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Abstract
I am a Professor of Agricultural Economics and Public Policy at Iowa State University-ISU has 55,000 students and has been a world leader in agricultural research and development among the U.S. universities. Also, today I am representing Land O’ Lakes one of the largest agribusiness cooperatives in the United States. During the past four years, I have served as an advisory member of the Land O’ Lakes Board of Directors. Therefore, let me review Land O’ Lakes at a glance.

Disciplines
Agribusiness | Economic Theory | Growth and Development | Other Public Affairs, Public Policy and Public Administration
ECONOMIC GROWTH AND COOPERATIVE ENTERPRISE ORGANIZATION: FOOD FOR THOUGHT AND PERESTROIKA IN THE USSR*

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* Seminar presented to delegates of the USSR Central Council of Consumer Cooperatives (CENTROSOYUZ) during a two week USSR food processing and distribution study led by the U.S. National Council of Farmer Cooperatives (NCFC).

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I. LAND O' LAKES AT A GLANCE.

I am a Professor of Agricultural Economics and Public Policy at Iowa State University. ISU has 25,000 students and has been a world leader in agricultural research and development among the U.S. universities.

Also, today I am representing Land O' Lakes, one of the largest agribusiness cooperatives in the United States. During the past four years, I have served as an advisory member of the Land O' Lakes Board of Directors. Therefore, let me review Land O' Lakes at a glance.

-Land O'Lakes is a multi-faceted cooperative that is based in Minneapolis, Minnesota. It is about even with your southern border.

-Land O'Lakes is owned by 500,000 farmers and ranchers in 15 states and is one of the nation's largest 200 firms. It is governed by a 36 member board of directors made up entirely of farmers and local cooperative managers.

-It is one of the nation's leading agricultural service suppliers—supplying over 1300 local cooperatives with feed, seed, fertilizer, chemicals and petroleum products.

-Land O'Lakes produces the nation's number one selling branded butter, along with more than 600 other food products for consumer, foodservice and industrial markets.

-Land O'Lakes is a major research cooperative. This commitment continues to develop new products and adapt new technologies to food processing and distribution of dairy based food products and farm supply services.

-Land O' Lakes also carries a strong voice in public affairs on issues related to food and agriculture in Washington.

Finally, the Land O'Lakes statement of purpose states that we recognize the importance of international trade and development to cooperatives and their farmer-owners in the Midwest. Land O' Lakes will engage in international marketing and development activities when there is adequate evidence that such activity will improve the income of its members.

* Seminar presented to delegates of the USSR Central Council of Consumer Cooperatives (CENTROSOYUZ) during a study tour led by the National Council of Farmer Cooperatives (NCFC), 10-15-88.
II. HOW DO COOPERATIVE PRINCIPLES DIFFER FROM OTHER INSTITUTIONS?

A cooperative is a business organization voluntarily owned and controlled by its member patrons and operated for them by elected representatives. Cooperatives have existed in some form for thousands of years. The first agricultural cooperative known to exist was established in Babylon almost 4,000 years ago.

One of the later forerunners of our modern cooperatives was the Rochdale Society of Equitable Pioneers. It was founded in England in 1844. The membership consisted of craftsmen, weavers, and shoemakers. They decided to join forces to work together in selling their products under one roof. They used their earnings to purchase supplies in quantity at more economical prices. A portion of their earnings would be reinvested in the growth of their business and for education of their members. The remainder would be returned to the individual member-patrons in the form of a refund of earned savings.

While U.S. agribusiness cooperatives have become more complex and include diverse enterprises, the bottom line that separates U.S. cooperatives from other agribusiness firms is that cooperatives have farmer-patrons sitting on the board of directors making business policy decisions and hiring the chief management officer. The business goals of cooperatives are different from other corporations. Cooperatives strive to better serve their farmer members and consumers.

Other U.S. agribusiness corporations and proprietary firms are controlled by stockholder-owners rather than farmers or consumers who patronize the business. As a result, their business decisions may sometimes conflict with the best interests of farmers and consumers that are served.

