

A Study of the Organizational Characteristics of Successful Cooperatives

by

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Abstract

The movement of forming cooperatives in the United States began in 1875. Cooperative strategy became popular in the 1990s as markets became increasingly global. Market power theory suggests that greater market power can be achieved by means of a cooperative strategy that involves collaborating among firms. Although there is a vast amount of literature about the management of corporations, little has been published on the subject of managing cooperatives. There have been many problems within cooperatives that have led to questions about their effectiveness. This study discusses the various characteristics of cooperatives in the agriculture, food, healthcare, electric, and telecommunication industries. A comparison of the characteristics of these cooperatives is offered along with some factors that affect the success of a cooperative.

HISTORICAL BACKGROUND OF COOPERATIVES

One of the first consumer cooperatives was formed in 1844 by a group of laborers in Rochdale, Lancashire. They developed a set of principles that were later used by many cooperatives. These principles were guidelines pertaining to how sales would be conducted and operating guidelines for the cooperative. For example, these principles included the following stipulations for operating the cooperative: “sales in exchange for cash and no credit permitted, charges that matched prevailing local prices, refunds given in proportion to purchases, offer limited interest on capital investments, one vote for each member, and hold regular and frequent meetings” (AICPA, 2004, p.31). Further, in 1875, the Rochdale principles were adopted at a convention of the National Grange which consisted of a number of small farmer-owned organizations. These organizations had an impact on the economy as there were over 5600 agricultural cooperatives in the United States by 1985 (AICPA, 2004). And, in 2005 it was reported to be as high as 40,000 cooperatives in the U.S. across industries (National Cooperative Business Association, 2005).

Although there is a vast amount of literature about the management of corporations, little has been published on the subject of managing cooperatives. There have been some problems, both internally and externally, with cooperatives that have hindered their effectiveness. These problems include competition among cooperatives and other organizations, membership attraction and retention, cash flow and income generation, increasing cost of energy and other resources, keeping abreast of the changing technology to mention a few (Gray and Kraenzle, 2002). The purpose of this study is to gain a better understanding of the cooperative as an organization. The study will seek to

answer the following research questions: (1) What are some industries in which successful cooperatives are likely to be found? (2) What are the organizational characteristics associated with cooperatives that have experienced long-term success? (3) What are the factors that affect the success of a cooperative? Next, we briefly offer the theory behind forming a cooperative organization.

WHY FORM COOPERATIVES

Although organization theories typically deal with more traditional or closed-system organizations (Scott, 1992), they may also be used to explain and understand cooperatives. Market power theory, for example, suggests that greater market power can be achieved by means of a cooperative strategy that involves collaboration among firms (Faulkner and De Rond, 2000). Porter's (1975) framework of the five forces that drive competition in industries depicts market power in the form of supplier power, buyer power, threats from new entrants, threats from substitutes, and rivalry within the industry. By forming cooperatives, organizations often blur the lines between these external constituents and the focal organization. For example, in agricultural cooperatives, members or owners are also customers of the cooperative for services such as marketing and advertising, as well as suppliers of the farm products to be sold collectively by the cooperative. Similarly, members of rural electric cooperatives are both suppliers and consumers of the energy that travels over the cooperatives' grids.

This inclusion or embracing of critical constituents, in many cases, amounts to a co-optation of potential resistance to the organization and its goals (Pfeffer and Salancik, 1977; Oliver, 1991). Cooperatives are generally overseen by governing boards which represent the interests of members (Cornforth, 2004). The role of the board is to resolve

or choose between the interests of different groups and to set the overall policy of the organization which can then be implemented by staff. For cooperatives that have subsumed a diverse and sometimes competitive set of environmental actors, the governing board may find itself particularly challenged to manage diverse and competing demands from members, to build and maintain trust among the membership, and to manage perceptions of its own fairness—all while ensuring that the cooperative remains within its member-supplied budget. Next, we discuss the method used to conduct the study.

HOW THE STUDY WAS CONDUCTED

For this study, information was gathered from secondary and primary sources. We began the study by conducting a search for information in current periodicals and found some information on cooperatives. Next, we conducted detailed searches on the internet for information on cooperatives. We narrowed our search to five industries beginning with agriculture and food because these industries were recognized as some of the first to establish cooperatives. We expanded the study to include healthcare, telecommunications and electric because these industries were also recognized as having established cooperatives. Further, these five industries represented a broader variety of cooperatives to be included in the study. While our initial search yielded over 60 websites, the information contained on many of these sites was not useful for this study. As a result, our study analyzed the data gathered from 25 of the cooperative's website represented by the industries mentioned above. Next we attempted to make direct contact with representatives from all of the cooperatives included in the study. Out of the 25 cooperatives websites, we made direct contact with 17 cooperatives to conduct in-depth

interviews. We developed a list of interview questions to gain an in-depth understanding of the cooperative organizations. The interview protocol consisted of making initial contact with the point of contact listed on the website. Once initial contact was made, we were referred to the appropriate individual to interview for the study. The list of questions was provided to the interviewee prior to the interview and a follow-up appointment was scheduled to complete the interview. In the following section, we discuss the organizational characteristics of cooperatives followed by a comparison among the cooperatives discussed in the study.

