members is a major need. The 61 percent of the cooperatives who do not use newsletters could probably benefit from adopting one. One chairman said that he, "tells them if they ask," Another chairman said, "Some information and decisions are confidential. Most members would probably keep confidentiality, but some would exploit it." Negative attitudes toward communication are not in the cooperative spirit.

Member Equity

Member equity sets forth that part of the assets owned by the members. Through redemption, ownership and control are transferred from older members to younger members who are current patrons. The regularity of this transfer is important to the level of producer returns, the financial health of the cooperative, member control and confidence in the cooperative's performance.

According to responding board chairmen, 76 percent of Texas agricultural cooperatives have redeemed member equity at least once since their formation. That leaves 24 percent of cooperatives without any equity redemption.

Table 39. Has Your Cooperative Ever Redeemed Member Equity, Texas, 1985.

	Percent
Yes	76
No	24
Total	100

For those cooperatives that have redeemed equities, the age of outstanding stock varied from 1 to 54 years, with the median age being 13 years. The oldest cooperative in this study was first incorporated in 1913 and the youngest in 1983. Median age of all cooperatives in the study was 41 years.

Table 40. Age of Oldest Oustanding Equities Stock, Texas, 1985.

Age	Percent
1 to 5 Years	10
6 to 10 Years	21
11 to 15 Years	15
16 to 20 Years	13
21 to 30 Years	12
31 and Over	5
Did Not Redeem	24
Total	100

Unallocated Reserves

Increasing controversy has arisen in recent years over the issue of unallocated reserves. In 51 percent of the responding cooperatives, all net worth had not been allocated to members. This is commonly called permanent capital and is owned by the cooperative. Twenty-four percent of the cooperatives had unallocated reserves in excess of 20 percent of all net worth. Ten percent had permanent capital in excess of 50 percent of net worth. When over 50 percent of the capital stock is unallocated, questions arise as to who owns and controls the cooperative—the cooperative, in effect, owns itself.

Table 41. Percent of Net Worth Not Allocated to Members, Texas, 1985.

Not Allocated	Percent
None	49
1 to 5	7
6 to 10	10
11 to 20	10
21 to 50	14
51 to 100	10
Total	100

Reasons given for having unallocated reserves centered primarily around financial security and expansion. Specific reasons mentioned for not allocating reserves, in order of frequency, follow:

1. To provide for contingencies and security
2. To expand operations
3. To make operating and capital improvement
4. To update equipment
5. To buy early with volume discounts
6. To cover losses from accounts receivable
7. To help retire equity stock

Plan of Equity Redemption

The most common method of redeeming equity stock is at the discretion of the board based on fund availability. Discretionary redemption was used by 63 percent of the cooperatives. Normally, the oldest equity paper is redeemed first. However, in 12 percent of the cooperatives, the board used a plan of redeeming a percentage (again based on savings availability) of all equity. In this plan, each member received the same percentage of his equity, regardless of when allocated. Young members especially favor this plan.

Table 42. What Plan of Equity Redemption Does Cooperative Follow, Texas, 1985.

	Percent*
Revolve on Board Discretion Based on Fund Availability	63
Redeem All Equity of Deceased Members	13
Redeem a Percentage of All Equity	12
Revolve on Fixed Number of Years	10
Redeem Both Retired and Deceased Member Equity	7
Redeem Equity of Retired Members	5
Base Capital Plan	2

*Some cooperatives follow more than one plan.

Ten percent of the cooperatives followed a fixed year revolvement plan where equities are redeemed in a specific number of years from when they were allocated. This plan works best in marketing cooperatives that build equity on a per unit retain basis.

Two percent of the cooperatives use a base capital plan for redeeming equity. This is a more complex system wherein the equity capital needed to run the cooperative is determined each year. Each member's equity investment, then, is adjusted according to his patronage in some base period—usually the past 3 to 10 years. Base capital assures that each member's investment is pretty much in line with his patronage. Each year the cooperative determines each member's over-investment or under-investment, based on patronage in the base period. This plan automatically retires the equity investment of retired or deceased members, just as the fixed year revolvement plan does.

Some cooperatives follow a special redemption plan either singularly or in conjunction with some other plan. Special redemption plans are used to settle estates or retire inactive or former member's equity. One out of four Texas cooperatives that redeem equity use a special plan. Thirteen percent redeem all equity of deceased members, 5 percent redeem equity of retired or former members and 7 percent redeem both. Some cooperatives combine a special plan with one other plan.

In addition, some cooperatives pay interest or dividends on some equity stock. These are usually known as first preferrred stock and usually constitute the original investment into the cooperative. Some cooperatives have, at some time, raised money for a special expansion purpose that, likewise, pays dividends. Ten percent of Texas agricultural cooperatives reported paying interest or dividends on 10 percent of the equity. That means that in 1985, 1 percent of Texas agricultural cooperative equity was interest-bearing or dividend-bearing.

Chairmen's Attitudes on Equity Redemption

While 76 percent of Texas agricultural cooperatives have redeemed equity capital, 81 percent of the board chairmen in 1985 favored revolving out member equity during some reasonable time period.

Table 43. Should Equity Capital be Revolved Out During a Reasonable Time Period, Texas, 1985.

	Percent
Yes	81
No	19
Total	100

If Yes, in How Many Years Should Member Equity be Revolved?

Years	Percent
1 to 5 Years	18
6 to 9 Years	27
10 Years	39
More Than 10 Years	16
Total	100

Forty-five percent of the chairmen, who felt that equity capital should be revolved in a reasonable time period, said it should be done in fewer than 10 years. The difficulty of achieving this represents one of the problems facing Texas cooperatives.

Less than half (47 percent) of the Texas cooperative chairmen favored redeeming the member's equity upon retirement. How the chairman viewed this issue was affected by the size of his farming operation. Seventy-one percent of the chairmen with gross farm income under $100,000 voted not to revolve out member equity upon retirement. For such chairmen, farming may not be their primary source of income, thus placing less value on cooperative redemption.

