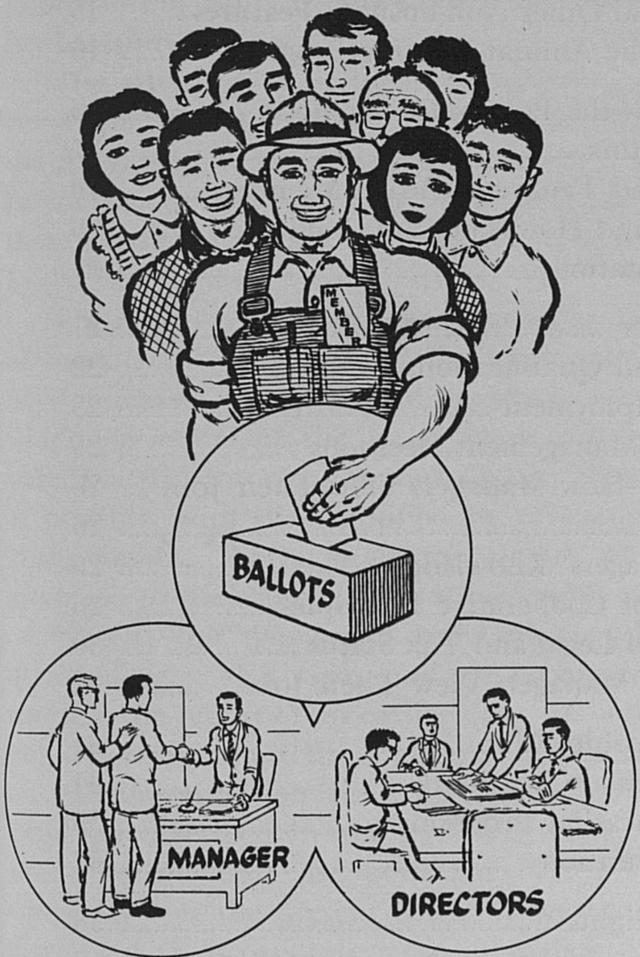
$ HOW KENTUCKY $ FARM CREDIT COOPERATIVES $ ARE CONTROLLED $



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PREFACE

This report is designed primarily for use by managers and directors of local farm credit cooperatives and personnel of the Federal Land Bank and Federal Intermediate Credit Bank. It attempts to bring to the attention of these key decision-makers some important facts and questions of policy.

The accomplishments of the cooperative farm credit system of which the Federal Land Bank Associations and Production Credit Associations are an integral part, have been important. The local associations have made significant improvements in their operations. However, if a report such as this is to be useful to their management, it must focus attention on possible improvements and unsolved problems. When we draw attention to such situations we do not imply that they are necessarily "bad," nor that improvements have not been attempted or made. The determination of desirable policy involves evaluation of many factors beyond the scope of information collected in the study.

The situations described, questions raised, and alternatives suggested in this report may appear unduly critical if the purpose and the intended audience are not kept clearly in mind. Our intent is to be constructive. To do this, we believe that we must call attention to those perplexing unanswered questions which appear to be important to the future of such cooperatives.

The report is based primarily on information supplied by managers of local credit cooperatives.[1] In some cases these managers may not have possessed complete information, particularly on activities in which personnel of the Land Bank and Intermediate Credit Bank participated. Information supplied by managers was checked, as far as possible, with that supplied by personnel of the respective supervising banks. Throughout the report we have attempted to call attention to the source of our information and its possible weaknesses.

Finally, the data were collected in 1955. Many changes have occurred since that time, and we regret that it was not possible to compile the report at an earlier date. However, in most cases this will not seriously impair the usefulness of the material. A comparison of an existing situation in a particular cooperative with the general situation described by the data will establish whether the questions raised by the data are pertinent to the situation existing in that cooperative at the present time. However, we have at various places attempted to incorporate more up-to-date data supplied by personnel of the two banks serving these local units.

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[1] The term "manager" will be used throughout (1) when referring to Federal Land Bank Associations, and (2) when referring to combinations of P.C.A.'s and F.L.B.A.'s.

How Kentucky Farm Credit Cooperatives Are Controlled

By WENDELL C. BINKLEY and ELDON D. SMITH[2]

INTRODUCTION

A cooperative can be no better than its management. Its contribution is a result of a vast number of decisions by members, by their elected representatives, and by the paid employees of the association. In addition, for those cooperatives which operate under supervision of public agencies such as the Farm Credit Administration, we must recognize that management is partly vested in the officials of these agencies which establish policies under which these cooperatives operate.

Since cooperative management involves all of these decision-making units, an understanding of cooperative problems requires, among other things, knowledge of: (1) some of the ways that decisions are made by the various parts of the management team, (2) who makes individual types of decisions, (3) how the members of the management team relate themselves to each other in making management decisions, (4) the overall structure of powers and responsibilities in the organization, and (5) the legal and social forces that have an effect on management.

The study is based on a survey which was conducted in 1955 and covered the management of 18 of the 20 Federal Land Bank Associations (then called National Farm Loan Associations) operating in Kentucky at that time, and all of the 10 Production Credit Associations operating in Kentucky.[3] No rural credit unions or local coopera-

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[2] The authors recognize a debt of gratitude to managers of the credit cooperatives who willingly gave of their time and energies in answering many questions and providing information from their files and records, and to Willard Minton who collected much of the data and made preliminary tabulations. The personnel of the Louisville Federal Intermediate Credit Bank and Federal Land Bank have provided many items of information and other services too numerous to mention. Without such cooperation the study could not have been made.

[3] Two Federal Land Bank Associations were partially consolidated. While they maintained their corporate identity, a single office was maintained to serve both associations, and they shared the services of a single manager. The special conditions in these partially consolidated associations made it advisable to exclude them from the study.

tive banks existed in Kentucky at the time of the survey, and none exist presently.

This study has three objectives: (1) to make an inventory of existing organizational structures and management practices; (2) to focus attention on important questions relating to the management of local farm credit cooperatives; and (3) to analyze the possible consequences of existing practices to the types of cooperatives represented in the survey.

FARM CREDIT COOPERATIVES TODAY AND YESTERDAY

Federal Land Bank Associations[4]

Federal Land Bank Associations operate under federal charters. The Federal Farm Loan Act of 1916 established the 12 Federal Land Banks. It also provided for the establishment and supervision of local cooperative associations of farmers to carry out local phases of administration, collection, and related activities connected with the farm real estate mortgage loans extended by the Land Banks. In 1934, 121 small associations operated throughout Kentucky. Through consolidations, the number of associations was reduced to only 20 in 1955 and to 16 in 1960 (see Fig. 1).

The history of Land Bank lending operations in the United States and Kentucky is quite similar. (See Figs. 2-A, 2-B, 2-C, and 2-D.) A very large volume of loans resulted from the emergency refinancing of farm mortgages during the 1930's. Land Bank mortgages were rapidly retired during the more prosperous period of the 1940's, partly because of wartime scarcities of machinery, equipment, construction material, and consumer items. A contributing factor was the Land Banks' lending policy, which was extremely conservative in comparison with going market values during this period. Thus repayments were not offset by new loans.

While outstanding loans have increased in Kentucky since 1950, the proportion of all mortgage loans outstanding in Kentucky held by the Land Bank of Louisville was lower in 1955 than in 1950.[5] In the years 1956 through 1958 there were increases in Land Bank loans outstanding, in proportion to all mortgage loans outstanding. A similar situation prevailed in the nation generally. As the experience during the 1930's indicates, this system, operating on the basis of

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4 Prior to January 1, 1960 these were called *National Farm Loan Associations.* Although the data were collected at a time prior to this change, we will refer to them as Federal Land Bank Associations (F.L.B.A.'s) in the discussion to follow.

