

# Strategic Initiatives

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**Discover.**

**Analyze.**

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## Are Business Disciplines Embedded into Your Corporate Culture?

An interview with James L. Rainey, Jr., former CEO of Farmland Industries, Inc.

*In 1986, Farmland Industries, Inc. teetered on the edge of bankruptcy – having experienced operational losses of \$358 million over five years – with a loss of \$152 million in 1986 alone. The Board of Directors asked James L. Rainey, Jr. to serve as their next CEO – even though he had no prior experience in working for a cooperative. In 1987, Farmland enjoyed a profit of \$50 million, and by 1989, profits rose to \$110 million. Unfortunately, Farmland encountered serious financial trouble again in the late 1990s and declared bankruptcy in May of 2002 – eleven years after Mr. Rainey retired.*

**Bob:** If I did my math correctly, you led Farmland through a \$202 million turnaround in the first year of your tenure. How did you do it?

**Jim:** Several factors contributed to the dramatic turnaround in that first year: (1) I immediately initiated a cost-cutting offensive that reduced the headquarters staff and trimmed the overhead; (2) we raised prices on selected items to our member-cooperatives because our members had gotten into the habit of expecting the most attractive price in the marketplace throughout the year and attractive profitability for Farmland at the end of the year; (I launched an educational effort to convince our members that this strategy wouldn't work long term); (3) we got lucky because natural gas prices declined and that reduced our costs in our fertilizer operations; and (4) our employees got creative in suggesting all sorts of ways to improve profitability.

**"In today's economic environment, farmer cooperatives cannot survive if they aren't committed to practicing sound business disciplines."**

**James L. Rainey, Jr**



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**Bob: Was it a big change for you going from a publicly traded company to a farmer cooperative?**

Jim: In some ways, yes. Early in my time at Farmland, I would inquire why we did certain things. I found the answer to be very, very interesting. In a variety of ways some employees communicated to me that, “Oh, we do it this way because we’re a cooperative.” In effect, I was being told very politely that what goes on in the rest of the world doesn’t apply here. They were tactfully trying to teach a fellow who didn’t know anything about cooperatives how things were done in farmer cooperatives.

After getting this response a few times, I eventually told these people, “A dollar never knows where the hell it’s working, but it always works the same way regardless of whether it works for a co-op or an investor-owned corporation.”

**Bob: What were the biggest differences that you experienced in going from a public corporation to a farmer cooperative?**

Jim: I think the most significant differences were that at Farmland Industries in 1986, there seemed to me to be an almost complete absence of effective employee accountability disciplines. I’m referring to accurate job descriptions, professional objectives for each employee, fair performance appraisals, and accountability consequences for good and mediocre performance.



*Robert J. Ludwig*

**Bob: Did anything else strike you as different?**

Jim: Yes, the lack of prudent financial management, which I found to be most apparent by the Board’s minimal concern about self-imposed borrow-

ing limits. And maybe most importantly, there was very little effort to encourage upward communication from employees throughout the entire organization.

**Bob: Are you saying that the company made decisions at the top and communications flowed from top to bottom, without employees giving feedback, suggestions, ideas, from the grassroots?**

Jim: Absolutely.

**Bob: Do you attribute this phenomenon to the culture of cooperatives in general, or was it just the culture created by the prior management of Farmland Industries?**

Jim: I think it was some of both. I became so interested in the uniqueness and the intensity of what I’ve just described to you that I asked a lot of questions in my visits to local cooperatives within the Farmland Industries federated system.

I found wide differences among some local cooperatives. Some were managed very professionally and their general managers involved employees effectively, while others had a culture very similar to what I’ve described at Farmland.

**Bob: Co-ops by definition are member-based organizations. Were the CEOs of the poorly managed co-ops listening to the members, but not the employees, or did they listen to no one?**

Jim: Good question. They listened to members because they knew they had to.

However, in many cases the CEOs were driven by limited input from a very small number of individuals who had significant influence in the co-op. Too many decisions were politically driven by a few vocal people, and the general manager and the Board didn’t necessarily check that political influence against the business disciplines in making decisions.

**Bob: So, sometimes cooperative culture is more association-driven than business-driven.**

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Jim: Yes. You said that very well. That's exactly right. Too often decisions got heavily influenced by vocal members, and they sometimes derailed a sound business decision.