Table 44. Should Member Stock be Revolved Out on Member Retirement, Texas, 1985.

	Percent
Yes	47
No	53
Total	100

Fifty-nine percent of the chairmen favored redeeming stock upon the member's death. Despite the desirability, if not the necessity, of such practices, most Texas cooperatives undertake such special equity redemption with great financial strain and hardship.

Table 45. Should Member's Stock be Paid Upon His Death, Texas, 1985.

	Percent
Yes	59
No	41
Total	100

Planning

Only 15 percent of the responding chairmen reported having a written long-range plan. Prior studies show that regional cooperatives are more apt to have long-range plans than local cooperatives. These studies also suggest that some chairmen consider a budget to be a long-range plan. Most of the cooperatives having a long-range plan first prepared it in the 80s, especially in the last 2 years. Several chairmen indicated they were preparing their first long-range plan in 1985.

For those cooperatives having a long-range plan, the board drew up the first plan, usually with the assistance of management. In a few instances, the manager drew up the first plan. The outsiders assisting in drawing up the plan included representatives of regional cooperatives and, in one instance, an outside consultant. In all but one case, the plan, as drawn up, was accepted by the board. In one exceptional case, the plan was drawn up but rejected by the board.

One-half of the board chairmen, without a long-range plan, said that they would like to have one.

Table 46. If You Don't Have a Long-Range Plan, Do You Want One, Texas, 1985.

	Percent
Yes	50
No	50
Total	100

Those who want a plan said they would prefer to get assistance from the following:

Table 47. Who Would You Prefer to Assist You in a Long-Range Plan, Texas, 1985.

Assistance	Percent
Bank of Cooperative	27
Regional Cooperative	27
Land Grant University	23
Local Bank	10
Private Consultant	6
Own Board	5
USDA	2
Total	100

The leading sources of assistance are the Texas Bank of Cooperative, a regional cooperative (with Farmland most favored), and the Land Grant University.

Surprisingly, 38 percent of the responding chairmen indicated that they did not want their cooperative to have a long-range plan. Such chairmen may be candidates for retirement from their jobs.

Services

Service is the most critical benefit members receive from their cooperative. The services demanded by members are expected to change with agricultural technology. However, only 20 percent of the board chairmen said that members were requesting services new to that cooperative. Some of the services or products requested, in order of frequency, follow:

1. Fuel, with key pumps
2. Fertilizer, dry and liquid
3. Farm supply store
4. Grain handling
5. Bigger inventories
6. Tires, batteries and accessories (TBA)
7. Feed—feedmill
8. Hedging and options trading
9. Buying service
10. Chemical fieldman
11. Credit
12. Entomologist
13. Data processing
14. Farm accounting
15. Handle moduled cotton
16. Hardware
17. Marketing cotton

Fifty-eight percent of the board chairmen favored the policy that those receiving the service should bear the full costs. The general feeling among chairmen who favored full-cost-pricing of services was to charge those who use the service, with a sufficient margin to stay in business. Forty-two percent opposed charging full costs for services.

Pricing Policy

Cooperative principles and fairness have traditionally been interpreted to mean that cooperatives charge or pay the same price per unit to everyone. In this survey, 64 percent of the supply cooperative chairmen said their policy was one of equal pricing of supplies. Five years ago that figure would have been at least 90 percent. The idea of differential pricing is gaining more supporters among cooperatives.

Table 48. Pricing Policy of Supply Cooperatives, Texas, 1985.

Policy	Percent
Same Price Per Unit to Everyone	64
Lower Price Per Unit for Accepting Direct Shipments	17
Lower Price Per Unit for Larger Volume Purchase	14
Other (early payment, discount for cash, discount for ginning customer)	5
Total	100

Cooperative people are beginning to recognize that a larger order of supplies, quantity of products marketed or quantity of cotton ginned has a lower unit cost associated with it. As one might expect, boards are somewhat more willing to lower the price per unit if the member accepts direct shipment from the regional's warehouse than for a larger volume of shipments from the cooperative's own warehouse.

Cooperatives with board chairmen having a larger gross farm income usually favor offering lower prices for direct shipments. Fourteen percent of the responding cooperatives had a lower price per unit for large volume purchases filled out of regular cooperative inventories. Many members, boards and chairmen are hesitant to accept quantity discount pricing policy because of its potential misuse.

The most difficult problem with quantity discount pricing involves the amount of discount. What is the difference in cost of filling different size orders? Nearly all local cooperatives lack the cost accounting data needed to equitably establish volume discount differentials. This is one area in which regionals could be of assistance to locals.

Five percent of the cooperatives have discounts, but they are unrelated to volume. These include cash discounts or early payment discounts. Some gins charge a lower price on supplies to gin customers.

Only 15 percent of the boards with the same price per unit policy ever considered a change. These boards have not changed because they feel the cooperative must treat all members the same. Differential pricing, they say, does not treat all members fairly. While most chairmen expect large scale farm operators to accept volume discounts, they also feel very strongly that smaller scale farmers would not like it. They feel that smaller scale farmers would be compelled to pay excessively for their purchases. This stems from the expectation that all volumes of sales are filled at the same cost per unit. Documentation of cost differentials is needed.

Another argument given by chairmen for the same price per unit policy is that pricing should be "above board." One chairman indicated, "The big guy won't keep his mouth shut." In reality, the differential pricing works only if everyone is informed of the policy, understands its basis and pays the same price per unit for the same volume of purchase.

Twenty-two percent of the cooperative chairmen said they want assistance from their regional regarding pricing. Basically, local cooperatives desire documentation of differences in cost as related to volume. They also want to know what and how other cooperatives price. Local cooperatives also want to know the prices charged by competition.