5 Loans held by the Federal Farm Mortgage Corporation were repaid except for an insignificant amount by 1950.

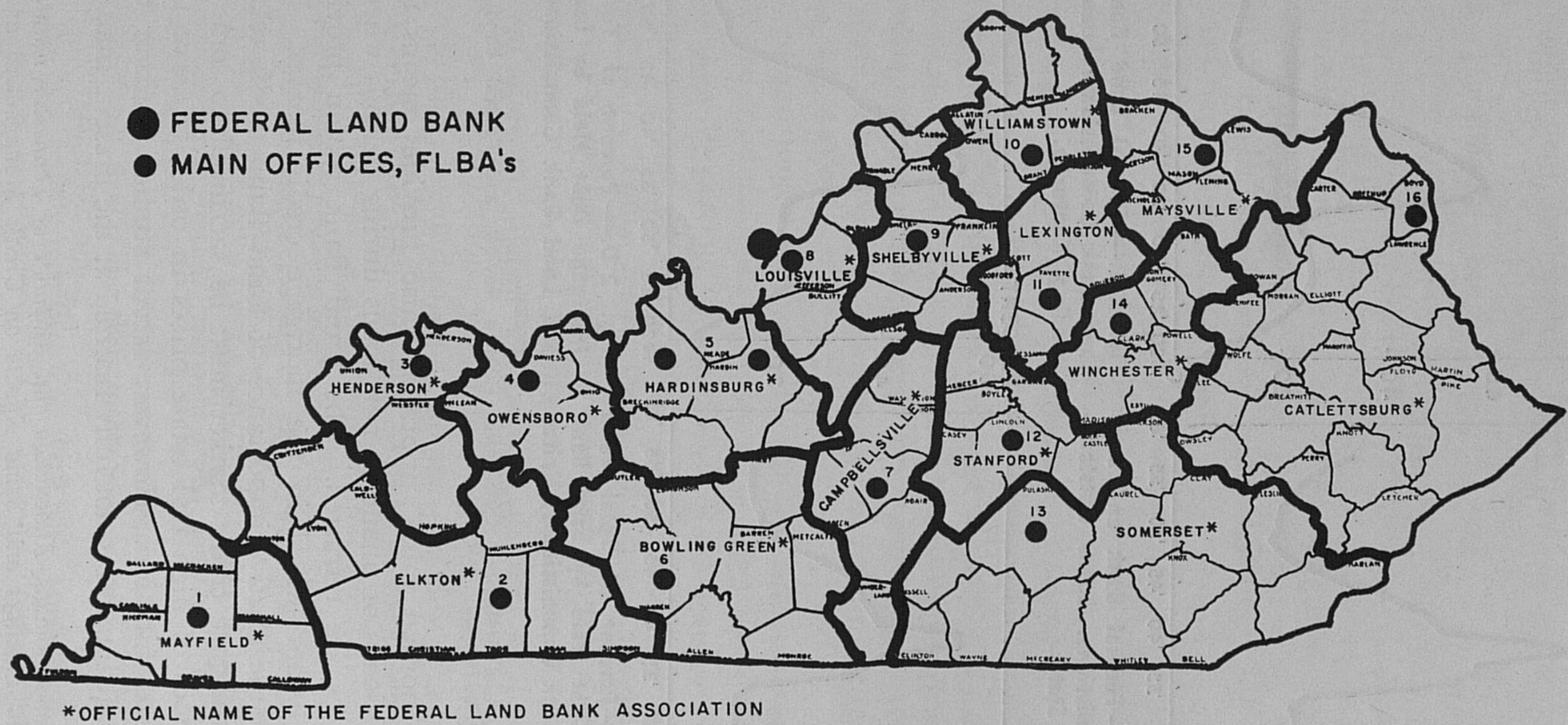


Fig. 1.— Operating territories of Federal Land Bank Associations—1960.

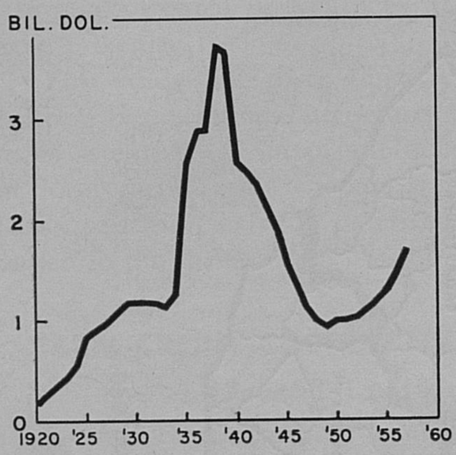


Fig. 2-A.— Federal Bank and Land Bank Commissioner Loans Outstanding, United States.

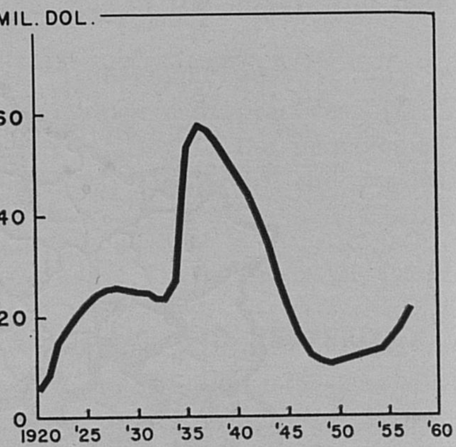


Fig. 2-B.— Federal Land Bank and Land Bank Commissioner Loans Outstanding, Kentucky.

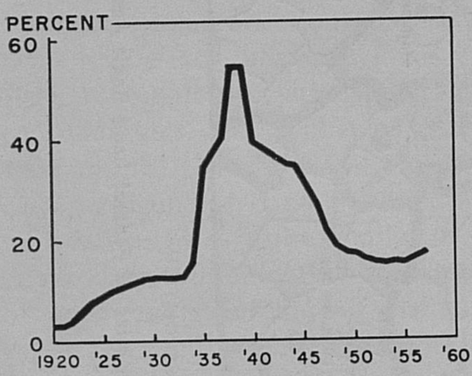


Fig. 2-C.— Percent of Total Farm Mortgage Debt Held by Land Bank and Land Bank Commissioner, United States.

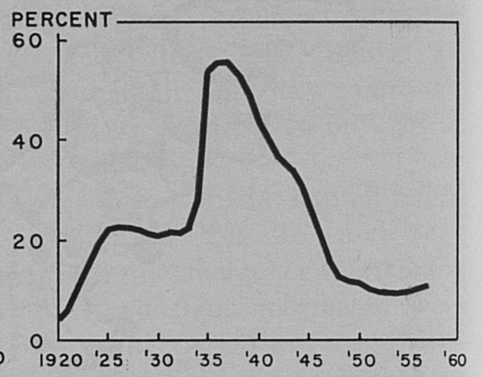


Fig. 2-D.— Percent of Total Farm Mortgage Debt Held by Land Bank and Land Bank Commissioner, Kentucky.

Sources: Agricultural Statistics, Agricultural Finance Review, and Federal Land Bank of Louisville.

long-term, "normal value" appraisals, also provides means for refinancing old loans or financing new loans during periods when other credit sources are retracted. The Land Bank system provides an important balance-wheel in the mortgage credit market. Possible increases in the relative importance of Land Bank credit relative to the total mortgage credit market must be sacrificed to some degree during periods of high real estate prices in order to serve this important social function. However, recent studies indicate that its potential contribution is not fully realized at the present time.[6]

[6] J. Thomas Romans, *Knowledge and Attitudes of Tennessee Farmers Concerning Credit Practices and Some Effects on Credit Management and Credit*

(footnote continued on next page)

Production Credit Associations

To complement the long-term credit facilities of the Federal Land Bank system, the Federal Intermediate Credit Banks were established in 1923. These banks were authorized to make loans of one to three years' duration and to make advances on warehoused commodities held by farmer-owned cooperatives. However, until the Farm Credit Act of 1933, local facilities for making short-term credit extended by the Intermediate Credit Banks available to farmers were not provided. By this Act, the Production Credit system, involving the regional Production Credit Corporations, was established and Production Credit Associations were authorized.[7]

The Production Credit Associations (P.C.A.'s) are local cooperative associations of farmers, similar to the Federal Land Bank Associations. Of the 10 operating in Kentucky, all were organized early in 1934 (see Fig. 3 for location of operating territories).

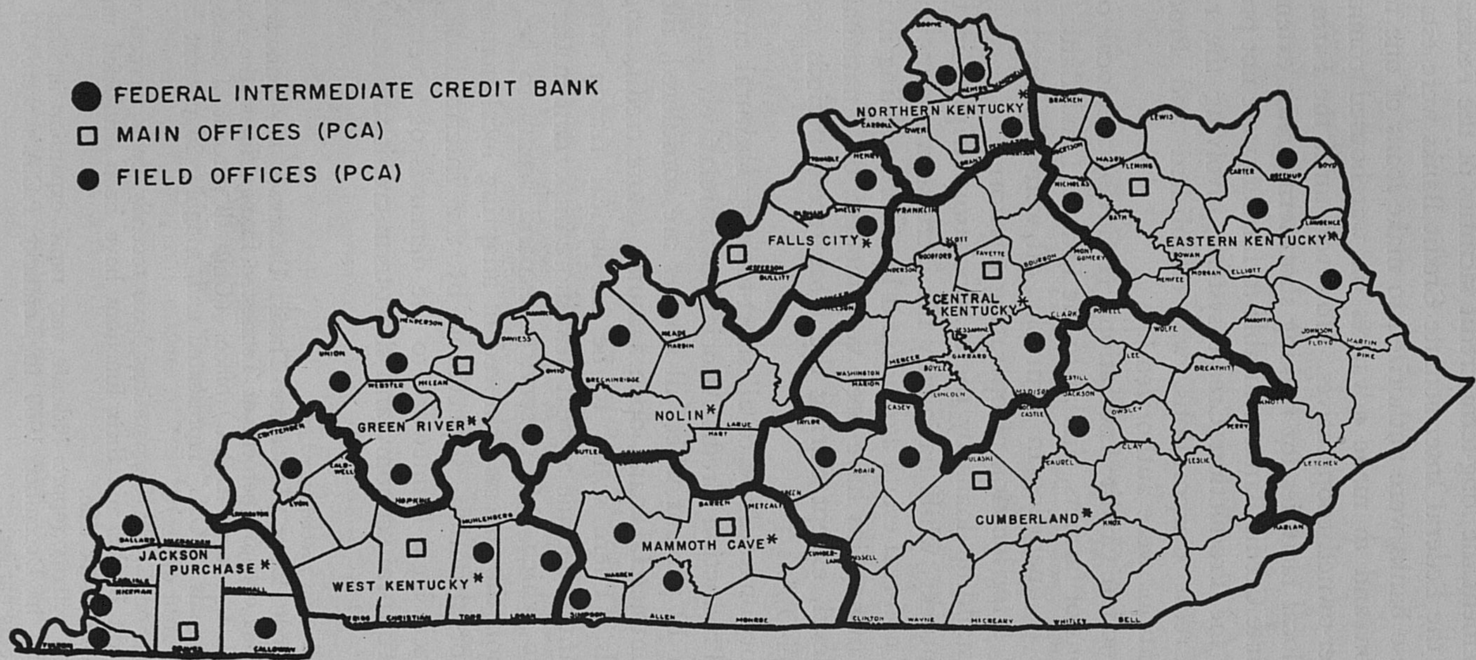
Total outstanding loans by these associations tripled in the last decade in Kentucky, while nationally the increase was somewhat less. In relation to non-real estate agricultural loans outstanding in insured commercial banks, gains have been very modest, both nationally and at the state level, except during the most recent periods (see Figs. 4-A, 4-B, 4-C, 4-D).[8]

The proportionate share of all short-term agricultural credit supplied by the Production Credit Associations is relatively small, probably less than 10 percent when all sources are considered, including installment commercial loans, open accounts (store credit), and loans by individuals. There seems to be no logical reason why these associations cannot become a great deal more important in the future. The extent to which P.C.A. services expand seems to be mainly contingent upon the success achieved in adapting local management, structure of organization, supervision by the Intermediate Credit Banks, and their legal framework to the demands of a very rapidly changing agricultural economy and short-term credit market.

