

Strategic Initiatives

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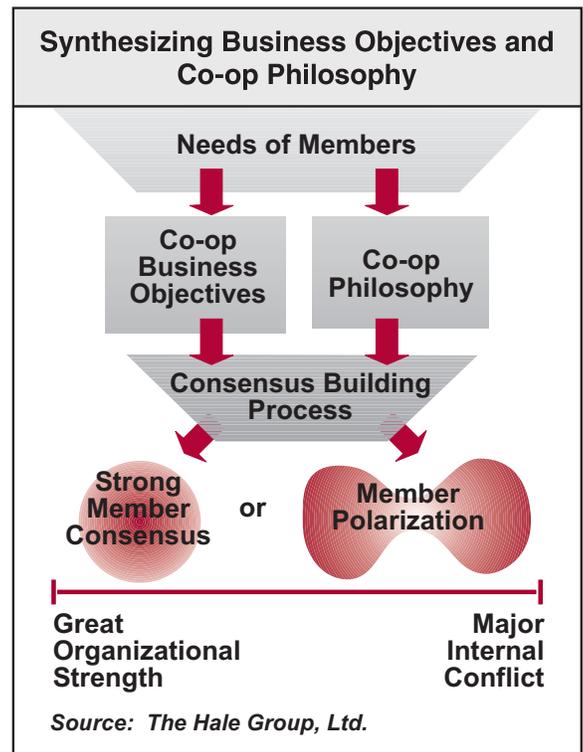
Managing Conflict in Farmer Cooperatives

Addressing One of Management's Toughest Issues

Leading a farmer cooperative can be much more challenging than leading an investor owned corporation. The Chief Executive Officer of a cooperative faces all the challenges of running a successful business, plus the added burden of maintaining good member relations and coping with the internal conflicts that often arise. In fact, managing internal conflict can be a bigger challenge for some cooperatives than remaining competitive in the marketplace.

Farmer cooperatives seek to achieve specific business objectives while serving all of their member-owners in accordance with cooperative principles. The democratic philosophy of cooperatives can be a great strength if effective consensus is achieved among members regarding the proper blend of business objective and co-op philosophy. However, serious conflict can arise when broadly based consensus is not achieved.

Sometimes the balance achieved by a specific cooperative gets upset by low market prices, competitive threats, changing consumer demand, the management style of a new CEO, or a host of other factors. In those situations, the Board of Directors or the CEO must take prompt and decisive action to avoid conflict and restore consensus.



Common Issues Causing Conflict

The following are some of the more common problems that The Hale Group has encountered in cooperatives.

Membership Distrust of Management

Many cooperatives have large segments of members, which harbor a strong distrust of the management of their cooperative.

Sometimes it is caused by members who hold unrealistic ideas about their prerogatives as a member (“This is my cooperative, damn it, and the CEO should do what I want him to do.) Sometimes it is caused by CEOs who are disdainful of their members (“These farmers aren’t very smart, and I’m doing them a favor by managing the co-op well.”)

The successful co-op leader is both an astute business decision-maker and a good “people person” who cultivates strong relationships with his members. Some of the smartest business executives have failed miserably as the CEO of a farmer cooperative because they didn’t engender trust among their members.

In contrast, one CEO I know consciously makes regular time to drop in at multiple local coffee shops where his members gather around 10:00 am on rainy days. He learns about their farming operations, gets to know them as people, asks them questions about their families, and establishes a personal connection with his members. Those members think their CEO “can do no wrong.”

Conflict Between Large and Small Members

In the 1920s when many farmer cooperatives were formed, farming operations were much more homogenous than they are today. Today the size disparity among co-op members is enormous. Co-ops with a “one-member, one-vote” philosophy struggle over how to be “fair” to smaller members while meeting the competition in serving their larger members.

The Hale Group was asked to mediate between small and large members of one cooperative in which smaller members felt the higher fertilizer price

charged to them meant they were “subsidizing” the larger members of the cooperative who received a lower price. Our analysis indicated that the lower costs of serving the larger members actually generated a larger net margin. In fact, the larger farmers were “subsidizing” the smaller ones. But the conflict over this issue was intense.

Members’ Misunderstand Industry Conditions

CEOs often advocate change that is resisted by members. In many cases, the conflict is due to the fact that members understand their own farming operation, but have only a minimal grasp of the competitive pressures of the industry in which their cooperative operates. This issue is exacerbated when the farmers on the Board of Directors have little or no experience in marketing. Sometimes the marketplace in which the co-op operates demands changes that the members have difficulty grasping.

Inherent Conflicts of Interest on the Board

Unlike Directors of most public corporations, the Directors of a farmer cooperative frequently face conflicts of interest in making sound decisions in the Board Room. Given the wide disparity of operations among farmer-members of the modern co-op, Directors are often forced to choose between the vested interests of their farming operation and the best interests of the membership as a whole. In too many cases, they vote for their best interests as individuals.

