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Bases of power in grain marketing cooperatives

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BASES OF POWER IN GRAIN MARKETING COOPERATIVES

by

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BASES OF POWER IN GRAIN MARKETING COOPERATIVES

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The purpose of this study was to examine the power framework in cooperative grain marketing channels. A power framework, consisting of reward, referent, expert, legitimate, information, political and social power was examined in this channel. The effects of the power structure were examined with respect to commitment and performance.

The hypotheses were tested by using a structural equations approach to establish the factor structure in this environment. The relationship between power, commitment and performance was examined to establish the fact that power affects commitment, which, in turn, affects performance.

A survey of patrons of Harvest States Cooperatives in North Dakota was taken. The existence of the power base structure was established. Power was found to affect commitment and a significant relationship to performance was identified.

Political power was the most important power base in this study. This established that participation in the cooperative was a key issue in the grain marketing environment.

These results indicate that the power framework is a

useful tool in this channel of distribution. Managers may be able to increase their ability to influence member performance by assessing their power bases.

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Chapter 1

Introduction

One of the recurring problems for grain marketing cooperatives is "leakage" in the system. Crops marketed outside the cooperative system not only deprive the system of revenues, they increase the power of the large private grain marketing companies. "Leakage" is an important problem for cooperatives who are attempting to make an impact on the market for grain. Estimates vary, but roughly 65-70% of the grain produced is marketed outside the co-op system (Kraenzle 1990, Wilkins 1984). The majority of grain grown is marketed outside of the cooperative system even though, over 60% of the grain producers are co-op members and the largest producers (those with sales over $100,000) have a membership rate of over 69% (Wilkins 1984). Grain marketing cooperatives wish to remain competitive in the grain markets and are concerned about members patronizing other private institutions. Co-ops are very concerned about the tendency of younger farmers to market their crops through private channels of distribution (Farmer Cooperatives Apr. 1990a, Gwin 1984) and are searching for ways to increase the level of commitment of their members (Duffey 1990, Buckhout 1990).

The purpose of increasing commitment on the part of the members is to persuade producers to market through the co-op

system. This persuasion will entail the use of co-op power. The cooperative can try to use its power to persuade members to use the cooperative marketing system, rather than using other private distributors.

Background of the Study

Most of the time, co-op power has been investigated as being power in the grain market. That is, power has generally been viewed as the co-op's ability to affect prices by manipulating supply. However, since co-ops can be viewed as intermediate distribution points between producers and ultimate users, it seems appropriate to look at the power that the co-op can exercise toward its members. It seems evident that grain marketing cooperatives perform the tasks typical of a distributor in a channel of distribution. These units collect and store grain for their farmer producers. They work with exporters and processors to move grain closer to the ultimate consumers. In fact, the major difference between the co-ops and private distributors is the form of ownership. Stern, El-Ansary and Brown (1989) refer to farm co-ops in general as "primarily wholesalers of goods and services that administer the channels they control with the approval of the farmers who own them (p.282)." Grain marketing co-ops demonstrate most of the characteristics of a typical member of a channel of distribution.

For purposes of this study, the following definitions will be used:

<u>Power</u>- "the ability of one individual or group to control or influence the behavior of another" (Hunt and Nevin 1974, p.185);

<u>Cooperative</u>- a voluntary association of economic units which is a center where the economic activities of members are coordinated (Emelianov 1948);

<u>Commitment</u>- "the relative strength of an individual's identification with and involvement in a particular organization" (Mowday, Steers and Porter 1979, p.226).

These definitions indicate that, though cooperative organizations may be different in some respects than corporations, when they attempt to increase member commitment, co-ops are exercising power.

