
Strategic Alliances and Cooperatives Aiding in Rural Development in North America

Larry Martin and Kate Stiefelmeyer

As urban North America moves into the 21st century, don't forget about rural North America. At a time when economic activity is increasingly being generated in larger urban centers, farm numbers are on the decrease, and migration to cities is increasing, many rural communities are proving that they will survive, through the development of strategic alliances and cooperative activities. Strategic alliances and the establishment of cooperatives have flourished across rural North America in the last decade and have often proven to be positive links in the sustainable development of rural communities. Most of these efforts have been vehicles for groups of farmers to add value to commodities by moving forward or backward in the supply chain, or developing products instead of relying only on commodities for their well being.

The increased use of these activities has played an important role in fostering community economic development by adding this value to local production and increasing net proceeds in a geographical region. The "value-adders" who are forming these relationships are entrepreneurs on the way to growing very profitable operations (Martin), entrepreneurs who see their best odds for success hinging on their ability to keep the dollars generated from adding value to their crops and livestock.

The term community development, as used above, can be defined as an effort to increase the economic opportunity and quality of living of a given community through helping people of that community with problems that require group decision

and group action (Brinkman). Economic development, as used here, is a multidimensional concept involving improvements in the average real income of members of society, eradication of poverty, changes in the organization and location of production activities resulting in increased output, changes in technological arrangements leading to increased output, changes in social institutions leading to improvements in production and distribution, and changes in the human agent resulting in increased worker productivity (Cochrane). When these alliances, joint ventures, and cooperative businesses aimed at adding value to agricultural production are managed properly, they can aid in the economic growth of communities, and this growth will invariably diffuse and lead into further development of the community as a whole.

In this paper our intent is to explore the ways alliances can contribute and are contributing to rural community development, and then to explore the possibilities for public policy to contribute to that process.

STRATEGIC ALLIANCES

Definition

One problem with the concept of strategic alliances is that the term means different things to different people. Therefore, conversations about them sometimes are not very meaningful. We prefer to have a precise definition. One that is relatively

precise was provided by Sporleder. In his view, strategic alliances are agreements between or among firms to cooperate in an effort to accomplish some strategic purpose. Amanor-Boadu and Martin have gone further by defining an alliance as:

A business arrangement in which two or more independent organizations with their own strategic intents, realize their intents by:

- Recognizing their need for each other
- Mutually controlling decision-making processes and governance
- Mutually sharing associated risks and benefits

To us, it is the element of mutuality that distinguishes alliances from other forms of business organization.

With either of these definitions, it should be clear that the decision to enter an alliance is a strategic one. In other words, a firm or other firm develops a strategic intent that it wants to grow, to grow in a new business area, or otherwise undergo a major transformation. At the simplest extreme, the firm then has one of three generic ways to accomplish its intent: accomplish all the growth internally; merge with another firm(s) who already has the resources in the area; or develop an alliance with another firm(s) with the appropriate resources. The implications of each of the three alternatives regarding control, risk, and internal resources are quite different.

There are two types of alliances. Vertical alliances are between two or more firms in an industry at two or more stages of production; horizontal alliances are between two or more firms at the same stage of production. The market exchange mechanism which employs bilateral negotiations and contracting between buyers and sellers is the means of resource allocation and exchange in a strategic alliance. Partners in vertical alliances tend to be

stakeholders and not shareholders. The intent of strategic alliances is not that a product will be exchanged but rather that each party in the alliance will reap greater benefits because of that alliance. For those who are familiar with Steven Covey's work, this is a manifestation of his principle of abundance and results from the sixth habit—i.e., synergize (Covey).

Opportunities associated with alliances

The monetary benefits that are reaped through strategic alliances are the most common grounds for the formation of an alliance between two or more firms and can result from a number of opportunities that the alliance creates. In our experience, the potential benefits fall into the following generic categories:

The most basic opportunity created from many strategic alliances is an increase in cost efficiencies, and therefore the increase in profits that results. Cost reductions can take place in a variety of ways, especially in transactions costs.

- Negotiation and search costs, those costs that are incurred while looking for a customer or a specified price, are reduced as a result of the improved communications of the firms in the alliance.
- Reduction in these types of expenses can also occur because of the type of alliance formed and because the other party has become a permanent customer or supplier, therefore eliminating the need to search for customers or haggle over prices.
- The elimination of haggling or searching will also lead to greater efficiency within the firms, which can lead to a reduction in costs, for example, through improved scheduling of raw material into a processing plant.

