



## Lessons from a Failed Cooperative: The Rice Growers Association Experience

by

*Jennifer Keeling*

*A survey of former affiliates of the California Rice Growers Association was employed to identify causes for their cooperative's closure and to collect viewpoints on difficulties other Californian cooperatives might face.*

Recently several large California cooperatives including Tri-Valley Growers (TVG) and the Rice Grower's Association (RGA) have closed, while others are experiencing financial difficulties. These developments suggest that California cooperatives may be finding it increasingly difficult to compete in today's agribusiness climate. Given the size and national importance of California's agriculture industry, a decline in the role of the state's cooperatives may be indicative of a larger, countrywide trend.

The United States Department of Agriculture (USDA) and the Department of Agricultural and Resource Economics (ARE) at the University of California at Davis are currently conducting a study to investigate causes behind the RGA failure. The goals of this case study are to determine the origins of RGA's problems and identify lessons that may be useful to other cooperatives. A survey of former RGA affiliates was conducted in order to document factors that the grower members and management believe were responsible for RGA's demise.

RGA closed in August 2000 after nearly 80 years of operation. The cooperative's dramatic swing in fortunes, from a dominant cooperative that

handled upwards of 70 percent of the total California rice crop in the early 1980s, to one that handled approximately five percent at the time of its closure in 2000, makes it a particularly interesting research subject.

### **Analytical Framework**

Affiliate responses were collected primarily through a confidential mail survey and interviews with former RGA affiliates. The survey was designed to capture the attitudes and perceptions of former RGA management and members with regard to factors leading to the closure of RGA and the future of California agricultural cooperatives. Information on the background of survey respondents was also collected, including age, income, education and employment status. Individuals who were involved in rice cultivation at the time of the survey were also asked to describe the characteristics of their farming operations and family history.

### **Survey Sample**

Only incomplete membership records were available for RGA. Hence surveys were sent to a non-random sample of known former affiliates of RGA and a systematic random sample of rice growers from the eight largest rice-growing

*Also in this issue.....*

### **Promoting Productivity**

*by Enricho Moretti and Jeffrey Perloff.....5*

### **ARE Faculty Profile**

*Rachael Goodhue .....8*

### **China, Cars and Carbon**

*by Maximilian Auffhammer .....9*

*In the next issue .....*

### **The California Wine Industry: Entering a New Era?**

*by Philip Martin and Dale Heien*

**Table 1. Sample Size by County**

County	Sample	Percent of Sample
Glenn	64	15.5
Placer	12	2.9
Yuba	104	25.2
San Joaquin	24	5.8
Stanislaus	24	5.8
Yolo	47	11.4
Sutter	66	16.0
Colusa	71	17.2
Total	412	100.0

counties of Central California. Former members of RGA who could be identified were excluded from the random portion of the sample. Table 1 summarizes response rates by county. In total, 412 surveys were completed.

## Results and Discussion

Nearly all survey respondents have a family history of farming and involvement in cooperatives. However, only one quarter of those surveyed are currently members of an agricultural cooperative.

### Cooperative Attitudes and Issues

Former RGA affiliates were asked to describe their attitudes regarding cooperatives, RGA and their outlook for the future of agricultural cooperatives. Answers to many of these questions are summarized in Table 2. Most notably, fully one-half of former RGA affiliates said they had extremely dissatisfying experiences with cooperatives. Somewhat fewer (33 percent) had extremely disappointing experiences with RGA. Although a percentage of affiliates had positive experiences with cooperatives and RGA, the majority of respondents had negative experiences.