THE ORGANIZATIONAL CHARACTERISTICS OF COOPERATIVES

The next five sub-sections will highlight the organizational characteristics of cooperatives in specific industries including agriculture, food, healthcare, telecommunication, and electric industries.

Specific Agricultural Cooperatives and Their Characteristics

Listed in Table 1 are the most common types of agricultural cooperatives including: supply or purchasing cooperatives, marketing cooperatives, bargaining cooperatives, and service cooperatives.

[Insert Table 1 Here]

Agricultural cooperatives form to improve their bargaining power, reduce costs and reduce risks. Pooling capital and resources can enable the producers to access services, such as marketing promotions and advertising that they cannot otherwise be able to afford. Furthermore, forming an agricultural cooperative can achieve economies of scale and increase returns. Since earnings are distributed to the producers based on patronage, the producers are able to receive additional profits. Further, producers form

agricultural cooperatives to improve their product and service quality. Since agricultural commodity prices fluctuate, the producers can reduce risks by pooling their productions. As a result, they can minimize the price and their market risk.

Members. As mentioned previously, there are thousands of agricultural cooperatives in the U.S. These cooperatives vary in size with respect to the number of members. United Farmers of Alberta (UFA) has over 106,000 active members. In contrast, ValAdCo has 120 members. Our study revealed that most of the food cooperatives can be categorized as a type of bargaining cooperative, sometimes referred to as a consumer cooperative in the food industry. However, the Growing Circle Food Cooperative has a variety of members. It has around 500 members of which 8 are employees, over 100 are producers, and over 400 are consumer members. Therefore, a unique feature of the Growing Circle Food Cooperative is that it is a multi-stakeholder cooperative that includes employees, producers and consumers as members.

Organization. Having a Board of Directors is common for most cooperatives in the agriculture industry. Golden Oval Eggs, an egg-producing cooperative, indicates that their governance is conducted by a seven-member board elected by the members. American Crystal Sugar Company has a 15-member board that plays an important role in member relations. Campina Melkunie, a Dutch dairy cooperative, has established a Cooperative Council of 27 members and a board of 13 members. The board is responsible for business operations of the cooperative.

Many agricultural cooperatives enter into partnerships or alliances with other cooperatives. For example, Norfolk Co-op has entered into a partnership with two southwestern Ontario cooperatives, Orford Co-op and Pointe- Aux- Roches Co-operative.

They formed a company called Great Lakes Grain. Great Lakes Grain allows the three founding cooperatives to achieve a number of fundamental business goals, including: establishing an efficient cost structure, accessing higher value growth segments and attaining critical mass (Norfolk Cooperative Company Ltd, 2005). Another example is CHS Cooperatives which is a leader in energy, grain-based foods and food ingredients, and agronomic inputs. While many products are produced by CHS Cooperatives, their business ventures with other industry-leading organizations allow them to offer even more of the leading products and services to meet consumers' demand (CHS, 2004).

Benefits. One benefit of membership is the distribution of dividends. The distribution of dividends is a common characteristic among agricultural cooperatives. A benefit for members of Norfolk Co-op is that they have the right to share in any patronage declared by the Board of Directors. Patronage is paid in cash and a portion of the distribution is directed to the purchase of additional common shares, until a maximum of 250 shares is reached. ValAdCo raises capital by reinvesting 30 percent of the earnings and the remaining 70 percent is distributed as dividends. Similarly, Dakota Growers Pasta Company retains 30 percent of their earnings to reinvest and the rest is distributed. On the contrary, Land O'Lakes Inc. distributes 20 percent of their earnings to members as dividends and 80 percent of the earnings are retained as equity investment (O'Connor, 2001).

Another membership benefit is providing educational, training or services to help members improve their businesses. For example, Norfolk Co-op offers services of preparing a Nutrient Management Plan which helps a producer to plan while considering the environmental and economic factors (Norfolk Cooperative Company Ltd., 2005).

United Farmers of Alberta (UFA) provides prompt, efficient credit facilities for its members' convenience. Further, CHS Cooperatives offer diverse consumer products and essential business solutions like insurance, risk management, transportation, and enterprise consulting to their members.