- If formula or transfer prices are part of the alliance created, price risk, especially in agricultural commodities, will be reduced, something similar to hedging prices in the future.
- The product produced as a result of an alliance may have an improved image or in-use value because better control is exerted throughout the system. Identity Preservation (IP) may be more easily facilitated, thereby increasing the value of the final and raw products.
- The new product that may be created may also create a niche market or bring a type of commodity to a geographical area that could not easily or locally obtain that product before the alliance was created. This is an example of a secondary benefit as a result of the alliance; both the producers of the product and the customers will benefit through the decreased transportation costs if the product can be sold locally.

Firms that enter into strategic alliances may develop differentiated products that would never have been produced otherwise due to the riskiness or the cost of the endeavor; but with increased economies of vertical scope and the sharing of liability, organizations can attempt to tap new market potential that would have been impossible to accomplish on their own.

A firm may enter into a strategic alliance with another firm in order to gain a foothold in an industry in which the latter is already known. Instead of moving into an industry in which a firm has no prior experience, a strategic alliance with a firm that has a name in the industry can increase the speed at which the product or service is recognized in the marketplace.

Strategic alliances are give-and-take relationships, and firms that enter into them usually gain access to expertise in a field of business that they previously did not have while also giving expertise in some field

to their new partner. The same can be said for the types of technology that the firms possess, as well as their expertise in using that technology. If an alliance is successful, in other words profitable, the partner firms will have the essential resources needed to ensure that employees are satisfied and therefore retain key employees. A strong alliance, one that gives the partner firms an increased amount of financial resources, will be better able to smooth out the bumps of the business cycle for the benefit of both the employees and the customers.

Threats

The most important threat to an alliance is the survival of the relationship. Survival will depend upon the understanding of the objectives of the alliance and making sure that the roles of each party in meeting those objectives are clearly defined and understood. If the objectives are not clearly understood, then the expected benefits will not be realized and the synergies between the participants will not enhance the outcome. Problems in realizing the synergies of alliances usually stem from one of several factors (Amanor-Boadu):

- Failure to have high level champions in the participant firms who stand for the alliance and have the power to make it work
- Conflicting cultures in the participating firms that get in the way of effective communication and deployment
- Conflicting objectives of the participating firms—for example, the firm who entered into an alliance with a supplier of basic plant genetics, and then found that the supplier had been acquired by a rival
- Opportunistic behavior—the situation in which, for example, one firm enters into a due diligence procedure with another, ostensibly

for the purpose of negotiating an alliance, when the true intent is to find out how much they are worth so a takeover bid can be prepared

If the partners in a strategic alliance have dedicated themselves to the viability of the project, they will keep their priorities in harmony with the priorities of the alliance and these threats will be minimized. The literature on alliances has numerous references to trust. Trust is fundamental; so it is necessary to build it. The best way to build trust is to be trustworthy.

Examples of successful strategic alliances in the agri-food business

Successful strategic alliances have taken many different forms for many different reasons, anywhere from acquisitions of assets, to cross-licensing of technology or brand names, to joint ventures on a particular product, mergers, or other arrangements.

United Sugars Corporation and Pillsbury Company. These two companies have partnered together to expand a current market segment for one company, while opening a new market segment for the other. The agreement between the two companies is to license the “Pillsbury Best” name and use it on the packages of sugar produced by the United Sugars Corp.’s sugar beet producers. The United Sugars Corp. has created a product that will immediately have a nationwide reputation, while Pillsbury gains exposure in the baking supply aisle with a new brand of sugar, an up on their competitors.

MinAqua Fisheries and Southern Minnesota Beet Sugar Cooperative. This alliance was formed so that by partnering resources needs could be met at less expense. MinAqua raises live tilapia, a fish that requires water that’s at least 80 degrees Fahrenheit. Since heating water is quite expensive, the company now can obtain the water already heated from the SMBSC. The sugar beet cooperative will now get

paid for a resource that used to be costly to cool down. This alliance is working so well that the city of Renville, where both companies were founded, is trying to attract other businesses that need hot water to relocate to the area.

STAR Energy Service, LLC: An Alliance Between Runestone Electric Assoc., Todd Wadena Electric Cooperative, and Agralite Cooperative. These companies decided to create a new company because they all felt that they needed more efficient delivery of engineering and other services. These three companies had common needs and have met them through cost sharing and the economies of scale created by the partnership.

The Egg Producers Co-Op Ltd. and the Global Egg Corporation of Ontario. On March 4, 1998, these two innovative companies formed a strategic alliance with the objective of establishing an advanced egg processing plant in Manitoba to manufacture value-added egg products under the name Michael Foods, Inc. This strategic alliance will foster market opportunities for Manitoba eggs and will allow the cooperative members to benefit from value-adding beyond the farm.