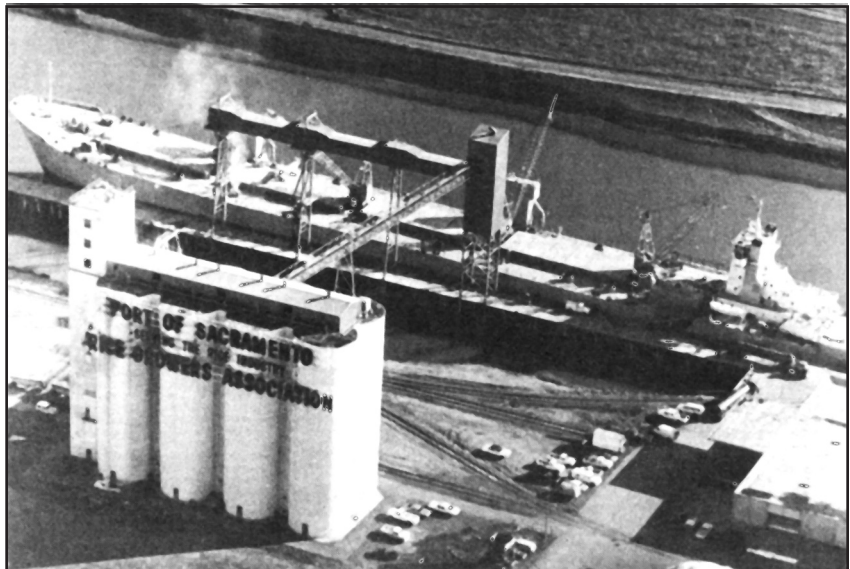
Negative experiences with cooperatives were common, yet the vast majority (72 percent) of affiliates expressed agreement or strong agreement that agricultural cooperatives are a necessary part of the agricultural sector. An

even greater percentage (77 percent) believed that agricultural cooperatives have a future in California. In spite of a positive outlook for the future of cooperatives, a large majority of former affiliates (70 percent) felt that cooperative businesses were not managed as well as other types of agribusiness. In addition, a slight majority (54 percent) felt that cooperatives were generally less successful than other forms of agribusiness, and only 41 percent felt that cooperatives were equally successful.

### Reasons for Joining, Causes of Failure

Former affiliates were asked to identify their main reasons for joining RGA and rank them as being very important to very unimportant. Five reasons stand out as being the most important to perspective cooperative members. In order of importance they are: increased agricultural income, benefits from price pooling, reduced marketing risk, appealing differentiated product strategy and increased voice in agricultural issues. Few respondents cited prestige or investment opportunity as incentives for joining RGA.

Respondents were asked to identify what factors contributed to the failure of RGA. Interestingly, several of the main reasons cited for joining RGA are directly related to what affiliates perceived to be the causes of RGA's failure. This indicates a fundamental gap between what members expected through cooperative membership and what was borne out in reality. For instance, some growers responded that RGA



*The Valerie F. (later renamed the California Rice Transport) docked at the Port of Sacramento during RGA's heyday.*

*Photo courtesy of Butte County Rice Growers Association, 1976*

**Table 2. Cooperative Attitudes and Issues**

	Responses	Number of Valid Responses	All Counties	
			Number	Percentage
Overall satisfaction with cooperatives	Extremely Disappointed	412	206	50.0
	Somewhat Disappointed		32	7.7
	Neutral		95	23.1
	Somewhat Positive		63	15.4
	Extremely Positive		16	3.9
Overall RGA experience	Extremely Disappointed	412	137	33.3
	Somewhat Disappointed		103	25.0
	Neutral		103	25.0
	Somewhat Positive		52	12.5
	Extremely Positive		17	4.2
Is there a future for agricultural cooperatives in CA?	Strongly Disagree	412	32	7.7
	Disagree		0	0.0
	Neutral		63	15.4
	Agree		254	61.5
	Strongly Agree		63	15.4
What is happening to the volume of commodities handled by CA cooperatives?	Increasing	412	33	8.0
	No Change		82	20.0
	Decreasing		297	72.0
Are agricultural cooperatives managed as well as other agribusinesses?	Yes	408	119	29.2
	No		289	70.8
Are cooperatives _____ successful than other business types?	More	400	17	4.2
	Equally		167	41.7
	Less		217	54.2

had an appealing differentiated product strategy, yet affiliates cited poor decision-making by management, including the decision to pursue a differentiated product strategy, as a chief contributor to RGA's failure.