While there still exists a great deal of confusion about pricing of inputs, there is much greater confusion about pricing different volumes of outputs or services, such as ginning, storage or transportation. Despite their potential justification, pricing cotton, wheat or sorghum on the basis of volume offered for sale by the farmer is not likely to be readily adopted by most cooperative boards of directors.

Credit

Credit has become a more important problem in Texas agricultural cooperatives. Credit policy needs regular attention, particularly in times of fluctuating interest rates. Relatively few of the responding cooperatives have given their credit policy regular review as indicated by the following responses.

Table 49. Year Board Established Current Credit Policy, Texas, 1985.

	Percent
Before 1965	13
1966 to 1975	11
1976 to 1979	18
1980	17
1981	9
1982	11
1983	10
1984	10
1985	1
Total	100

Most Texas agricultural cooperatives allow members 30 days to pay bills without interest. But, this varied from 10 up to 90 days.

Table 50. Days Member Has to Pay Bill Without Interest, Texas, 1985.

Days	Percent
10	7
15	7
20	6
30	64
40	4
45	7
Up to 90	5
Total	100

Cooperatives that allow farmers more than 30 days to pay bill are, in essence, making unsecured, no interest loans to farmers.

The interest charges by the responding cooperatives on past due accounts early in 1985 were as follows:

Table 51. Interest Charged on Past Due Accounts, Texas, 1985.

Interest Charged Annually	Percent
0 percent	10
3 percent	1
5 percent	1
10 percent	4
12 percent	4
15 percent	2
18 percent	64
Bank prime rate plus 2 percent	1
½ percent more than it costs us	1
Not applicable or no response*	10
Total	100

*Includes marketing cooperatives that do not have accounts receivable with members.

The predominant interest charge was 18 percent. Most cooperatives established their current credit policy within the last decade, especially in the 80s. Those that established their credit policy before 1980, probably should review it.

Eighty-nine percent of the cooperatives reported accounts receivable past due.

Table 52. Percent of Accounts Receivable Past Due, Texas, 1985.

Percent of Accounts Receivable	Percent
0	1
1 to 5	34
6 to 10	19
11 to 20	12
21 to 30	9
31 to 40	8
41 to 50	2
51 to 60	2
61 to 70	0
71 to 80	1
81 to 90	1
91 to 100	1
Not applicable or no response*	10
Total	100

*Includes marketing cooperatives that do not have accounts receivable with members.

Over one-third of the responding cooperatives had more than 10 percent of their accounts receivable past due.

In January 1985, 29 percent of Texas cooperatives had no accounts past due as much as 120 days. However, 61 perent did report accounts receivable past due as much as 120 days. Nearly 20 percent of the cooperatives reported having more than 10 percent of their accounts receivable past due.

Table 53. Percent of Accounts Receivable are Over 120 Days Past Due, Texas, 1985.

Percent of Accounts Receivable	Percent*
0	29
1 to 5	32
6 to 10	11
11 to 20	10
21 to 30	4
31 to 40	2
41 to 50	1
51 to 60	0
61 to 70	0
71 to 77	1
Not applicable or no response*	10
Total	100

*Includes marketing cooperatives that do not have accounts receivable with members.

Of more concern, 42 percent of the cooperatives had accounts receivable more than 1 year past due. In most of these cooperatives, the 1-year overdue accounts made up 1 to 5 percent of accounts receivable.

Table 54. Accounts Receivable Over One Year Past Due, Texas, 1985*

Percent of Accounts Receivable	Percent
0	48
1 to 5	28
6 to 10	6
11 to 20	6
Over 20	2
Not applicable or no response*	10
Total	100

*Includes marketing cooperatives that do not have accounts receivable with members.

Cooperatives with younger board chairmen tended to have a higher percentage of accounts receivable past due. Younger chairmen apparently seem to be less aware of the problems encountered by cooperatives with larger past due accounts.

In 78 percent of the cooperatives, the manager (usually acting alone), plus an employee or director, was responsible for collecting past due accounts. The other employee responsible for collections was usually the accountant. The one board chairman who collected past due accounts appeared to also do nearly everything else at the cooperative. One cooperative reported using a collection agency and one a credit union to collect past due accounts.

Table 55. Who Is Responsible for Collecting Past Due Accounts, Texas, 1985.

	Percent
Mangers	65
Mangers Plus One Other Employee	10
Manager Plus Board Member	3
Other Employee	5
Chairman of Board	1
Board of Directors	1
Collection Agency	1
Credit Union	1
Sell Cash Only	2
Nobody	1
Not Applicable or No Response*	10
Total	100

*Includes marketing cooperatives that do not have accounts receivable with members.

Of the responding cooperatives, 31 percent reported using professional collection agencies to collect past due accounts at some time in the past.

Table 56. Has Your Cooperative Ever Used Professional Collection Agencies to Collect Past Due Accounts, Texas, 1985.

	Percent
Yes	31
No	69
Total	100

They ranked their experience with such agencies as follows:

Experience with Collection Agencies, Texas, 1985.

Rank	Percent
Good	18
Fair	61
Poor	21
Total	100

Forty percent of those who tried a collection agency said they plan to use one in the future.

Would Use Collection Agency in the Future, Texas, 1985

	Percent
Yes	40
No	60
Total	100

Merger

Most Texas cooperatives live by the "I would rather die than merge" philosophy. Many have died; many more will. Merger is viewed as a catastrophic event by most cooperative boards and management. Yet, the need for mergers in Texas, especially among grain elevators and cotton gins, is strong. The chief reasons for merger include excess capacity, little or no savings and the high percentage of borrowed capital.

This survey shows that 40 percent of the cooperatives have been approached to merge. Most of the offers to merge were turned down—25 percent flatly without study. Ten percent of the cooperatives that were approached to merge, actually merged or bought them out.

Table 57. Has Your Cooperative Been Approached to Merge, Texas, 1985.