(footnote continued from preceding page)
Costs; Unpublished Master of Science Thesis, University of Tennessee, 1957. Romans found that only 30 percent of Tennessee farmers knew the location of the nearest N.F.L.A. (now F.L.B.A.) office. (Only 10 percent of these farmers knew what the initials "P.C.A." represented and, roughly, 25 percent knew the location of the nearest office.)

[7] The Production Credit Corporations have recently been merged with the Intermediate Credit Banks, and their functions have been combined under the Intermediate Credit Bank title.

[8] Recent loan activity reports indicate very rapid expansion in loan volume. Loans outstanding in December 1959 in Kentucky P.C.A.'s were 56 percent greater than 2 years earlier.



*OFFICIAL NAME OF THE PRODUCTION CREDIT ASSOCIATION

Fig. 3.— Operating territories of 10 Production Credit Associations, 1959.

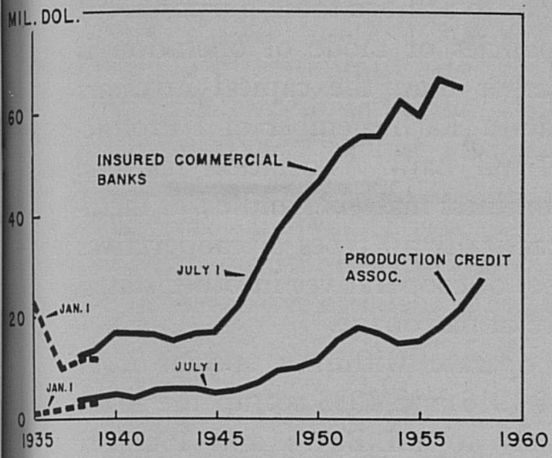


Fig. 4-A.— Production Credit Association loans outstanding and non-real estate agricultural loans of commercial banks in Kentucky.

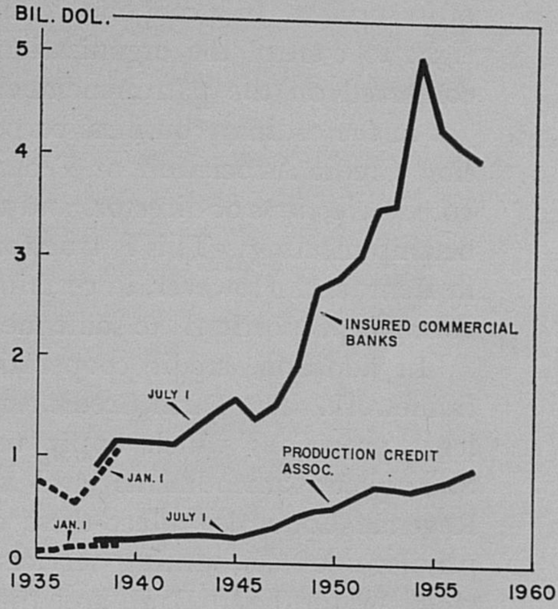


Fig. 4-C.— Production Credit Association loans outstanding and non-real estate agricultural loans of commercial banks in the United States.

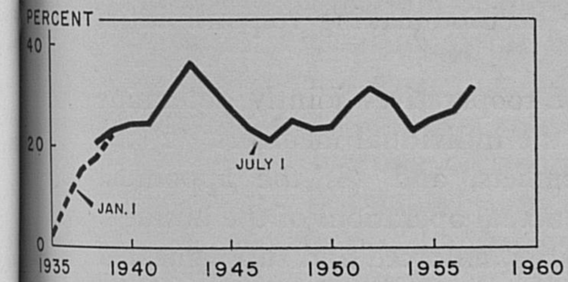


Fig. 4-B.— Production Credit Association loans as a proportion of non-real estate agricultural loans of insured commercial banks in Kentucky.

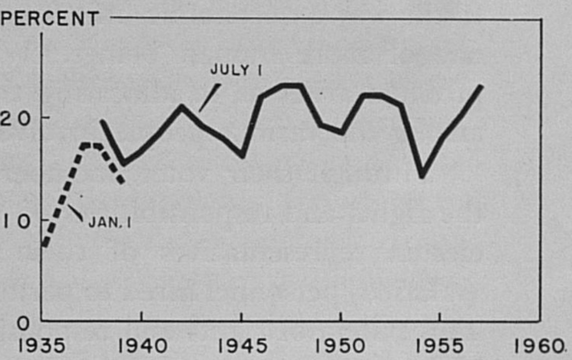


Fig. 4-D.— Production Credit Loans as a proportion of non-real estate agricultural loans of commercial banks in the United States.

Source: Agricultural Finance Review, United States Department of Agriculture.

THE COOPERATIVE FORM OF BUSINESS ORGANIZATION

A cooperative is a unique form of business organization. Its purpose is to benefit economically its members as patrons, i.e., as users of its services. In a cooperative, in order to achieve these purposes, the right to control the organization's policies or mode of operation is conferred on the patron-members rather than the capital investors (as in the ordinary business corporation). Each member of a Production Credit Association or Federal Land Bank Association has one vote in elections of directors and the business matters handled at membership meetings. This is true for practically all types of cooperatives in Kentucky. However, in certain types of cooperatives in other states, voting is proportional to some measure of patronage.

In addition, credit cooperatives operate within a special legal framework. The Farm Credit Acts of 1916 and 1933 set up the main legal provisions which apply uniquely to F.L.B.A.'s and P.C.A.'s. Subsequent amendments and special provisions of the Internal Revenue Code also affect these cooperatives. In order to enjoy the privileges of discounting services (P.C.A.'s) and other services provided by the Land Bank and Intermediate Credit Bank, member associations must accept certain restrictions or regulations on their mode of operation. For example, the Federal Land Bank cannot loan in excess of 65 percent of the appraised "normal value" established by Land Bank appraisers.

Management is the process by which decisions are made pertaining to the way an economic unit functions. Management is a function of one or more human beings. When it involves more than one, a problem arises as to allocating these decision-making responsibilities among the various people involved.

Through their votes, members of cooperatives jointly determine the rights and responsibilities of (1) the individual members, (2) the elected representatives of these members, and (3) the appointed (salaried) personnel hired to perform actual operations of the business. This system of rights and responsibilities, enforced and supplemented by law and custom, establishes the scope of allowed action (management) of each person or group of persons connected with the cooperative.

Of course, the process by which members establish the limits of managerial discretion of each person or group of persons is partly indirect. The elected members of the board of directors are given certain discretionary powers. They, in turn, can jointly decide within limits what responsibilities (management decisions) are delegated to the salaried manager; he delegates to his employees, and so forth. Thus in considering management problems in these two types of credit cooperatives, we must consider (1) the systems of delegation which determine who performs each management function and (2) the aspects of their operations which are supervised or controlled by the Farm Credit Administration, by the Federal Land Banks, and by Federal Intermediate Credit Banks.[9]

The purpose of most of the legal restrictions and requirements placed on local cooperatives is to protect the interests of patrons or the general public. The significance of specific supervisory powers and legal constraints will be analyzed in the course of the discussion to follow of various elements of management.

THE ANNUAL MEMBERSHIP MEETING

The annual membership meeting is an activity of unique importance in cooperatives. In such meetings, by evaluating performance reports, electing directors, voting on amendments to bylaws or articles of incorporation, and by proposing and voting on various resolutions, members determine the way their organization functions. If members do not participate in these management decisions, they, in effect, delegate to those who do participate the right to control the affairs of the organization. In the bylaws which are approved by the Land Bank and Intermediate Credit Bank, the members are guaranteed the right to indirectly manage their credit cooperatives by the mandate to hold annual membership meetings. In addition, special meetings may be called by petition of the membership or by vote of the board of directors. This right of the member-patrons to control, by vote, the management of their organization is one of the most important and distinctive features of a cooperative organization.

The annual meeting of credit cooperatives may be held at any time which may be established by the board of directors or the bylaws. Typically, the Federal Land Bank Associations hold their meetings during January, February, or March, after the end of the fiscal year on December 31. The Production Credit Associations hold their meetings at periods scattered throughout the year.

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[9] The discretionary powers of a local association are still substantial, but somewhat narrower than independent marketing or purchasing cooperatives. However, through participating in election of members of the regional Farm Credit Board, member credit cooperatives do indirectly control part of the policies of the Federal Land Bank, the Federal Intermediate Credit Bank, and the Farm Credit Administration which affect them.

Attendance

Reported attendance at annual meetings varied widely. Reports by managers indicated that average 1954 member attendance in the P.C.A.'s was 142, and varied from 30 to 450. For F.L.B.A.'s the average estimated member attendance was 21 and varied from a low of 5 members to a high of 46. However, since average total membership was small in the F.L.B.A.'s (220) compared with the P.C.A.'s (1,614), proportionate attendance by members was not much different (9 percent and 7 percent, respectively). In the 1958 series of annual meetings, attendance was 15 percent and 13 percent, respectively.

While members are the only ones entitled to vote, attendance at these annual meetings included many nonmembers. Indications are that about 60 percent of those attending the P.C.A. meetings were members, while about 40 percent of those attending F.L.B.A. meetings were members. Nonmembers attending often include family members, public officials, educators, and others. Presumably, they are invited so that the annual meeting can serve both business and nonbusiness (public relations, information, and education) objectives. While these latter objectives may be worthwhile, they may make it difficult at times to conduct a business meeting in a satisfactory manner. (For discussion of managers' views of purposes and evaluation of annual meeting see pp. 31-32. For indications of personnel and procedures used in planning annual meetings see p. 15.)

