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Cooperative
Service

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Information
Report 11

Cooperatives :

What They Are and the Role of Members, Directors, Managers, and Employees



Abstract

This is an educational guide for teaching basic information about cooperatives. It explains what cooperatives are-their business, principle, and structural characteristics, and the responsibilities and roles of cooperative members, directors, managers, and employees.

Five chapters make up this guide. Chapter 1-What Are Cooperatives?, is the most extensive chapter and generally describes where and how cooperatives fit into the American system of business, their unique principles and practices, and their defining structural characteristics, and it introduces the roles of the major cooperative participants-members, directors, manager, and employees. Chapters 2-5 go into further detail about the participants. Chapter 2 gives an overview of cooperative members, Chapter 3 describes directors, Chapter 4 discusses the cooperative manager, and Chapter 5 explains employees.

Each chapter includes visuals that coincide with and summarize the concepts and information provided in the text. These are available as PowerPoint slides from Rural Business-Cooperative Service for presentational use in educational/informational forums.

Cooperatives: What They Are and the Role of Members, Directors, Managers, and Employees

This guide, revised by Patrick Duffey and James Wadsworth, combines five earlier publications (CIR 10-18) on the same subject written by C.H. Kirkman, Galen Rapp, and Gene Ingalsbe while all were employed by USDA's Agricultural Cooperative Service. Also used in this revision was Co-ops 101 (CIR 55) by Donald E. Frederick.

USDA's cooperative interest program is now contained in USDA's Rural Development mission area and housed in Rural Business-Cooperative Service (RBS) .

For a catalog of related publications, please ask for Cooperative Information Report 4 and write USDA/RBS; 1400 Independence Ave. SW, Stop 0705; Washington, DC 20250-0705 (phone: 202-720-8381 or FAX 202-690-4083) .

Publications and information are also available on the internet, The RBS Web site is: <http://www.rurdev.usda.gov/rbs/index.html>

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Chapter 1—What Are Cooperatives?

This chapter focuses on what cooperatives are, and explains their business, principle, and structural characteristics. It introduces the major participants—members, directors, managers, and employees—which are discussed in greater depth in chapters 2–5.

Business Characteristics

There are many ways of conducting a business in the United States. Businesses carry different names and offer distinct products and services. People buy, sell, trade, borrow, insure, and conduct all kinds of business transactions. But businesses are organized in different ways depending on: who owns and controls it, who buys from (patronizes) it, and who gets the profit (earnings) from it.

Businesses fall into one of three categories: individually owned businesses (proprietorships) where one person owns, operates, manages, and receives the profits; partnerships which have two or more people who jointly own, control, and operate the business, sharing proportionately in the risks and profit; and corporations with multiple owners that offer a variety of goods and services to customers.

Cooperatives are a type of corporation; a State-chartered business organized and operating under its laws. Cooperatives resemble other businesses—they have like physical facilities, perform similar functions, and follow sound business practices. They operate under bylaws and other necessary legal papers. However, cooperatives are different from general investor-owned corporations, which are operated to make a profit for those investors.

The cooperative corporation is a business owned and controlled by the people who use its services. Cooperatives are controlled by a board of directors (elected by member-owners), derive equity from member-owners, operate for the benefit of member-owners, and allocate earnings to members based on use.

Cooperative earnings from business with members are taxed once, either as income of the corporation when earned or as income of the members when allocated to them. Cooperatives usually have a perpetual existence—members can routinely join or resign without disrupting ongoing operations.

There are over 47,000 cooperatives of all types in the United States serving 100 million people, nearly 40 percent of the population. Financial, consumer service, and business cooperatives provide credit, transportation, facilities, recreational equipment, food, housing,

health care, child care, wholesale goods and supplies, electricity, telephone and electronic services, farm production supplies and service, and farm product marketing.

Unique Principles

Three principles distinguish cooperatives from general corporations: user-owner, user control, and user-benefits.

User-owner—the people who use the cooperative own it. Member-owners finance the cooperative's assets and have an obligation to provide financing in accordance with their use to keep the cooperative in business and permit it to grow.

User-control—members, as owners, control overall operations and activities of the cooperative. This control is exercised through voting at annual and other membership meetings, and indirectly through those members elected to the board of directors. This is generally done on a one-member, one-vote basis; however, some cooperatives may use proportional voting based on members' use of the cooperative.

User-Benefit—The cooperative's sole purpose is to provide and distribute benefits to members on the basis of their use. Distribution of earnings is a key benefit based on members' use of the cooperative (or patronage), not the amount of capital they have invested in it.

Extensive Benefits—The third principle only partially explains the benefits members may derive from owning and controlling their cooperatives. There are many potential benefits:

- Improves bargaining power—by combining resources, needs, or products, members, through their cooperatives, improve their ability to market, purchase, and serve.
- Reduces costs—volume purchasing of production supplies and pooled marketing of products, lowers the per-unit costs to members. Cooperative-to-cooperative cooperation reduces overhead for necessary services.
- Market access—cooperatives often provide services and/or products that are unavailable to members otherwise.
- Improves products and quality of service—cooperatives work to satisfy members by providing

quality products, facilities, equipment, and service, creating competition with good prices, and adding value to members' products.

- Provides opportunity for political action—cooperatives provide a way to organize for effective political action. They can meet to develop priorities and strategies and send representatives—speaking for many—to meet with legislators and regulators.
- Increases community strength—having a business owned and controlled on a cooperative basis helps the entire community. Cooperatives generate jobs and salaries for local residents. They pay taxes that help finance schools, hospitals, and other community services.
- Provides a competitive yardstick effect—studies have shown that cooperatives in the marketplace create an impact on competition that keeps prices lower for related purchased services and supplies and higher for marketed goods and products.
- Economic enhancement—cooperatives operate on sound business principles to create earnings that are distributed back to members on the basis of their use.

Cooperative Practices

Cooperatives have basic practices that facilitate the three distinguishing principles and further differentiate them from other businesses.

Patronage Refund System—Cooperatives return earnings to members, after costs have been covered and needed operating capital obtained, on the basis of their use of the cooperative. This is most often done at fiscal year end from earnings generated on products and services supplied and/or marketing conducted. Earnings are returned to patrons—as cash and/or equity allocations—on the basis of the how much business each patron transacted with the cooperative during the year. These distributions are called patronage refunds.

Limited Returns on Equity Capital—Members form a cooperative to get a service—source of supplies, market for products, or performance of specialized functions—not necessarily a monetary return on capital investment. Most cooperatives don't pay any dividends on capital while others pay a modest return. Limiting returns on equity supports the principle of distributing benefits

proportional to use.

Cooperation Among Cooperatives—Many local associations are too small to gather the resources needed to provide all the services their members want, so cooperatives work together in many instances. Federated cooperative structures, joint ventures, marketing agencies in common, strategic alliances, and informal networks allow cooperatives to pool resources and assets to provide services and programs on a collaborative basis at lower cost.

Cooperative Education—Cooperatives provide education and training to members, directors, employees, and others in the community that promote the cooperative form of doing business. They work to ensure that members, directors, and employees are well apprised of their distinct, important roles in the cooperative and that others outside the cooperative understand the uniqueness of the organization and its benefits to the community.

Such education is carried out directly and indirectly—directly by advertisements, public forums, internal training programs, etc., and indirectly by participation and funding of State cooperative councils and other like associations that carry out the important role of cooperative education.

Structural Characteristics

Cooperatives are characterized by the geographical territory they serve, their governance system, and the functions they perform. This provides an understanding of cooperative differences pertaining to scope of operations, member structure, and functional service.

Geographical—Cooperatives are often loosely characterized as local, super local, regional, national, and international based on the size of area they serve. These characterizations describe the cooperative's size and scope of operations in reference to serving members.

Local cooperatives operate in a relatively small geographic area (often a single county) with one or two facilities from which to serve members.

Super local cooperatives operate in two or more counties, often with several branch facilities.

Regional cooperatives serve an area comprising numerous counties, an entire State, or a number of States.

National cooperatives serve a major portion or most of the United States.

International cooperatives operate in more than one country, with headquarters in the United States or another country.

Governance System—Based on membership structure, cooperatives are classified as centralized, federated, or mixed. These three classifications essentially define who the members are and how the cooperative is organized to serve them.

Centralized cooperatives have individuals and business entities as members. A centralized cooperative has one central office, one board of directors elected by its members, and a manager who supervises all operations. Business may be conducted through branch offices or stores staffed by employees responsible to the central management team.

Federated cooperatives have other cooperatives as members. Each member of a federated is a separate cooperative that owns a membership share entitling it to voting rights in the affairs of the federated. Each member of a federated cooperative typically has its own board of directors, manager, employees, and facilities to serve its members.

The federated has its own hired management and staff and a board of directors elected by and representing the member cooperatives. It performs activities often too complex and expensive for them to do individually, such as manufacturing production supplies, tapping major financial markets, and marketing on a regional, national, or worldwide basis.

