

The National Agricultural
Law Center



University of Arkansas
System Division of Agriculture

NatAgLaw@uark.edu | (479) 575-7646

An Agricultural Law Research Article

**Charting from within a Grounded
Concept of Member Control**

by

Thomas W. Gray and Gillian Butler

Originally published in JOURNAL OF AGRICULTURAL COOPERATION
6 J. AGRIC. COOPERATION 82 (1991)

www.NationalAgLawCenter.org

Charting from within a Grounded Concept of Member Control

Thomas W. Gray and Gillian Butler

Organizational charts of membership structures can be useful tools for monitoring member control when they accurately depict a concept of control grounded in context and theory. This paper develops the concept "member control" by placing it within cooperative principles and democratic theory. From this perspective, members control their organization when, through a democratic process of decision making, they are able to keep the cooperative a cooperative, a condition we call "containment." With this conceptual development, a containment method of member control charting is developed and illustrative examples given.

Businesses routinely use organizational charts to clarify their internal structures, especially their authority structures. Cooperative businesses use organizational charts as well, but often omit an essential component, namely, member authorities. This omission is due in part to the incomplete treatment given "member control" in cooperative and sociological literature.

This paper suggests organizational charts of member structures can be useful tools for understanding and contributing to member control of agricultural cooperatives. To be useful, however, member charts must accurately reflect a concept of member control that is grounded in context and theory. The purpose of this paper is to clarify the term "member control" by examining its context within cooperative principles, controversy around the term, and its roots in democratic theory. This "grounded" concept of member control is then used to construct membership charts.

Grounding Member Control in Context and Controversy

Cooperative Principles and Definitions

Traditional definitions of a "cooperative" suggest a business that adheres to a set of principles that focus the enterprise on an obligation to provide service to members, rather than on strictly generating income. There are several different

Thomas W. Gray and Gillian Butler are respectively rural sociologist, Agricultural Cooperative Service, U.S. Department of Agriculture, and Ph.D. candidate, Department of Sociology, University of Wisconsin-Madison.

The authors gratefully acknowledge comments by Roger Wissman, David Hahn, and anonymous reviewers.

versions of these principles, but all are organized around common themes. Briscoe et al. (p. 40) suggest five different aspects:

1. Open and voluntary membership confined to all persons using the cooperative, with no discrimination on the basis of race, sex, politics, religion, or family background.
2. Ownership of the cooperative by member-users only.
3. Control of the cooperative vested with members. Organization of the cooperative should encourage member participation in decision making and balloting on a one member, one vote basis.
4. Benefits received by members in proportion to their use of the cooperative.
5. Return on investment set at a limited rate of interest.

Dunn (p. 85) suggests a more succinct version:

1. The User-Owner Principle: People who own and finance the cooperative are those who use the cooperative.
2. The User-Control Principle: People who control the cooperative are those who use the cooperative.
3. The User-Benefits Principle: The cooperative's sole purpose is to provide and distribute benefits to its users on the basis of their use.

Member control via democratic process is seen by some as the core principle and central to various definitions of cooperatives (Schomisch and Mirowsky, p. 4).

A cooperative is a business voluntarily owned and controlled by its member patrons, and operated by them on a nonprofit or cost basis. (Schaars, p. 7)

Cooperative societies are democratic organizations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. (International Cooperative Alliance, p. 39)

The foregoing principles and definitions have provided historic guidelines in an attempt to ensure that members are the users and that member-users control the cooperative. They seek to realize an equitable distribution of power among members and to exclude from participation nonuser investors who might transform the original purposes of the cooperative.

In general, when cooperatives are small no single principle provides such challenges as to shake the feasibility of an organization or compromise the *principled* integrity of existing organizations. When cooperatives become large and decision making becomes complex, "member control" in particular becomes problematic and has led to controversy around its application.¹

Member Control Controversy

Kravitz (p. 2) has charged that "farmer cooperatives have tampered with their organization's most unique feature. This uniqueness is a business enterprise that is aggressively democratic and has more than pecuniary interests."

Breimyer has made similar charges in the past, stating that as cooperatives expanded and took on more complex organizational shapes, defining cooperative characteristics were altered. In this new era of size, management frequently has few if any personal connections to agriculture or to farmer-members. Membership often becomes limited arbitrarily, volume voting is initiated, and frequently no procedures are provided for the hearing of grievances.