The Business Meeting

Although business considerations provide the primary justification for holding the annual meeting, characteristically the meeting included a meal, a speech, and sometimes some entertainment as well. Managers did not indicate clearly, with few exceptions, how much time was devoted to business. The actual time could not have been long. Managers reported an average of only 2.3 hours for the P.C.A.'s and 1.9 hours for F.L.B.A.'s for the entire meeting.

An annual audit is made of all P.C.A. financial records; F.L.B.A.'s have an audit once during each 18-month period. These audits are made by examiners of the Farm Credit Administration as part of its general supervisory functions.[10]

All P.C.A.'s reported mailing copies of a financial report to members, and 8 of the 10 associations reported distributing additional copies at the annual meeting. The secretary-treasurer reported that he,

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[10] However, the audit is not necessarily made immediately prior to the annual meeting. Typically the financial report presented to the members is based on preliminary figures supplied by the association's bookkeeper.

rather than the president, usually presented the report in all 10 associations. When asked how the report was presented, four reported that it was read and gave no indication that it was interpreted or that other visual aids were used; six read it and interpreted it with visual aids. Reportedly, an average of 20 minutes was devoted to reading and discussing the financial report in the P.C.A. meetings. In all such associations an opportunity was provided for discussion by members; 7 of the 10 associations reported some participation by members. Part of this may have been attributable to advance drafting of questions to stimulate discussion in 6 of the associations.

The Federal Land Bank Associations, according to reports of managers, distributed copies of the financial report to members in all cases, and in all but 4 of the 18 associations copies were *both* mailed out and distributed at the meeting. In most cases (15), the report was read by the manager without comment. An average of about 20 minutes was used in presenting and discussing the report. While all reported providing opportunity for discussion, only 7 of the 18 reported any participation by members. Only 3 reported attempts to stimulate discussion by advance drafting of questions.

The fact that advance plans were made to stimulate discussion in the P.C.A.'s suggests that directors and secretary-treasurers were attempting to get greater member participation. In the F.L.B.A.'s there is somewhat less evidence that directors and managers were actively attempting to obtain member participation of this particular type. However, P.C.A.'s and F.L.B.A.'s, as a group, apparently achieved more active participation in the business affairs by those members in attendance than did most other cooperatives covered in the survey.

Entertainment and Other Nonbusiness Features

An annual meeting can be conducted at practically no cost, if purely business features are the only activities and if no prizes, refreshments, etc., are provided. However, local costs of annual meetings reportedly averaged about $576 for the P.C.A.'s and $76 for the F.L.B.A.'s. The average cost per *person* in attendance was roughly $2.50 for P.C.A.'s and $1.50 for F.L.B.A.'s, or $4.00 and $3.50, respectively, *for each member in attendance.*

Among nonbusiness features, free refreshments were served at all P.C.A. meetings and at 11 of the F.L.B.A. meetings. Half of the Production Credit Associations and five of the Federal Land Bank Associations provided door prizes. All but one P.C.A. provided entertainment of some kind, usually amateurs; half of the F.L.B.A.'s followed the same practice. Eleven F.L.B.A.'s and seven P.C.A.'s served a meal in connection with the meeting. F.L.B.A.'s typically paid the entire cost of the meal; P.C.A.'s usually defrayed part of the cost.

The above facts verify the hypothesis that the annual meeting of farm credit cooperatives, particularly the P.C.A.'s, was much more than a process of reviewing past performance, making business decisions, and electing directors. Because of the supervision of the Federal Intermediate Credit Bank and the Federal Land Bank, it may be possible for these particular organizations to transact their business adequately at the annual meeting with a minimum of time and effort. In any event, questions arise as to the potential needs which might be served by the membership meeting, their relative importance, and the degree to which they may conflict. It is important to remember that this is almost the only opportunity for farmer-members, as a group, to hear a comprehensive report on the business affairs of their organization and to express their will collectively regarding its operation.

Who Influences the Annual Meeting Program?

All but three P.C.A.'s used five or more members who were not members of the board of directors to assist in planning the meeting. Only five F.L.B.A.'s indicated that members helped plan the meeting. Available data do not show how or to what degree these "nonboard" members actually influenced the structure of the program. When only directors and employees participate in planning, there is the possibility of so planning and organizing the annual meeting that membership participation in the control of the organization is, to some extent, limited. Furthermore, it means that one opportunity for effectively involving members in the activities of the organization has been foregone. Observation seems to indicate that member involvement in planning tends to stimulate interest in, and learning about, the organization and its problems.

COOPERATIVE DIRECTORS—THE POLICY-MAKING BODY

In selecting directors and delegating powers of decision to them, members probably exert more influence over the way the organization operates than in all other ways combined.[11] Therefore, the process by

[11] If we look at this from a national level, the most important influences may come through the political processes whereby the laws under which these cooperatives operate are established and revised from time to time. For example, the supervision specified by the law may have been crucial to the success of the entire cooperative farm credit system, especially in the early years.

which these elected representatives are chosen and the type of men selected are important to the entire success of the organizations they represent.

The duties and responsibilities of directors are somewhat influenced by the relations between the local associations and the regional credit banks with which they are affiliated. For example, the District Federal Land Bank establishes salary ranges for local F.L.B.A. managers. These are determined, in part, by the volume of loans serviced by each association. P.C.A. local boards select their own secretary-treasurers and determine their salaries, subject to approval by the Federal Intermediate Credit Bank. In both the P.C.A.'s and F.L.B.A.'s all bylaws must be approved by the supervising banks before they become effective. Therefore, problems of establishing the legality of bylaws, or even their utility, are to some extent handled by the Federal Intermediate Credit Bank and the Federal Land Bank.

Election of Directors

Both types of farm credit cooperatives have a minimum of five directors. One P.C.A. and five F.L.B.A.'s reported seven directors. A majority (8 P.C.A.'s and 12 F.L.B.A.'s) reported having the minimum number.[12]

Terms of office are three years, and these are staggered in such a way that the terms of only a part of the directors expire in any given years. Directors of both Federal Land Bank Associations and Production Credit Associations can succeed themselves, apparently, for as many terms as the members elect them.

The practice of allowing directors to succeed themselves without limit has the advantage of making it possible for directors to accumulate experience and understanding of the organization over the years. However, it has the disadvantage of making possible a continuation of incompetent directors, in the event that membership apathy permits them to continue in office. When directors cannot succeed themselves for more than one or two terms, new men must be selected, insuring some infusions of "new blood;" directors with experience may be eligible for consideration after having been "off the board" for one year or for a "term."

Reports indicated that a nominating committee was used to select nominees for director offices in all but one P.C.A. and in 13 of the 18 F.L.B.A.'s. In four P.C.A.'s the nominating committee was

[12] The standard approved bylaws specify a maximum of seven and a minimum of five board members in F.L.B.A.'s. In 1959 there were three with seven directors, five with six directors, and eight with five.

selected by a member committee; in two P.C.A.'s the president appointed it. In eight F.L.B.A.'s appointments of nominating committees were made by the board of directors or the president (three and five, respectively). Only one F.L.B.A. used an all-member group to select the nominating committee. In the P.C.A.'s all nine had members only (not directors) serve on the nominating committee; eight F.L.B.A.'s allowed only nondirector members to serve.

The principal advantage of the practice of involving members in the selection of the nominating committee and in serving on it is that it may provide more incentive for considering candidates other than incumbents. This may be especially important in cooperatives where the committee is not required to submit two or more nominees for each vacancy. Directors in some cases may be reluctant to select candidates to run against existing board members, for fear of offending these board members. Only five P.C.A.'s and only two F.L.B.A.'s reported the requirement for the nominating committee to submit two or more names for each office.

An advantage of a nominating committee is that it provides additional opportunity for careful consideration of the qualifications of various men for the job. However, to capitalize fully on this opportunity, it would appear to be desirable to inform members, prior to the annual meeting, of (1) the names of nominating committee members and (2) names and other pertinent information about the nominees selected by the committee. The survey data provided no evidence of this type of follow-through. How much care was exercised in these selections is not easily ascertained. However, six Federal Land Bank Associations reported appointing the nominating committee on the day of the election. Obviously, follow-through of the type suggested would be impossible under these circumstances. All P.C.A.'s indicated that nominating committees were selected two weeks or more prior to the meeting, but there was no evidence as to when the work of the committee was completed.

While the nominating committee procedure has advantages, in the absence of an opportunity for floor nominations the committee can become a tool for maintaining control of the association by a small group, irrespective of the wishes of members. Floor nominations provide a partial check against possible incompetent or irresponsible selections by the nominating committee.

All managers reported that there was opportunity for nominations from the floor. Typically, this opportunity was used only on rare occasions, if at all. Interpretation of this is difficult. (1) It may reflect members' confidence in the ability and integrity of the nominating committee. (2) It may reflect membership apathy or reluctance to "speak up" in apparent disagreement with the committee. (3) It may reflect a tendency, noted in many types of meetings, to close nominations hurriedly after the report of the nominating committee is received. When members do not know in advance who the nominees are, they have little time to think of alternate candidates who might be acceptable to a majority. It could be that a bylaw provision to notify members of the selections of the nominating committee at the time when notice of the annual meeting is published would improve the procedure. A picture and "fact sheet" on each nominee might also be worthwhile. However, such practices seem to be unusual in Kentucky credit cooperatives.

A secret ballot is generally accepted as a way of freeing individual members from social or economic pressures that might influence their vote. This may be particularly important in rural communities where tradition, friendships, and family ties are strong forces in shaping decisions of individuals. However, *only two* F.L.B.A.'s reportedly used a secret ballot; eight P.C.A.'s balloted "secretly," according to reports of their secretary-treasurers. Obviously, when there is only one candidate for a given vacancy, there is no need for a secret ballot. This may in part explain some of the answers given by managers when asked about voting procedures.