Mixed cooperatives have both individuals and other cooperatives as members. These cooperatives have features of both centralized and federated cooperatives.

Functions Performed—Cooperatives may perform one or more of three core functions: marketing products, purchasing supplies, and providing services. These functions further explain a cooperative's purpose and scope.

Marketing cooperatives assist members in maximizing the returns they receive for goods they produce. Most cooperative marketing activity involves either agricultural products or those of producers in related industries such as forestry, horticulture, and aquaculture. They handle, process, and sell cotton, dairy products, fruit and vegetables, grains and oilseeds, live-stock and poultry, nuts, rice, sugar, and other agricultural commodities. They sometimes add value by developing raw member goods into desirable consumer products.

Marketing cooperatives enable members to extend control of their products—and realize additional margins—through processing, distribution, and sale.

Purchasing cooperatives allow members to gain access to affordable production supplies and goods. By purchasing for numerous members in bulk, cooperatives reduce member costs and strengthen their purchasing power.

Many local purchasing cooperatives are affiliated with other such organizations, often through regional and national federated cooperatives. Such cooperation efforts further reduce member costs and strengthen their purchasing power through direct ownership of large-scale facilities such as petroleum refineries, fertilizer and feed plants, research facilities, etc. Hardware stores, independent grocery stores, and fast food restaurant franchises, among others, have also developed purchasing cooperatives.

Service cooperatives exist in a number of avenues. They provide farm-specific services such as animal feed processing and crop harvesting, and recommending and applying fertilizer, lime, or pesticides. Others provide electricity and telephone service, credit, housing, and health care.

Participation Roles

Cooperative organizations operate through the participation of the principal parties—members, directors, manager, and employees. These cooperative participants have separate roles, though they share the common interest of building a successful business.

Members—As owners of the business, they organize, incorporate, finance, and elect directors to set the cooperative's policy and govern. Members use the cooperative and are the reason for its existence.

Directors—Members of the board are elected by, and serve at the will of, the membership. While some serve limited terms, others serve multiple terms. They have two primary responsibilities—hire competent management and guide the direction of the business by providing policy and oversight to its operation.

Manager—The manager reports to and works closely with the board of directors. He or she is responsible for the day-to-day operations and performance of the cooperative.

Employees—Hired by the manager, employees work for the member-owners in carrying out responsibilities in the cooperative's operation as dictated by the manager.

Summary

People and businesses use cooperatives to serve their common interests and for mutual benefit. Cooperatives are complex organizations with unique principles, practices, member benefits, and structural characteristics. Geographic area, governance system, and functions performed explain organizational structure and size and scope of member service.

Cooperatives exist in many segments of the American system of business today providing purchasing, marketing, and service for member-owners. Members use purchasing cooperatives to buy food, consumer goods, and business and production supplies. Cooperatives are used to market and process farm-grown commodities such as corn, soybeans, wheat, and cotton. Others provide transportation, credit, housing, recreational equipment, and facilities.

Cooperatives consist of members, directors, management, and employees. All have important participation roles to play and responsibilities to fulfill.

A Type of Business Dependent On

- Who owns the business?
- Who controls the business?
- Who uses the business?
- Who gets the profits?

A-1

Individually Owned Business

One Person

- Owns
- Controls
- Operates
- Benefits/profits

A-2

Partnership

Two or more people

- Own
- Control
- Operate
- Share in risks and profit

A-3

Corporations

- Multiple owners
- Variety of goods and services
- Physical facilities
- State chartered
- Investors
- Profits shared among investors

A-4

Cooperatives Are a Type of Corporation

- Multiple owners who are user members
- Variety of goods and services
- Physical facilities
- State chartered
- Members are investors
- Owned and controlled by members who use its services

A-5

Cooperatives

- Are primarily controlled by a board of directors elected by and from members
- Derive equity from member owners
- Operate for the benefit of member owners
- Allocate earnings to members based on use
- Earnings from member business is taxed once
- Have perpetual existence

A-6

The Cooperative Form of Business Is Prevalent

- More than 47,000 cooperatives in the United States
- Serve 100 million people, 40 percent of the population
- There are several types of cooperatives serving many sectors

A-7

Types of Cooperatives

- Financial
- Consumer service
- Business

A-8

Cooperatives Provide

- Credit
- Transportation
- Facilities
- Recreational equipment
- Food
- Housing
- Health care
- Child care
- Wholesale goods and supplies
- Electricity
- Telephone and electric services
- Farm production supplies and service
- Farm marketing

A-9

Cooperatives Have Unique Principles

User-Owner

User-Control

User-Benefit

A-10

User-Owner Principle

The people who own and finance the cooperative are those who use it.

A-11

User-Control Principle

The people who use the cooperative are those who control the cooperative.

A-12

Members Exercise Control By

- Voting at annual and membership meetings
- Electing board of directors
- Making decisions on major cooperative issues

A-13

User-Benefit Principle

The cooperative's sole purpose is to provide and distribute benefits to members on the basis of their use.

A-14

User-Benefits

- Bargaining power
- Market access
- Community strength
- Political action
- Reduced costs
- Quality products and services
- Economic enhancement
- Competitive yardstick

A-15

Cooperative Practices

- Patronage Refunds - distribute earnings to members based on use
- Limited Return on Equity Capital - members form cooperatives for service, not for a monetary return on investment
- Cooperative Cooperation - joint ventures, MAC's, networks, alliances, working relationships, etc.
- Cooperative Education - promote the cooperative way of doing business and educate members, directors, and employees

A-16

Geographical Structure

Geographical characterization defines a cooperative's size and scope of operations in reference to serving members.

- Local - small region (county) covered
- Super local - two or more counties, branches
- Regional - numerous counties, State or more
- National - United States-wide
- International - worldwide

A-17

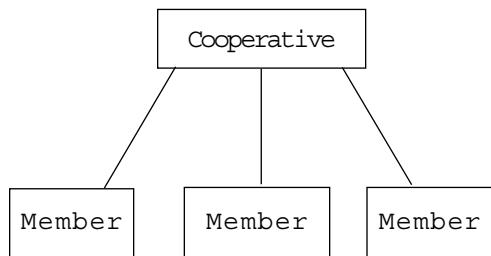
Cooperative Governance System Structure

Based on membership structure and essentially defines who the members are and how the cooperative is organized

- Centralized structure - Individuals are direct members
- Federated structure - Cooperatives are direct members
- Mixed structure - Individuals and cooperatives both are direct members

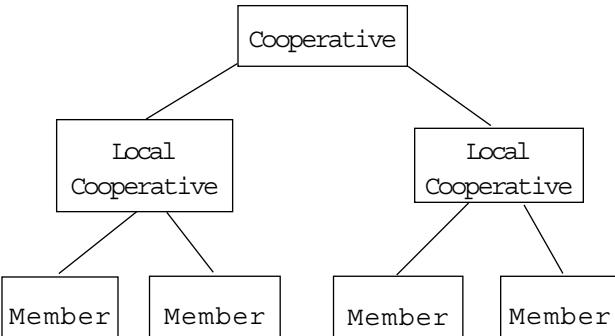
A-18

Centralized Structure



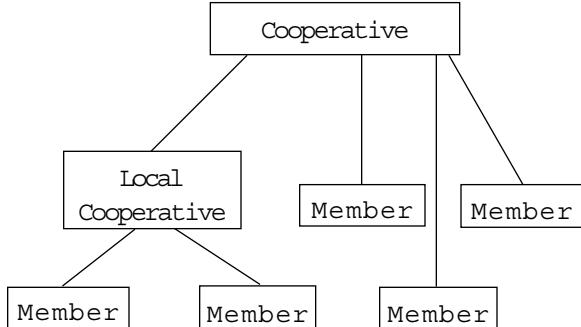
A-19

Federated Structure



A-20

Mixed Structure



A-21

Cooperative Functions

Three Core Functions:

- Marketing -extend control of members products through processing, distribution, and sale
- Purchasing -provide affordable supplies and goods
- Service -provide needed services

A-22

Marketing Cooperatives

Assist members in maximizing returns from goods they produce.

- Handle, process, and sell
- Grade, transport, bargain
- Add value
- Research new product development

A-23

Marketing Cooperatives

Assist members to maximize the return they receive for the goods they produce

Member Products	Functions	Member Benefits
<ul style="list-style-type: none"> • Agricultural • Forestry • Aquaculture • Horticulture • Crafts 	<ul style="list-style-type: none"> • Transport • Process • Grade • Add value • Research • Distribute • Bargain • Sell 	<ul style="list-style-type: none"> Extend control of their products and realize additional margins

A-24

Purchasing Cooperatives

Allow members to gain access to affordable production supplies and goods.

- Purchase in bulk to reduce costs and increase purchasing power
- Provide direct ownership of refineries, plants, retail facilities, research facilities

A-25

Purchasing Cooperatives

Used by members to gain access to affordable, quality supplies.