Torgerson (p. 18) perhaps summarized some of the issues best, suggesting that as cooperatives competed in the marketplace and gained size and market strength, many leaders adopted a "corporate mentality of management." Rather than justify their existence on the basis of self-help programs for farmers, they leveraged their position politically, societally, and economically as "being just like any other business." This posture has tended to emphasize "profits" rather than member participation and [if in the extreme] can reduce member roles to those similar to "passive stockholders."

These observations should not be taken lightly, even by cooperative leaders less committed to cooperative principles. When cooperatives have been attacked in the public arena, it is often with the charge that cooperatives are no longer controlled by their members and therefore no longer deserve special tax privileges and legal immunities (Cook, p. 4). Our purposes here are not to debate the accuracy of these statements but to make the controversy explicit. Although less focused in recent years, the controversy fuels misunderstandings of member control and underscores a need for clarity, as well as for monitoring its application within cooperatives.

Organizational Size, Participation, and Member Control Studies

Several studies have attempted to link cooperative size to control in an attempt to document whether size affects member control. Many of these studies operationalize control as participation in meetings, holding offices, and/or voting. Earlier works tend to conclude "the larger the organization, the smaller the proportions of members who participate" (Warner and Hilander, p. 39). More recent works do not find this relationship (Lasley; Elitzak and Boynton; Als).

However, few of these studies handle the concept "member control" adequately. Most are content with participation measures as member control itself, or very good indicators of it (Lasley, p. 3-10). Yet large proportions of members could do all these things and still not be in control of the cooperative. In his excellent review of the literature, Ollila implicitly suggests "influence" on decision making is a more appropriate concept to look at, rather than member control. Surely control does involve influence, but this term is too narrow to adequately capture it fully.

In one of the few serious attempts to explain member control, Boynton and Elitzak (p. 2, 3) state control is "the ability of an individual or group to affect an organization's objectives and the strategies used in the pursuit of those objectives." Control may be "active," and involve such acts as voting, serving on committees, and holding office, or "passive," "the amount of control members could exercise if dissatisfied with the cooperative."

Most, if not all the participation-control studies take an active approach to member control that pivots around various questions. How do members control? What avenues do they use? How much control do they perceive they have?

How much control do they perceive they should have? How much do members participate?

Contained in these questions is the foregone conclusion that control is a matter of degree. And in an active, practical sense this is surely true. But if cooperatives are in members' control by degree, then they are also out of members' control by degree. Most of the empirical studies of member control count any manifestation of control—such as voting or participation—as evidence of active control, but are not designed to uncover any lack of “passive,” or potential control.

Furthermore, threaded through many of these studies is a sense of separateness between the cooperative and members, or management and members. The word “cooperative” is often used in place of management and operations, as though members and the cooperative are two separate entities and “operations” is mostly what is meant by “the cooperative.”

Our interest here is passive or potential control. Cooperatives may take various shapes to accommodate varying conditions. However, immutable should be the members' ability—within the defining limits of organized cooperation—to shape the organization into whatever form they collectively need it to be.

Grounding Member Control

In his seminal work on epistemology, Kaplan (p.42) suggests concepts cannot be understood separate from and outside the context in which they are used. Their “meaning depends on their relations to other concepts as fixed by their place in the theory. . .” “Member control” cannot be understood outside its treatment within cooperative principles. Therefore, *at a minimum*, members control their organization when, through a democratic process of decision making, they are able to keep the cooperative a cooperative, i.e., an organization: (1) oriented to meeting their democratically defined needs and objectives in a fashion that benefits member-users in proportion to use, (2) owned and financed by the member-users, and (3) continuing to reproduce itself as a democratic organization.

Meaning of “member control” can be further understood as nested within concepts of “democracy.” A complete handling of the term democracy is well beyond the scope of this paper. However, a partial treatment is necessary.

In state systems, democracy is considered a form of decision making allowing large numbers of people to participate and containing provisions for sovereignty and equality.² Craig refers to sovereignty as the capability of people to create and affect decisions on how the system should operate and change. Equality, a subset of sovereignty, refers to individual access to decision making. It asks if articulation possibilities are evenly distributed among citizens. However, sovereignty's meaning is somewhat broader than Craig's treatment. Sovereignty refers to the possession of ultimate authority by a person or group.