First Line Seeds and Maple Leaf International. First Line Seeds was originally a group of 13 farmers in Ontario whose intent was to develop markets for seed soybeans in regions with agro-climatic conditions similar to Ontario’s, and to develop an Asian market for identity-preserved edible soybeans. (Therefore, there are two product lines—seed and soybeans.) Since First Line had no expertise in international marketing, they approached Maple Leaf International (MLI), a division of one of Canada’s largest food companies, Maple Leaf Foods, to provide the international marketing expertise. Hence MLI provides First Line’s international marketing function.

COOPERATIVES

Traditional vs. new generation cooperatives

Cooperatives, particularly new generation cooperatives, can be useful structures for strategic alliances. Cooperatives are particular types of businesses owned by and run for the benefit of those making use of its services. There are two distinct types of cooperatives that are most common in the agri-food industry, producer and consumer cooperatives. *Producer Cooperatives* market products produced from the raw materials supplied by their farmer members, and *consumer cooperatives* sell products to their cooperative members. The objective of a cooperative is to meet its customers' and members' needs as well as to provide *economic* benefit to member owners generating profits that sustain long-term development and growth. The positive impact of cooperatives on the local economy is strengthened by the fact that net earnings are returned to members, who usually reside in the local community.

The three major differences between cooperatives and commercially owned businesses are 1) member-owner control, 2) a focus on member-owner needs, and 3) profits shared with member-owners. These differences are essentially the fundamental principles that cooperatives run by.

Throughout rural North America, and especially in the agricultural sector, new innovative cooperatives have been formed in order to reap the benefits of value-added production and to keep the rural economy stimulated. Today in the United States alone there are 47,000 cooperatives and 40 percent of the population belongs to a cooperative (Reynolds). These new innovative cooperatives that have established themselves in the United States and Canada are referred to as New Generation Co-ops (NGCs). The most fundamental differences in NGCs and the older traditional type cooperatives are delivery rights and restricted membership.

Traditional cooperatives have open membership mandates, meaning that there is no limit to the number of members that can join. There is also a relatively low initial investment required of members compared to those who join new generation co-ops. Traditional cooperatives have a one-member, one-vote policy but earnings are based on the amount of patronage given to the cooperative. Therefore even though one member may utilize the cooperative and earn more money from it than another member, each has the same voting rights.

The major focus of *new generation cooperatives* is value-added processing compared to commodity marketing in their predecessors. In NGC's a two-way contract exists between the members and the cooperative. This contract requires the member to deliver a certain amount of product to the cooperative and requires the cooperative to take delivery of this product (Manitoba Agriculture). Shares are sold in the cooperative in order to allocate the right of delivery among members and to raise capital for the construction and operations of the plant. Each share entitles a member to deliver one unit of product to the cooperative. The price of each share is determined by dividing the amount of capital needed by the number of units of product that can be processed at the facility (Manitoba Agriculture). Because there is a set amount of product that can be processed through the facility each year, there is a set number of members who can join the cooperative, a fundamental difference to the traditional cooperative. Moreover, members can own different numbers of shares and have commensurate voting rights.

Not all of the financing comes from members—usually a portion of the equity requirements is raised by members, the rest is invested or loaned to the NGC by the community or other interested parties. Therefore, the rest of the community, usually through preferred shares, can become involved in the cooperative even if they do not produce agricultural products, therefore making the new generation coop-

erative look a lot like a joint venture. The holders of the investment shares do not have voting rights.

Historically, producer shares in NGCs have carried a high cost compared to traditional cooperatives. The large amount invested by producers shows commitment to the cooperative and provides banks or other lending institutions with a good basis to provide the rest or part of the rest of the funding. Moreover, the shares are regarded as delivery commitments so that members must deliver to the cooperative, no matter what the alternative market conditions. This is another major difference from traditional cooperatives.

Opportunities

Cooperatives, like other business ventures, are usually entered into because of the opportunity for monetary gain. Cooperatives are formed by a number of parties with the same interests in order to reap the rewards of economies of size—i.e., individuals cannot generally provide enough volume to make an undertaking feasible. It is especially useful in agricultural and rural cooperatives where parties form a business relationship in order to pool their resources, such as labor and equipment, in order to increase their ability to produce efficiently, and to increase their market power. When a number of producers pool their product together they form a larger market share and therefore larger market power with which to bargain for better prices.

Shipping costs are also reduced because the member-owners do not have to individually find modes of transporting their product: instead they can pool their product and it can be shipped as one large load therefore reducing overall costs.

Cooperatives are advantageous to member-owners as well as their community because the profits made will be retained by the member-owners. The increased profits that remain in the community will

diffuse throughout the community and can strengthen the local demand for retail sales and services. This can lead to an increase in the number of jobs available in the community and a decrease in the migration to larger urban centers.