Quality. Responding to members' and customers' needs is a common goal among the agricultural cooperatives such as the United Farmers of Alberta (UFA). Maine Potato Growers Inc. (MPG) helps their membership identify and develop opportunities in the marketplace. Further, Norfolk Co-op's mission is to provide quality farm products and they work to increase the productivity of farmers in the communities that they serve (Norfolk Co-operative Ltd., 2005).

Community. Finally, agricultural cooperatives desire to help the local communities to promote growth and sustainability. For instance, UFA supports the community it serves by sponsoring 4-H, local sports teams, as well as providing scholarships to Western Canadian youth.

Specific Food Cooperatives and Their Characteristics

Members. It is estimated that over 300 retail food cooperatives are established in the United States (National Cooperative Business Association, 2004a). These cooperatives have total gross sales of over \$700 million and about 400,000 members.

Organization. There are trends of alliances, mergers and acquisition between cooperatives within the food industry as well. For example, Pro-Fac Cooperative Inc., an agricultural marketing cooperative, has completed its acquisition of Curtice-Burns Foods Inc. (Pro-Fac buys Curtice-Burns, 1994). Furthermore, Associated Grocers (AG) has made agreements to transfer its nonfood purchasing to Unified Western Grocers (UWG).

By establishing a supply agreement and combining its purchase of general merchandise and health and beauty aids with UWG, AG and UWG would have stronger, more cost-effective buying opportunities.

One of the most prevalent similarities among food cooperatives is that they follow the Rochdale Principles, which are voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and information, cooperation among cooperatives, and concern for the community. For example, Midwest Natural Co-ops, Davis Food Co-op, and East Food Cooperative emphasize how they abide by the Rochdale principles.

Benefits. A benefit that food cooperatives provide to their members is that the member is also an owner of the cooperative. Ownership gives each member a *vote* in decision-making. The members of the National Cooperative Grocers Association (NCGA) have the opportunity to influence the governance, staff, member groups, general assembly, and conflict resolution of the NCGA. The power of the members was demonstrated when a planned merger between Cenex Harvest States Cooperatives and Farmland Industries Inc., the nation's two largest farm-owned cooperatives, fell apart because they failed to get the necessary two-thirds vote from the members of the Cenex (Carey, 1999).

Another benefit among food cooperatives is that the members pay reduced prices for products and services. Community Food Co-op, a consumer cooperative, provides discounts to its members when they buy case lots. Davis Food Co-op, a full service supermarket, provides its members with products at the shelf price whereas non-members are charged a five percent surcharge (Eastside Food Cooperative, 2005).

Many food cooperatives offer educational programs for their members. For example, Co-op America provides educational publications to their members such as a free copy of the Co-op America's National Green pages, a free one year subscription to 'Real Money,' a free subscription to Co-op America Quarterly, and a free copy of their Financial Planning Handbook. Similarly, the NCGA provides the members the opportunity to participate in the National Cooperative Advantage Program and Common Cooperative Financial Statements (CoCoFiSt). Finally, the NCGA distributes the Cooperative Grocer magazine to the members.

Quality. Providing high-quality products at a reasonable price is in the mission statement of the Community Food Co-op (Community Food Co-op, 2004) and the Eastside Food Cooperative (Eastside Food Cooperative, 2005). Also, Midwest Natural Food Co-op strives to provide its members and customers with high-quality products.

Community. Food cooperatives focus on meeting the members' needs and helping to build their communities. For example, the People's Food Co-op buys locally grown produce when it is available. Similarly, the Community Food Co-op is committed to buying produce from local farmers.

Specific Healthcare Cooperatives and Their Characteristics

Members. Membership in healthcare cooperatives varies. We observed that healthcare cooperatives could start off with a few members and grow to become a large member cooperative. For example, North Central EMS Cooperative has grown from having 3 members while operating in one state in 1997 to serving 643 members in 22 states by 2006 (North Central EMS Cooperative, 2006). The Alliance is a healthcare cooperative with 160 Wisconsin employers as members. These employers use Alliance

healthcare cooperative as a part of their health benefit plan which has 100,000 employees and their families enrolled.

Organization. Healthcare cooperatives, like food cooperatives, are owned by their members and the members have the one-member-one-vote privilege. In Group Health Cooperative, all members can attend Group Health's annual membership meeting. The members are entitled to vote and influence the governance of the cooperative. These members are responsible for electing the Group Health Board of Trustees. Furthermore, members eligible to vote (members 18 or older) can vote on changes to Group Health's bylaws.