In a cooperative the membership is sovereign. The membership is the origin of all authority within the cooperative, and, while delegations are made, all authority should be derived from and revocable by the members. The cooperative, ultimately, and following democratic principles, is the members. We seek then to develop a method of charting that reflects this concept of authority; charting that conveys a cooperative bounded by its members and constrained by the authority embodied in its members.

Charting Member Control Structures

Organizational Charts of Membership Structures

This section presents a series of charts of member control structures. Our stated purpose is to develop a charting methodology consistent with a "grounded" concept of member control. We begin with rudimentary abstract charts and conclude with empirical examples of complex structures in the cooperative community.

Abrahamsen (p. 40) presents a chart of membership relationships in macrostructures of cooperatives (figure 1). In the federated cooperative, farmers are members of a local cooperative, and the local is in turn a member of a regional cooperative. In the centralized cooperative, farmers are members of the regional, and may do business with a local branch, but do not hold membership in the local branch. In a mixed cooperative, some farmers hold membership in the regional, others in a local cooperative, and the local in turn holds membership in the regional. Regionals themselves may be members of an interregional. Although this chart is excellent for showing differing membership relations between cooperative types, it says nothing about micromember control structures. It does not depict the internal member control structure of a cooperative.

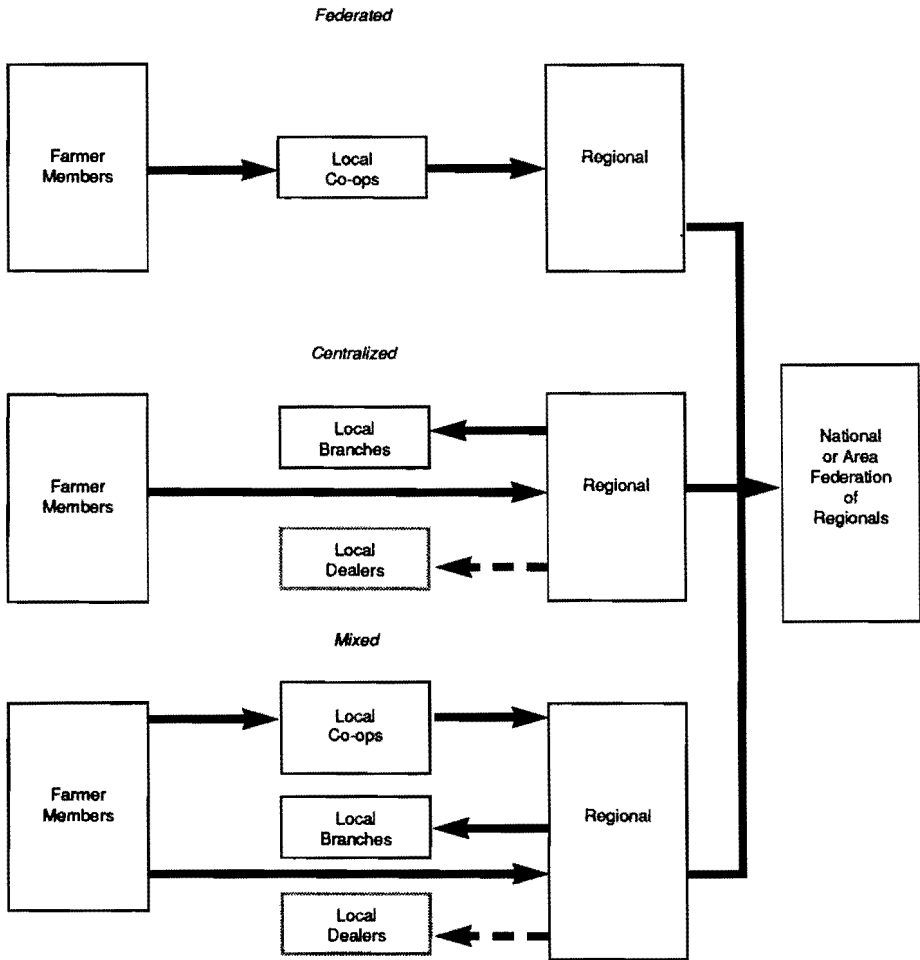
Garoyan and Mohn (p. 169) display a more elaborate chart of "elected positions" in an abstract cooperative example (figure 2). Members in geographic districts elect delegates who in turn elect members of the board of directors. These "directors at large" may come from any geographic location within the cooperative membership area. District delegates may also elect a district director, who sits with the "directors at large" on the board of directors.