	Percent
Yes	40
No	60
Total	100

If Yes, What Action Did You Take?

Action Taken	Percent
Studied It, Then Turned It Down	50
We Turned It Down Flatly	25
Studying It	8
Merged	8
They Declined	5
Still Working on It	2
Bought Them Out	2
Total	100

Twenty-three percent of the responding Texas cooperatives raised the issue of merging with another cooperative. For most of them, the idea was turned down. Two cooperatives did merge, and one chairman said they will merge after putting the merger idea before the board.

Board chairmen view the Texas Bank of Cooperatives as the best source of assistance for mergers, followed by consultants, the Extension Service and regional cooperatives. Local cooperatives are seeking primarily financial and legal advice relative to merger. Other assistance sought includes a feasibility study, finding a merger candidate and determining the advantages in a merger.

Eighty-two percent of the board chairmen said their cooperative would never merge.

Table 58. Will Your Cooperative Ever Merge, Texas, 1985.

	Percent
Yes	18
No	82
Total	100

Reasons given for holding this view included the following, in order of frequency mentioned:

1. Cooperative too far removed from other cooperatives
2. Because we don't want to
3. Our cooperative in good financial strength, other is not
4. We would rather go broke or close'er down

5. We will sell first
6. Because we're broke
7. Farmers don't want any change
8. Over my dead body
9. Problems from previous merger
10. To keep cooperative in hometown

Those chairmen who expected their cooperative to merge in the future gave the following reasons, in order of frequency:

1. Economics will force it
2. Number of cooperatives in future will decline
3. Merger is forced by excess capacity
4. Merger would benefit everyone
5. Merger would increase buying power
6. Possible as we go from irrigated to dryland farming
7. Too much competition from independent

One reason for the slow merger rate among Texas cooperatives is that cooperatives would rather compete than merge. More than half (52 percent) of responding board chairmen said that cooperatives should actively compete with another cooperative. Forty-eight percent did not think so. However, the current economic hardship experienced by our agricultural cooperatives may have softened the competitive attitude between cooperatives. Those chairmen who favor cooperative-to-cooperative competition gave the following reasons in order of frequency:

1. Competition is good for business
2. Makes for efficiency
3. Improves service
4. Necessary to survive
5. To gain new members
6. To keep prices down
7. To keep everyone honest
8. Good competition makes better, sharper managers
9. Growth
10. To create innovative business practices

Those chairmen who did not favor intercooperative competition gave the following reasons in order of frequency:

1. Cooperatives should cooperate
2. We already have too much private competition
3. Weakens everyone
4. Cooperatives should unite to compete with independent firms
5. All cooperatives are owned by farmers
6. Loss of revenue and more headaches
7. Merge instead of compete

Problems

Because of the depressed state of agriculture and its impact upon cooperatives, an effort was made to get an inventory of the major problems boards of directors faced today as viewed by the chairman. Each chairman was asked to list three critical problems his board faces today.

The following problems were mentioned most frequently in order of their occurrence and should be considered particularly serious:

1. *High costs of operation* appears to reflect, more than anything else, declining state of repair and the need for new capital investments in many Texas cooperatives. High interest rates also have materially contributed to the costs of those cooperatives that have substantial debt. For energy intensive operations, increasing fuel and utility costs have created important cost-price squeeze problems.

2. *Collection of accounts receivable* has become an increasing problem as the financial position of producers has deteriorated. In the past, when producer incomes were relatively favorable, cooperatives could frequently get by without tight control over their accounts receivable. In the process, cooperatives took on functions that should only be assumed by bankers. Cooperatives that have not annually re-evaluated their credit policy are the most likely to have encountered problems with the collection of accounts receivable. If a farmer can borrow from the cooperative cheaper than from the bank, it is a completely economic decision to do so. Of greater concern is the farmer who borrowed from the cooperative because he could not obtain credit anywhere else.

3. *Low farmer profits* obviously are closely related to the problem of collecting accounts receivable. But, the issue or problem of low profits in farming extends beyond credit to the ability and/or willingness of farmers to buy. Low farmer profits also result in increased competition and less cooperative loyalty as producers seek the lowest cost source of supplies. A farmer can afford to be loyal when profits exist, even if it may mean paying a higher price for supplies or selling products at a lower price. The test of loyalty and good cooperative management is strongest in times of member adversity.

4. *Declining volume* has become a major concern of many cooperatives. Declining volume reflects several dimensions of the three previous problem areas. Reduced volume results in higher costs because fixed costs can be less effectively spread. Declining volume also reflects low producer profits as farmers strive to cut input costs by reducing purchases. However, declining volume may also reflect a loss of competitiveness and management problems. Government programs have retired a substantial proportion (15 to 25 percent) of the farmland from production. The effect of such production adjustment programs is to reduce both the volume of inputs purchased and products marketed. For some cooperatives, "mother nature" has also taken her toll as farmers, in particular regions, have been struck by 2 or 3 straight years of particularly adverse weather.

Table 59. Problems Facing Texas Agricultural Boards of Directors, 1985.

	Serious	Moderately Serious	Problem
Accounts receivable:			
Credit policies		X	
Amount and collection of overdue accounts	X		
Agriculture changing:			
Crop patterns changing, cotton moving out			X
Fewer farmers		X	
Irrigation to dryland			X
Business operations:			
High costs of equipment, repairs, maintenance, fuel, electricity, interest, inputs	X		
Obsolete equipment			X
Excess capacity		X	
Labor		X	
OSHA			X
Volume too low	X		
Services to add		X	
Bylaws outdated			X
Competition from independents	X		
Director loyalty			X
Equity retirement		X	
Employee loyalty and competence			X
Financial:			
Insolvency, no cash flow	X		
Heavy debt load		X	
Tight budgets		X	
Low margins		X	
Government programs:			
Impact on volume	X		
Uncertainty		X	
Managers:			
Getting and keeping good management			X
Membership:			
Number of members slipping	X		
Less patronage	X		
Member insolvency	X		
Getting new members		X	
Member relations			X
Planning lacking		X	
Pricing—how to price		X	
Prices and profits too low:	X		
Poor economic climate	X		
Product quality variation			X
Rising cost of inputs		X	
Urbanization, impact on land use:		X	
Land being developed			X
Weather, bad		X	
World market shrinking			X

Table 59. Problems Facing Texas Agricultural Boards of Directors, 1985 (concluded).