Member Products	Functions	Member Benefits
• Hardware stores	• Refineries	• Reduced costs
• Independent grocery stores	• Plants → • Feed Mills • Warehouse • Manufacture	→ • Volume discounts
• Fast food franchises	• Buy in bulk • Deliver	• Quality control • Increased access

A-26

Service Cooperatives

Provide needed services.

- Meet many needs
- Custom application of purchased supplies, transport of product, etc.
- Provide utilities, credit, housing, health care, technology, etc.

A-27

Service Cooperatives

Used by members to gain access to affordable, quality services

Members	Products	Functions	Member Benefits
• Producers	• Farm applications	• Access to services	• Producers
• Rural residents	• Credit	→ • Affordable services	• Rural residents
• Urban residents	→ • Electricity • Communications	• Quality	• Urban residents
• Public	• Insurance • Health care • Schooling • Housing	• Increased access	• Public

A-28

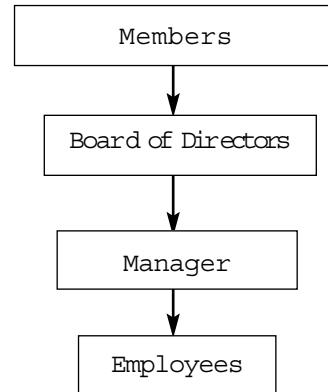
Participation Roles

Cooperatives operate through the roles of principal parties.

- Members
- Directors
- Manager
- Employees

A-29

Organizational Make-Up



A-30

Chapter 2—Members Make Cooperatives Work

This chapter focuses on members—who they are and their responsibilities as owners, with particular emphasis on control, financing, and patronage.

Members are the foundation of the cooperative. They organized it and their needs are the reason for its existence. Member support, through patronage and capital investment, keeps it economically healthy. And their changing requirements shape the cooperative's future.

Members can be individuals, businesses, or other organizations drawn together by a mutual interest. Members own and use the cooperative. They provide sufficient financial support so the cooperative can operate, and through active participation and their elected representatives, members ensure that the cooperative has the right mix of management, personnel, facilities, and equipment to meet their needs.

Commitment and Use

The success of a cooperative hinges on the commitment of its members. They must be committed to using it, controlling it, and financing it.

A basic requirement of membership in a cooperative is to patronize and use its services. Benefits accrue to members through patronage and are thereby directly affected by the extent and consistency of patronage.

While member commitment to patronage should be a given, there are various methods used to compel it. Patronage is elicited by cooperatives through persuasion—exhorting members to support the cooperative for the common welfare of all, by legally binding membership agreements, and by substantial up-front capital contribution requirements.

Using the cooperative is members' easiest responsibility to carry out, and by using it as much as they can, members help the cooperative directly succeed in several ways:

- A certain amount of business is needed just to cover the cost of opening the doors each day, including maintaining buildings and equipment, utilities, and salaries. Greater volume reduces these costs per unit of sale. Facilities can operate closer to capacity. Equipment and employees can be more productive. All together, the cooperative is able to generate more

income above costs and return patronage refunds to members at the end of the cooperative's business year.

- Using the cooperative helps provide the financing to keep it operating and growing. Member financing is provided on the basis of members' use of the cooperative.
- Using the cooperative is how members gain the benefits they sought when they first formed (provided support and start-up capital) or joined the cooperative.

Members must make a conscious decision to patronize the cooperative even when short-term prices or services may be better elsewhere. If members don't want to use the cooperative, the need for it must be reexamined.

Maximum use helps the cooperative and ultimately members as well. The stronger the cooperative, the more competitive it can be in the marketplace. The cooperative may be able to influence suppliers to provide products or services specialized to members' needs. A prosperous cooperative with the solid support of its members is often recognized as a business leader in its community or industry.

Ownership and Control

As members use their cooperative, it is imperative that they recognize their special role as owners. As owners, members have certain legal responsibilities: incorporate the cooperative; approve (and change) articles of incorporation, bylaws, and major policies; sign marketing agreements and other binding contracts; elect directors according to State statute and cooperative bylaws; vote on significant actions affecting the cooperative's legal status such as mergers, acquisitions, or other asset changes, and if necessary, to dissolve the organization; and ensure that the cooperative follows general business laws and those unique to cooperatives such as taxation.

As incorporated businesses, cooperatives give members limited liability protection. Even though this means members' maximum loss is only the capital they've invested, inattention to ownership responsibilities often dilutes the value of the cooperative to them as users.

For example, capital used to defend the cooperative in a lawsuit or fines for violating regulations could have been used to enhance the cooperative's ability to serve its members.

Although members may have many ownership "partners," each has associated legal responsibilities as

if he or she were sole owner. A cooperative's success depends largely on how well members understand what it is and how it operates. Members make business decisions (directly or indirectly) through their elected representatives that benefit all member-users.

Cooperatives must provide members with important documents (e.g., "owner's manual") so that they clearly understand its business practices and its reason for being. Such materials usually include:

- the definition of the cooperative (e.g., mission statement or clause clearly identifying its major purpose) and an explanation of its unique principles and practices;
- the history of when and how the cooperative started;
- articles of incorporation and bylaws;
- information on organizational structure and staffing;
- operational scope and products handled and services offered; and
- operating policies.

Members who understand their cooperative can make wide use of it for their benefit and offer constructive criticism and suggestions affecting its future

Members carry the cooperative's image to the community and business environment. Although large cooperatives often hire professionals trained in communications, public relations, member relations, and governmental affairs, members are themselves often the best representatives. They promote the cooperative to potential members and explain it to others.

Members also make sure it acts as a good community citizen by contributing funds, providing leadership, and participating in civic activities.

While cooperatives are politically neutral and avoid political affiliation, they do attempt to influence legislation affecting their business environment. Members and directors may participate in political activities, but the bylaws usually set conditions for managers, directors, and employees.

Control Guidelines—Members control their cooperatives by shaping the legal framework in the articles of incorporation and bylaws. The board of directors and hired management must legally abide by the provisions of these documents. Only the membership can change them.

The articles list the cooperative's name, place of business, capital structure, and incorporators, and describe the type, purpose, operations, membership qualifications, duties of officers and directors, meeting and voting procedures, raising and refunding of mem-

ber capital, and procedures and rights in case of dissolution. Other control documents include membership applications and marketing agreements.

The policies reflect the operating philosophy and guide actions it will take to fulfill its mission. Members delegate the responsibility for development, review, and change of policies to the board of directors. Policies cover employee conduct and work rules, office hours, board/management functions, member credit, safety, risk management, public relations, and other topics related to successfully conducting the cooperative's business.

Governance—Members also control their cooperative by casting votes on major business decisions (for example, merger) and by the authority they delegate to the board through a democratic election process. Level of control is directly related to members' degree of participation in this important process.

Formal decisions are made by members at the annual meeting such as nominating and electing directors, amending the bylaws, accepting the audit report, voting on major actions or policies proposed by the board and management, and voting on resolutions and motions.

Informal participation covers participation in cooperative activities such as:

- serving on advisory committees and taking on special assignments;
- expressing opinions in discussions with other members or directors;
- providing feedback to employees and management;
- responding to surveys about attitudes and assessments, product and service evaluations, buying and marketing intentions, and providing other opinions about changing conditions.

Active member participation provides additional information that helps the board and management better carry out their responsibilities. By active involvement in the governance process, members maintain control of the cooperative's scope, direction, and operation.

Members place the health of the cooperative in the hands of directors. Members reaffirm performance by re-electing directors or seek improvements by electing new directors.

Members must participate in the governance activities of their cooperative or accept the decisions made by others.

Financial Responsibility

Members have a responsibility to finance their cooperative in proportion to their use of it. Members provide operating capital (equity) in three primary ways: direct investment, retained margins, and per-unit capital retains.

- Direct investment—refers to cash purchases of membership certificates, common and preferred stock, or other forms of equity.
- Retained margins—At fiscal year end when members receive a patronage refund based on their share of net income as determined by their use in the cooperative, they reinvest part of it as determined by the board of directors. Federal tax law requires that 20 percent of the refund be paid in cash. The rest is reinvested in the cooperative and later paid back to members according to a revolving cycle determined by the board
- Per-unit retain—Members use this method to invest each time they conduct business with the cooperative. The cooperative retains a specific amount per physical unit (pounds, bushels, or cartons) involved in member transactions. Retains are accumulated and then revolved back to members over a period of years.

Startup capital—When cooperatives are organized and started, they require an initial infusion of capital. For a proposed cooperative business to have a chance at succeeding, prospective members must invest in the venture. Their commitment must be large enough to show continuing concern about how their invested money is being managed and that will motivate them to accept ownership responsibilities.

The amount of capital required is determined by economic feasibility studies and financial cost analyses. Some startup costs—legal fees, facilities and equipment, inventory, salaries, insurance, office furniture, and administrative supplies—will continue as operating expenses.

Control follows finance—Those three words explain the importance of members' responsibility to finance their cooperative. A desirable goal is to have members' contribution of equity capital amounting to a majority of the cooperative's total capital requirement. A high level of member equity capital provides for greater member control and commitment. It also usually makes it easier to access debt capital if

necessary.