This chart begins to describe the internal governance structure of a cooperative. Members are placed highest on the chart as origins of authority. This authority is delegated downward to a decision-making board of directors. Delegations are made through an election process that seeks representativeness with geographic districting. As an abstract model, this chart does well in representing the flows of authority, delegations of decision making via an election process, and member representativeness. Empirically however, a governance structure may involve appointed, as well as elected, bodies and committees with and without independent authorities. Further, there is no place on the chart for depicting breaches in member control.

Butler was the first to depict membership structures visually by charting all member substructures and, in doing so, specifying rules and standards for charting.³ She suggests conventions illustrated in figure 3a: (1) elected positions represented by solid outlines, (2) appointed positions by broken lines, (3) bodies with independent decision-making authority by rectangles, and (4) bodies with no independent authority (they are strictly advisory) by circles.

Figure 3b is the member chart of an existing farm supply cooperative. Members are organized into eight districts. Following Butler's conventions we find members in each district elect respectively, a director to sit on the board of directors, a resolutions committee member to sit on a resolutions committee, and a redistricting committee member to sit on a redistricting committee. An executive committee is elected out of the board of directors. Six committees are appointed out of the board of directors: finance, employee relations, inventory,

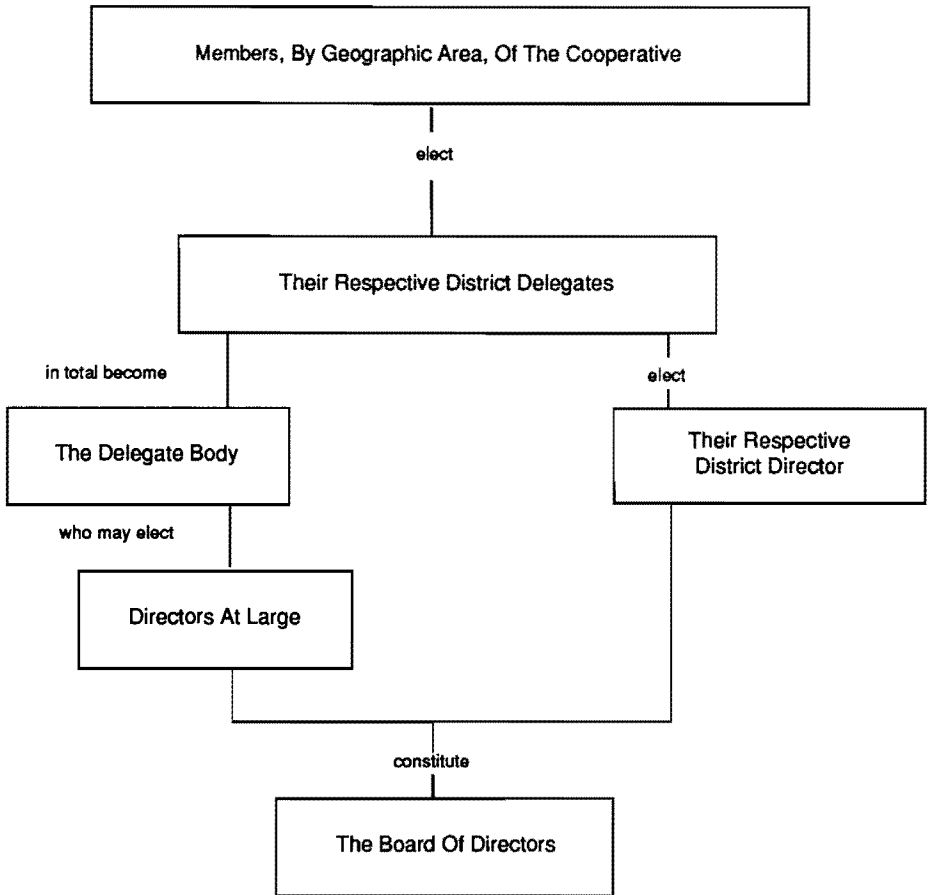
Figure 1.—Macromembership Structure



Source: Abrahamsen, p. 40.

long-range planning, annual meeting, and improvement. Three bodies have independent decision-making authority: the board of directors and the redistricting and improvement committees. All other committees must go to their originating bodies for approval of their decisions.