A unique healthcare cooperative is the Alliance healthcare cooperative. The Alliance healthcare cooperative is an employer owned and non-profit cooperative that helps companies manage the total cost of ensuring the health and well being of their workforce. On behalf of their employers, they serve as a medium for improvement and advocates for a system that achieves superior results, improves medical care, and provides actionable information for purchasers and consumers. Furthermore, their employers serve on their Board of Directors.

Benefits. Discounts are also popular in healthcare cooperatives. Members of the Healthcare Coalition Cooperative receive the most favorable discount contracts with local providers (Healthcare Coalition Cooperative, 2005). While, New Song's Health Co-op provides their services for free. Additionally, North Central EMS Cooperative offers discounts through group purchasing. Members receive preferred pricing on dental benefits, vision benefits, prescription drugs and a national Preferred Provider

Organization network. Furthermore, the cooperatives work to influence health care/EMS legislation issues as they impact the Cooperative.

In addition, these cooperatives have and will continue to implement educational programs and workshops for members. New Song's Health Co-op has conducted many seminars and educational programs that inform their consumers about healthcare practices. Rural Wisconsin Health Cooperative also offers educational and quality programs. Finally, Alliance healthcare cooperative offers health promotions and consumer health education resources. They provide detailed reports to help employers analyze their claims utilization and benchmark their health benefits plan against others. Also, they offer opportunities for employers to network and learn more about current industry trends and issues at Educational Forums held throughout the year (Alliance, 2005).

Quality. Like food cooperatives, healthcare cooperatives value providing their members with high quality products at a reasonable price. For example, Group Health Cooperative was formed in order to provide high-quality reasonably priced healthcare services. The Healthcare Coalition Cooperative helps ensure that members receive high quality and affordable healthcare (Healthcare Coalition Cooperative, 2005). The Our Health Coop supplies affordable supplements by eliminating typical industry overhead by directly selling to their consumers and also by encouraging the members to use online purchasing. This process not only reduces costs, it also helps in maintaining quality products. And, the Alliance healthcare cooperative focuses on value and cost when purchasing healthcare (Alliance, 2005). An interesting characteristic of the Rural Wisconsin Health Cooperative is that it provides quality and efficient care through the

development of a mutually supportive network of hospitals. These hospitals are diversified in their services and they combine their strengths to meet the community's health needs.

Community. While community involvement may not be as common among the healthcare cooperatives in general, there are some healthcare cooperatives that are involved in their communities. For example, Group Health Cooperative has a long tradition of community involvement in the form of community sponsorships, outreach programs, and partnerships. Group Health has invested almost \$40 million for community and public health programs in 2004. They strive to meet their founders' charter which is to serve the greatest number of people (Group Health Cooperative, 2002). Also, New Song Health Co-op is involved in a community outreach program that offers free health check-ups and referrals for medical care. And, the Our Health Co-op provides a healthcare newsletter to their community which covers healthcare products and health news.

Specific Telecommunication Cooperatives and Their Characteristics

Members. There are 270 consumer-owned telecommunications cooperatives that provide telecommunications services to rural America (National Cooperative Business Association, 2004c). These cooperatives have over 500 members in each cooperative. For example, Clay County Rural Telephone began with as few as 50 members, but now the cooperative is presently thriving with over 12,660 members.

Organization. Engaging in mergers and acquisitions occurs among cooperatives in the telecommunications industry. In 1992, the Boards of Directors of Nemont and Valley Rural Telephone Cooperative Association, Inc. decided to merge the two rural

cooperatives into one. The merged cooperative retained the name of Nemont. In 1994, Nemont acquired 21 exchanges from U.S. West. The ownership of the exchanges was split between Nemont and the newly created subsidiary Valley Telecommunications, Inc. (Nemont Telephone Cooperative, Inc., 2005).

Benefits. Some membership benefits provided by telecommunication cooperatives are discounts for meetings, exhibit rates, advertising and sponsorships. Also, they offer a free copy of newsletters, directories, and magazines. Nemont Telephone Cooperative, Inc. offers cooperative education, telephone etiquette sessions and job shadowing at no charge to assist area schools, libraries, and hospitals. Nemont Telephone Cooperative has brought over \$2.5 million in discounted services to their service areas. Additionally, Craw-Kan Telephone Cooperative Association, Inc. and Guadalupe Valley Telecommunications Cooperative (GVTC) provides benefits such as one bill convenience for all communication services (such as local, long distance, Internet and cable TV). Further, the National Rural Telecommunications Cooperative provides “high-speed Internet access via satellite, full service Internet access and support, automated meter reading, smartSCADA, wireless technologies, power quality products, long distance programs, and Internet Protocol broadband backbone services” specifically created to meet the needs of rural utilities and their customers (National Rural Telecommunications Cooperative, 2004).