	Serious	Moderately Serious	Problem
...ung farmers not getting into farming			X

Several other problem areas mentioned less frequently include:

- Shifting cropping patterns, particularly from irrigated to dryland, or from rice to other crops.
- Insolvency was mentioned as a pending potential problem.
- The uncertainty of government programs has made planning difficult or impossible.
- Problems encountered in marketing and hedging, including price risk, have resulted in losses or eliminated potential gains.
- The inability to retire outstanding stock has stifled growth and cooperative benefits.

Issues That Divide the Board

Interestingly, the issues that divide cooperative boards are substantially different than the major problems. The following issues were identified by the board chairmen in order of frequency mentioned:

1. *Distribution of savings* continues to be a major issue within the cooperative community. The savings distribution issue has been compounded by the necessity that some cooperatives allocate losses. In difficult financial times, there are great pressures to retire stock and, thereby, purge the cooperative of its equity base. The opinions of directors range from those who would bow to the economic pressures to retire equity capital and those who see early stock retirement as jeopardizing the cooperatives equity base.

   While there may still be some cooperatives that are carrying little or no debt and could afford a more progressive retirement strategy, they are relatively few in number. For the majority of cooperatives, this is not the time to pursue an aggressive equity retirement strategy. Moves that are made in the direction of modernization of equity redemption should emphasize or give assurance that the cooperative is controlled by active members. This means the redemption of stock held by estates and retired members.

2. *Wage rates, hiring and firing decisions* for employees of the cooperates are the second most controversial issue confronting cooperative directors. About half of those board chairmen identifying this issue specifically related it to decisions on the payment of bonuses to management. The other half of the responses related largely to hiring and firing and wage issues involving other than management. Questions arise as to the extent

to which the board should become involved in such decisions except from a board policy perspective. It is the role of the manager to hire, fire and determine salaries for other than himself and the cooperative auditor and attorney.

3. *The large farmer issue* has recently become a major concern over which directors differ that was mentioned nearly as frequently the first two. This issue is reflected by chairmen in various forms—quantity discounts, pricing policies, family farm survival, equal treatment of members and the structure of agriculture. It can be anticipated that this issue will continue to become increasingly divisive as agriculture continues to move in the direction of a bimodal distribution of farmers.

4. *Cooperative credit and accounts receivable* was previously identified as a major problem area and is also an issue over which directors differ materially in the method of resolution. Analogous to the case of stock retirement, director opinions range from those who prefer a very liberal credit policy to those who prefer to operate with only a 30-day accounts receivable policy. Financial stress in farming tends to polarize these extreme points of view. Directors must always keep in mind that cooperatives like farmers are not institutions of charity—they are businesses and must be run as such or they will not last long in this cruel economic world.

5. *Cooperative growth, expansion and replacement decisions* divide the board almost as often as credit and accounts receivable issues. The frequency that cost of repairs was indicated as a major problem area, suggests that many cooperatives are operating with obsolete equipment that needs to be replaced. Such conditions foster board decisions regarding replacement of capital goods, modernization, expansion and growth. It is important to recognize that such decisions are often made in a setting of declining cooperative volume, low margins and high costs. These confluences, of course, make replacement, modernization and expansion decisions particularly difficult and potentially divisive. These realities accent the need for feasibility studies and realistic long-range plans.

Table 60. Issues That Divide the Board of Directors of Texas Agricultural Cooperatives, 1985.

	Mentioned Most Frequently	Mentioned Frequently	Mentioned
Adopting new technology:			
Purchase computer			X
Board functions:			
Selecting auditing firm			X
Loyalty			X
Decisions with too few facts			X
Officer rotation			X
Planning		X	
Board relationship			X
Equity management:			
Current member ownership			X

Table 60. Issues That Divide the Board of Directors of Texas Agricultural Cooperatives, 1985 (continued).

	Mentioned Most Frequently	Mentioned Frequently	Mentioned
Retirement of stock or old papers	X		
Financing:			
Borrowing capital			X
Allocating savings between dividends, cash refunds and retains	X		
Cash flow			X
Debt retirement			X
Government farm programs		X	
Growth:			
Rate			X
Internal: Building or improving physical plant	X		
Equipment repair			X
Modernizing equipment			X
External: Mergers and acquisitions	X		
Gear from irrigated to dryland farming		X	
Management:			
Duties		X	
Salaries or bonuses	X		
Changes			X
Wages of employees	X		
Hiring labor	X		
Membership:			
Maintenance			X
New member recruitment		X	
Member education		X	
Member relations			X
Equal treatment of all members		X	
Keeping large farmer		X	
Marketing:			
Local responsibility		X	
Regional dependency		X	
Marketing agreement			X
Market development			X
What service to add or discontinue	X		
Operations:			
Competition: How to meet it?		X	
Credit policies: Amount and collection of accounts receivable	X		
Pricing policy for service and supplies	X		
Cost control		X	
Ginning trailers and modules		X	
Grain moisture policy		X	
Setting margins		X	

Table 60. Issues That Divide the Board of Directors of Texas Agricultural Cooperatives, 1985 (concluded).