Butler's charting procedure gives more information about member governance structures than previous methods. Origins and delegations of authority are clearly depicted. Distinctions between elected and appointed positions and between bodies with and without independent authorities are made clear. The

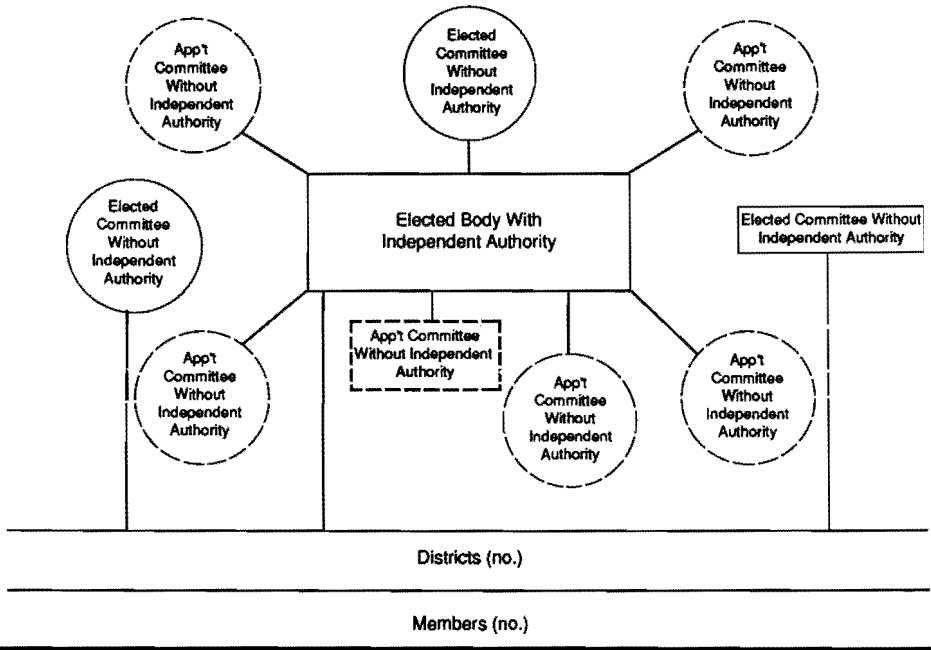
Figure 2.—Elected Positions

Source: Garoyan and Mohn, p. 169.

chart also provides indications of the range of specializations within the structure as well as signs of how much formal power is wielded within specializations, i.e., independent authority or not.

Although the chart provides a visual representation of the governance structure, it does not allow for a grounded sense of member control. Are any of the bodies enabled to act outside members' authorities? The chart gives no indication. Furthermore, some cooperative scholars suggest placing members at the bottom of charts inverts true authority relationships. Delegations begin with members and are best shown delegated downwards.

Figure 3a.—Abstract Member Control Structure—Butler Method



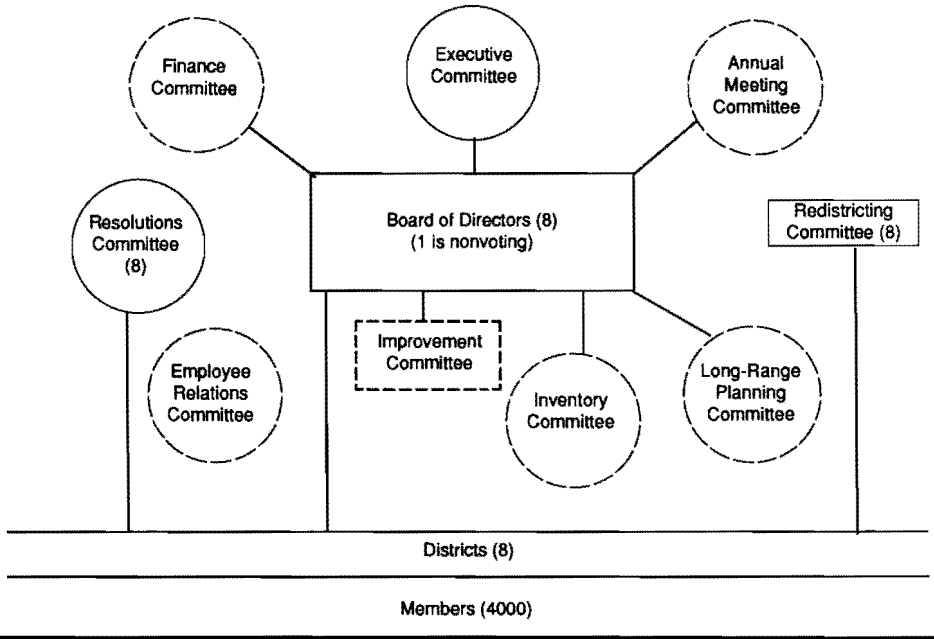
The Containment Method of Charting Member Control