The community can be assured that the cooperative will have its best interests at heart when making business decisions since the decision makers are also residents of the community. Improved product appeal can be achieved, especially in the new generation co-ops, when products are transformed into end-user products through further processing or packaging. These value-added products may not have been offered previously or at least not offered in the community in which they are produced, allowing customers to purchase these products at better prices without having to drive long distances.

Threats

A number of the threats that are faced by the cooperative are the same as those faced by strategic alliances—the biggest being the survival of the relationship between the member-owners, their relationships as community members as well as business partners. The roles and priorities of the member-owners must be clearly defined so that each clearly understands what is expected. If the objectives are not clearly understood by the member-owners then the benefits of this formation will be decreased and the synergy expected between the member-owners will not enhance the payoff.

Since the commodities of the producers will be pooled together to gain a larger market share, there is the threat of reduced effort put into the quality of the product. If a producer markets his/her product on their own, they will take care in every detail to ensure that their product is of a high standard. When products are pooled, producers could effectively “get away with” reducing the amount of care taken to

ensure a high standard of quality. Therefore, price incentives are required in order to reward quality.

The survival of the cooperative can be threatened if the decisions of its members focus too much on the interests of the community and not enough on the business. There is a balance required between members' interests and business' interests that must be determined to ensure that the cooperative will remain a profitable community business.

Another perceived disadvantage of the cooperative structure is that management cannot use stock options as incentives for management, thereby contributing to the perception that management quality is not optimum.

Examples of successful cooperatives in the agri-food business

There are a number of well known NGOs across North America that have proven that cooperatives can provide benefits that enhance development in rural communities.

Western Area Cities and Counties Cooperative (WACCO). WACCO is a cooperative organization owned by the governments of seven counties and 18 small towns within those counties. The cooperative itself is situated in Fergus Falls, Minnesota. WACCO was developed as these governments were struggling to keep up with the demands of their citizens for more efficient delivery of services and their resistance to pay higher property taxes, which the governments depend on to provide these services. WACCO allows the local governments to realize the economies of scale without the real costs. WACCO is an equipment sharing program (such as snow blowers, salt trucks, and office equipment) that allows each of the member governments to negotiate trading deals and rental terms of equipment with other member governments. WACCO estimates that it saves each member government approxi-

mately \$500,000 a year in reduced equipment fees (Trechter), which can be used to increase services to its community in other needed areas.

Hermitage Tomato Co-op Assoc. Burger King and Restaurant Services. The Hermitage, Arkansas, economy was struggling in 1997, until the formation of a tomato growers' cooperative helped foster new economic growth. This processing facility was the creation of an alliance between the tomato growers, USDA, the Farmers Bank of Hamburg, and Burger King Corporation, in which Burger King Corp. agreed to buy locally produced commodities. Since the facility's inception 118 jobs have been created, decreasing the unemployment rate in the area from 10.7 percent to 8.5 percent (Karg). Sales at the cooperative have increased every year since its creation, and have helped in decreasing the amount of rural decay in the area. Hermitage was the textbook case of rural decay before the processing facility was built, farm incomes were decreasing, and most of the youth were moving to larger urban centers where jobs could be found. And now that the cooperative has opened, it has stimulated development in other areas, including plans for a new convenience store and plans to upgrade the highway system used to reach Hermitage now that there is more traffic coming to the cooperative.

High Plains Straw Cooperative is a prime example of how a cooperative can utilize technology to increase the value added in agricultural products and retain the profits within the community therefore stimulating the economy of Perryton, Texas. The High Plains Straw Cooperative turns straw into stramit board, a high-performance building material. The stramit is created through a heat compression technique in which no water, gas, or chemicals are used and the process does not produce any toxic waste. The development of this processing facility has created more jobs in the area and has kept more money in the farmers' pockets. When farmers in the Perryton area wanted to bring a new productive industry to the town it was suggested by CoBank,

who helped to finance the project, that they form a cooperative (Parsons). The farmer's cooperative, along with private investors and a company based in the UK that brought the idea of forming stramit to the United States, have formed a limited liability corporation called Stramit USA. This project is still quite young, but the relationship between the companies is working out quite well.

The Dakota Growers Pasta Co. (DGPC). This cooperative is one of the most successful NGCs in the Great Plains because of its ability to exploit a niche value-added market. The Dakota Growers Pasta Co., formed in 1996, capitalized on the growing demand for pasta. The company is a large producer of durum wheat; therefore the DGPC decided to mill its durum into semolina, which is then used to produce pasta products using advanced pasta producing equipment and technology. The DGPC in Carrington, North Dakota, has 1,085 members and, with 247 full-time employees, it can now produce up to 30 million pounds of pasta annually (Trechter). The DGPC brought new life back into Carrington, it helped boost the price of durum, while members gained a new market for durum and production advice from the cooperative. The plant is also credited for reaping an improved stronger tax base and creating new jobs in the area. The community agrees that the cooperative is working well because both the community and the cooperative officials are focusing on their shared interests.