	Mentioned Most Frequently	Mentioned Frequently	Mentioned
Module handling		X	
Promotion to increase sales		X	
Structure:			
Adopt closed shop concept			X
Relationship to regional			X
Expectations from regional		X	
Future of family farms			X

Other issues causing divisions among board members that were indicated much less frequently included:

- Mergers with other cooperatives apparently are not discussed frequently enough to become a major issue.
- Cost control is of sufficiently recognized need not to cause division among directors.
- Meeting competition creates division in a few instances because of the conflict between maintaining volume and maintaining margin. Large farmer treatment may also play a role in creating conflict over the meeting competition issue.
- Services to add or discontinue foster considerable board discussion and disagreement. The reality is that services cost money and issues always arise over who benefits and who pays for that cost.

Conclusion and Implications

Texas agricultural cooperative board chairmen's attitudes and expectations are more progressive than their actual operations. That is, they favor action and policies that would tend to improve practices and behavior of cooperatives to a greater extent than has been implemented. This reality is indicated by the following comparison:

Table 61. Comparison of Chairmen's Attitudes and Actual Situations in Cooperative Operations and Policies and Practices, Texas, 1985.

Policies or Practices	Chairman Approval	Actual Situation
Non-Board Members Should Serve on Cooperative Committees	71	21
Have Associate Board of Directors	46	14
Equity Stock Revolved Out in Reasonable Period	81	76
Have Long-Range Plan	58	15
Provide Educational Programs for Members	80	29
Members Should Know Decisions of Board	91	38
Have Board Policy Handbook	56	18

Why do cooperatives' actions lag behind chairmen's attitudes? Some might speculate that it is because chairmen are more progressive than members. That is not the case! Previous studies indicate that members are fully as progressive, and maybe more progressive than either management or the board chairman. Three reasons can be suggested for the lag in action:

- Today's chairmen are more progressive and more business-oriented than those of the past. They simply have not had the time to implement their ideas.
- Other members of the board are less progressive than the chairman. We doubt that this is the case. Our next survey of board members, other than the chairman, will determine the answer to that question.
- Board chairmen and directors require expanded education and training on how to implement new ideas. Leadership is a rare talent. It needs to be fostered and nourished to grow. That is a prime purpose of the Roy B. Davis cooperative chair.

More comprehensive and more frequent schools for board chairmen and directors are urgently needed. In Texas such schools should be sponsored by the Texas Agricultural Cooperative Council. It is not enough to offer a survey course. What is required is indepth courses of study that provide comprehensive understanding of the cooperative's essential business elements. For examples, pricing principles, member financing alternatives, planning, merger alternatives, communications and legal responsibilities are some subjects that should be taught to board chairmen, directors and managers.

The Ideal Board Mix

The diversity of people serving as chairmen of the Board of Directors of Texas agricultural cooperatives is as great as anytime in history. The older chairman often represents the passing era in agriculture. They can be characterized as:

- Having a high school education or less
- Being the son of a farmer who helped found the cooperative
- Smaller farm than younger chairman, but most of the land is owned

- Very loyal to cooperative—purchases a higher share of inputs from the cooperative than the average member
- Less inclined toward progression in credit, new services, pricing and equity redemption
- More willing to train younger members to serve on the board, to communicate with members
- Willing to serve on cooperative committees and other affairs
- Generally opposed to compulsory board rotation or compulsory retirement age
- Bringing more experience as board officer or committee man to the cooperative

Tomorrow's board chairmen will not demonstrate many of the characteristics of today's older ones.

Young board chairmen can be characterized as follows:

- More years in college—emphasis upon a mix of formal education and experience
- Bigger farming operation but rents most of the land
- Bigger gross farm income
- Less loyal than older members—more inclined to buy and sell on the basis of price
- View the cooperative as an alternative—as opposed to **the** alternative
- Supports and uses the cooperative's credit, demands new services, differential pricing and fast equity redemption—all of which many create financial problems for the cooperative
- Less willing to train younger members to serve on the board and to communicate with members than older chairmen
- Less willing to serve on cooperative committees and otherwise work for the cooperative
- Supports compulsory board rotation by both limiting the consecutive years of service and compulsory retirement age
- Knows modern business practices better and understands financial statements, budgets and long-range plans

Ideally, the board should represent a mix of these characteristics—experience, formal training and youth. The board then better reflects the membership of the cooperative. Achieving and maintaining this mix is a challenge for cooperatives. One aid to accomplishing this is limiting the board's term of office.

Limited Term of Office

The need to limit the number of consecutive terms that a director can serve is becoming more common. While only two out of five chairmen of the board favored this proposition, 62 percent of those under 48 years of age favor it. Limiting the terms provides a convenient way to remove directors, especially the old and the incompetent, without embarrassment and to bring on younger board members with newer ideas. But, it runs the risk of terminating the services of strong, well-qualified directors who cannot easily be replaced. Continuity in service adds to director's experiences that are so necessary to properly discharge the policy responsibilities of modern-day cooperatives.

This study shows that the average chairman served 8 years on the board before being elected to the board. By limiting the board term to two consecutive 3-year terms means that most of today's board chairman would have been deprived of the opportunity to serve.

At the heart of this issue is not the compulsory rotation but rather the number of consecutive years an officer should be allowed to serve. Cooperative leaderships that wish to limit the terms of directors should limit terms to no fewer than three consecutive terms (9 years) and preferably four consecutive terms (12 years). At that time they should be required to lay out for a term. If, after a term in "retirement," the director is viewed by the membership as being sufficiently valuable, he can be re-elected for a maximum of another two terms. That gives a potential for 18 years of leadership, more than most farmers will ever serve.

There should also be a safeguard in terms of compulsory retirement age for board members. Forty percent of the chairmen felt that this should be at age 65. Whether it is 65 or 70 is not the critical issue; however, there should be some maximum. Equally important, board members should be active farmers, not just landlords. That is the only means by which a cooperative can assure that its board is keenly aware of the problems of farmers and the responsibilities that they face.