Financing should be provided by active members. Otherwise, former and long-time members may pressure the board to allocate funds to redeem old equity while current members want more money invested in new facilities and better services. Being financed largely by current members results in a membership more likely to have common interests and objectives.

Summary

As owners of the cooperative, members have associated responsibilities. They must use, control, and finance their cooperative to gain the economic benefits for which it was organized.

In taking an active ownership role by patronizing and financing the cooperative, expressing their views and needs, participating in the governance process and decisionmaking, and evaluating how well the cooperative is performing, they gain other benefits as well.

They become educated in business practices and see first hand the benefits derived from working together. They often gain valuable leadership training. The experience they gain from expressing their views in various meetings, participating on committees, serving on the board of directors, and speaking on behalf of the cooperative helps develop leadership traits that they transfer to other personal and business pursuits.

Participation in cooperative business affairs can add to a member's personal stature in the community, in the industry in which the cooperative operates, and in governmental affairs.

All in all, cooperative ownership can give a member a well-earned sense of personal and business achievement along with the numerous benefits the cooperative's existence provides.

Exercising Member Responsibilities

- Commitment and use
- Ownership and contrd
- Finance

B-1

Member-Owner Commitment and Use

Commit to:

- Use products and services
- Maintain contrd
- Provide financing

B-2

Member-Owner Commitment and Use

Using the cooperative is members' easiest responsibility to carry out, and by using it as much as they can, members help the cooperative succeed.

B-3

Member Ownership and Control

- Know legal responsibilities
- Understand the cooperative
- Make decisions
- Vote
- Express opinions
- Serve (board/committees)

B-4

Member-Owners Have Legal Responsibilities

- Incorporate
- Approve legal documents
- Elect directors according to mandated State law and cooperative policy
- Ensure that general business and cooperative-specific laws are followed
- Make major decisions that alter legal status

B-5

Owners Must Understand Their Cooperative

Know and understand its:

- Definition and history
- Mission or purpose
- Articles and bylaws
- Organizational structure and staffing
- Products and services
- Policies

B-6

Member-Owner Financial Responsibilities

Control follows finance:

- Finance in proportion to use
- Most capital from members
- Distribute earnings according to use
- Return equity to inactive members
- Revolve equity

B-7

Ways Member-Owners Finance Cooperatives

- Direct investment
- Retained margins
- Per-unit retains
- Start-up capital

B-8

Using the Cooperative Is Essential for

- Maintaining control
- Achieving business success
- Fulfilling member needs
- Producing continuing benefits

B-9

Chapter 3—The Cooperative Director

This chapter focuses on the board of directors. It covers characteristics members should consider in choosing a director to represent them, alternatives for nominating and electing directors, and functions and responsibilities of directors.

The cooperative board of directors—the key position between members and hired management and the makers of cooperative policy—is an important body in the make-up of a cooperative. Elected by members, directors are charged with fulfilling responsibilities within the parameters of the cooperative's policies and the law. They must set overall objectives and chart the course the cooperative will follow to achieve those objectives.

Being a director is an extremely important function in a cooperative and it must be taken seriously. To effectively carry out their duties, directors have to be well versed in many critical areas and able to provide sufficient time and energy. Serving on a cooperative's board of directors can be time consuming in carrying out formal and informal duties. While attending board and committee meetings may take only a couple days each month, informal duties such as listening, informing, and providing advice to members; writing letters; reading materials to be informed and prepared for meetings; and other duties can consume a lot of extra time.

Directors are also asked to represent the cooperative at community functions and take leadership roles in community organizations on behalf of the cooperative. In larger cooperatives, directors are periodically asked to visit State and Federal legislators and officials.

Selecting Directors

In considering attributes of a potential director, members should look for people who are good conversationalists, can clearly express their views, are good listeners, and are active in organizations extending outside the community. A good director must also be able to establish two-way communications with the manager, other directors, and members.

A director can be a powerful force for strengthening member support, promoting the cooperative in the community, and in other ways influencing the business environment in which the cooperative operates. Thus, a good potential director has the ability to get along

with others, uses the cooperative fully, is interested in its performance, and will actively participate in making decisions.

Cooperative directors need good business judgment, often gained from their jobs or operating their own businesses (e.g., farms). But, in this case, directors are responsible for a service-oriented business owned by hundreds or thousands of producers.

A good director candidate over time makes the most of available resources and is known to be a solid thinker. Members with college degrees or other relevant business experience bring special expertise to the board.

Selection Methods—Size, structure, and function of the cooperative may dictate how directors are chosen. Various systems can be used to produce equitable representation of the membership. Some are based on geographical districts with nearly equal membership numbers, along commodity lines, or volume of member business.

Cooperatives' democratic control principle has been interpreted to mean equal voting rights, yet does not preclude using proportional voting to achieve equitable voting rights. State statutes offer guidance on how the cooperative can elect directors.

A nominating committee is often used although candidates may also be offered from the floor. The committee may be appointed by the board chairman or elected by the membership. Former directors are often named although existing directors, hired management, or staff should not serve.

A biographical sketch of candidates should be developed and given to members before the election. An ideal slate offers at least two candidates for each position. Some large cooperatives with large or scattered membership may use district caucuses or mail balloting to nominate candidates. Directors are elected at the annual meeting.

Many cooperatives elect directors "at large," meaning the entire membership can vote directly to fill each director position, and each director represents the entire membership. As a cooperative grows, or the composition of its membership changes, or it combines with one or more other cooperatives, the "at-large" method may become impractical.

Other cooperatives have other systems to produce equitable representation of the membership. Some divide the cooperative's territory into geographic districts with nearly equal membership numbers. Others establish roughly equal territories based on volume of member business. And others establish districts

along commodity lines. Some cooperatives have provisions for a public "at large" director who can contribute a special expertise, such as an agricultural economist, a lawyer, or a financial or governmental affairs specialist.

Regardless of the method, the members need to be familiar with director qualifications, the articles and bylaws, and leading candidates among the membership.

Director Responsibilities

Understanding the differences between manager and director roles is a key requirement for board effectiveness and harmony. Their roles in a cooperative are unique among businesses. The uniqueness centers on the employee-only status of the cooperative's manager compared with the manager of other businesses typically sharing in ownership. A cooperative manager should not be a member of the board, but must attend and contribute to board meetings.

More decisive differences exist between the director and manager roles and responsibilities. Directors have primary control and use a strategic perspective in determining how to best serve members' needs and in deriving the organizational and operating policies required to do that. Directors delegate to the manager, but should take counsel from the manager when it is appropriate. Conversely, the manager has operations control and uses a more tactical perspective-delegated by the board-in running the day-to-day operations of the cooperative. Decisions made by the manager must be in line with the cooperative objectives and general direction set by the board. The manager also advises the board when asked on policies and programs.

Just as it is important that the manager understand that he/she is not a board member and must defer to the board of directors on major decisions, policy and overall cooperative direction, directors must also recognize the division of responsibility.

Preserving Character-Directors are responsible for preserving the cooperative's character. Each State has at least one statute related to it. Federal laws have specific requirements related to Government programs, antitrust, and taxation. Also, the bylaws and articles of incorporation state what the cooperative is and how it must operate. Directors can be held legally liable as individuals for violating these laws and regulations.

However, over time, a subtle but very real threat to the organization's cooperative character may develop. Management and board philosophy can drift from the cooperative's formally adopted mission or may lose

touch with the members' changing needs. Without continual education of the key participants-managers and staff, directors, and members-the cooperative character, except that defined by law, can slip away and become regarded the same as any other business.

Safeguard Assets-Members who invest in the cooperative expect some kind of beneficial return. They entrust the board to make sound business decisions to protect their investment and increase the value in terms of producing benefits. Directors are accountable for both their actions and those of hired management. The board equitably distributes benefits by weighing the cooperative's business needs and those of member owners. Each year the board hires an individual or firm to audit the cooperative's financial records and presents results in an annual report to members.

Hire Manager-The board's most important decision that determines the success (or failure) of the cooperative is hiring (or firing) the manager. The board objectively appraises candidates' qualifications-leadership, compatibility of attitudes and goals, and knowledge of the uniqueness of cooperatives.

The board delegates day-to-day control and guidance to the manager through bylaw provisions, written policies, budgeting, strategic planning, reporting requirements, and performance accountability. The board also annually reviews the manager's performance and seeks ways to improve problem areas.

Set Policies-The board originates and approves general policies that relate to the cooperative's functions and how it conducts business. The policies cover internal and external activities and serve as a basis for making consistent decisions that minimize conflict and maximize accountability.

Policies cover director and manager functions and relationships; member, employee and public relations; organizational requirements; and operational activities such as credit, pricing functions performed, and purchasing, marketing, and services provided. These written policies should be periodically reviewed and updated.