Ostrich Products and Marketing Co-op Ltd. Thirty ostrich producers came together to form this cooperative in order to provide a market for their production. They have each agreed to supply a specific number of birds, this year it is 700 birds, to the cooperative for a set price. The cooperative goes on to sell them to a Manitoba meat processor who has begun to market various ostrich meat products. The meat is being sold to fine dining establishments and the hides are then sold to a tanner who is reselling the hides in the premium leather market. The members realized that without the cooperative they

would be selling their birds to processors directly for lower prices and they have taken advantage of the marketing advantages of getting together.

STRATEGIC ALLIANCES: THEIR EFFECT ON RURAL COMMUNITIES

When local farmers, either through cooperatives or other structures, form strategic alliances rural community development can be enhanced through the tangible and intangible benefits that stem from their operation.

One key factor within an alliance's operations that aids in rural development is the fact that the people from the communities in which they operate exercise control over the economic, social, and cultural activities of the business, decisions that can affect the lives of community members. All decisions that are made, are made at least in part by the cooperative's member-owners, the majority of whom live in the community. Therefore, the decisions made by the cooperative are made with reference to the community's welfare. Cooperatives and strategic alliances that are formed within communities are, in essence, a democratic way to push decision making responsibilities into the hands of the people who use and need the services of those facilities and live in the community. This responsibility fosters an attitude of self-help and self-initiative in the community.

Strategic alliances that are formed by community producers are directed locally and invested in locally; therefore there is a revitalized sense of pride within the community that stems from the project, as well as a stronger sense of economic well-being. This sense of economic well-being can be made even stronger when the profits that are earned and returned to member-owners remain in the community through their willingness to spend their resources within the community and support other locally owned businesses. This therefore creates a stronger demand for local products and services,

revitalizing the local economy. This resurgence in the local economy has been known to go as far as creating a need for new or different local businesses. This is called the “demonstration effect,” when the development of an alliance leads to the development of new businesses in the local area. Not only does the newly formed strategic alliance create new jobs, but so does the revitalization of the community’s retail trade. Both of these events foster growth in support sectors such as construction, not only to accommodate the construction of the new facility but also expansions of other businesses that might be needed due to the growing local demand and a need for more housing due to the slowdown in migration to larger urban centers in search of jobs.

This creation of jobs in the community helps to keep younger community members from leaving. Younger professionals are needed in rural communities and an alliance that creates the demand for their services, contributes to the the pool. Strategic alliances within a community reduce the incentive to leave, therefore decreasing the migration of young professionals to the city.

A successful business alliance also adds to the local tax base, both for the business as well as through the investments and purchases of its members if they benefit from the profits. The infrastructure that is required to set up and run a local cooperative or form a new alliance helps to support human development within the area. For example, new types of expertise are brought to the community through the need to learn how to operate new technology and learn new computer software and skills. Learning these new skills creates a more efficiently run company and therefore increases the revenue retained. There is also the intangible benefit of a new sense of pride fueled by learning new skills. Management and marketing skills should also be learned or reviewed by the cooperative members and employees.

With the increased demand for commodities to be processed in the cooperative’s facilities, the local

market is strengthened. This increases the prices members receive through the sale of those commodities and also increases prices for those producers who are not members of the cooperative because of the gained strength in the local market.

Often, when an alliance or new generation cooperative is formed it helps to move people away from being strictly commodity producers, and allows producers to enjoy the profits that value adding to those commodities can create.

The production of value-added agricultural products within the cooperative can provide the community with access to products that were not easily attainable before the co-op existed. This easier access reduces transportation and search costs for those products allowing community members to either save or spend those saved costs in a more productive manner.

Clearly, forming these ventures is a way to bring investment, employment, and tax base effects to a community.

Lastly, an important intangible benefit that can be deduced from the formation of a cooperative or a strategic alliance by local producers and business persons is that there is an increased sense of social cohesion as the whole community works together to ensure that the project survives.

HOW CAN POLICIES FOSTER THE CREATION OF ALLIANCES AND COOPERATIVES?

Creating conditions that make alliances succeed

What can public policy do to foster alliances?¹ We begin from the perspective that government can foster the creation of alliances by helping to create the conditions that enhance their ability to succeed. So, what makes them succeed? At the simplest level,

alliances, like any business, succeed because they have a good business idea and they execute it well. In our experience, the factors in turn that give organizations the ability to think of good ideas and execute them are: entrepreneurial skills, business management skills, access to sufficient capital, good relationship management skills, as well as trust and trustworthiness.

