Member Time Horizons in Agricultural Cooperatives

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Most U.S. agricultural cooperatives were formed around the needs of a homogeneous set of members. Over time, the membership base has evolved to include producers of different ages, different farm operations and different needs for products and services. Membership heterogeneity includes differences in member age and time horizon. A member's time horizon affects their preferences for the cooperative's financial choices. For example, members with shorter time horizons may favor distributing the maximum amount of profits possible while members with longer time horizons might have greater support for retaining and reinvesting profits.

The cooperative's financial choices can effect planning horizon related problems. Retaining profits as unallocated equity amplifies time horizon problems. Since unallocated equity is never redeemed, members benefit from those retained funds only through future use. Members with shorter time horizons receive very little benefit when a cooperative retains profits as unallocated equity. Retaining profits as allocated equity is preferable, in terms of time horizon issues because the retained profits are eventually distributed to the member.

A cooperative's equity management system also has an impact on time horizon issues. Age of patron plans create the most disparity in time horizons across the membership. Younger members face a long delay in receiving value for retained allocated equity. A 20-year-old patron who may have to wait 45 years for a revolving equity payment may have a different attitude toward retaining profits relative to a 64 year old patron. Managing equity through an age of stock plan decreases time horizon issues since every member, young and old, realized the value of retained profits within the same time span. Reducing the length of the revolving cycle reduces time horizon issues at the cost of higher cash outflows.

In an agricultural cooperative, a diverse membership is a good thing and part of the process of evolving to meet the needs of the next generation. Members with different time horizons receive different value packages from the cooperative and have different preferences for profit distribution, equity management and infrastructure reinvestment. The cooperative board must balance membership preferences with the needs of the cooperative. The board cannot please every member and that becomes more obvious as the membership becomes more diverse. The board does have choices in profit distribution and equity management that can minimize or maximize time horizon issues. Re-examining those choices can be part of the "tinkering" that is necessary as the cooperative matures.

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