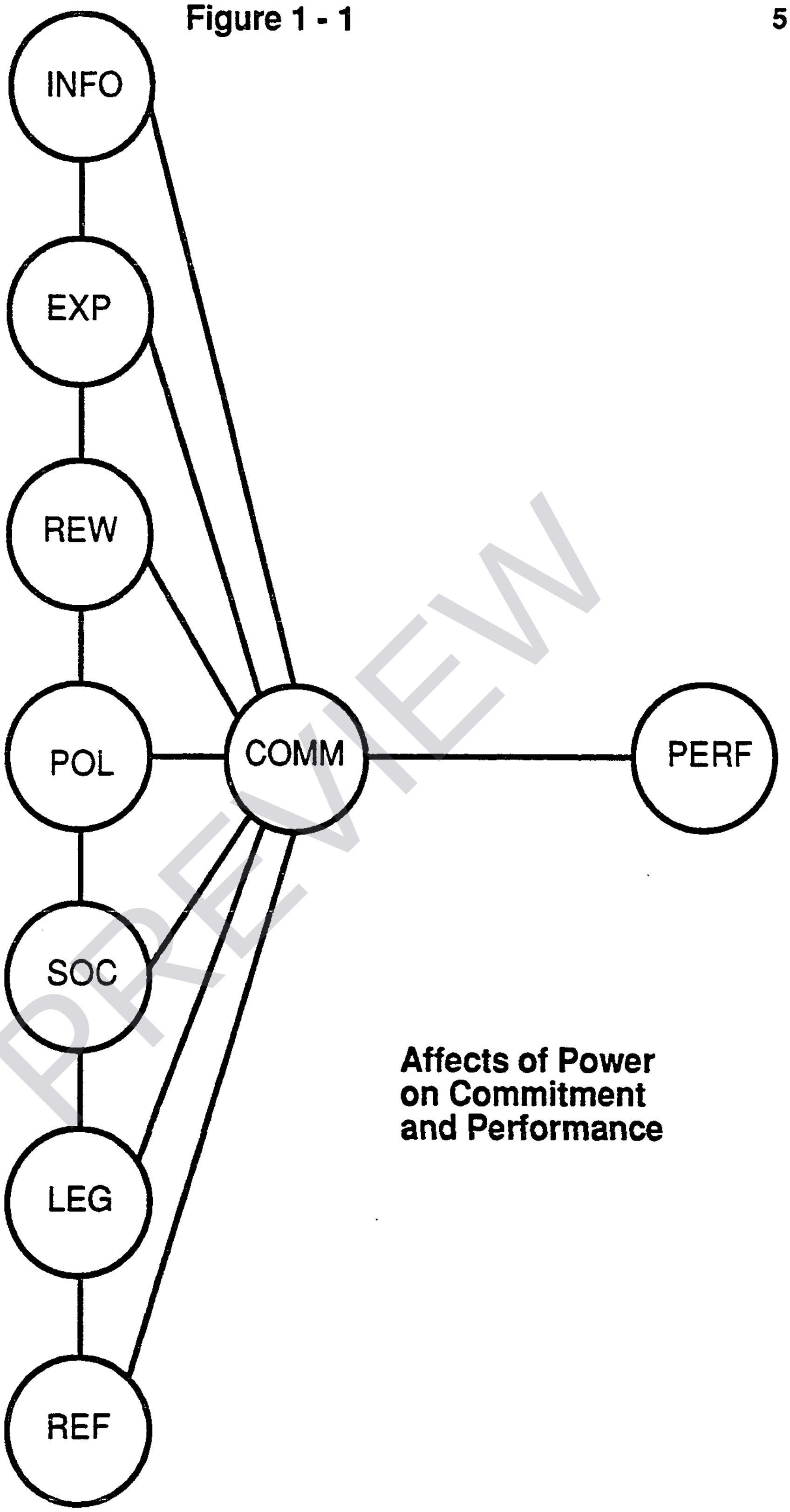
It should be noted here that co-op power, exercised toward its members, is not really an internal management issue. The members of a co-op are usually farmers who are production specialists. When the marketing cooperative attempts to control the activities of its suppliers, it is trying to influence the activities of economic units at another level in the channel of distribution. The ability of an organization to influence the behavior of another economic unit at a different level in the channel is another definition of channel power (El-Ansary and Stern 1972).

Thus, when co-op power toward members is investigated, it should be an analysis of channel power.