What fosters the conditions?

Those conditions that foster the creation of these business ventures must then be fostered themselves. One way the government can actively support the creation of both alliances and new generation cooperatives is by creating policies that foster these conditions.

Entrepreneurship. Entrepreneurship can be fostered in part through training. Helping rural investors learn how to develop good ideas and deliver them well is a subject many would benefit from in starting and maintaining a business. If there is a payoff to the public to have successful rural businesses, then it would seem sensible to help pay for this type of training. To underline the point, we mean this to be a financial contribution, not to have people in the public sector teach entrepreneurship.

Assistance in “ideation” is needed to help people see through to a successful business venture. Ideation is a term that refers to turning an idea into a creation. Many people come up with creative ideas that never get realized. In order to turn an idea into reality there must be established networks of information that people can turn to, to determine how to further develop their idea. Industry Canada has an interesting pilot project in this respect which provides a literature search for a person with an idea. The search will determine the “science” of the idea, indicate the major pieces of research on it, indicate whether patents already exist, provide ideas for potential application of the idea, give a notion of

cost to move to production, and provide some notion of potential investors.

Business planning and management skills. As with entrepreneurship, business planning and management skills can be learned. Public policy can play a role by helping to finance training in this area.

Access to capital. Public policies that work toward fostering the creation of alliances and cooperatives in rural North America should work towards creating easier access to capital for those working on these business ventures. This can have at least two aspects: loan guarantees and tax incentives for venture capital. Governments can complete this objective by offering loan guarantees to those entrepreneurs building a new cooperative or creating a new alliance that will foster growth in rural North America. Policies that offer tax incentives for investment in agri-business alliances or new generation cooperatives will create a demand for these types of businesses to be invested in. If there is a willing investor, entrepreneurs may be more willing to realize their ideas.

It is becoming evident that some people would like to contribute to specialized pools of capital that can finance new ventures in agri-food. These may be local consortia or specialized venture capital providers. In either case, their existence and development may be facilitated by tax incentives that encourage “patient capital,” and these may be set up to assist the capital provider with an exit strategy.

Relationship management. The key to the success of both alliances and new generation cooperatives is the relationships among the allies and among the members of a cooperative. Everyone within these business ventures must know exactly what the desired outcome is and what their roles are in achieving the desired outcome. Many entrepreneurs who see their ideas become reality tend to be individualists and are not inclined to manage relationships. The success of alliances and cooperatives is depend-

ent upon this management, and it would be ideal for new business managers to have relationship management seminars available to them. Like the other skills above, elements of relationship management can be learned, and a number of disciplines have the experience to provide training in these skills.

Remove statutory limitations. In addition to the foregoing facilitation functions, cooperative acts in some jurisdictions place restrictions on the ability of a cooperative to participate in some up- or downstream activities. Thus while the structure, especially the new generation structure, is an ideal one to encourage new ventures that, in turn, enhance rural development, its advantage is offset by the very legislation that fosters it. These legislative constraints need to be re-evaluated.

Similarly, the current trend in some jurisdictions to limit or ban contracting between farmers and their customers or suppliers seems counterproductive in this regard. Contracts are generally put in place as protection against failure by a party to perform, or to reward contractees for performance. In a sector that is increasingly concentrated and is moving toward tightly specified product requirements as it goes from a commodity to a product concept, contracts are keys to future prosperity. They will be particularly important to small groups of farmers who want to enhance value in alliance with other elements of the supply chain. While alliances provide a mechanism for farmers to

develop value adding opportunities and contribute to rural community development, they cannot do so if one of the most important tools in this effort is blunted.

CONCLUDING NOTE

There are no panaceas for either rural prosperity or rural development. Alliances, either through cooperatives or other business structures, offer a useful mechanism for farmers to pool their resources and leverage them to add value. By doing so they can add prosperity to rural communities and regions. Public policy can encourage these developments by providing the right climate or atmosphere in which to operate. In this paper we identify entrepreneurship, business planning and management skills, access to capital, and relationship management as some of the elements of that climate which need to be fostered. We also indicate that restrictions on cooperatives need to be evaluated, as well as the move toward limits to contracting in agriculture. Note that these conditions are not unlike conditions that foster growth in any type of venture or collaboration; building human capital and discovering and applying knowledge are the key to any type of development. Policies that build human capital and allow for the discovery and application of knowledge will create communities or agribusinesses that feel capable of taking on these types of new ventures.