Associate Board of Directors

To have newly elected directors serve on the board without prior experience or training places undue hardship upon the cooperative. This can be avoided by cooperatives adopting a program of training potential board members. One means is to have an associate board, wherein prospective members are elected or appointed to sit with the board, and deliberate but not vote. The job of being a board member is so sufficiently complex that all agricultural cooperatives should adopt an associate board program. It is in their long-term benefit. If the cooperative does not train potential board members, who will?

Associate board training is not sufficient for the new board member. Formal education in board responsibilities is essential to modern business management. Such formal education might be provided by the Texas Agricultural Cooperative Council in cooperation with the Land Grant University and the Farm Credit Banks. A week of intensive training in January could fill the needs for few new director training.

Membership

While the responding chairmen of the board of Texas agricultural cooperatives have shown more gain in membership than losses, the fact is that aggregate cooperative membership has declined in the last several decades. This is due primarily to reduction in members of farmers in the United States. Also, it is due to the loss of the farm income by the small and medium-sized producers.

Table 62. Total Farm Family Income and Percent Earned from Farming, By Sales Class, 1982.

Value of Farm Products Sold	Percent of All Farms	Percent of Total Production	Average Total Income*	Percent Earned from Farming
$	%	%	$	%
Less than 20,000	61	5.5	19,874	-3
20,000 to 39,999	11	5.4	14,288	1
40,000 to 99,999	15	16.4	15,980	22
100,000 to 199,999	8	19.1	29,238	61
200,000 to 499,999	4	21.0	60,929	79
500,000 or more	1	32.5	529,578	95
All Farms	100	100.0	27,578	36

*Sum of net farm income plus off-farm income.

On the average, farms with less than $20,000 gross annual farm sales show net losses from farming. That represents more than 60 percent of all farms in the United States. The 11 percent of farms with annual gross sales between $20,000 and $40,000 only generated 1 percent of the family income from farming. Another 15 percent of the farms had gross annual sales of $40,000 to $100,000 but only generated 22 percent of total family farm income from farming. The commercial (those having more than $100,000 in sales) farms derived most of their income from farming. They also produce most of the production. Cooperatives have a basic choice to make between an emphasis on smaller part-time farms and commercial farms. Both may be served by the same cooperative but that requires highly skilled management in segmenting markets, products and services.

There is a great danger that cooperatives are losing or have already lost large farmer business. Bold, new initiatives are required to stem this situation—quantity discount pricing, quantity marketing incentives and maybe even proportional voting. Texas law currently requires one-man, one-vote except in citrus.

Decision, Program Evaluation and Long-Range Planning

The big surprise in this study was that 62 percent of the chairmen said that their board regularly evaluated their decisions and programs. It is hoped that this is a true evaluation. However, it is suspected that many of the chairmen interpret evaluation as the traditional review of balance sheet and operating statement. In this type of review, basic cooperative policy and performance dimensions are overlooked, nor are the fiscal business elements analyzed in sufficient depth. Evaluations are worthwhile undertakings as they help guide the cooperative's future.

There are many reasons why boards should evaluate their decisions and programs:

- To establish leadership in the boardroom
- To improve board worthiness
- To generate an early warning system
- To settle problems in the boardroom rather than the courtroom
- To increase usefulness of cooperative to members
- To keep the job as a director
- To satisfy director and legal responsibilities

Decisions and program evaluations are deliberate, systematic and organized reviews initiated by the board. Evaluations may be internal, relying primarily on the initiatives and resources of the board. The most effective of internal evaluations are achieved in cooperatives with a long-range plan. With a long-range plan, the board evaluation can compare targeted goals to actual performance. Internal evaluation also includes review of current performances, key performance indicators and post performance.

External evaluations are done completely by outsiders with board approval. This includes such means as: 1) board performance, 2) appraisal, 3) total business audits, 4) feasibility study by outsiders and 5) special consultants. Outside evaluations are particularly useful on a periodic basis or when performance problems are apparent but have not been diagnosed. Lending institutions frequently will request an external evaluation when financial problems are encountered.

Most boards engage in a superficial evaluation of decisions and programs, if, indeed, they evaluate at all. Evaluations are necessary because they serve as a guide for solving problems as well as for future development.

Review of Member Business

Reviewing of the amount of business done by each member each year is a sound cooperative practice. Such reviews provide a businesslike basis for determining whether a member can continue as a member and be allowed to vote. Control of the cooperative should be in the hands of active patrons.

The membership list of many cooperatives contains the names of many deceased and retired members. It also includes the names of several people who have never done any business with the cooperative. Some of these individuals could be on the membership list because they inherited stock of the cooperative. It is critical that the common stock be removed from the hands of those who are inactive in the cooperative.

A distinctive characteristic of cooperatives is democratic member control. Each member has one vote in most cooperatives. But, a member is defined as an active patron—one who has done business with the cooperative in the past 2 years. Members exercise their authority by voting at annual meetings and other such meetings called for decision-making. Failure to withdraw this voting right from ineligible members can jeopardize the exercise of ownership and operational responsibilities of the cooperative. The cooperative business must be operated in the best interest of members within a mold acceptable by the general public.

The best procedure to follow is for the board to review each member's business annually. Notify those who have not done business in 2 consecutive years of the board's findings and request a reason for non-patronage. If an explanation is not forthcoming in a reasonable time, or if the reason for non-patronage is unsatisfactory to the board, then the member should be dropped and the common stock redeemed. Alternatively, the chief executive officer, or another officer, can call on the wayward member and discuss his future intentions.

Pricing

Texas agricultural cooperatives fail to meet the member's pricing expectations. The majority of Texas cooperative members, in 1984, said they favor a differential pricing policy. Fifty-three percent favored volume discounts and 76 percent favored lower price per unit for accepting direct shipments from regionals. This study shows that only 17 percent of the cooperatives provide a direct shipment discount and 14 percent give larger volume discounts.