These policies are discussed, written in final form, approved, and reviewed at least annually by the board. A policy manual is developed and distributed to each director and the manager.

General policy statements reflect the board's philosophy of what kind of business the cooperative should be, such as striving to provide leadership and

cooperate with other businesses. Hence, the manager can make minor commitments to participate in community events without first getting board approval.

Policies may also be specific: "No additional credit shall be extended to any patron whose account is 120 days past due." Such a policy gives the manager authority to refuse extending additional credit even to a director. Here are some other simplified examples:

Policy—An independent Certified Public Accountant shall audit the financial records at the end of the fiscal year. **Implementation**—The manager keeps appropriate records and provides other information needed for the audit.

Policy—An annual business plan shall be prepared for approval and progress report made at monthly board meetings. **Implementation**—Without further specifics, the manager prepares a budget for approval, then compares it to actual business transaction, and reports any other information that would help the board understand the cooperative's financial status.

Policy—Employee pay raises will be based on job performance. **Implementation**—Job descriptions and performance standards are written for each employee and performance is reviewed annually. Amount of pay raise depends on performance evaluation results.

Policy—An annual membership meeting shall be conducted. **Implementation**—Management plans, organizes, and conducts the annual meeting.

Distribute Benefits—The cooperative's performance is recorded on a fiscal year-end statement of operations and balance sheet. The board determines how the net income (or loss) will be distributed. With net income, it decides how much patronage refund to pay members in cash (Federal law requires at least 20 percent), how much to place in allocated equity to help operate the cooperative, and how much to retain for capital needs. Allocated equity refunds are members' equity (ownership) in the cooperative, and are periodically revolved back to the members on a schedule determined by the board.

Strategically Plan—Knowing the cooperative's needs, the board provides leadership in developing plans to meet them. The process starts with an assessment of the general and changing business climate that affects both members and the cooperative. In long-range planning, the board and management consider challenges relating to internal and external organizational growth, business volume, membership, territory served, assets, etc. They develop objectives and strategies to achieve and they monitor progress on an ongoing basis.

Self-Evaluate—The board conducts an internal assessment to assess how well it is fulfilling responsibilities. Directors should assess themselves, the board's performance, and board meeting effectiveness. Conducting such assessments identifies weaknesses and allows for the development of corrective actions.

Elect Board Officers—The board usually elects the cooperative's officers shortly after the annual meeting. Each officer has specific duties as detailed in the cooperative's bylaws.

- The president presides at all meetings, watches over the association's affairs, and serves as the main communication link between hired management and the other directors and members.
- The vice president, in the absence or disability of the president, performs the duties of president.
- The secretary keeps a complete record of all meetings of the board of directors and general membership and also is the official custodian of the cooperative's seal, bylaws, and membership records.
- The treasurer oversees the bookkeeping and business accounts to ensure accuracy and proper handling. The treasurer also presents periodic financial reports.

Appoint Board Committees—The board's work may be divided among special or permanent committees, each dealing with a phase of the association's operations, such as finance, purchasing, feasibility, marketing, and others.

Committees study the problems in their particular field and make recommendations to the board of directors. In some instances, committees may be given certain powers to act for the board, subject to later review by the entire board.

Summary

The board of directors is the cooperative's central decision center. In carrying out this overall responsibility, the board performs several important supporting roles. It is a listening post, hearing from management and membership. It is a communications hub, imparting information between members and management. It is an advisory body to members and management, providing recommendations and guidance. But in every role and action, the board is accountable to members.

Members choose director candidates and elect them to office. From their peers, members select individuals with the best judgement and business management skills to represent them and conduct affairs on the cooperative's board of directors. Loyalty, integrity, the ability to make wise business decisions, and willingness to serve are necessary characteristics for board members.

Acting as a group, directors set the objectives for the cooperative and make decisions that set the course the cooperative will follow in achieving those objectives.

In carrying out their responsibilities, directors serve much like trustees, charged with a legal obligation to protect the assets of the members. Directors must fulfill their responsibilities while exercising due care to act within the parameters of the cooperative's policies and the law.

Directors

- Hold a key position between members and hired management
- Set cooperative objectives and chart its course
- Make cooperative policy
- Must be well versed in many areas
- Have time and energy
- Listen, inform, advise
- Represent the cooperative

C-1

Selecting Directors

A good director should be able to:

- Show leadership
- Think independently
- Place cooperative's interests first
- Make good business decisions
- Communicate well
- Express views
- Make the most of available resources
- Promote the cooperative

C-2

Furthermore, a Director:

- Gets along with others
- Uses the cooperative fully
- Is interested in its performance
- Participates in decision-making
- Understands that he/she is representing owners in their business
- Understands his/her role in relation to management

C-3

Potential Directors

- Identify potential directors with a nominating committee
- Biographical sketch should be studied by the membership prior to the election
- Considered for election at annual meeting

C-4

Elect Directors

Equitable representation:

- At-large system
- Geography
- Business volume
- Commodity
- Personal expertise

C-5

Elected Directors

Have primary contrd:

- Use strategic perspective to better service members' needs
- Delegates daily operational control to the manager

C-6

Directors Recognize Division of Responsibility

Directors:

- Have primary control
- Strategic perspective
- Develop operational and organizational policies
- Take control from manager
- Big-view decisions
- Provide direction
- Hire/fire manager

Manager:

- Has operational control
- Tactical perspective
- Follows operational and organizational policies
- Advises board
- Day-to-day decisions
- Acts in line with direction
- Hires/fires staff

C-7

Director Responsibilities

- Preserve cooperative character
- Safeguard assets
- Hire the manager
- Set policies
- Distribute benefits
- Plan for the future
- Evaluate
- Elect board officers
- Appoint committees

C-8

Directors Preserve Co-op's Character

Serve according to :

- Laws
- Bylaws
- Articles

C-9

Directors Safeguard Assets

- Protect members' investment
- Make sound financial decisions
- Hire auditors

C-10

Directors Hire Manager

- Appraise applicant qualifications
- Delegate day-to-day control
- Appraise performance

C-11

Directors Set Policies

- Originate and approve
- Function and business related
- Review and update
- Create policy manual

C-12

Directors Distribute Benefits

- Amount of patronage refund
- Proportion in cash
- Allocated equity
- Unallocated equity
- Equity revolvement and retirement

C-13

Directors Plan

- Assess business
- Evaluate challenges—internal and external growth, business volume, membership, territory, assets
- Develop objectives and strategies
- Monitor progress

C-14

Directors Self-Evaluate

Internal assessments

- Self-ability, performance
- Whole board performance
- Board meeting productivity

C-15

Directors Choose Leaders

Elect Board Of ficers

- President
- Vice president
- Secretary
- Treasurer

C-16

Directors Appoint Committees

- Temporary or permanent
- Field of study (finance, feasibility, marketing, purchasing, etc.)
- Recommendations to the board
- Power to decide

C-17

Chapter 4—What the Cooperative Manager Does

This chapter focuses on managers and their responsibilities, with particular emphasis on differences between managing a cooperative versus other forms of business.

All businesses are managed to provide a return on the investment of stockholder-owners. The manager of an investor-owned corporation basically needs to satisfy stockholders with the yield they're getting on their invested money. The manager of a cooperative, likewise, needs to satisfy its member-owners but needs a lot more help from them—information, participation, and decisionmaking. Because of the active participation level of members, there must be considerable communication between them and the manager.

Success of a cooperative largely depends on good board/manager relationships. The working relationship between board and manager requires respect and an understanding of each other's responsibilities (the previous chapter indicated responsibility differences).

Like any other business, cooperatives attempt to seek the best managers, offering comparable wages and benefits, performance incentives, and retirement programs. Managers are hired to operate the business, focusing energies and efforts on everyday operations to serve members. When interviewing manager candidates, the board must make the ownership issue clear and further stress that the manager is accountable to the board.

The board of directors decides what the cooperative will do; the manager and immediate staff decide how it can best be done—subject to board review—in achieving the primary objective of serving members effectively.

Manager Responsibilities

For most corporations, the roles of the manager and directors are generally the same. Understanding the differences in a cooperative is a key requirement for an effective and harmonious relationship. In a cooperative, the manager does not share in ownership and should not be a member of the board. This produces a clear separation between manager and director responsibilities.

Implements board policy—Policies are set by the board of directors and implemented by the manager.

Advises the board—Members and their elected directors may lack experience in operating a business, much less an agribusiness cooperative with its diverse functions and operations. The manager advises the board on how the cooperative can be operated more effectively and provides technical advice in many areas such as:

- competitive strategy— cost cutting, pricing policy, service packages, and cooperative benefits;
- financial management—credit control, debt load, cash-flow, and member equity;
- operational efficiency— product storage and handling, pickup and delivery schedules, administrative procedures, store traffic organization, and staffing;
- new technology and equipment— industry innovations, improved machinery, and research results;
- new products and services— additions or replacements and product information;
- policy changes— made necessary because of problems with implementation or by changes in business environment;
- regulatory changes— chemical use, worker safety, environmental contamination; and
- governmental affairs— new or changed legislation, governmental assistance programs, and involvement in public policy.