Quality. The telecommunication cooperatives strive to provide quality products to their members and consumers. The National Telecommunication Cooperative Association provides high-quality and timely telecommunications related education and training to their members including managers, directors, and employees (National

Telecommunication Cooperative Association, 2005). Further, Logan Telephone Cooperative offers the reliable services to their members and customers at the lowest possible cost. West River Telecommunications Cooperative (WRT) also strives to provide quality service and meet the every changing telecommunications needs.

Community. Telecommunication cooperatives emphasize their desire to serve their members and support the communities around them. For instance, Logan Telephone Cooperative's mission is to serve their members, customers, and community to build relationships with them. And, the National Telecommunication Cooperative Association provides economic and community development support at home and abroad. The Farmers Telephone Cooperative Inc. (FTC) plays a vital role in helping to build communities by providing products and services equal to services found in urban areas (Farmers Telephone Cooperative, 2005). Furthermore, FTC has low-income programs such as 'Link-up America,' 'Lifeline Assistance Program' and 'Toll Limitation Service.' These programs provide discounts to eligible consumers.

Moreover, Brazos Telephone Cooperative actively participates in community projects because they believe that investing in the community will allow them to lay a foundation for the future (Brazos Telephone Cooperative, Inc., 2003). While, GVTC makes donations to many non-profit organizations and they work with their local chamber of commerce to offer on-going support for rural scholarship and discounts to schools and libraries. Also, XIT Rural Telephone Cooperative offers scholarships to students from the area through their XIT Rural Telephone Educational Program.

Specific Electric Cooperatives and Their Characteristics

Members. Rural electric cooperatives operate more than half of the electric distribution lines in the United States. Nearly 900 consumer-owned electric cooperatives provide electricity for thirty-seven million people in the United States (National Cooperative Business Association, 2004b). However, the cooperatives have only a 12 percent share of the U.S. electricity market. Members range from fifty people to three million people. Electric cooperatives are private independent utility businesses incorporated under the laws of the states in which they operate. They are owned by the consumers they serve.

Organization. The Board of Directors, elected by the members, governs the operations of the electric cooperatives. Electric cooperatives emphasize the importance of the Rochdale principles. For example, the Associated Electric Cooperative and the Texas Electric Cooperatives adhere to the Rochdale Principles. These electric cooperatives view the seven principles as a good guideline that will ultimately increase their performance and attract more members. Similarly, AEPCO and Anza Electric Cooperative conduct their operations according to the Rochdale principles.

Mergers, alliances and agreements are occurring between cooperatives in the electric industry as well. For example, National Rural Electric Cooperative Association (NRECA) and ProxyMed Inc. entered into an agreement where PlanVista Solutions, Inc., subsidiary of ProxyMed Inc., will provide preferred network access for NRECA medical plan participants. The agreement enables NRECA, who is a leading utility provider, to utilize PlanVista's network access products for its association members. Associate membership will have access to equipment manufacturers and distributors, wholesalers,

and consultants that do business with members of the electric cooperative network (Business Editors, 2005). Another example, Arizona Electric Power Cooperative, Inc. (AEPCO) was restructured in response to the deregulation of the electric utility industry in Arizona. After the deregulation, AEPCO was split into three separate cooperatives.

One unique characteristic, with respect to the organization of the electric cooperatives, is that Trico Electric Cooperative Inc. (Trico) and Clark Energy Cooperatives operate as member-owned nonprofit cooperatives. Furthermore, Shelby Energy Cooperative, Inc. is a nonprofit, customer-owned electric distribution cooperatives. When revenues collected exceeds operating expenses, they are returned to customers as capital credits. Shelby Energy has returned more than \$1 million in capital credits to its customers. Another unique characteristic is that Touchstone Energy Cooperative is an alliance of more than 600 cooperatives in 45 states that collectively delivers power and energy solutions to more than 22 million customers. For example, Anza Electric Cooperative and Shelby Energy are members of the Touchstone Energy Cooperative. A unique characteristic of the Associated Electric Cooperative Inc. (AECI) is that it consists of a three tiered member system. The three tiers include generation, transmission and distribution electric cooperatives (Associated Electric Cooperative Inc., 2005). Each tier has its own set of responsibilities.

Benefits. Co-ops charge less in part because they rely mainly on coal-fired plants to generate electricity, whereas utilities depend far more on higher priced natural gas (Ostroff, 2005). Chugach Electric Association is working on a wind project that would generate power. Chugach Electric generates about 85 percent of their power using natural gas and 15 percent comes from hydroelectric power. The development of a wind

project is expected to replace about 7 percent of Chugach Electric's power generated by natural gas (Chandler, 2005). A unique characteristic with respect to benefits is that Great Lakes Energy along with other Touchstone Energy cooperatives offer national and local discounts for members through the Co-op ConnectionsSM which are accessible to members via the Internet.