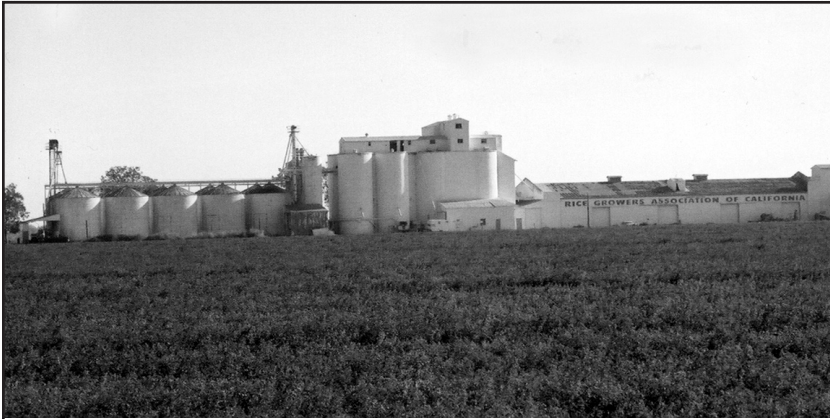
Former affiliates identified the high cost of maintaining both the cooperative's assets and contract with the California Rice Transport (CRT) shipping vessel, as important factors in RGA's failure. Expenses from maintaining numerous assets and the problematic CRT no doubt diminished the higher-than-industry-average returns that initially attracted members to RGA. Consequently, members may have left RGA after realizing higher profits could be earned by marketing through competitors.

Lack of attention by the board of directors was reported as another important contributor to RGA's decline. In interviews, this survey finding was supported by former managers who frequently stated that the board of directors was passive and ill-equipped to

scrutinize the business decisions it was charged with overseeing. The survey results also indicate that lay affiliates perceived the board to be lacking adequate cooperative governance and control abilities.

Numerous factors can be identified as having contributed to RGA's decline. However, many positives aided in the cooperative's survival through years of financial struggle. Former affiliates identified relative strengths from a series of possibilities. Many of the respondents (more than 90 percent) agreed that RGA's brand name, the large volume of rice it handled, and RGA's access to markets were all important relative strengths.

In contrast, the majority of members did not identify the skill of RGA's management team nor their attention to member needs to be a relative strength. Few of the responding affiliates participated in leadership positions at RGA, thus the perception that member needs were not met does not appear to



*RGA's once modern, now derelict Woodland facility along Highway 113.*

*Photo by Jennifer Keeling*

have inspired increased grower involvement in the cooperative. This survey finding gives some support to the hypothesis that both membership and the board suffered from a “free-rider” belief that they did not have to contribute much effort to running RGA in order to benefit from the cooperative’s strengths. Many members may have believed that others were paying attention to the administrative details of running RGA and thus there was no need to exert much time and energy in oversight.

### **Recommendations**

The joint USDA/ARE study hopes to provide answers as to why California cooperatives have been struggling in recent years and identify areas in which cooperatives may improve. Based on the research to date, the following courses of action are suggested for improving cooperative performance:

- The board of directors should be both engaged and sufficiently informed to make critical decisions about the direction of the cooperative. The board should realize that it is vested with the power to direct management. To help in discharging this obligation, it is recommended that the board regularly receive instruction in strategic management and business finance.

- To strengthen the board’s business skills, it is recommended that one or more public members be elected or appointed to the board. These members should be impartial industry experts, who are well-versed in areas of business management and operations that the board identifies as critical to the well-being of the cooperative. The individual or individuals should be appointed by the board of directors or by

the membership at large.

- In establishing goals for the cooperative, the board and management should keep membership needs at the forefront. To avoid free-rider problems resulting from ill-posed goals, it is recommended that the board and management regularly solicit feedback from the membership, perhaps in the form of an annual survey.

- Managers are charged with making difficult business decisions. When critical junctures are met, managers and the board should consider conducting an analysis of the cooperative’s strengths,

weaknesses, opportunities and threats. This will give decision-makers a clearer perspective of the cooperative’s internal and external environment and aid in strategic planning.

*Jennifer Keeling is a Ph.D. candidate in the Department of Agricultural and Resource Economics at UC Davis. She can be reached by e-mail at [keeling@primal.ucdavis.edu](mailto:keeling@primal.ucdavis.edu).*