Manages daily operations—supervises and coordinates, under board direction, the business activities of the cooperative by managing the people, capital, and physical resources.

Hires staff—Maintaining a competent staff is the manager's most important job. How well the manager selects, trains, and supervises employees has a direct bearing on how well the cooperative performs. The board provides the manager with tools to assemble an effective staff—wage and salary plan, attractive benefits, and safe working conditions. Employees make the cooperative work, but the manager provides leadership, direction, and motivation.

Sets tactical goals and takes actions—Significant operational planning occurs as managers direct the daily affairs of the cooperative. The manager develops tactical plans

in line with the cooperative's major objectives, as set by the board of directors.

Formal reporting occurs at monthly board meetings. The manager sends financial statements and information on major issues to directors in advance of board meetings so they can review the material. Accurate reports to the board are necessary for good business management and help build mutual respect and trust between the manager and board. Major items include:

- information on special issues and circumstances;
- statement of operations with budget comparisons;
- balance sheet with comparisons to one or more previous years;
- accounts receivable status that notes delinquent accounts;
- progress toward objectives set as part of planning;
- summary of operational activity during the most recent period; and
- proposals for immediate or longer term consideration.

Managers also maintain informal contact with their boards. Outside of board meetings, managers must keep the board president and other officers apprised of significant events that call for immediate action.

Reports to members—Aside from daily informal contacts as members transact business at the cooperative, the manager may use special events such as an open house or appreciation day for more organized reporting. Letters to members and a column in a newsletter may be used. District or regional meetings and one-on-one member visits are used. Periodic cooperative publications cover a wide range of information about cooperative operations.

Cooperative bylaws require a formal annual report be distributed to members at the annual meeting. In more abbreviated form, the report contains much of the same information already provided to the board. The manager discusses operational highlights, issues and problems encountered, special activities, and outlook for the coming year.

Representing the Cooperative

As the person in charge on a day-to-day basis, the manager represents the cooperative in many ways. His/her representation is often guided by the cooperative's policies and specific board directives. The manager's own interests may also influence the type and

extent of his or her representation on behalf of the cooperative. The manager represents the cooperative in at least four areas: community, cooperatives, industry, and Government.

Community—As a business leader, the manager is called upon to participate in a variety of community activities, such as helping raise funds for charities, speaking at business and social events, and becoming a member of the chamber of commerce or community service organizations.

Cooperatives—The board of directors may select the manager to be the cooperative's voting delegate or official representative to other cooperatives or cooperative organizations. And at the discretion of the board, the manager may serve on the board of directors for other cooperatives.

Industry—Most industries have professional or trade associations to protect or enhance their business interests. The manager may get involved in one or more of the key organizations closely related to the cooperative's functions.

Government—Managers who are particularly convincing speakers are often called upon to speak to regulatory officials and policymakers on issues affecting the cooperative or its members.

Even in personal actions and activities, many people see the manager—even if indirectly—as representing the cooperative. That responsibility requires constant and careful attention.

Summary

A cooperative manager wears many hats and fulfills a unique position between members, employees, and the board of directors. In meeting responsibilities, a manager essentially becomes coach and player, leader and follower, educator and motivator, diplomat and dictator, mediator and magician, judge and jury, and analyst and activist.

Manager Responsibilities

- Implements board policy
- Advises the board
- Manages daily operations
- Hires and trains staff
- Sets short-range tactical goals in line with long-range plans
- Reports to the board
- Reports to members
- Represents the cooperative

D-1

The Manager

Understands the cooperative's purpose and follows the policies!

D-2

The Manager

Advises the board

- Competitive strategy
- Financial management
- Operational efficiency
- New technology and equipment
- New products and services
- Policy changes needed
- Regulatory changes
- Governmental affairs

D-3

The Manager

Controls daily operations

- Supervises and coordinates functions
- Manages people, capital, and physical resources
- Is accountable for his/her performance

D-4

The Manager

Hires staff

- Trains and supervises
- Provides leadership, direction, and motivation
- Appraises their performance

D-5

The Manager

Sets tactical goals and implements actions in line with the cooperative's strategic objectives

D-6

The Manager

Reports to the board

- Issues and circumstances
- Statement of operations
- Balance sheet
- Accounts receivable, delinquent accounts
- Progress toward objectives
- Summary of operational activity
- Proposals for immediate or longer term consideration

D-7

The Manager

Reports to members

- Working contact
- Open house
- Letters
- Newsletter
- Meetings
- Visits
- Formal report at annual meeting

D-8

The Manager

Represents the cooperative

- In the community
- With other cooperatives
- In the industry
- With government officials

D-9

Cooperative Manager— A Unique Position

• Coach and player	follower
• Diplomat and dictator	• Mediator and magician
• Judge and jury	• Educator and motivator
• Analyst and activist	
• Leader and	

D-10

Chapter 5—What Cooperative Employees Do

This chapter focuses on employees, what they do, and the characteristics of quality cooperative employees.

Cooperative employees work for a unique organization because the owners of the business are its day-to-day customers. This close contact with owners requires certain sensitivity by cooperative employees in serving members' needs. Members want and expect good service and fair treatment from the employees of their cooperative business.

Cooperative employees are the "glue" that binds members to their business. This unique business relationship places added emphasis on people skills when dealing with the member-owners. Employee attitudes are judged whenever they have direct contact with members.

Employees promote the cooperative, deliver supplies; handle members' products, order and maintain inventories; keep accurate accounting records; recommend products to customers; handle complaints; represent the cooperative in the business and civic communities; educate members and the public about what the cooperative offers; and adequately maintain facilities to serve members.

Characteristics of Quality Employees

Like all businesses, cooperatives need quality employees. To be effective and serve the cooperative well, employees have obligations.

Understand the Cooperative—Quality cooperative employees understand the uniqueness of their organization. They understand what a cooperative is and support its business ideals.

It's hard for employees to deliver quality services if they don't understand the business that employs them. Ownership entitles members to services they may not expect or request from privately held businesses. Cooperative employers are often asked questions about internal operations, governance, and earnings of the business. A well-informed employee knows how to handle these questions in a way that satisfies members. For nonmembers, employees must be careful not to reveal information that could be useful to the competition. All employees must be kept well informed on the cooperative's distinctive traits and operations.

Know and follow policy—Well-informed employees keep abreast of current cooperative policies and rules. The purpose and application of any policy or rule should be discussed with a supervisor or explained in an employee meeting. Policies and rules are implemented to safeguard the member-customer interests, set good business standards, and ensure the cooperative's success.

An employee's supervisor and the manager are responsible for handling and resolving any conflict with the cooperative's policy. Well-informed employees avoid evaluating policy or rules to fit a particular situation or circumstance. They should implement policy and rules in a fair and equitable manner toward all customers. Special treatment for one customer may generate short-term results, but cause ill will and dissatisfaction among most customers.

Respect all customers/members and treat them fairly—As customers, cooperative members want to be treated fairly and honestly by the business they own. Special concessions shared with selected customers soon bring dissatisfaction among all customers. Employees must offer services or products in a sense of "best-value" to all customers.

Are well trained—Employees must be able to explain technical information about service areas in which the cooperative operates. Customers rely on employees to recommend products or services. The ability to respond to customer questions and resolve their problems often determines if customers return to the cooperative for future needs.

Because of the fast pace of today's business and changes in technical product and environmental regulations, employees must be continually trained in product and service areas. Employees must understand the operations and methods the cooperative uses to provide products and services.

Are team players—Team success, whether in sports or in business, demands that all players cooperate to reach predetermined objectives. Each employee of the cooperative organization should know the objectives of the cooperative and understand his or her role in achieving them. They must work together toward overall achievement of objectives.

Employees working in service organizations must be aware of the service level required to meet the organization's objectives and employees' expected contributions to the team effort.

Communicate well—Constant communication is the key to any successful business operation. Employees are the eyes and ears of the business and constantly deal with customers and the public. This feedback helps shape future procedure and policy changes necessary to increasing customer appreciation and satisfaction.

Employee communication with supervisors leads to implementing desired changes. Unsafe working conditions or damaged facilities and broken equipment should be reported to supervisors for correction or repair. Irregularities in business operations or planned absences from the job must be communicated to keep the business operating efficiently.

Effective communication means not only talking, but also listening carefully to comments and suggestions from customers, instruction from supervisors, and recommendations from other employees.

Maintain assets—Employees are responsible for keeping members' assets—facilities, equipment, and inventory—in good condition. Dirty or poorly arranged merchandise, malfunctioning equipment, and lower or poor-quality products can be a deterrent to reaching a cooperative's goals, just as overpricing or poor selection of merchandise would be. Malfunctioning equipment suggests that employees don't take customer satisfaction seriously.

Participate in community activities—Employees carry the image of the cooperative to the business community by participating in civic or service organizations, school activities, professional and youth groups, or the Chamber of Commerce. If possible, cooperative employees should strive to be involved in community activities.