In summary, it is apparent that the formal procedures used in election of directors often may deviate substantially from those which are generally considered conducive to enlightened free choices by members. Generally speaking, the Production Credit Associations appeared to measure up better against standards of sound formal election procedure than did the Federal Land Bank Associations.

Of course, meeting these mechanical standards of formal election procedure does not insure the election of effective directors. No doubt, in certain cases, these processes have broken down due to member apathy, lack of understanding of what qualifications are desirable in a director, or misplaced confidence in local leaders, and so forth. Establishing sound procedures provides a framework in which there is opportunity for intelligent group action. If members do not take advantage of this opportunity, it is possible for incompetent or otherwise unworthy directors to be elected. Ultimately, only the members can assure themselves of competent direction of their off-farm business affairs.

Characteristics and Tenure of Board Members

The Federal Land Bank Associations and Production Credit Associations, despite somewhat different election procedures, seem to elect men of about the same age and to keep them in office for about the same length of time. Half of the P.C.A.'s and half of the F.L.B.A.'s indicated that the average age of directors was over 54 years. One P.C.A. reported an average age of 64 years and one F.L.B.A. reported 66 years as the average age for the board of directors.

As one might expect, the average uninterrupted tenure on most boards of directors was quite long. The P.C.A.'s reported 10 years average tenure. For the F.L.B.A.'s the figure was 9 years.

Long continuous tenure is not objectionable if it is based on evidence that the individual has demonstrated ability to serve effectively and to keep abreast of changing conditions. However, some dangers are apparent. In some cases, membership apathy may result in perpetuating a board member in office, even though he is, for any of several reasons, no longer serving effectively. Also, continuous tenure by a single group may tend to create the impression among members that it is futile to express their views or to vote, and may lend further support to perpetuating the status quo.

Board Meetings and How They are Conducted

Generally speaking, F.L.B.A. boards of directors meet more frequently than P.C.A. boards. This may reflect the fact that P.C.A.'s typically cover a larger territory, and more effort and expense is required to have meetings; or it may reflect a tendency to delegate more managerial decisions to the secretary-treasurer and the executive committee which meets at least once each week.[13] In any event, most boards of both types of credit cooperatives meet at regularly scheduled intervals of one or two months, according to reports of managers.[14] In one P.C.A. and two F.L.B.A.'s the board reportedly met "on call" only. When a board meets only "on call" it may cease to function except when it is legally mandatory for it to make certain decisions.

All 9 P.C.A.'s and 11 F.L.B.A.'s supplying information on this point indicated that the meetings of the board of directors were "closed" to members. However, in most cases members are allowed to appear before the board upon advance request.[15]

Especially in credit cooperatives, much of the board's business involves matters of a personal or confidential nature. It would be impossible to handle such matters if there were danger of information leaking to "outsiders." However, it is important to provide an easy

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13 Primary responsibilities of the executive committee are approval or rejection of loan applications, but some other board functions may be delegated to it, subject to approval of the full board.

14 Standard approved bylaws require not less than six meetings annually.

15 There appears to be no specific legal provision for this; it is simply customary.

way for members to bring their ideas and suggestions to the attention of all board members. Existing procedures would seem to provide such an opportunity. It would also seem important that members be informed that such an opportunity exists. However, available data do not indicate whether members are or are not generally informed on the point.

Director Compensation

Questions are often raised about the policy of compensation to directors for their services. Existing practice reported for both P.C.A.'s and F.L.B.A.'s was to pay per diem allowance and 6 or 7 cents per mile for travel. Average 1955 per diem allowance in F.L.B.A.'s was $9; in P.C.A.'s it was $12. In 1959, the comparable figures were approximately $9 and $17, respectively, and 8 cents per mile.

What is adequate for those who must sacrifice a day of farm work in order to attend a board meeting is difficult to appraise. Probably those farmers with business ability, farmers whose services are most urgently needed, tend to sacrifice most in terms of farm income in order to serve. They are the ones whose time "counts for more" at home on the farm. One might speculate that it would be difficult to get farmers of this type to serve if allowances were very low. On the other hand excessive allowances may encourage those with less valuable uses for their time to serve primarily in order to collect the money involved. Particularly if there is no provision for limits on director tenure, and if members are apathetic, this could create serious problems.

Evidently many motivations other than direct financial rewards prompt individuals to serve as cooperative directors. However, it may be in order for local cooperatives, as going business concerns, to review frequently these policies regarding remunerating directors for attending board meetings and other important functions. Having good directors has both a direct and an indirect effect on local management. Boards of local credit cooperatives help elect members of the District Farm Credit Board which determine rules under which local associations operate.

THE SALARIED MANAGER

In Kentucky Production Credit Associations, the hired executive officer usually is called a secretary-treasurer and he serves in both capacities. The same thing was true of the Federal Land Bank Associations until the recent change to the title of Manager. However, the position in each is the equivalent of the salaried manager of most other types of cooperatives. He is the person who makes the day-to-day decisions which implement the policies of the board of directors and the supervising federal banks. Therefore, the background, training, and other characteristics of managers and the various types of knowledge and job perspectives which they have are of substantial importance to the way these cooperatives are operated.

Characteristics and Qualifications

The typical ages of F.L.B.A. and P.C.A. managers were nearly the same in 1955. About as many were over 50 as under 50.[16]

All but one F.L.B.A. manager interviewed had received some college training; none reported less than four years of high school completed. Three P.C.A. secretary-treasurers had completed high school but had no college background. Four P.C.A. and seven F.L.B.A. managers were college graduates (see Figs. 5-A and 5-B).[17] Types of specialized training received were extremely varied. None was predominant enough to be significant. All P.C.A. secretary-treasurers and all but one F.L.B.A. manager were reared on farms or had farm experience.

Average tenure of F.L.B.A. managers was 10 years and that of P.C.A. secretary-treasurers was 14 years. In addition, most of these men had considerable "other business" experience *before* their first employment in the cooperative (14 years average for both F.L.B.A.'s and P.C.A.'s). All but two P.C.A. secretary-treasurers and all but one F.L.B.A. manager were hired directly to their positions. In the P.C.A.'s this may have been partly attributable to their several years of experience as managers of other types of businesses prior to being employed by the P.C.A.'s. Since F.L.B.A.'s typically have no other male employees, their managers cannot acquire experience in the association prior to assuming responsibilities as managers.

To summarize, managers of Kentucky farm credit cooperatives tend to have long tenure, and to be men of farm background, with

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16 This contrasts very sharply with farm supply purchasing cooperatives in Kentucky. Median age of all managers was 35, and only one manager was over 50 years old. This may be partly a result of the "age" of the cooperative, i.e., most farm supply cooperatives have been organized since 1945; F.L.B.A.'s, were originally set up prior to 1920, but have undergone several consolidations, particularly in the early 1940's. P.C.A.'s were organized in the mid 1930's. Managers of rural electric cooperatives averaged 42 years of age in 1955. Since the time of the survey personnel turnover has reduced the average age of F.L.B.A. managers to 48 years.

17 Reports of F.I.C.B. officials indicate that in 1959 only one P.C.A. secretary-treasurer had no college training and five of the ten were college graduates.

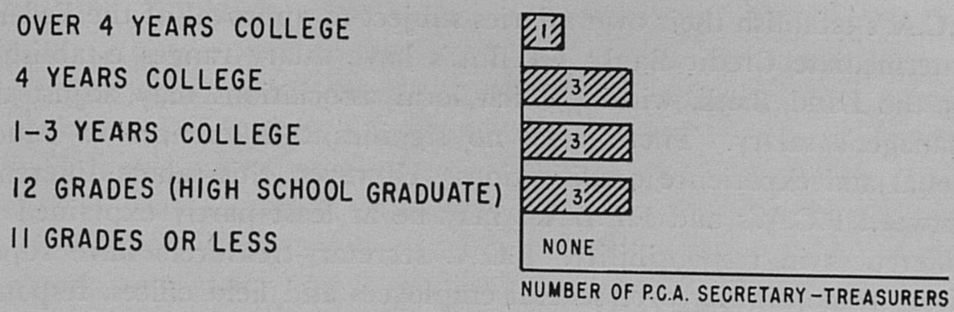

Fig. 5-A.— Years of formal school training completed by P.C.A. secretary-treasurers.

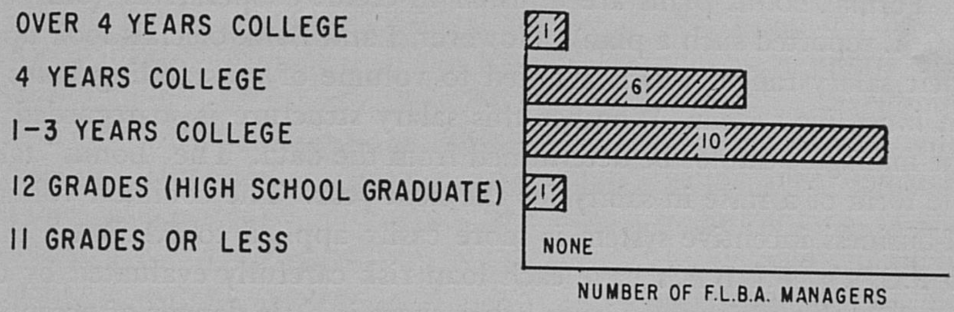

Fig. 5-B.— Years of formal school training completed by F.L.B.A. managers.

relatively extensive educational training and substantial periods of managerial experience as employees of other types of businesses prior to P.C.A. or F.L.B.A. employment. Most managers had been employed for substantial periods of time.

While these facts suggest a very stable type of management, they may also point to some important future personnel problems. Recruitment from outside these organizations and the long period of tenure combine to make it difficult to advance promising individuals in the P.C.A.'s. On the other hand, F.L.B.A.'s have the problem of depending on managerial employees with no previous background or experience in the unique system of long-term credit facilities of which F.L.B.A.'s are a part.