This gulf between member expectations and cooperative performance [illegible] broad to allow a stand. Responsibility for action in pricing falls not only on the local Board of Directors and management but also upon the regional supply cooperatives. Regionals have been conspicuously silent on this issue. They cannot continue to stand apart from the issue. Regionals must provide the necessary cost account data that allows locals to adopt a "uniform net margin per unit" pricing policy. The locals then must apply the policy so that all purchases of some volume are priced the same.

Competition

Over all, the Texas agricultural cooperative chairmen favored active competition with other cooperatives. From this springs one of the most devastating traits of cooperatives. They are so self-centered that the idea of building a productive, efficient national or regional cooperative system never occurs to many cooperative leaders.

Competition among cooperatives has brought on excess capacity, as in cotton ginning and grain handling. This has resulted in increased costs per unit that essentially makes them non-competitive, which leads to bankruptcy. The way to solve the excess capacity problem among cooperatives is not through competition but through mergers.

Of course, cooperatives are aware of their competition with independent businesses. But, the best game in town frequently is competing with another cooperative. Cooperative competition is misdirected effort.

Services

The consideration of services breaks down into three issues: 1) what services shall be provided, 2) the role of the regional in providing services and 3) at what cost to the recipient. While in this study only one out of five board chairmen reported members asking for new services, the fact remains that tomorrow's cooperatives will continue to adopt new services, not only because of changing agricultural technology but also changing structure of agriculture. Most new services center on supplies and marketing, plus technical aids to farm management.

Regionals cannot view services as uniquely a local cooperative function. They must become partners with locals in many service functions. The least regionals can do is to provide cost accounting data to adequately price services. Most cooperative chairmen said the recipients should bear the full cost of services.

It is bewildering that 42 percent of the board chairmen opposed the policy that those receiving the service should pay for it. Who, then, should pay for services?

Credit

The most shocking finding in this study is that about nine out of each 10 accounts receivable held by Texas agricultural cooperatives in 1985 were past due. Worst still was that six out of each 10 accounts receivable were past due 120 days or longer, and four out of 10 accounts were past due more than 1 year. This not only takes an undue amount of the manager's time collecting but produces short-run and unpredictable cash flow problems. In turn, this causes cooperatives to borrow heavy amounts of money to carry on business.

Cooperatives cannot go on making unsecured loans to farmers, especially to tenant farmers.

The rules layed down last year for cooperative credit merits repeating.

- Each cooperative must have a written credit policy.
- The credit policy must be communicated to all members, preferably printed on the sales ticket.
- Apply credit policy (stringently) uniformily to all members.
- Credit should be extended to 30 days only.
- Charge a reasonable interest rate (18 percent) now on past due accounts.
- Develop collection skills and procedures within the cooperative to minimize use of outside collectors.

Mergers, Consolidations and Acquisitions

A merger consists of putting two or more existing cooperatives into a new cooperative, or one cooperative absorbing one or more others. Consolidation is putting together existing facilities in one cooperative, resulting in fewer plants, gins, elevators or stores being operated. Acquisition means that one cooperative buys out another.

Regardless of whether cooperatives merge or not, there will be fewer cooperatives in the future. One reason for this is there will be fewer, but larger, commercial farmers. Another reason is that cooperatives will take on additional diversity, especially through new specialized and bio-technical services to serve tomorrow's business farmer.

The issue is not that we will have fewer cooperatives, but rather what price will cooperatives pay to go from about 6,000 cooperatives nationally in the mid-80s to 4,000 or less cooperatives in the year 2000? Will we get there by bankrupting 2,000 or more cooperatives? Or, will we get there at the least loss in member equity through mergers, consolidations and acquisitions. The idea is to minimize losses in assets while the cooperatives restructure for the future.

There will be no merger if the board relies on the manager to initiate the action. Mergers are infrequent and difficult to achieve when only the boards are involved. Members are more likely to support mergers than either directors or management.

Today's cooperative boards and especially the chairman, must allow the merger idea to be discussed freely; study the proposal, analyze the plan; submit the plan to respective memberships; get a consensus; and then consummate the merger. The Texas Agricultural Extension Service cooperative specialists, as well as qualified representatives of regionals and Texas Bank of Coöperatives, can assist.

Leadership

One cannot study the cooperative board chairman without asking about leadership. The great captains of the cooperative industry are not around anymore. This may be because members and other followers of cooperatives don't create leaders anymore. What leadership we have in cooperatives seems to center on Chief Executive Officers (CEO's) rather than on board chairmen. At least the inventory of cooperative people seems to be heavily loaded with CEO's.

That is not where cooperative leadership should be. How do you bring leadership back into the board and, especially, the chairman of the board? How do you get leadership out of the owner-patron?

It is said that you will be tomorrow where your thoughts are. By that reasoning, our cooperatives face a brighter future. This study shows that the chairman's thoughts and attitudes are ahead of the cooperative's actual performance. The chairman's thoughts lead the cooperative's performance two or threefold. It is the magnitude of this lag that is astounding.

As we close this lag between chairman's thoughts and attitudes and the cooperative's performance, we would see progress and emergence of leadership abilities in the chairman and the board. What does it take to close the gap?

1. Board chairmen must be knowledgeable. While a member's attention centers on farming, discharging the cooperative's policy responsibilities calls on other skills and talents other than those usually used in farming. Any member elected to the board must be aware of the skills and practice them before sitting on the board. The board chairman must be especially trained.
2. It is not enough to train the board chairman. All board members must be knowledgeable, for any action requires majority vote within the board. Progress requires a majority vote.
3. There is always a lag between what one knows and what one does. Progress takes time.
4. Frequent training must be undertaken. But, this must be indepth training that looks comprehensively at the cooperative's essential business elements.

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Educational programs conducted by the Texas Agricultural Extension Service serve people of all ages regardless of socioeconomic level, race, color, sex, religion, handicap or national origin.

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