Quality. Electric cooperatives are established to provide quality electric services at-cost (Touchstone Energy Cooperatives, 2005). Touchstone Energy is committed to providing high standards of services to their customers. Cuivre River Electric's mission is to provide dependable electricity and related services to their members. Similarly, Associated Electric Cooperative Inc. strives to provide an economical and reliable power supply and support services to its members (Associated Electric Cooperative Inc., 2005). Electric cooperatives not only desire to provide high-quality products at a reasonable price, they also offer reduced prices for their services. Touchstone Energy, for example, offers discounts at their businesses. Trico strives to provide economic value and needed services to their members and employees. Furthermore, they promise to keep members and their needs first.

Community. Similar to the agriculture, food and telecommunications cooperatives, electric cooperatives stress the importance of contributing to the economic growth of their communities. Electric cooperatives recognize the importance of educating their members about safety and awareness; thus, most of the electric cooperatives have implemented educational programs and workshops. Touchstone Energy, for example, emphasizes the importance of each electric cooperative's local presence and unique ties to their communities (Touchstone Energy Cooperatives, 2005). They sponsor a number of projects

and activities for their members. Further, Cuivre River Electric (CREC) is committed to providing energy services while aligning with high standards of accountability, integrity, innovation, and commitment to the community. CREC has implemented numerous outreach programs and activities to serve the community. They have also provided educational programs about electric safety and energy awareness to the community. Another example, the Texas Electric Cooperatives fund scholarships for students to create educational opportunities. They provide educational programs and workshops for their members. Commitment to community has always been a top priority at Southeastern Electric Cooperative (SEC). For example, SEC conducts safety programs, sponsors 4-H Electrical Talks and Demonstrations, and provides full scholarships to support their community.

Comparison of the Organizational Characteristics of the Cooperatives

In the five sub-sections above, we reviewed the various characteristics of cooperatives in the agriculture, food, healthcare, telecommunication, and electric industries. A comparison of the organizational characteristics among the cooperatives is described below and highlighted Table 2 and Table 3.

[Insert Table 2 Here]

[Insert Table 3 Here]

Members. Based on the cooperatives studied and interviews conducted with a number of cooperatives from the industries mentioned above, it was evident that the cooperatives vary in size with respect to number of members even within the same industry. When comparing the cooperatives by industry, we find that agricultural, food, telecommunication, and electric cooperatives have tens of thousands of members.

Members of as high as 106,000, 400,000, 12,660, and 4,000,000 are seen in the agricultural, food, telecommunication and electric industries, respectively. On the contrary, healthcare operatives begin with a few members and grow to become a large member cooperative, but not as large as the other four industries. In our study, we came across a healthcare cooperative that has grown up to 643 members. Uniquely, electric cooperatives are more of a monopoly in terms of providing electric distribution services to communities it operates. Many community people have no other choice but to receive electric services from the cooperative.

The membership tended to be local due to the type of services offered to the members. For example, food, healthcare, electric and telecommunications tend to provide services specifically designed and needed by the local community. In general, the growth in membership of cooperatives tends to either remain steady or increase gradually overtime. In some cases, attracting new members is relatively easy since the cooperative may be the only entity providing the services needed in the area such as the electric cooperatives.

Organization. In general, cooperatives have a Board of Directors. The board normally consists of less than 12 members who must be a member of the cooperative to serve on the board. Thus, no one can serve on the board from outside of the cooperative. Finally, the boards have established governing documents such as articles of association, Bylaws, rules and regulations. The operating costs vary depending on the size of the cooperative. We found that operating costs ranged from \$250,000 to \$18,000,000. Despite rising costs, cooperatives continue to offer benefits to their members in terms of dividends or patronage depending on the type of cooperative. While these amounts vary

from one cooperative to another, the aggregate numbers paid by many cooperatives to their members were in the hundreds of thousands of dollars over the years 2003 through 2005.

Mergers, alliances, and agreements are commonly seen in most of the industries studied. More specifically, except in the healthcare industry, we saw that some cooperatives in agricultural, food, telecommunication, and electric industries have formed mergers, alliances, or agreements. This is an interesting fact concerning the organization of cooperatives. Healthcare cooperatives are owned by their members and the members have the one-member-one-vote privilege. This is similarly true in the other four industries.