APPENDIX: PROGRAMS AND POLICIES THAT ENCOURAGE ALLIANCES AND AID IN RURAL DEVELOPMENT

Canadian programs and policies

Community Futures Program. The Canadian Community Futures Program was established in 1980 and is an economic renewal initiative focused at the rural level. The objective of the program is to build local knowledge as a means of assisting rural communities to deal with economic change and labor force adjustment. Since 1980 there have been 90 Community Futures Development Corporations established throughout western Canada, 52 in Ontario, and 41 in the Atlantic region (Western). A Community Futures Development Corporation (CFDC) is a nonprofit organization engaged in developing and implementing community-based economic development strategies for the Community Futures Program. Services of CFDCs include lending a maximum of \$125,000 to new or existing businesses who have trouble obtaining funds from traditional lenders, technical support, financial planning, and business training. CFDCs have made alliances with agencies such as Atlantic Canada Opportunities Agency, Human Resources Development Canada, and University Development Centers. This program is encouraging for those who are interested in creating an alliance or a cooperative because of its comprehensive package of both the financial and business planning services. The region of Strathcona, British Columbia, is an example of this program's success: the region raised its capital investment base from \$3.8 million to \$9.2 million through cooperative partnerships that were formed with the aid of the CFDC in the area.

Business Retention and Expansion Programs in Ontario. The Business Retention and Expansion Program (BR + E) is used as an economic development tool to encourage the growth and stability of local business. It is a volunteer-run program that helps communities identify opportunities for

expansion and the barriers that local businesses are facing. This program is based on the success of the Business Retention and Expansion Visitation Program developed in the United States. BR + E begins with an introduction to the program by a team of program leaders. If the community shows an interest in the program, a task force of volunteers that include business people, local government, labor organizations and educational institutions will be trained to become the local business development experts. The task force along with a group of volunteers and a group of business professionals conduct a confidential survey of local businesses. This survey is then discussed and the immediate needs and key issues are identified. A strategic action plan is developed to help improve the local economy and is presented at a public meeting to the local residents. Completed through this process, the objectives of this program include providing community support for local business, improved communication between businesses and community members, increasing the competitiveness of local businesses, assisting in business development to create and retain jobs in the area, and establishing and implementing a strategic action plan for local economic development. BR + E is a partnership of the Ministry of Agriculture, Food, and Rural Affairs, the Ministry of the Environment, Ministry of Training, Colleges and Universities, Human Resources Development Canada, Industry Canada, Bell Canada, Ontario Power Corporation, and Enbridge Consumer Gas Company. This approach has been successful in a number of communities. It has developed increased economic competitiveness, new local investment, easier access to business financing, more jobs, saved jobs, and fewer barriers to business development by building networks between larger businesses, regional, provincial, and federal government agencies, and local community businesses.

Canadian Adaptation and Rural Development Program (CARD). One of the main objectives of the CARD program is to foster greater cooperation, strategic alliances, and partnerships among individ-

ual companies, segments of the industry, and rural stakeholders. Since their inception in 1995, industry-run adaptation councils in the provinces and the territories have used over \$130 million provided by CARD to select, fund, and manage viable projects and programs to help producers, processors, and rural communities. CARD provides short-term funding for adaptation initiatives to support diversification, value-added processing, market development, innovation, and job creation in the agriculture and agri-food sector. Essentially this program is an investment by the government to ensure that the rural communities of Canada will strengthen their performance and capacity to adapt. CARD oversees a variety of smaller programs aimed at completing its objective. The sub-program that best suits this discussion is the *Agri-Food Trade Service and Marketing Initiatives Program*. This program has received \$12 million in funding since 1995 and focuses on three main areas: market development, market access, and investment. The program helps to complete these objectives through enhancing access to market intelligence in rural communities and facilitating alliances between food and beverage producers, processors, distributors, and others in the value chain.

Newfoundland and Labrador Strategic Enterprise Development Fund. This program is led by the Department of Industry, Trade, and Rural Development, whose mandate is to stimulate the creation of new job opportunities and economic growth, particularly in rural areas. Newfoundland and Labrador are divided into 20 economic zones, where each zone is represented by an economic development board whose job it is to facilitate the development of business opportunities. The services provided by these boards include financial advice, technical help, and work on strategic initiatives. The strategic initiatives worked on by the Department include efforts to stimulate growth of new and existing industries by opening up market opportunities for local businesses. The program is currently working with food processors and the

Alliance of Manufacturers and Exporters to enhance opportunities for value-added products and exports in the area. The Strategic Enterprise Development Fund consists of two parts, a Small Business Seed Capital Equity Program where lending services are offered, and a Small Business and Market Development Program. To further increase the incentive for community business leaders to form alliances and develop new businesses, the department offers a New Venture Capital Tax Credit Investment Program and a Direct Equity Tax Credit Program.