Conditions of Employment

The average 1955 salary of F.L.B.A. managers was $4,547 for 15 associations supplying information: for 9 P.C.A.'s it was $5,833. However, by 1959 all F.L.B.A. managers' salaries averaged $6,076 and all P.C.A. secretary-treasurers' salaries averaged $7,416 according to Federal Land Bank and Intermediate Credit Bank reports. The absolute dollar spread in average salaries between P.C.A. and F.L.B.A. managers appears to have increased very slightly; in percentage terms the increase in F.L.B.A. salaries was greater than for P.C.A.'s. The

P.C.A.'s establish their own salaries subject to approval of the Federal Intermediate Credit Bank; F.L.B.A.'s have salary ranges established by the Land Bank, within which local associations may adjust the manager's salary. There were no significant differences in educational and experience qualifications. However, this salary difference between P.C.A.'s and F.L.B.A.'s may be at least partly explained by differences in responsibility. P.C.A. secretary-treasurers have supervisory responsibility over several employees and field offices, responsibility for collections, and other items of responsibility not assumed by F.L.B.A. managers.

Formal bonus plans are unusual in credit cooperatives (only one P.C.A. reported such a plan). However, Land Bank officials look upon their salary ranges which are tied to volume of outstanding loans as an *incentive* system. Whether this salary structure is so regarded by the managers cannot be determined from the data. The "bonus" takes the form of a raise in salary for the next year. The common volume-of-business incentive system is more easily applied to F.L.B.A.'s than to P.C.A.'s. F.L.B.A.'s have each loan risk carefully evaluated by the Land Bank and its appraisers; hence there is little danger of accepting applications of poor loan risks. In P.C.A.'s a major responsibility for loan risk evaluation rests on the secretary-treasurer, and any incentive which would encourage acceptance of poor risks would be objectionable. However, such systems may be tied to several measures of efficiency or overall performance other than, or in addition to, volume of loans outstanding. One dimension might be the proportion, or dollar volume, of delinquent loans outstanding.

No manager reported surgical or hospitalization insurance paid for by the cooperative. However, Land Bank and Intermediate Credit Bank officials report that a partially (about 50 percent) prepaid life insurance policy is provided in combination with their retirement program for employees of both types of cooperatives. This uniform retirement program supplements social security coverage. The life insurance policy matures at age 65 and is then converted into retirement income.

Vacations of P.C.A. men are determined by the local board subject to F.I.C.B. approval. All were reported as two weeks with pay annually. F.L.B.A.'s provide vacations of varying length, depending on length of tenure. The minimum is 15 working days.[18]

The extent of "fringe" benefits that can be justified is always difficult to appraise. It is probably influenced primarily by what

[18] Fifteen working days plus one day for each year of service up to a limit of seven additional working days.

competing employers offer. The most important test is whether benefits are adequate to recruit, hold, and motivate the type of employees necessary for efficient operation. Evidence seems to suggest that neither P.C.A.'s nor F.L.B.A.'s have had serious difficulty, in the past, in recruiting experienced and qualified men, or in holding them once they were recruited. However, it may also be advisable to consider whether the fringe benefits and total salary systems provide adequate motivation for aggressive managerial leadership. While pure wage incentive systems have fallen into disrepute in management circles, the incentive plan, combined with other motivational techniques, is still used.[19] If the employee feels that the organization for which he works is "interested in his welfare," he probably will do more effective work than if he feels that he is being exploited.

Determinants of Management Decisions

The hired managers of local credit cooperatives have relatively wide ranges of discretion. Furthermore, the manager is in a position to know more about the detailed operations of the cooperative than the board of directors. The manager supplies information and advice to the board on a wide range of subjects. For this reason, he often is in a position to influence decisions of his board affecting the rules under which he operates. His ideas often influence the way the annual membership meeting is conducted and may even influence the selection of directors by the members. The hired manager is in a most strategic position in shaping the management of the entire organization.

The manager of a cooperative is assumed to be influenced by three interrelated sets of factors in making managerial decisions. The *first,* which has been discussed, is the *scope* of his assigned authority and responsibility. The *second* is his *knowledge* of things pertinent to these decisions, including his knowledge of the scope of assigned authority and responsibility. The *third* is his system of *perspectives,* that is, the things which he considers to be important to his job as manager of the association's operations. This, in turn, may depend upon the way he views the organization and its purposes, which may be influenced by his knowledge as to the purposes of the organization.

[19] For example, Solomon Barkin says, "Management has increasingly learned the limitations of the wage incentive system as a single stimulus to worker cooperation. . . . There is considerable realization among management leaders that proper social motivation and sanction for greater personal application and cooperation in production by workers as a group . . . can facilitate both development of plant morale and an interest in financial incentive." See "Management's Attitude Toward Wage Incentive Systems," *Industrial and Labor Relations Review,* Vol. 5, No. 1, October 1957.

Perspectives—How Managers View Their Jobs

The manager who views his organization as "just another business," or a manager who does not consider as a factor of importance the unique legal status of a federally chartered credit cooperative, will make different decisions than one who holds opposite views. One who maintains the view that his job is primarily to serve existing borrowers will be less likely to concern himself with advertising, merchandising techniques, and public relations than one who believes it is his job to increase the number of borrowers as a means of increasing volume and possibly reducing local unit costs.

Knowledge

On the other hand, if a manager does not understand *how* to accomplish the things he believes to be important, these perspectives will have no force. For example, a manager who views his job to be that of serving member needs will fail if he cannot ascertain their needs or does not know how to achieve economic efficiency in serving these needs.

Evidence of Managers' Knowledge

In addition to formal school training and experience, managers acquire knowledge in several other ways. Both F.L.B.A.'s and P.C.A.'s obtain guidance, information, and training through their respective supervising banks. Many free materials and other sources of information are available on cooperatives, on banking and credit, on farm management, and on other related subjects.

Knowledge of Cooperative Principles

Available data provide insights into only a few categories of knowledge which are somewhat uniquely relevant to management of cooperatives. Two questions were asked of managers in an attempt to explore how well they grasped the three "principles" of cooperatives, namely:

(1) business conducted at cost (through use of patronage refunds, or if stock ownership is proportional to use, through dividends);[20]

[20] If services are provided at prices (interest) proportional to cost of the service, a patronage refund of net savings prorated according to value of total services used equates the cost of the service and the charge to each patron. If stock ownership were proportional to use, refunds could take the form of dividends on stock and would still be proportional to the value of services used. Contingency and depreciation reserves are considered as costs. Reserves of other types held back from current earnings are normally offset by stock issues or evidence of claims or debt issued to the patron in the ordinary marketing or purchasing cooperatives.

(2) democratic control of the organization by vote of patron-members; and
(3) limited return on invested capital.

The first question asked for a definition, in the manager's own words, of a "true" cooperative. The second question asked for "some cooperative principles that *you feel* should be kept before the members of *this* cooperative."

The principle of "operation at cost" was mentioned by two-thirds of the P.C.A. secretary-treasurers in defining a "true cooperative;" only one-fourth of the F.L.B.A. managers mentioned it. No F.L.B.A. man and only four P.C.A. men mentioned it as an important "principle to be kept before members" (Table 1). In view of the fact that none of the credit cooperatives directly adheres to this principle in actual operations, it may be surprising that any managers recognized "operations at cost" as a basic cooperative principle. Especially significant is the fact that a larger proportion of P.C.A. secretary-treasurers than of farm supply cooperative managers recognized this as a basic cooperative principle—when the principle is used directly in the farm supply cooperatives as the basis for their patronage refunds.[21]

"Democratic control" was mentioned in defining a "true co-op" by 45 percent and 25 percent, respectively, of the managers of P.C.A.'s and F.L.B.A.'s. As "important principles" the figures were about three-fourths of the P.C.A. men and one-third of the F.L.B.A. men who supplied information. No P.C.A. secretary-treasurer and only one F.L.B.A. manager mentioned "limited return on capital" in either the definition of a "true co-op" or their statement of "important principles to be kept before members."

While most managers appeared to recognize, in a vague and general way, that a cooperative was some kind of collective effort, one-third of the P.C.A. men reporting and one-half of the F.L.B.A. men reporting failed to identify *any* of the three principles in a clear, precise way in their definition of a "true" cooperative. Two F.L.B.A. managers did not provide any verbal definition involving even a general collective effort concept and 10 did not identify in a precise way *any* of the three "principles to be kept before members."

To summarize, the P.C.A. men seem to be somewhat more familiar with the so-called "principles" of cooperatives than the F.L.B.A.

[21] A small number of P.C.A.'s outside of Kentucky have modified their operations in such a way that the "cost basis" principle is adhered to through a contractual obligation to return overcharges as patronage refunds.

Table 1.—Indications of Knowledge of "Cooperative Principles" by Managers of Production Credit Associations and Federal Land Bank Associations, 1955

Item	Mentioned in defining a "true" cooperative[1]				Mentioned as "Principles to be kept before members"[1]			
	No. of Individuals		% of those Reporting		No. of Individuals		% of those Reporting	
	P.C.A.	F.L.B.A.	P.C.A.	F.L.B.A.	P.C.A.	F.L.B.A.	P.C.A.	F.L.B.A.
Cost basis operation, precise statement	6	3	67	19	3	0	33	0
Cost basis operation, suggestive only	0	1	0	6	1	1	11	6
Total	6	4	67	25	4	1	45	6
Democratic control, precise statement	1	1	12	6	3	0	33	0
Democratic control, suggestive only	3	3	33	19	4	6	44	35
Total	4	4	45	25	7	6	78	35
Limited return on capital, precise statement	0	1	0	6	0	0	0	0
Limited return on capital, suggestive only	0	0	0	0	0	0	0	0
Total	0	1	0	6	0	0	0	0
General collective effort concept without mention of principles	3	8	33	50	Not Applicable		Not Applicable	
None of the above or no definition	0	2	0	12	2	10	22	59
Total Reporting	9	16	100	100	9	17	100	100

[1] Numbers and percentages do not necessarily add to totals because more than one "principle" was mentioned in some cases.

men.[22] Substantially larger proportions of P.C.A. men mentioned both "cost basis operations" and "democratic control" and made precise references to them than was true of the F.L.B.A. men. Neither group evinced any awareness of the principle of limited return on capital.