Food, electric and agricultural cooperatives abide by the Rochdale Principles. On the contrary, we did not come across healthcare and telecommunication cooperatives that mentions following the Rochdale Principles. Uniquely, we identified a food cooperative that is formed as a multi-stakeholder cooperative that has employees, producers and consumers all as members. Such a characteristic is not seen in the other industries. Moreover, a unique characteristic for the healthcare industry is Alliance being an employer owned non-profit cooperative. We see many non-profit cooperatives in the electric industry; here, the profits are returned back to the customers. Furthermore, interesting we came across a particular electric cooperative whose members are other cooperatives. We also came across an electric cooperative that is formed as a three-tier member system for greater efficiency in providing services to its members.

Benefits. A common benefit seen across industries is the distribution of dividends and members are the owners of the cooperative. In agricultural cooperatives, apart from

distributing dividends, these cooperatives retain parts of the profit as reinvestments. Providing discounts to their members is also a common benefit. In the food industry, members pay reduced prices for products and services. In the electric cooperatives, Touchstone cooperatives have access to discounts through the Co-op ConnectionSM. Discounts are not just related to products and services; interestingly, some cooperatives offer discounts for meetings, programs etc. This characteristic is seen in the telecommunication industry in the form of discounts for meetings, exhibit rates, advertising, and sponsorships. Most interestingly, a couple of healthcare cooperatives offer services for free. Another benefit worth noting is how agricultural, food, healthcare and telecommunication cooperatives provide educational programs, workshops, training, and copies of magazines and other publications for their members.

Quality. The long term goals for the cooperatives tend to be focused on serving their members and, especially, providing value. While different cooperatives face very unique problems in meeting their goals, the common theme seems to be around the need to take advantage of the changing technology while trying to manage the rising cost of providing services to the members. Proving high quality products/services to their members at a reasonable price is a common mission seen in all cooperatives in the five industries. Responding to members' and customers' needs is also a priority. Uniquely, we came across a cooperative that provides quality and efficient healthcare by forming a coordinated system of rural care, which is a network of hospitals.

Community Involvement. Agricultural, food, telecommunication, and electric cooperatives find community involvement important. They strive to build the communities they are located in. One of the most interesting findings was that healthcare

cooperatives do not mention much about community involvement. Even though community involvement is not common practice, we did come across a few healthcare cooperatives engaging in community activities. Agricultural, telecommunication, and electric cooperatives see that it is important to invest in the economic development of the communities. Uniquely, electric cooperatives provide safety and awareness educational programs. They also provide scholarships to promote educational opportunities. Additionally, another unique characteristic is that food cooperatives buy locally grown produce when it is available and they promote economic justice for farmers through fair trade.

FACTORS THAT AFFECT THE SUCCESS OF THE COOPERATIVE

In this section, we will examine what factors led to the success in establishing and operating a cooperative and factors that hinder the success of the cooperative as an organization.

Factors lead to success. Based on our research, we found that there a number of factors necessary for a cooperative to be successful. Choosing a good location has become important. Furthermore, having experienced managers that have a long-term perspective beyond 1 to 5 years is necessary. The cooperatives should have financial stability in order to succeed. Reasonable and open Board of Directors as well as knowledgeable and friendly employees becomes important. The Board of Directors and members should be willing to meet regularly and plan strategically about the future of the cooperative. They should sustain shared mission and vision among members as well as

employees of the cooperative. Cooperatives in industries that are regulated by the government should operate under these government regulations at all times.

Further, a good management team that is experienced in the appropriate field, trained, community minded and can communicate well with the members was a key success factor for the cooperatives. Careful financial and working capital management plays a huge role in the success of the cooperatives. The management needs to supervise owner investments and administer proper pricing to the members. Furthermore, the cooperatives' success is due to leaders who are willing to change and improve while keeping the interests of the whole cooperative foremost. Providing essential services to meet member needs most efficiently and effectively is another factor that leads to the cooperatives' success.

Factors that hinder success. Next, we asked about what circumstances would hinder the success of the cooperative as an organization. In the telecommunication industry, government interference has been a factor that hinders success. An interviewee mentioned that governments allowing cellular companies to take universal service funds based on the cost of the landline company and not the cellular company has hindered the cooperative's success. Furthermore, we found that some cooperatives in the banking industry view regulatory burden as a factor that hinders success. The regulatory burden accounts for almost 20% of these cooperatives' total costs.

Another factor is the necessity to compete with big companies for services in the same area and to compete with conglomerates that can spread their costs. These cooperatives find it difficult to allocate significant blocks of time for board meetings as well as taking care of the ongoing operations of cooperative. A weak management team

where there is internal conflict and a lack of focus on the needs of the cooperative's business can hinder the success of the cooperative. Bad location/facility and lack of working capital for improvements is another factor that hinders success. Finally, if members feel that they are not properly represented in the governance structure and the cooperative fails to meet member needs, the cooperative will encounter problems.