Co-Op Share Financing Initiative in Manitoba. This program is run by the Manitoba Agricultural Credit Corporation and is designed specifically for producers of agricultural commodities. This program provides financing for the purchase of start-up/equity shares in an agriculturally based new generation cooperative. Applicants must be producers of the commodity that is being processed and be a resident of Manitoba. The on-farm income of the applicants must not exceed \$60,000, and the maximum amount given to any individual recipient is \$325,000. The maximum amount is \$650,000 for loans given to corporations, other cooperatives, and partnerships.

Loans for Agricultural Value-Added Producers. This program is funded by Western Economic Diversification Canada and was established to assist financially in the development of new value-adding facilities in the processing of primary agricultural products in Western Canada. This program provides funding for research leading to the development of a value-added product, projects that wish to strengthen international markets, and upgrades or expansions needed to increase the processing capacity. The program is offered in cooperation with three major banks and the Farm Credit Corporation.

United States programs and policies

Rural Business Co-operative Service. The mission of the Rural Business Co-operative Service is to enhance the quality of life for rural Americans by providing leadership in building competitive businesses including sustainable cooperatives that can prosper in the marketplace (United States Department of Agriculture). The program does this by focusing on providing technical assistance to businesses and cooperatives located in rural communities, and by establishing strategic alliances and partnerships that leverage public, private, and cooperative resources to stimulate the rural economy and create jobs that will decrease the need to migrate to larger urban centers. Within this service there is a Rural Cooperative Development Grant Program in which grants can be obtained for the purpose of developing new cooperatives and improving operations at existing cooperatives. In 1999, grants were given to ten separate cooperatives for a total of \$1.75 million. There is also a Grant Program that targets value-added production specifically called the Value Added Agricultural Product Market Development Grants Program. This grant program has two main objectives, to encourage producers of agricultural commodities to further process these commodities, and to establish an information cen-

ter on value-added processing that can be accessed by producers and processors. These grants can be used to conduct the research needed to determine if an idea is a viable value-added business venture within that community. The grant recipients must be independent producers who do not produce the agricultural product under contract or would like to create a joint venture with another agricultural organization, and the proposed projects must add value to an agricultural product or a product of an agricultural product.

Rural Community Advancement Program. There are three major focuses in this program: rural community and facilities; rural utilities and business; and rural cooperative development. The Secretary's Discretionary Fund is focused on the third part. Under the Secretary's Discretionary Fund, in collaboration with the Alternative Agriculture Research and Commercialization Corporation, the program focuses on providing assistance in developing processing operations for agricultural producers and existing cooperatives that add value to crops or livestock. The fund consists of \$33 million annually to be given to projects that will add value to an agricultural commodity through a cooperative business structure.

ENDNOTE

¹ The appendix contains a sample of Canadian and U.S. policies and programs that appear to be applications of the concepts presented in this section.

REFERENCES

- Amanor-Boadu, V., and L. Martin. 1992. *Enhancing Competitiveness of Canadian Agri-Food Industries Through Vertical Strategic Alliances*. George Morris Center Paper.
- Brinkman, E. 1974. *The Development of Rural America*. Lawrence, Kans.: University Press of Kansas.
- Cochrane, W. 1993. *The Development of American Agriculture: A Historical Analysis*. Minneapolis: University of Minnesota Press.
- Covey, S. 1989. *The Seven Habits of Highly Effective People*. Simon and Schuster.
- Karg, P. 1999. "President Clinton Hails Co-ops as Engine for Rural Progress." *Rural Cooperatives*, November/December.
- Manitoba Agriculture and Manitoba Industry, Trade, and Tourism. 1998. *New Generation Cooperatives: An Overview for Manitobans*.
- Martin, L. 2000. Canadian Agricultural Economic Association. *Presidential Address*, June.
- Parsons, C. 1995. "Making Dust: New Alliances Explore the Frontiers of Cooperation." *Farmer Cooperatives*, June.
- Reynolds, A. 1999. "Chapter 1: Cooperatives and Communities: Impacts and Relationships," in *The Impact of New Generation Cooperatives on Their Communities*. Rural Business Cooperative Service. United States Department of Agriculture. Publication 177.
- Sporleder, T. 1993. "Assessing Vertical Strategic Alliances by Agribusiness," *Canadian Journal of Agricultural Economics*.
- Trechter, D. 2000. "Generating Rural Progress." *Rural Cooperatives*, July/August.
- United States Department of Agriculture. Rural Development. Rural Business Cooperative Service.
- Western Economic Diversification Canada. Community Futures Development Corporations of Western Canada. *Community Futures Program web site*.