Volunteering not only contributes to the employee as an individual, but also shows the cooperative is interested in the needs and welfare of the community. However, it is important to note that when representing the cooperative, employees must be cautious about taking a particular stand or participating in an activity which has a special social, political, or religious orientation. Most cooperatives maintain religious and political neutrality.

Maintain personal appearance—Employees present the cooperative's image in day-to-day contacts. A positive impression often is based on an employee's personal appearance. A well-groomed employee outfitted with apparel appropriate to working conditions is a plus and reflects the person's self-

esteem and cooperative's professional image. Customers/members are more likely to respect their cooperative if employees present a positive and professional image.

Information About Cooperatives

The Rural Business-Cooperative Service (RBS) within USDA's Rural Development mission area conducts research, collects statistics, develops educational materials, and provides on-site technical business assistance to farmers and other rural residents interested in organizing cooperatives. Followup assistance is provided as needed.

General and specific educational materials on cooperative operation and organization are available from RBS. Periodically, its staff conducts training workshops for key participants in the cooperative—managers, directors, and employees.

RBS also publishes *Rural Cooperatives*, a bimonthly magazine oriented to the cooperative business community. (Available for \$15 per year from: New Orders: Superintendent of Documents, P.O. Box 371954, Pittsburgh, PA 15250-7965.) USDA also has a catalog of publications and videos (CIR 4) related to cooperatives. For a free copy, write: USDA/RD/LAPAS, Stop 0705; 1400 Independence Ave., SW; Washington, DC 20250-0705.

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Cooperatives Employees

Are the glue that binds
members
to their business!

E-1

Cooperative Employees

- Promote the cooperative
- Deliver supplies
- Handle members' products
- Order and maintain inventories
- Keep accurate records
- Recommend products/services
- Handle complaints
- Represent the cooperative
- Maintain facilities

E-2

QUALITY Cooperative Employees

- Understand the cooperative
- Know and follow policy
- Are well trained
- Are team players
- Keep supervisors informed
- Maintain assets
- Participate in the community
- Maintain personal appearance

E-3

QUALITY Cooperative Employees

Understand the cooperative!

- Know the cooperative form of business and who the owners are
- Are able to answer questions adequately
- Do not reveal information that could help the competition

E-4

QUALITY Cooperative Employees

Follow cooperative policies and rules!

- Know them well
- Implement them in a fair and equitable manner
- Seek guidance when there might be an exception

E-5

QUALITY Cooperative Employees

Respect all customers/members and treat them fairly!

- Are polite and professional
- Do not offer special treatment for some that might lead to ill will
- Offer services or products in a sense of "best-value" to all

E-6

QUALITY Cooperative Employees

Are well trained!

- Understand operations, can perform required functions
- Can recommend the right products and services
- Understand the methods the cooperative uses to provide products and services

E-7

QUALITY Cooperative Employees

Communicate well!

- Are articulate
- Keep supervisors and other employees informed of pertinent working issues and problems
- Listen to supervisors, other employees, and members

E-8

QUALITY Cooperative Employees

Properly maintain member-owners assets!

- Facilities
- Equipment
- Inventory

E-9

QUALITY Cooperative Employees

Often participate in community activities

- Service clubs
- Schools
- Youth groups
- Business organizations

E-10

QUALITY Cooperative Employees

Maintain personal appearance!

- Promote a positive, professional image of self and the cooperative

E-11

U.S. Department of Agriculture
Rural Business-Cooperative Service
Stop 3250
Washington, D.C. 20250-3250

Rural Business-Cooperative Service (RBS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The cooperative segment of RBS (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs. RBS also publishes research and educational materials and issues *Rural Cooperatives* magazine.

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MEMBERS MAKE COOPERATIVES WORK

USDA, RBS, CIR 11 Chapter 2 -
Members Make Cooperatives Work

Exercising Member Responsibilities

- Commitment and Use
- Ownership and Control
- Finance

Member-Owner Commitment and Use

Commit to

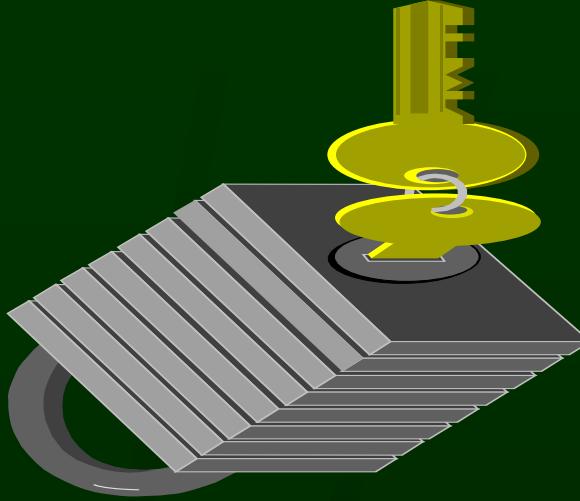
- Use Products and Services
- Maintain Control
- Provide Financing

Member-Owner Commitment and Use

Using the cooperative is members' easiest responsibility to carry out, and by using it as much as they can, members help the cooperative succeed

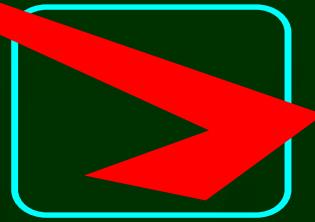
Member Ownership and Control

- Know legal responsibilities
- Understand the Cooperative
- Make decisions
- Vote
- Express opinions
- Serve (board/committees)



Member-Owners Have Legal Responsibilities

- Incorporate
- Approve legal documents
- Elect directors according to mandated State law and cooperative policy
- Ensure that general business and cooperative-specific laws are followed
- Make major decisions that alter legal status



Owners Must Understand Their Cooperative

Know and understand its

- Definition and history
- Mission or purpose
- Articles and Bylaws
- Organizational structure and staffing
- Products and services
- Policies

Member-Owner Financial Responsibilities

Control follows finance

- Finance in Proportion to Use
- Most capital from members
- Distribute earnings according to use
- Return equity to inactive members
- Revolve equity



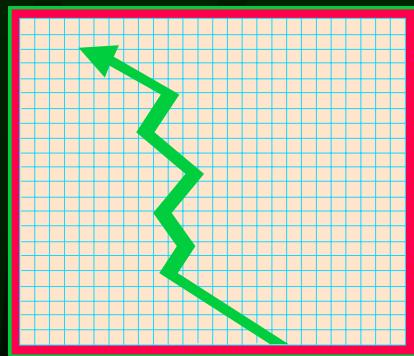
Ways Member-Owners Finance Cooperatives

- Direct Investment
- Retained margins
- Per-unit retains
- Start-up capital



Using the Cooperative Is Essential for

- Maintaining control
- Achieving business success
- Fulfilling member needs
- Producing continuing benefits



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THE COOPERATIVE DIRECTOR

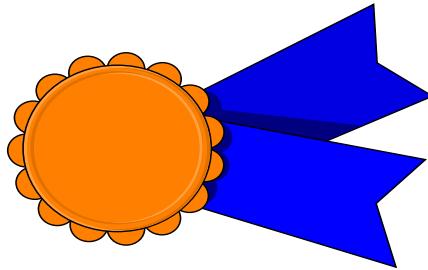
Directors

- Hold a key position between members and hired management
- Set cooperative objectives and chart its course
- Make cooperative policy
- Must be well versed in many areas
- Have time and energy
- Listen, inform, advise
- Represent the cooperative

Selecting Directors

A good director should be able to

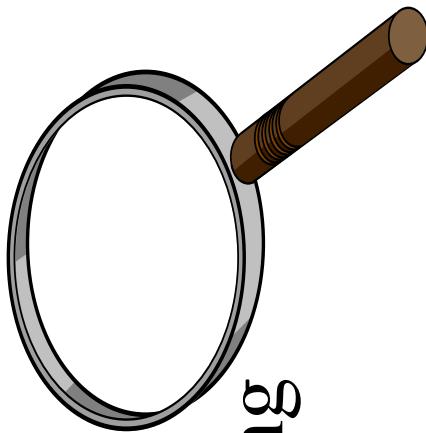
- Show leadership
- Think independently
- Place cooperative's interests first
- Make good business decisions
- Communicate well
- Express views
- Make the most of available resources
- Promote the cooperative



Furthermore, a Director

- Gets along with others
- Uses the cooperative fully
- Is interested in its performance
- Participates in decision-making
- Understands that he/she is representing owners in their business
- Understands his/her role in relation to management

Potential Directors



- Helpful to identify by nominating committee
- Should be studied by the membership - biographical sketch - prior to the election
- Considered for election at annual meeting

Elect Directors

Equitable representation

At-large system

Geography

Business Volume

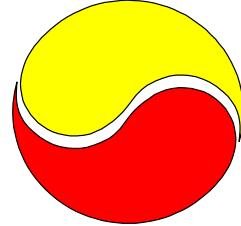
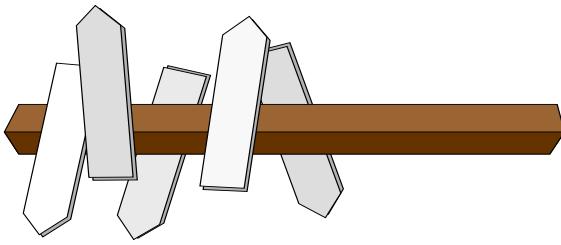
Commodity

Personal Expertise

Elected Directors

Have primary control

- Use strategic perspective to better serve members' needs
- Delegate daily operational control to the manager



Directors Recognize Division of Responsibility

Directors

Have primary control

Strategic perspective

Develop operational and

organizational policies

Take counsel from manager

Big-view decisions

Provides direction

Hire/fire manager

Manager

Has operational control

Tactical perspective

Follows operational and organizational policies

Advises board

Day-to-day decisions

Acts in line with direction

Hires/fires staff

Director Responsibilities

- Preserve cooperative character
- Safeguard assets
- Hire the manager
- Set policies
- Distribute benefits
- Plan for the future
- Evaluate
- Elect board officers
- Appoint committees



Directors Preserve Character

Serve according to laws and regulations!