At a recent annual meeting of the National Council of Farmer Cooperatives, Cooperative directors from around the United States were asked to list the most important factors for evaluating the performance of the cooperative. Here are their top priorities:

- Profitability and bottom line
- Financial stability
- Return on investment
- Meeting member needs
- Skill in marketing and growth in market share for members
- Long range planning to adapt to trends and opportunities

I would suggest that Soviet Cooperatives may not be interested in the exact same set of goals. Our cooperatives are products of our system. Your cooperatives are products of your system. Our systems are different, so our cooperatives will be different. However, we still might learn from each other as long as we talk and share our experiences.
III. PROBLEMS THAT EVERY SOCIETY MUST SOLVE.

1. What to produce?
2. How to produce?
3. Who will consume the production?

As we move toward a government-administered system, quotas or government administered transfer prices guide what is produced, how it is produced, and who gets to consume the production. Production comes from each according to ability and is distributed to each according to government defined need. The consequence of this approach is periodic shortages and surpluses. Shortages are rationed by long lines. Surpluses are dumped or stored at an expense. Some surplus goods deteriorate over time.

As we move toward a market-oriented system, price incentives guide what is produced, how it is produced, and who consumes the production within certain regulations established by the government. Production comes from each according to ability. Consumption is distributed to each according to individual wants given their wealth and ability to generate income.

In our system, production is rationed to those with desire and ability to buy. Those without the ability to buy go without, unless government provides for minimum needs.

In our system, prices provide market signals and incentives and disincentives to producers on what to produce and how to produce it. Survival of the fittest occurs over time. Farmers and agribusinesses are forced out of business if they do not make a profit, unless government provides a safety net for support.

The assets and resources of those farmers and agribusinesses who do not financially survive are sold or merged into other operations. Several farmers and cooperatives faced financial failure during the early 1980s. Therefore in our system, agribusiness cooperatives must strive for efficiency and marketing returns to generate a profit in order to continue to serve their farmer-owners.

IV. WHAT DO HIGH PERFORMING ORGANIZATIONS DO IN OUR SYSTEM?

Market incentives do not only exist in markets external to the cooperative, but high performing organizations have developed sound organizational structures, management processes and quality control evaluations internal to the firm. Many people in the U.S. are interested in understanding what makes high performing organizations tick. So, let's explore the characteristics described in recent studies.

A. HUMAN RESOURCES ARE HIGHLY VALUED as part of the institution's culture. This means that signals are sent by management to let each employee know that they are highly valued.
For example, employee development programs are often provided. These programs signal that management is willing to make a careful investment in knowledge and performance of the institution's employees.

Second, attitudes of high performing and low performing employees are monitored. This allows management to distinguish requirements, incentives, rewards and recognition for employees who are high performers from those that are not. Individual performance, teamwork and innovation are rewarded. The non-performers are removed or reformed.

Third, employees are given a stake in the overall performance of the institution. In some institutions, this means employee stock ownership, bonuses and other recognitions for meeting the institution's goals.

Finally, employees are provided an opportunity to have input into management decisions. Employees often provide more and better advice to management, if they have a stake in their institution and if their input is seriously considered.

B. EXECUTIVE LEADERSHIP TALENT IS DEVELOPED WITH CARE. Here high performing organizations do several things. For example, high performing organizations not only encourage executive management training programs for new administrators but also provide brushup opportunities for seasoned managers.

Second, the performances of managers are periodically evaluated, not only by those above, but also by those below. And, they are rewarded accordingly.

Third, successful managers are often the biggest cheerleaders of their own employees and go out of their way to recognize outstanding individual and team efforts. These leaders guide professionals by challenge rather than by mandate.

C. MISSION, STRUCTURE, AND INSTITUTIONAL RULES ARE SIMPLE, straightforward, and relevant for achieving high performance. Here are several ideas.

For example, the mission and short term goals of the institution should be clearly articulated and constantly reinforced by actions of the leadership. In turn, leadership must receive feedback on whether the goals are generally supported by the employees and clientele.