Purpose of the Study

The purpose of this study is to investigate the relationship of power to commitment and performance in cooperatives. Figure 1-1 shows the basic model being tested in this research. The components of power (bases of power) should have a direct impact on co-op member commitment. Commitment will have an impact on member performance, in this case use of the co-op marketing system. If these relationships hold, power attempts aimed at fostering commitment will increase the adherence to the cooperative system. Cooperative managers are interested in maintaining or increasing the impact of cooperatives in the marketplace. They rightly feel that the success of cooperative marketing will depend on the strength of the co-op distribution system. In turn, the co-op distribution system depends on the behavior of the suppliers in the system--the cooperative members. Naturally enough, managers will look to their bases of power when they attempt to influence producer behavior. This study is designed to identify the bases of power that co-ops can use to influence producers. Specifically, the study will try to identify and classify the tools that can be used to achieve increased channel commitment.

Figure 1 - 1



Affects of Power on Commitment and Performance

Since power has been defined as the ability to controlor influence behavior, a power base must be perceived by a unit that is the focus of that power, if the unit is to respond. For example, if P tries to influence Q by offering a reward, but Q perceives that P has nothing to offer that is rewarding and, therefore, is not influenced, then P does not have rewards as a power base. This logic dictates that attributions of power on the part of those who are the focus of power attempts are the appropriate indicators of actual power. Attributions are typically used by channel researchers (Lusch 1976). Consequently, this study will examine the bases of co-op power identified by farmer/producers.

While the bases of power have been investigated in other channel settings, they have not been identified in cooperative channels. There may be some elements in agricultural cooperative channels that are different than the elements other types of channels. For example, it is unlikely that grain cooperatives will have coercive power as a base. Grain cooperatives are voluntary organizations and members cannot really be threatened by the co-op. Similarly, cooperative members are likely to be very concerned about the financial operation of the organization. The farmer/member through his/her vote can have an impact on co-op policy and this ability to influence the course of events is likely to have a positive impact on member

participation. This phenomenon might be labelled "political power." Similarly, social interaction within the cooperative system may provide valued benefits and might be termed "social power." Differences in organizational structure between grain marketing cooperatives and private corporations will have an impact on how the cooperative channel differs from other types of channels.

If an organization wishes to use power to influence some individuals or other organization, it will assess its own power resources and choose the combination of "tools" that it thinks will lead to a successful attempt at changing behavior. It is important that the tools that the organization thinks will lead to success actually are power resources. A firm that attempts to influence behavior will want to use power efficiently. That is, the firm will want to use those power tools that are most effective in influencing behavior while, at the same time minimizing potential costs (including conflict) associated with the exercise of power. In effect, the firm will analyze its own power resources and rank these resources in terms of the outcomes that are desired.

This study attempts to rank the bases of power in order of their importance with regard to member commitment. For example managers would like to know if information is more important than perceived rewards in fostering participation in the co-op. The cooperative literature suggests that some

tools are used more frequently than others to achieve this purpose in co-op channels, but no study of importance rankings has been reported.

Commitment is a term that has recently started to receive some attention in the Marketing literature. Commitment has been an issue in <u>intra-organizational</u> investigations but it has not been extensively investigated in the channels literature. The existence of commitment as a factor in the power-performance relationship is mentioned obliquely in the literature (Kasulis and Spekman 1980, El-Ansary 1975) and recently it has been identified as an outcome variable in a theoretical model of channel communications (Mohr and Nevin 1990). It seems that further investigation of this variable is warranted.

Commitment should be considered an important issue in channel management. The more committed the individual is to the channel system, the more likely he/she will operate within the system. If the level of commitment is high, it is more likely that individuals will act for the good of the system rather than acting according to the "rule of self interest." That is, channel units will see that the other channel members are <u>partners</u>, rather than adversaries in business activities.

The value of looking at commitment in the grain marketing cooperative system is fairly evident. If farmer/members do not participate in the system, the ability

of the cooperative to have an impact on the market is curtailed. If farmer/members do not participate, the management of the co-op will suffer because the ideas of the professional managers are not used or supported by the farm clients.