A possible explanation for the greater recognition of democratic control by P.C.A. secretary-treasurers is that P.C.A.'s have greater local autonomy than the F.L.B.A.'s. For example, the Production Credit Associations have responsibility for screening all loan applications, subject to the limitation that the Federal Intermediate Credit Bank may refuse to rediscount some of their notes. When this occurs, they must draw upon local funds in order to extend the loan. The F.L.B.A.'s service loans which are extended by the Federal Land Bank directly to the farmer, but make no loans on their own account. Their loan committee, by its actions, may refuse a particular loan, but if the loan is refused by the Land Bank, the local association cannot over-ride the action. The way that P.C.A.'s function is to a larger degree dependent on action of local secretary-treasurers who derive more of their authorities and responsibilities directly from local boards and indirectly from members.

The failure of the F.L.B.A. managers to recognize the principle of "cost basis" operations is more difficult to explain. Both types of organizations are characterized by some deviations from the principle. In neither is a pro rata share of net earnings accumulated during the period of a loan returned to the borrower, either as stock or cash, when he repays his loan. Nor are the records kept in such a way that they show the individual borrower's equity in the association.

The failure of either group to evince awareness of the principle of "limited return on capital" is probably explained by the fact that neither has a stipulated maximum allowable return to shareholders. The Federal Land Bank characteristically pays dividends on stock owned by F.L.B.A.'s. These, in turn, pay dividends on stock owned by their members, all of whom are active borrowers. Therefore, if they think of their organization as being a "true cooperative," limited returns could not be thought of as a principle. Production Credit Associations, except in a very few instances, had not at the time of the survey declared dividends on outstanding stock. Therefore, the principle had assumed no importance in most cases.

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[22] Land Bank officials have expressed the opinion that there has been a substantial increase in understanding of cooperative principles on the part of F.L.B.A. managers since 1955. Existing data can neither refute nor confirm this opinion.

Knowledge of Legal and Tax Status

What managers need to know about the legal requirements of their cooperatives or their legal status depends, to a large extent, upon the nature of the laws affecting them and upon the type of organization with which each is affiliated. For farm credit cooperatives, the knowledge of the law under which they are incorporated may be fairly important because the Farm Credit Acts of 1916 and 1933 establish many of the discretionary powers of the local association, and delegate certain supervisory powers to the respective branches of the Farm Credit Administration. Because these laws so directly affect the day-to-day operations of the association, it would be difficult to escape some awareness of them. On the other hand, for the F.L.B.A.'s it is relatively unimportant for managers to know whether they hold a letter of exemption from the Internal Revenue Service.[23] The law exempting F.L.B.A.'s requires no such letter. The Federal Land Bank simply files an informational income tax return, in behalf of the local associations, on the basis of reports of audits by the bank.

All managers reporting stated correctly the law under which they were incorporated (Table 2). Most P.C.A. secretary-treasurers also knew the correct procedure for amending bylaws; but only 6 of the 16 F.L.B.A. managers reporting were able to state the correct procedure. Most of both groups correctly stated the status of their associations relative to federal corporation income taxes.[24]

For reasons mentioned earlier, the F.L.B.A. managers indicated little or no knowledge of the term "valid letter of exemption," and there appears to be no need for them to know this fact. In comparison, all P.C.A. secretary-treasurers knew that they *did not have* a letter of exemption. This difference is partially explained by the fact that P.C.A.'s, unless they take specific legal steps, become liable for these taxes on their entire net earnings upon retiring all stock subscribed

[23] A "Letter of Exemption" is a document issued by the Internal Revenue Service to certain corporate organizations which apply for it, and which meet the numerous requirements set forth under the appropriate sections of the Internal Revenue Code. The principal tax effect of this "letter" is to exempt the cooperative from paying taxes, at the usual corporate rate, on sums paid out as dividends on capital stock outstanding. Payments of "patronage refunds" to patrons of the cooperative, when made pursuant to a prior contractual obligation, are excludable to the cooperative in computing its income for tax purposes, regardless of whether it has a "Letter of Exemption." This is true of any business corporation.

[24] We do not know the exact interpretation placed by these managers on the word "exempt." "Exempt," in the technical usage of the Internal Revenue Service, means holding a valid "Letter of Exemption." However, we suspect that many, if not most, of these men merely meant by their statement that the association was or was not required to pay taxes on its net savings.

Table 2.—Managers' Knowledge of Legal Status and Legal Requirements of Cooperatives, by Type of Organization, 1955

			Total Reporting	Yes	Doubtful	No
Knowledge of law under which cooperative is incorporated	P.C.A.	#	9	9	0	0
		%	100	100	0	0
	F.L.B.A.	#	18	18	0	0
		%	100	100	0	0
Knowledge of way bylaws can be amended[1]	P.C.A.	#	9	7	0	2
		%	100	78	0	22
	F.L.B.A.	#	16	6	3	7
		%	100	38	19	43
Knowledge of whether cooperative has exemption from payment of federal corporation income taxes	P.C.A.	#	10	7	0	3
		%	100	70	0	30
	F.L.B.A.	#	18	15	0	3
		%	100	83	0	17
Knowledge of whether cooperative has a "letter of exemption from payment of federal income taxes"	P.C.A.	#	10	10	0	0
		%	100	100	0	0
	F.L.B.A.	#	12	2	0	10
		%	100	17	0	83
Knowledge of limitation on business with nonfarmers			Not applicable since the Farm Credit Act establishes that P.C.A.'s cannot loan to nonfarmers. The standard approved Articles of Association establish its purpose to be "loans to farmers." Federal Land Bank Associations have no discretion in this matter, since approval of loans is vested in the Land Bank. However, anyone purchasing agricultural land is eligible, whether the land is purchased for purposes of rental or operation.			

[1] The actual provision for PCA's at the time of the survey called for a simple majority of the entire board of directors and approval of the Governor of the Production Credit Corporation. The answer was considered to be correct, if it indicated action by the board and approval of the Production Credit Corporation, whether or not it specifically mentioned a majority of the entire board. The correct answer now, since the Production Credit Corporation has been combined with the Federal Intermediate Credit Bank, would include approval of the F.I.C.B.

by the federal government. No Kentucky association had, at that time, taken these steps (and have not at present), but because some of them had retired all government-owned stock, their taxable status had become a matter of considerable interest.

Evidence of How Managers View Their Jobs

For varying reasons, managers of cooperatives become "sensitized" to different aspects of their functions and responsibilities.

In a cooperative, because it is set up for ultimate control to be exercised by its member-patrons, the potential scope of a manager's functions and responsibilities is larger than in most private businesses. Among other things he usually is in position to influence the extent to which patron-members are informed about the nature of the cooperative organization, its problems, and their responsibilities and opportunities as members of the organization. The manager has considerable power to stimulate active interest on the part of members in the business organization which the law provides that they jointly control. He may either stimulate or deter enlightened participation in the processes by which the organization is controlled. Also, he may have some power to persuade and directly influence elements of "member" or "public" opinion, without necessarily informing or educating. One public relations objective is to influence the various political bodies and social groups that establish the rules, laws, and customs under which cooperatives operate.

Several questions answered by managers give us clues regarding the comparative emphasis placed by them on public relations, education and information, and participation of members in the control of the organization. In Table 3, responses to four of these questions, all of which relate to the annual membership meeting, are summarized. Since no consistent differences between F.L.B.A. and P.C.A. managers were observed, data for the two groups have been combined.

Managers emphasized educational objectives in their statement of the *purposes* of the annual meeting. Yet in their evaluations of the meeting and why it was getting better or worse, educational aspects assumed a very unimportant role. The emphasis in answers to two of the three questions evaluating the annual meeting was definitely on attendance. In the other question, nearly half of the respondents provided no answer that fitted into one of the four categories. Several managers said that the annual meeting was "unnecessary when things were going well," "just a legal requirement" and similar comments indicating no specific criteria for evaluation, and certainly suggesting that very little importance was attached to the "democratic control" principle.

Table 3.—How Managers Viewed Their Jobs as Revealed in Responses to Opinion Questions Relating to the Annual Meeting, Combined Results for P.C.A.'s and F.L.B.A.'s

	Educational and Informational Aspects[1]	Business Aspects and Member Interest and Participation[1]	Public Relations, Recreation, and Social Activity[1]	Attendance[1]	Total Answering These Questions	Total Answering But Mentioning None of These Aspects
	(No. of Managers)	(No. of Managers)	(No. of Managers)	(No. of Managers)	(No. of Managers)	(No. of Managers)
Reasons annual meeting was or was not worthwhile	3	5	3	6	26	12
Indications that annual meetings are getting better or worse	0	4	3	10	27	13
Stated weaknesses and strong points of annual meeting	4	14	4	21	27	2
Stated purposes of annual meeting	17	9	14	0	24	2

[1] Indicates the number of managers who mentioned one or more aspects relating to the respective categories.

The relative emphasis placed on attendance, and lack of emphasis on matters of content, suggested that managers were, in several cases, unable to use their stated purposes in evaluating what actually happened at the membership meeting. This would seem to indicate a need, on the part of managers and directors, for intensive discussion of annual meetings and other member contacts in terms of the objectives which they are designed to serve in a cooperative organization.

Another point of interest is the fact that public relations and social and recreational objectives did not assume a dominant position in the expressions of the purposes of annual meetings, despite the fact that some considerable part of the annual meeting apparently was devoted to social and recreational activities. This would seem to suggest, among other possibilities, (1) that some managers may not have been very influential in determining the content of the meeting; (2) that some may have believed that the recreational and social activity was necessary in order to stimulate attendance and participation in the business meeting and educational activities; or (3) that managers may have given little attention to the annual meeting.

