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Member Loyalty

...Alive and Well?



Watching the owners of your business patronize the competition might lead you to think that cooperative member loyalty is a thing of the past. Lessons learned from economic game theory may shed new light on this age-old problem for cooperative management.

“Loyalty is dead” he said, “the only thing my members care about is cash price.” We were speaking to a Texas cooperative manager about how he meets the challenge of maintaining his members’ interest and patronage in the face of increasing competition.

While this response may be somewhat harsh and cynical, it remains a valid criticism of observed member behavior. Although a cooperative’s members have owning equity in the business, they may, for various reasons, do business with a competing, investor-owned firm. Not only does this seem illogical, some may view it as downright heresy.

The truth is that the members of your cooperative are making rational decisions based upon their individual situations. It may very well be that your members are seeking the same lasting and loyal relationships that you desire.

We believe that not only is loyalty alive and well, but member loyalty is an asset that can be managed once understood. Some basic findings from economic game theory can be instrumental in explaining member behavior. But first, we need to understand the problem itself.

Member Loyalty Then and Now

Part of the problem is that many cooperative organizations were originally established under different competitive situations than exist today. In the 1950s, at the height of the cooperative movement in the United States, agricultural producers were more certain about their long-term prospects, the local cooperative played a larger role

among competitors, and the benefits of cooperative membership were clearly aligned with the needs of producers. The result was a strong sense of member loyalty.

Today things are slightly different. Consolidation and globalization have exposed agricultural producers to more intense competition. Market uncertainty and an increased need for scale economies have increased the capital needs of younger producers and significantly shortened their planning horizons. The local cooperative has also been exposed to expanded competition and now

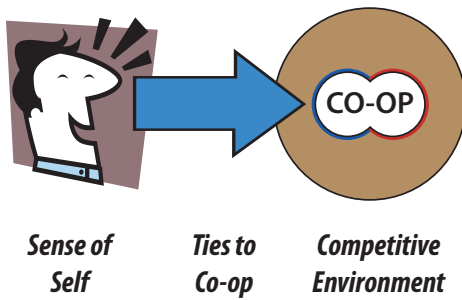
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plays a smaller role in the competitive environment. As both member and cooperative have adjusted to this new scenario, the needs of the members and the benefits of cooperation (established under a different situation) have drifted apart and member loyalty has seemingly waned.

The Member’s Dilemma

Game theory is a method that economists use to explain firm behavior. The participants are assumed to be presented a set of choices with known outcomes. In one particularly well-known game, “The Prisoner’s Dilemma”, two prisoners involved in the same crime are isolated by the police and presented with the potential consequences for their actions. Each prisoner has the option of keeping silent (cooperating with his partner) or confessing (cheating on his

1950's...



In the 1950s, the security of producers was more certain, the local cooperative maintained a prominent position in the competitive environment, and reasons for cooperative membership were clear. Today, added financial pressures for producers and increased competitive alternatives add to the dispersion of member loyalty. An individual's ties to the cooperative are stretched thin.

partner). Joan Fulton, a professor at Purdue University, has suggested that a similar situation could be presented for cooperative members.

Let's consider a strange cooperative with only two members. The members can choose to cooperate or to defect by doing business outside the cooperative. The cooperative performs best when each member chooses to cooperate. If one or both members choose to defect, the cooperative struggles and profitability is diminished. If we assume that the members must make their decisions individually without the interaction of the other, we receive an interesting result.

Member 1 considers the situation and realizes that his final outcome depends on the decision of Member 2. The possible pay-offs he receives are outlined below.

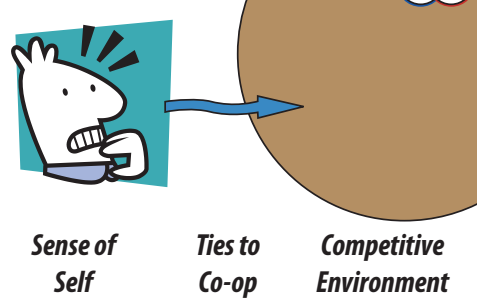
	Member 2 Defects...	Member 2 Cooperates...
Result if Member 1 chooses to defect...	10	30
Result if Member 1 chooses to cooperate...	5	25

After a bit of study Member 1 realizes that if Member 2 chooses to defect on their cooperative, he is better off defecting. Further, if Member 2 chooses to cooperate, he is again better off by defecting. Member 2 is presented with the exact same decision and reaches the very same conclusion—he is better off by defecting. The result of this little game is that both members choose to defect on their cooperative relationship resulting in both members being worse off.

Why did the members choose such a mutually destructive behavior? There are a few reasons why such an outcome will occur:

1. The members did not discuss their decision with one another and come to any kind of mutual decision.
2. An opportunity existed for short-term gain outside of the cooperative.

Today?



3. Our time frame was one isolated decision without any expectation or guarantee of repeating the game.
4. There was no penalty for defecting on the cooperative.

Our example may not be very realistic or complex, however the reasons for mutual defection are strikingly similar to the situation you may find in your cooperative. Ask yourself...how many of your members plan decisions together, let alone have regular communication? Are your members aware of one another's participation in the cooperative or lack thereof? Is there any penalty for not participating in the cooperative?

What can you do?

Typically, when we speak of member loyalty, we immediately think of disloyal *customers*. But really, when members are disloyal to the cooperative, they are being disloyal to each other. The first step in combating disloyalty is to realize that it is a situation of disloyal *partners*. In other words, its not about you, its about them.

Economists have found that a cooperative solution to our little game is more likely when the members are allowed to discuss their decisions and they know the game will be repeated indefinitely. In short, cooperation is more likely when they are allowed to build a relationship of trust over a period of time. In addition, cooperation is more likely when members are accountable for the success or failure of the cooperative.

Creating opportunities for your members to communicate with each other and fostering a culture of partnership in your organization will help to establish a basis for member loyalty. Consider some of these suggestions:

- Establish a member committees to put out the company newsletter.
- Give members a larger role in organizing the annual meeting.
- Sponsor an informational meeting for members featuring your local Extension Agent or other professional.
- Refer to members as partners in all company literature.
- Promote the partnership culture to employees as well.

Member loyalty is perhaps your greatest untapped asset. Members of an organization that actively promotes a business culture and an environment friendly to partnership will have customers for life. ☒