Our discussion of member control yielded a grounded concept that put in place notions of cooperative reproduction and member sovereignty, i.e., reproducing the cooperative as a cooperative within the collective and sovereign interests of the members. We seek then to develop a method of charting that reflects this concept of authority—charting that conveys a cooperative bounded by its members and constrained by the authority embodied in its membership.

Figure 4 demonstrates the containment method of charting. This is the supply cooperative presented in figure 3b. The most obvious difference between containment-method charts and the previous charts is that members visually contain the other committees and bodies. Members, having ultimate authority, contain all other membership structures. This convention of containment follows on into the structure. The five appointed board committees have no independent authority separate from the board. As such they are contained within the board rectangle.

The previously listed charting conventions hold: (1) Elected positions are represented by solid lines, (2) appointed positions by broken lines, (3) bodies with independent decision-making authority by rectangles, and (4) bodies with no independent authority by circles. A reader monitoring member control might find the “improvements committee” worthy of closer examination. It is appointed by the board but exists outside board authorities. It is not an elected

Figure 3b.—Empirical Member Control Structure of Supply Cooperative—Butler Method

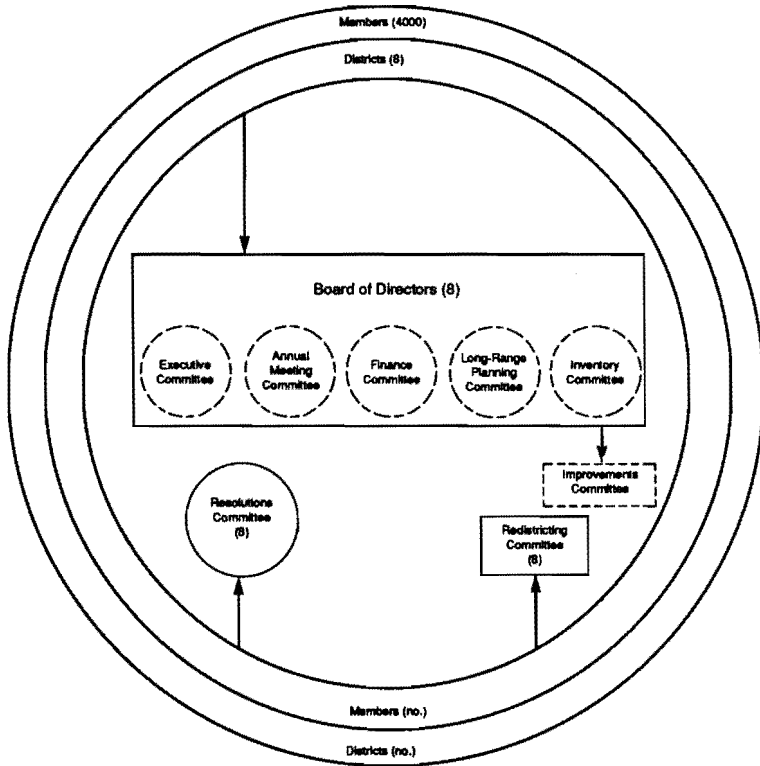


body, yet it has independent authorities. It is contained within membership authorities however. Member interests might ask who sits on the committee and for how long? Are committee members representative of the membership, and with what authorizations can they act without board approval?

Figure 5 illustrates a more complete modeling, reflecting a deepening in charting conventions. The chart represents an existing dairy cooperative. In this cooperative, members elect delegates, resolutions committee members, redistricting committee members, and division boards. The division boards contain five committees that are appointed from within the division boards and have no independent authority outside of them. Delegates elect the association board and an association-level resolutions committee. The association board contains five committees with no independent authority. Since the association board has the broadest decision-making authority, it is placed above division boards and committees. Since delegates elect association board members, they are placed above the association board.