This study attempts to measure commitment in grain market cooperative channels and tries to relate that commitment to performance. The cooperative exercises its power bases in an attempt to foster greater commitment. The greater commitment, in turn, leads to increased performance within the system. Commitment is an intermediate step between power and performance.

Chapter 2

Cooperative Power and Grain Marketing

Cooperative power in grain marketing can be investigated in two different settings. First, it can be visualized as the ability to influence the behavior of competitors and consumers in the grain market. Co-ops could be considered to be powerful if their operations "caused other firms to consider the cooperatives' reaction before making business decisions" (Torgerson 1978 p.264). This aspect of power would entail an assessment of cooperatives' impact on price levels, product differentiation, and market share. An organization's market power can be measured (in some instances) in terms of market share and can be considered a function of variables such as entry barriers, vertical integration, and size (Sheppard 1975, Scherer 1970). This type of power has been the focus of a number of studies because cooperatives receive "special" treatment by the government, in terms of anti-trust legislation and taxation. Cooperatives were the subject of a number of government sponsored investigations because of this special treatment.

A second way to look at power is to look at power over supply. Very little work has been done in this area. The assumption has been that co-ops know their members and members know their organizations. Consequently, little or no

power needs to be exercised toward the producers, since members can clearly recognize the benefits of the organization. A cooperative's power over suppliers is limited by the voluntary nature of the organization. The power that the cooperative could use to influence behavior has to be persuasive enough to affect behavior but it cannot be coercive or members will opt out of the system.

A cooperative exercises its power over supply by trying to increase dedication at the producer/member level. This issue involves an identification of the variables that lead to member loyalty and involvement. Member loyalty appears to be a function of the benefits the member receives by virtue of belonging to the co-op organization. The benefits can be tangible, such as information, or intangible, such as the feeling that cooperation is the "right" way to do business. These benefits can be viewed as the tools the organization can use to influence the producer/member to market through the cooperative system. That is, by manipulating the benefits of the co-op (using its power resources), the organization can attempt to influence producer loyalty, dedication and involvement (commitment). The use of power should foster member commitment. Increased member commitment leads to increased involvement in the system which should lead to increased performance (patronage) in the system.

This study focuses on the second aspect of cooperative power--power over producer/members. The following sections will attempt to develop the framework for an empirical investigation of cooperative power resources in grain marketing. First, an investigation of the nature of grain marketing will identify the environment of co-op power. A brief description of the activities of the major players in the system (farmers, cooperatives, private firms and the U.S. government) will be presented. Secondly, cooperative power theory will be described and a survey of the issues investigated by co-op researchers will be presented. Thirdly, a survey of channel power theory, focusing on the bases of organizational power will be conducted. Then, commitment will be investigated and the concept of <u>inter-organizational</u> commitment will be developed. Two studies that deal with the attitudes of co-op members toward the their respective cooperative organizations and the market will be reviewed. Two studies that looked at member use of cooperatives will be presented. Finally, an assessment of how the past research led to the present study will be made.

<u>The Environment of Grain Marketing</u>

Grain flows from farmer producers to other local farms, country elevators, subterminal elevators, terminal elevators, processors or export marketing agencies (Cramer and Heid 1983). The physical flow of grain can be quite

complex. In addition, title is often taken by speculators even when there is no movement of grain stocks. A number of facilitating agencies, such as lending institutions and insurers play a role. A classical definition of marketing is that marketing is the performance of business activities that direct the flow of goods and services from producer to consumer (Evans and Berman 1985). While marketing is generally considered to have a broader definition than this (Kotler 1983), the classical definition is still certainly a part of the description of marketing. This definition is particularly appropriate to describe grain marketing. The institutions form a channel directing the flow of grain from producer to consumer.

Farmer/Producers

Farmers are the only producers of grain and are the starting point of the system. Grain stocks are classified into working stocks and speculative stocks. Working stock quantities don't fluctuate much from one year to the next and is the normal stock used in U.S. food production. Speculative stocks are sensitive to price fluctuations and are used by institutions to generate returns (Sharples 1981). Farmers produce in expectation of need, so identifying the speculative demand for their product is a key issue. Farmers are production specialists so they rely on cues given by co-ops, private firms, financial