**Bob: What are the aspects of co-op culture that you believe are important to retain?**

Jim: The greatest strength of the co-op culture is organizational – the ownership by its clientele. It's the single greatest strength of the cooperative system and it's vitally important to retain it and to take fullest advantage of that strength.

**Bob: Do you not agree with some observers that co-ops are an outmoded form of business organization and don't really have a future?**

Jim: I do not agree with that. We all know of co-operatives that compete with their investor-owned competitors very effectively. The form of organization is not the issue. Sound business practices are the key issue.

**Bob: Don't cooperatives have a conflict of interest in the boardroom because board members are constantly making decisions that either tilt towards the benefit of the cooperative or tilt towards the benefit of their own farming operation? Isn't that an inherent weakness of the cooperative form of organization?**

Jim: I don't view it as a weakness, but as a vulnerability. It's a vulnerability which members, directors, and CEOs must be very attentive to. One of the things that I felt best about in my five years at Farmland was that I spent a great deal of time training the Board about its responsibilities. The Board got to the point where it performed very well in decisions that had potential conflicts of interest. I could cite examples when the Board made the decision that was the right one for Farmland Industries when it might have been tempting to make the opposite decision that favored more cash to the local co-ops or farmers in the short-run.

**Bob: If Farmland had been in a better financial situation than it was when you arrived, would your job have been harder?**

Jim: Absolutely. Without a crisis, I would still have felt compelled to help the management team and the Board understand the need for change. However, without a serious crisis, it would have taken longer and been more difficult to implement the necessary changes.

**Bob: Without a crisis, how would you have gone about selling the need for change?**

Jim: I think I would have made a very concerted effort to put together a planning process that began with an economic analysis of agriculture, an assessment of the food system and where it was headed, and the competitive strengths and weaknesses of



*Jim Rainey*

Farmland Industries. The purpose of the effort would have been to make it very clear that unless Farmland made specific changes over time, the likelihood that it would be in serious trouble at some point in the future was certain.

**Bob: What advice would you give to the CEOs of co-ops today?**

Jim: Examine carefully and make absolutely certain that you have a deeply institutionalized commitment throughout the organization to basic business disciplines. And, one of the most important, if not the most important, of the basic business disciplines is to engage in a business planning process and to create an objective-setting performance evaluation process for employees based on the business plan.

**Bob: What advice would you give to a co-op Board of Directors?**

Jim: Make sure that the key decision-makers, beginning with your CEO, are making completely clear to you that they understand the key elements of the management process and that they are, in fact, implementing and institutionalizing basic business disciplines effectively.

**Bob: At the risk of over simplification, are you saying that the cooperative form of ownership is fine as long as the management and the Board of Directors insist on practicing sound business disciplines?**

Jim: That's exactly what I'm saying. Farmer cooperatives should not feel inferior to their investor-owned counterparts. In fact, cooperatives should fully capitalize on the fact that their patrons are their owners and are highly committed to the success of the business. However, in today's economic environment, farmer cooperatives cannot survive if they aren't committed to practicing sound business disciplines.

**Bob: What do you wish you had accomplished at Farmland that, looking back, you didn't accomplish?**

Jim: The single most important thing that I failed to accomplish adequately – looking back in the cold light of dawn – was management development and succession planning.

Earlier in my career I worked closely with Harry Levenson, whom I came to regard as one of the most impressive organizational psychologists I'd ever met. After I announced my retirement from Farmland, he tried to convince me that I ought to remain as CEO at Farmland longer. He looked me right in the eye and said, "Jim, in a major organization with as many employees as you have at Farmland, you cannot effectively and successfully institutionalize significant cultural change in less than ten years."

At the time, I didn't agree with him. Now I realize that he was dead right.

**Bob: So, the CEO has to force the organization to employ the critical business disciplines for enough time so that they eventually become standard operating procedure for virtually all employees and thereby get embedded into the cooperative culture?**

Jim: Yes, that's exactly right. In my opinion, that is the single most important message I can give to today's leaders in farmer cooperatives.

**Bob: Jim, thank you for sharing with me your keen insights into farmer cooperatives.**

Jim: Thank you. I appreciate the opportunity to reflect back on my time at Farmland Industries.