There are appointment relationships (designated by broken lines) between the division boards and the redistricting and division-level resolutions committees. A nonvoting chair is appointed by the boards to sit on these committees. A similar relationship exists between the association board and the association-level resolutions committee and the three subsidiaries, i.e., finance, cooperative relations, and dairy products promotion.

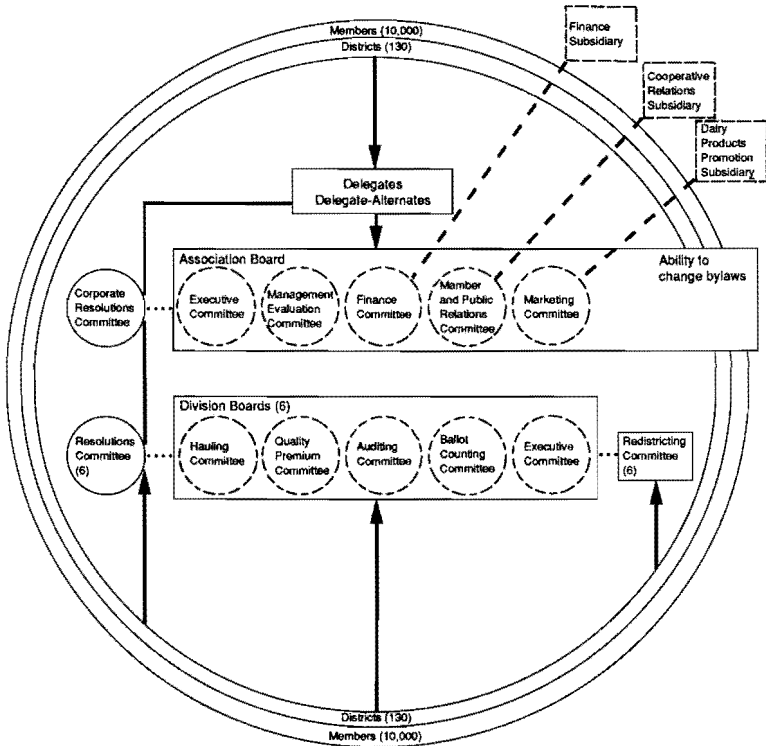
**Figure 4.—Empirical Member Control Structure of Supply Cooperative—
Containment Method**



The members surround nearly everything in the chart, with some important exceptions. The association board of directors has the power to change the bylaws of the organization and therefore the organization itself. This power then extends the authorities of the association board outside of members' sovereign rights, out of their control, and threatens members' ability to maintain the organization as a cooperative.

The subsidiaries represent a similar relationship. The finance subsidiary is composed of the farmer-members appointed to the association finance committee. This subsidiary borrows money and makes funds available as loans to cooperative members, haulers, and other operational affiliates. Loans are underwritten by the cooperative as a whole. The cooperative relations subsidiary is composed of farmer-members appointed to the membership and public relations committee. It functions to offer group health and life insurance plans to members. The dairy product promotion subsidiary is composed of farmer-members appointed to the marketing committee. This subsidiary determines disbursements to generic milk promotion funds. Although these subsidiaries

Figure 5.—Empirical Member Control Structure of Dairy Cooperative—Containment Method



report to the association board, they do not require any approval from the board for any of their actions. They are beyond member control.

Recommendations to this cooperative, based on relationships apparent from the chart, would advise that bylaws powers be brought back within the membership circle and that subsidiaries be closely assessed and examined for violation of member authorities.

Conclusion

Containment method charting is designed to empirically describe what is, and to do so in a fashion that reflects assumptions embedded in the principles of cooperative organization and democratic theory. The authors do not claim that all relevant power and authority relationships can be revealed in this fashion. Charts depict formal membership structure.

However, containment charting accurately depicts member sovereignty as crucial to member control. It grounds the concept of member control in theory. It forces the reader to think of cooperatives in terms of membership. It can help make the membership system understandable to cooperative participants and enhance their ability to access and monitor the governance system. If members are aware of who is responsible for particular decisions, they will be better prepared to express their approval (or lack thereof) at election time. And standardization of charting procedures may make it possible to compare structures of various cooperatives and begin to research the performance consequences of alternative structures.

Notes

1. Obviously control is not the only principles-based problem cooperatives face. For example, the limits on investment from outside sources and raising sufficient capital to meet the needs of the organization are major.