Second, the organizational structure and resource allocation rules and procedures are regularly evaluated. Do bottlenecks exist? Can communication and performance be enhanced by changes in the structure, communication system or management process?

Third, the portfolio of products is periodically examined
to reflect declining and developing areas of customer needs and competitor products. Then the sales, marketing and booking staff must be trained on marketing strategies and products available.

Fourth, product and service quality are regularly monitored. Customers are given exceptional treatment. Customer views are regularly collected. And, legitimate customer service problems are given serious attention by management.

Finally, innovators are encouraged by being given access to resources without unnecessary bureaucratic "red tape." There are trade-offs between flat grant incentives for innovation and a competitive grant processes. But in either case, more depends on what happens after funds are granted than what happens before. And, reputation does not assure future innovation.

Willingness to make a commitment to research has been one of the major differences between Land O'Lakes and its competitors. Land O'Lakes invests $10 million per year or the equivalent of our annual savings to remain competitive in the future with new products for consumers and new services for our farmer-members.

This research tradition has triggered many of the advances that has positioned LOL to contribute to the economic growth of the upper Midwest. Here are some of the innovative contributions.

- Originated the world's first successful calf milk replacer, saving money for the farmer and skim milk for human use.

- Use of continuous churns and soft butter printers cut butter manufacturing costs.

- Led the way in on-the-farm research, to develop better dairy, livestock, turkey and poultry management systems. Our dairy management program has had a significant impact on increasing the efficiency of farmers on the program.

- Led the way for computerized fertilizer trucks that reconfigures formulations to fit the soil type as the truck rolls across the field. This saves fertilizer costs and protects the groundwater quality at the same time.

- Led the way in developing aseptic cheese packaging processes, opening a new area of possibilities in the manufacture of foods that will keep without refrigerations.

- Formed a new national cooperative joint venture to conduct research and develop new seed varieties for soybeans, corn, alfalfa, and other forages.

- Was the first to develop a new lean cream product that has half the fat of regular sour cream products.

- Formed a joint venture to produce a new infant milk formula for babies that are allergic to mother's milk or soymilk.
- Made significant investments in conducting research at the "LDL Answer Farm" and at the "Headquarters Research Facility" in Minneapolis, Minnesota.

IN THE FINAL ANALYSIS, high performing organizations possess a strong commitment toward achieving high performance. This commitment is articulated in the mission, structure and institutional rules. It is articulated by management leaders. And, it is believed by the employees. In turn, this commitment gets transferred to customer loyalty.

V. WHAT DOES IT TAKE FOR ECONOMIC GROWTH IN OUR SYSTEM?

1. Someone willing and able to invest.
2. Someone willing and able to produce efficiently.
3. Consumers wanting and able to consume the goods and services.
4. Innovation and sensitivity to changing customer needs.
5. Favorable government policy environment.

However in our system, cooperative and corporate businesses cannot accomplish economic growth alone. Economic growth requires government to put the following institutions in place:

1. Property rights protected by an independent legal system.
2. A stable currency and exchange system.
3. Adequate finance and capital formation institutions.
4. Institutions that assure fair business practices, so that the products produced are what they are represented to be.
5. Institutions that assure fair market practices, yet allow market signals between consumers and producers.

In our system, there is no guarantee for success. However, we generally believe that the higher rewards are likely to go to:
- those who are more efficient in production,
- those who are better in buying inputs and selling to customers,
- and those who find better ways of doing things.

Cooperatives that are committed to serving their members can play a major role in assembling society's resources and finding better and more efficient ways of doing things. In conclusion, this is the key difference between economic growth and decline.

Again, let me say that Soviet cooperative leaders may not be interested in the exact same set of goals and operating procedures as our's, because your cooperatives face different constraints. However, I hope that maybe we still might learn from each other as long as we talk and share our experiences.

I have brought along several pamphlets from Land O'Lakes, Iowa State University and other Midwestern agribusiness and food equipment manufacturers, for those who are interested. Thank you for this opportunity to discuss our experiences as friends.