Factors that lead to dissolution. Having not enough financial capital to remain viable, inability to abide by government regulation, failure to require adequate capitalization by member owners, failure to change practices along with changes in market conditions, and inability to maintain adequate technology with advances in technology are some reasons that cause cooperatives to dissolve. Another reason would be the loss of commitment by the members to the vision and mission of the cooperative, which would lead to a loss of financial support and the eventual dissolution of the cooperative board. Too much emphasis on immediate returns/discounts to member owners rather than emphasis on carefully building up net earnings for future improvement can also cause a cooperative to dissolve.

Uniquely, in the electric industry, since electric cooperatives provide essential services to the members, unless some other company comes in and provides the same services, the cooperative will continue to function. Thus, until another company purchases or takes over the cooperative, the cooperative will provide services to its member.

CONCLUSION

In conclusion, this study of cooperatives demonstrates that opportunities exist for organizations to form and combine their membership's demand for the benefit of the group in a number of different industries. These organizations may form memberships based on consumers, producers, and/ or employees. Regardless of the type of membership, cooperatives offer a valuable benefit to their membership to help them obtain or provide the products and services that are vital to the overall U.S. economy. This study offers some insights on the common characteristics among the cooperatives studied in an effort to assist newly forming cooperatives as they make plans to draw in members within their respective industries. Future research should focus on the membership of these cooperatives and conduct in-depth interviews to study their perspectives of the cooperative organization. This study focused primarily on cooperatives in the U.S. which is a limitation of the study for those cooperatives competing globally with other cooperatives or corporations. Future research should attempt to examine the cross-border issues of managing a cooperative and competition among these cooperatives.

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Table 1
Types of Agriculture Cooperatives

Type of Agriculture Cooperative	Description
Supply or purchasing cooperatives	Supply or purchasing cooperatives purchase, manufacture, distribute, and provide products and services to their members. Small cooperatives purchase the products and services sold to their members from large regional cooperatives or organizations. Large regional cooperatives operate manufacturing facilities for the production of products and supplies.
Marketing cooperatives	Marketing cooperatives may market, process and distribute their members' products. Some marketing cooperatives take ownership title of their members' products and others act as agents for their members on a commission or brokerage basis.
Bargaining or consumer cooperatives	Bargaining cooperatives negotiate with distributors and processors, provide market information, and act as intermediaries between their members and the packers or processors.
Service cooperatives	Service cooperatives provide various services such as legal and advertising services to their members.

(Source: AICPA, 2004, p. 33)

Table 2
Summary of the Cooperative's Common Characteristics

Characteristics	Industry				
	Food	Healthcare	Telecommunication	Electric	Agriculture
Responsive to members' needs	✓	✓	✓	✓	✓
Provides ownership benefits, such as influencing cooperative governance and voting rights	✓	✓	✓	✓	✓
Working to increase economic growth in their communities	✓	✓	✓	✓	✓
Goal to provide high-quality products to their member and customers	✓	✓	✓	✓	✓
By forming a cooperative, they can reduce costs. Thus, they are able to provide their products and services at a reasonable price	✓	✓	✓	✓	✓
Members can buy products at a discount price. Some discounts are given at local businesses. Also members can be given discounts at co-op events	✓	✓	✓	✓	✓
Adhere to Rochdale Principles, which are voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and information, cooperative among co-operatives, and concerns for community.	✓			✓	Majority of the cooperatives studied followed these guidelines ✓
Provides educational programs and workshops to their members	✓	✓	✓	✓	✓

Table 3
Summary of the Cooperative's Unique Characteristics

Unique Characteristics	Examples from the Food Industry	Examples from the Healthcare Industry	Examples from the Telecommunication Industry	Examples from the Electric Industry	Examples from the Agriculture Industry
Multi-stakeholder cooperatives, which means that the cooperative consists of workers, consumers, and /or producers	Growing Circle Food Cooperative				
Provides high value products and services in contrast to the normal goal of providing products at a reasonable price		Rural Wisconsin Health Cooperative			
Cooperatives act according to the fair trade concept	Co-op America, People's Food Co-op				
Three-Tier Member System				Associated Electric Cooperative	
Act in accordance with the Fair Trade Principles	All of the Food Cooperatives mentioned in this studied				
A cooperative that is a collection of cooperatives				Touchstone Energy Cooperative - 600 cooperative members	
Special discount programs for members				The Co-op Connection SM for all Touchstone Energy Cooperatives	
Employer owned cooperatives		Alliance - Employer Health Care Alliance Cooperative			
Engaging in mergers and acquisitions			Nemont and Valley Rural Telephone Cooperative Association, Inc.		