2. It also includes issues of liberty and majority rule. Liberty—social freedom, political freedom, and economic freedom—is taken as a given, irrespective of size. Majority rule is more problematic and must be, at least in part, defined by participation in the system. In some sense it is a function of sovereignty. This author chose to discuss sovereignty and equality because they are more clearly affected by changes in scale and coterminous with historical conceptions of cooperative member control.

3. The reader is referred to Van De Ven and Ferry for an extensive discussion on the importance of standardized charting procedures. Unfortunately for cooperative researchers, they limit their discussion to operations' structures.

References

- Abrahamsen, Martin A. *Cooperative Business Enterprise*. New York: McGraw-Hill, 1976.
- Als, J. "Andelshavernes aktivitet, viden og holdinger i Små og store andelsvirksomheder." *Landbrukskooperationen i Norden*, pp. 37–55. Esbjerg, Denmark, 1982. Cited in Petri Ollila, "Member Influence in Cooperatives," *Journal of Agricultural Science in Finland* 56(1984):106.
- Boynton, Robert, and Howard T. Elitzak. *Member Control of Farmer Cooperatives*. Washington, D.C.: USDA ACS Serv. Rep. 7, 1982.
- Breimyer, Harold F. *Individual Freedom and the Economic Organization of Agriculture*. Urbana: Univ. of Illinois Press, 1965.
- Briscoe, Bob, et al. *The Co-operative Idea*. University College Cork: Bank of Ireland for Co-operative Studies, 1982.
- Butler, Gillian. *Designing Membership Structures for Large Agricultural Cooperatives*. Washington, D.C.: USDA ACS Res. Rep. 75, 1988.
- Cook, Hugh L. "Member Profiles and Cooperative Loyalty." *Economic Issues*. Dept. of Agri. Economics, University of Wisconsin-Madison, 1980.
- Craig, John G. "Democratic Control in Insurance Co-operatives." *Annals of Public and Cooperative Economy* 46(1975):187–200.
- Dunn, John R. "Basic Cooperative Principles and Their Relationship to Selected Practices." *Journal of Agricultural Cooperation* 3(1988):85.
- Elitzak, Howard, and Robert Boynton. *An Analysis of Factors Affecting Member Control of Agricultural Cooperatives*. Dept. of Agri. Economics and Exp. Stat. Bull. No. 341, Purdue University, Aug. 1983.

- Garoyan, Leon, and Paul O. Mohn. *The Board of Directors of Cooperatives*. University of California-Davis: Division of Agricultural Sciences, 1976.
- International Cooperative Alliance. "Proceedings of the 23rd Congress of the International Cooperative Alliances." *Review of International Cooperation*. 60(1967):36.
- Kaplan, Abraham. *The Conduct of Inquiry*. Scranton, Pa.: Chandler Publishing Company, 1964.
- Kravitz, Linda. *Who's Minding the Co-op?* Washington, D.C.: Agribusiness Accountability Project Report. 1974.
- Lasley, Paul. "Organizational Structure and Member Participation in Farmer Cooperatives." Ph.D. dissertation. University of Missouri-Columbia, 1981.
- Ollila, Petri. "Member Influence in Cooperatives." *Journal of Agricultural Science in Finland*. 56(1984):106.
- Schaars, Marvin. *Cooperatives, Principles and Practices*. Madison, Wisconsin: University of Wisconsin—Extension, 1980.
- Schomisch, Thomas P. "The Challenge of Maintaining Producer Control." *Farmer Cooperatives For The Future*. North Central Regional Research Committee Workshop Proceedings, Purdue University: Dept. of Agri. Economics, Nov. 4–6, 1985.
- Schomisch, Thomas P. and M. Jill Mirowsky [Butler]. "Assessment of the Impact and Effectiveness of Delegate System in Providing Agricultural Cooperatives Democratic Membership Control." University of Wisconsin: Madison, University Center For Cooperatives, 1981.
- Torgerson, Randall E. *Basics of Farmer Cooperatives*. University of Missouri, Columbia: Extension Division Manual 81, 1972.
- Van De Ven, Andrew H., and Dianne Ferry. *Measuring and Assessing Organizations*. New York: Wiley and Sons, 1980.
- Warner, Keith, and James Hilander. "The Relationship Between Size of Organization and Membership Participation." *Rural Sociology*. 29(1964):30–39.