MEMBERS AND MEMBERSHIP EDUCATION

The type of directors elected, their attitudes, and ultimately, the entire cooperative structure are determined by the members. At least this is true for the credit cooperatives within the limits established through the supervisory power of the respective branches of the Farm Credit Administration. However, in a large number of cases, the members make policies and elect directors by default, by simply acquiescing and accepting, on faith, the opinion and wishes of a small minority. Unfortunately, minorities do not always have the will of the majority as their objective. Therefore, a cooperative is faced with the very real problem of obtaining effective expression of the rationally determined wishes of the majority.

How Memberships are Acquired

The way that farmers become members of farm credit cooperatives provides a clue as to a possible source of some of the difficulties experienced by those who have been trying to get more effective membership participation. Every farmer becomes a member automatically, upon the disbursement of a loan from the P.C.A. or the Land Bank. He *must* purchase stock in the P.C.A. or F.L.B.A. equal to at least 5 percent of the amount borrowed and become a member, in order to obtain the loan—*whether or not he wishes to become a member.* Perhaps these circumstances do not make him aware of either the fact or meaning of membership. Under such a system, it is apparent that many members might not be interested in, or capable of, participating intelligently in the management of their association.

In a few cases, reports indicated that systematic attempts were being made by the local association to inform farmers of their membership and what it meant. Four P.C.A.'s and five F.L.B.A.'s reported use of a special letter for this purpose. In addition, the Federal Land Bank sends a letter to each new F.L.B.A. member welcoming him, advising him that he is a member, and providing him with a booklet on the Land Bank system. In addition, 13 F.L.B.A.'s and 9 P.C.A.'s reported use of "other informal" arrangements for informing each new member about the cooperative. In all probability, these are in the nature of routine field visits and the like, in which the member may or may not be informed that he is a member and that he has certain rights and responsibilities as a member. With these conditions, and the fact that borrowers have no way of attaining title to savings used to retire government capital or those used to accumulate reserves, it is not altogether surprising that member participation appeared to be meager. The provision for automatic membership for each borrower provides very little stimulus for achieving true membership control, unless members are interested and capable of wisely exercising their powers as members. In view of this, some thought perhaps should be given to making members of only those borrowers who actually apply for membership.[25]

In the short run there is need for educating and informing farmers who involuntarily become members. They should be informed regarding the nature of the credit cooperative, their rights and responsibilities as members, and existing programs and problems.

Membership Education Program

Membership education activities reported by the local farm credit cooperatives were typically confined to annual meetings (which only a small percent of their members attend) or informal contacts in connection with regular business activities. Only one F.L.B.A. and only three P.C.A.'s reported providing any funds in their budget for membership education. In occasional instances, some mailed materials were used for this purpose, but this was not typical. Regardless of the type of educational activities conducted, these usually were plan-

[25] This evidently would require changes in the applicable laws.

ned by the manager and a representative of the branch of the Farm Credit Administration with which the association was affiliated. Occasionally, directors also participated in planning the activities.

While the membership education program, as such, was very modest in scope, apparently when the opportunity presented itself in the course of other business activities attempts were made to help members understand something about the general nature of cooperative organizations. Several means were put to use in informing farmers about cooperatives. For example, 11 F.L.B.A.'s reported using special descriptive wordings and explanations in the annual financial statement to help members better understand their cooperative. Six P.C.A.'s reported using their regular publications for this purpose.

Figure 6 shows the percent of each type of credit co-op reportedly using each of the various means for informing members about co-op

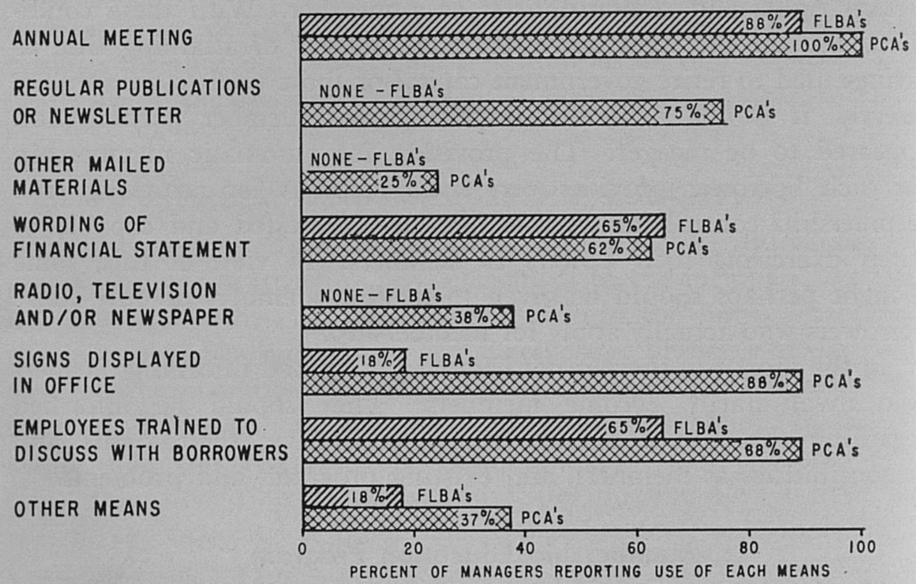

Fig. 6.— Means used by Farm Credit Cooperatives to inform members about cooperative principles, by type.

principles. This indicates rather widespread use of various means. However, these attempts may not be very effectual, because managers themselves seemed to have a rather sketchy understanding of these principles. Furthermore, the *extent* or *intensity* of use of each of these means may have been nominal in some cases. P.C.A.'s seem to have placed more emphasis on this aspect of their operations than

F.L.B.A.'s. A larger proportion of P.C.A.'s reported using all of these means, except the special wording of the financial statement.

Most credit cooperatives reported having made efforts to inform farmers who were not borrowers about their organizations. These attempts were generally made through personal field contacts, largely, no doubt as part of the general effort to increase loan volume. Half of the P.C.A.'s reported using special mailing lists of nonborrowers.

Rural Youth Education

Informing and educating rural youth about cooperatives may be more effective as a means of creating member understanding than trying only to inform adult farmers. Youth organizations and the public schools provide ways for contacting and informing large numbers of prospective farmers and other members of the future business community at an age when their minds are inquisitive and learning rates are rapid. All but one P.C.A. and all but eight F.L.B.A.'s reported some activity to inform rural youth groups (see Table 4).

Table 4.—Kentucky Farm Credit Cooperatives Reporting Activities With Rural Youth Groups, by Type of Youth Group, 1954

	F.L.B.A.'s			*P.C.A.'s*		
	Yes	*No*	*Total*	*Yes*	*No*	*Total*
Future Farmers of America	8	10	18	8	2	10
4-H Clubs	7	11	18	7	3	10
Utopia Clubs	1	17	18	2	8	10
Veterans Agricultural Classes	9	9	18	8	2	10
No Youth Group Activity		8			1	

P.C.A.'s seem to have been more active in youth group programs than F.L.B.A.'s. Through Junior P.C.A.'s and in other ways, business and educational activities can be combined. This is not possible in F.L.B.A.'s. However, it should be stated that since the time of the survey most of the F.L.B.A.'s and P.C.A.'s have, through their memberships in the Kentucky Cooperative Council, joined with other types of cooperatives in sponsoring and supporting an active statewide program of youth education. This program was developed by the Kentucky Cooperative Extension Service and the vocational agriculture personnel of the Kentucky Department of Education. Therefore, indirectly in some cases, both directly and indirectly in others, most of the credit cooperatives have participated in developing and financing a comprehensive program of training for the "farmers and businessmen of tomorrow."

CONCLUSION AND HIGHLIGHTS

In this report situations in local farm credit cooperatives have been described which call attention to several potential problem areas. These situations relate primarily to (1) procedures followed in annual membership meetings, (2) cooperative directors and the way they are elected, and (3) the hired local managers, their qualifications, attitudes, and selected elements of manager knowledge.

The main purpose of the study was to provide a basis whereby local cooperative managers and directors, and personnel of the Federal Land Bank and Federal Intermediate Credit Bank, may compare present situations in specific local cooperatives with those generally found in other farm credit cooperatives at the time of the survey, 1955. Many of the conditions described may have changed, but the usefulness of the data for this purpose will not have been seriously impaired by its age. No attempt is made to determine whether improvements should be made, but some alternative policies are suggested which responsible boards of directors, local managers and personnel of their respective supervising banks may wish to consider.

The data indicate, among other things, that:

1. Well educated managers were found in most local credit cooperatives. Their average age was relatively high compared with managers of farm supply purchasing cooperatives, but was roughly the same as managers of rural electric cooperatives.

2. Very few managers had any specific formal training in cooperatives, their special characteristics and their effect on responsibilities of boards, managers, and members. Managers had rather sketchy knowledge of cooperative principles, the special legal framework of cooperatives and the importance of elections, review of cooperative performance, member participation and other aspects of the business portion of the annual membership meetings. Generally speaking, P.C.A. secretary-treasurers were somewhat better informed than F.L.B.A. managers with respect to both principles of cooperatives and legal phases of cooperatives.

3. The average age of directors in both types of associations was about 54 years, which is somewhat older than for farm supply purchasing cooperatives but less than for rural electric cooperatives. All credit cooperatives allowed directors to succeed themselves without limit if reelected. This apparently resulted in older directors, and relatively infrequent replacement of directors on local boards. Average tenure was about 10 years.

4. The annual meeting appears to have been something more than an occasion for reviewing past performances, electing directors,

and making business decisions. Typically a meal was served, and some entertainment was provided. Perhaps some festive features are necessary to achieve nominal participation by members, but the purposes of the meetings and their relative importance must be considered in the overall design of the annual meeting program.

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