Most CEOs want conflict to go away by itself. It rarely does.

Responsibility for Resolving Conflict

The Board of Directors must get involved in resolving conflicts of the most serious nature. Examples include: (a) major conflict between groups of members with different vested interests; (b) conflicts arising when Board members vote for their individual interests, not the best interests of the cooperative; and (c) distrust between top management and significant numbers of co-op members.

Virtually all other issues of conflict should be handled by the CEO or someone to whom he delegates the issue. In fact, distrust of top management should be dealt with by the CEO long before it becomes a major issue and, therefore, of concern of the Board of Directors.

Principals of Conflict Resolution

To state the obvious, conflict is inevitable. The goal of a cooperative should not be to eliminate conflict, but to create a “healthy culture” that handles disagreement positively and effectively. The following are principles of conflict resolution that are crucial to creating a “healthy” organization.

- **Be Proactive** – Most CEOs want conflict to go away by itself. It rarely does. Leaders are hired to lead. CEOs must be proactive to resolve the major conflicts facing their cooperative.
- **Listen Carefully** – Cooperatives need to develop a good mechanism for listening to members. Virtually all CEOs believe they listen to members. Some do; many don't. Having small groups of members meet with the CEO in an informal setting is invaluable. Focus groups of members are another method of listening. The annual meeting of most co-ops is usually not an effective listening method because two-way communication is limited.
- **Dis-entangle the Issues** – Most long-standing conflicts involve multiple issues, which need to be separated, defined and prioritized carefully. Then a plan, complete with timetable, needs to be communicated for how the management is seeking to resolve the conflict.
- **Get the Facts** – Many conflicts include honest misunderstandings about facts. Listen to each side's argument, listen for the underlying assumptions, determine the facts, and separate fact from fiction.

- **Defuse the Emotion** – Sometimes emotions run so high they distort the facts. A good facilitator acknowledges the emotion, listens to each side, and addresses the issue in an unemotional way.
- **Be Fair** – Cooperative members have a strong sense of ownership and view “fairness” among members as a big issue. Members need to perceive leadership as being fair when a conflict arises.
- **Provide Enough Time** – Problems that have been developing for several years won't be solved in a weekend. Leaders need to set realistic time frames for resolution.
- **Give Perspective** – Most participants involved in a conflict can see only their own viewpoint. A competent facilitator will push each side to look at the problem from the perspective of the other side.
- **Communicate Clearly** – Give all members (regardless of their viewpoints) the same message. Telling each constituent group what they want to hear quickly creates lack of trust, which is hard to regain.
- **Accept Diverse Opinions** – Resolving conflicts rarely lead to a unanimous opinion. Expect members to respect decisions of management and the Board, but don't expect that all members will agree with them.

Directors are often forced to choose between their own interests as members and the best interests of the membership as a whole. In too many cases, they vote for their best interests as individuals.

Using an Outside Facilitator

When an issue is highly emotional and / or has persisted over a long period of time or when no one in the organization is perceived to be objective about the issue, a cooperative should consider using an outside facilitator, such as The Hale Group, to help work through the conflict. Outside facilitation should also be considered when conflict resolution is not an area of strength for the CEO, and / or the CEO cannot be diverted from other critical tasks to resolve the issue.

Resolving Serious Conflict

There are several key steps in resolving major conflicts: (1) Define the conflict as accurately as possible. (2) Solicit the perspective from all parties on how the problem arose and what should be done about it. (3) Collect the relevant facts. (4) Separate fact from myth built up over the course of the disagreement. (5) Share the perspectives of all parties and the facts with everyone involved. (6) Test possible solutions. In long standing disagreements, it is unusual to reach a resolution on the first attempt. In those cases, another iteration of the entire process is required – refining the understandings of all involved at each step of the process. The process is continued while constantly trying to get closer and closer to a solution. The figure below depicts the process graphically.



About The Hale Group

The Hale Group is a consulting and advisory partner assisting companies develop fact-based strategies to contend with an evolving landscape. The underlying philosophy of the firm's efforts on behalf of its clients, and in collaboration with them, is to formulate strategies that enable clients to break through the market clutter and identify platforms for growth.

The Hale Group has developed proven processes and tools to help organizations gain perspective on the opportunities and challenges within an industry. The level of The Hale Group's participation can take many forms from addressing the overall process or an individual part of the process. However, in whatever capacity we participate, the desired outcome is for our clients to be successful.

Our products and services include:

- Strategy
- Organizational Effectiveness
- Market Research
- Operating Efficiencies
- Opportunity Analysis
- Mergers & Acquisitions

For more information about The Hale Group or to view other Strategic Initiative articles, visit our website at www.halegroup.com or call us at 978.777.9077 (Boston) or 415.285.3616 (San Francisco).