- Laws
- Bylaws
- Articles

And carry on the cooperative's spirit!

Directors Safeguard Assets

- Protect members' investment
- Make sound financial decisions
- Hire auditors

Directors Hire Manager

- Appraise applicant qualifications
- Delegate day-to-day control
- Appraise performance

Directors Set Policies

- Originate and approve
- Function and business related
- Reviewed and updated
- Policy manual

Directors Distribute Benefits

- Amount of patronage refund
- Proportion in cash
- Allocated equity
- Unallocated equity
- Equity revolvement and retirement

Directors Plan

- Assess business climate
- Evaluate challenges--internal and external growth, business volume, membership, territory, assets
- Develop objectives and strategies
- Monitor progress

Directors Self-Evaluate

Internal assessments

- Self - ability, performance
- Whole board performance
- Board meeting productivity

Directors Choose Leaders

Elect Board Officers

- President
- Vice president
- Secretary
- Treasurer

Directors Appoint Committees

- Temporary or permanent
- Field of study (finance, feasibility, marketing, purchasing, etc.)
- Recommendations to the board
- Power to decide

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WHAT THE COOPERATIVE MANAGER DOES

Manager

- Implements board policy
- Advises the board
- Manages daily operations
- Hires and trains staff
- Sets short-range tactical goals in line with long-range plans
- Reports to the board
- Reports to members
- Represents the cooperative



The Manager

Understands the cooperative's purpose and follows the policies!

The Manager

Advises the board

- Competitive strategy
- Financial management
- Operational efficiency
- New technology and equipment
- New products and services
- Policy changes needed
- Regulatory changes
- Governmental affairs

The Manager

Controls daily operations

- Supervises and coordinates functions
- Manages people, capital, and physical resources
- Is accountable for his performance

The Manager

Hires staff

- Trains and supervises
- Provides leadership, direction, and motivation
- Appraises their performance

The Manager

Sets tactical goals and implements actions, in line with the cooperative's strategic objectives

The Manager

Reports to the board

- Issues and circumstances
- Statement of operations
- Balance sheet
- Accounts receivable, delinquent accounts
- Progress toward objectives
- Summary of operational activity
- Proposals for immediate or longer term consideration

The Manager

Reports to members

- Working contact
- Open house
- Letters
- Newsletter
- Meetings
- Visits
- Formal report at annual meeting

The Manager

Represents the cooperative

- In the community
- With other cooperatives
- In the industry
- With government officials

Cooperative Manager - A Unique Position

★ Coach and ★
Player

★ Leader and ★
Follower

★ Diplomat and ★
Dictator

★ Mediator and ★
Magician

★ Judge and ★
Jury

★ Educator and ★
Motivator

★ Analyst and ★
Activist



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WHAT COOPERATIVE EMPLOYEES DO

Cooperative Employees

*Are the glue that binds
members
to their business!*

Cooperative Employees

- Promote the cooperative
- Deliver supplies
- Handle members' products
- Order and maintain inventories
- Keep accurate records
- Recommend products/services
- Handle complaints
- Represent the cooperative
- Maintain facilities

Quality Cooperative Employees

- Understand the cooperative
- Know and follow policy
- Are well trained
- Are team players
- Keep supervisors informed
- Maintain assets
- Participate in the community
- Maintain personal appearance

Quality Cooperative Employees

Understand the cooperative!

- Know the cooperative form of business and who the owners are
- Are able to answer questions adequately
- Do not reveal information that could help the competition

Quality Cooperative Employees

Follow cooperative policies and rules!

- Know them well
- Implement them in a fair and equitable manner
- Seek guidance when there might be an exception

Quality Cooperative Employees

Respect all customers/members and treat them fairly!

- Are polite and professional
- Do not offer special treatment for some - that might lead to ill will
- Offer services or products in a sense of “best-value” to all

Quality Cooperative Employees

Are well trained!

- Understand operations, can perform required functions
- Can recommend the right products and services
- Understand the methods the cooperative uses to provide products and services

Quality Cooperative Employees

Communicate well!

- Are articulate
- Keep supervisors and other employees informed of pertinent working issues and problems
- Listen to supervisors, other employees, and members

Quality Cooperative Employees

Properly maintain member-owner assets!

- Facilities
- Equipment
- Inventory

Quality Cooperative Employees

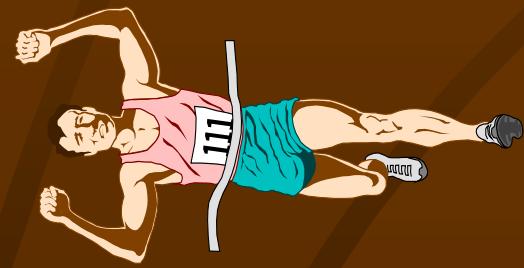
*Often participate in
community activities*

- Service clubs
- Schools
- Youth groups
- Business organizations

Quality Cooperative Employees

Maintain personal appearance!

- Promote a positive, professional image of self and the cooperative



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WHAT ARE COOPERATIVES?

A Type of Business Dependent On

- *Who owns the business?*
- *Who controls the business?*
- *Who uses the business?*
- *Who gets the profits?*



Individually Owned Business

One Person

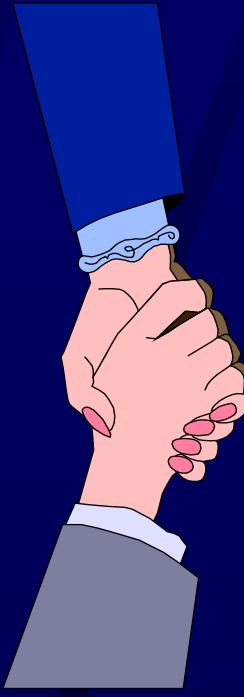


- Owns
- Controls
- Operates
- Benefits/profits

Partnership

Two or more people

- Own
- Control
- Operate
- Share in risks and profit



Corporations



- Multiple owners
- Variety of goods and services
- Physical facilities
- State chartered
- Investors
- Profits shared among investors

Cooperatives Are a Type of Corporation



- Multiple owners who are user members
- Variety of goods and services
- Physical facilities
- State chartered
- Members are investors
- Owned and controlled by members who use its services

Cooperatives

- Are primarily controlled by a board of directors elected by and from members
 - Derive equity from member owners
 - Operate for the benefit of member owners
 - Allocate earnings to members based on use
 - Earnings from member business is taxed once
 - Have perpetual existence

The Cooperative Form of Business Is Prevalent

47,000 cooperatives in the United States

Serve 100 million people, 40 percent of the population

There are several types of cooperatives serving many sectors

Types of Cooperatives

- Financial
- Consumer Service
- Business

Cooperatives Provide

- Credit
- Transportation
- Facilities
- Recreational Equipment
- Food
- Housing
- Health care
- Child care
- Wholesale goods and supplies
- Electricity
- Telephone and electric services
- Farm production supplies and service
- Farm marketing

Cooperatives Have Unique Principles

User - Owner

User - Control

User - Benefit

User-Owner Principle



The people who own and finance the cooperative are those who use it.



User-Control Principle



The people who use the cooperative are those who control the cooperative

Members Exercise Control By

- Voting at annual and membership meetings
- Electing Board of Directors
- Making decisions on major cooperative issues



User-Benefit Principle

The cooperative's sole purpose is to provide and distribute benefits to members on the basis of their use



User-Benefits

- ★ Bargaining ★ Power
- ★ Market Access ★
- ★ Quality products ★ and services
- ★ Economic ★ Enhancement
- ★ Political Action ★
- ★ Competitive ★ Yardstick

Cooperative Practices

Implement and Facilitate Basic Principles

- Patronage Refunds - distribute earnings to members based on use
- Limited Return on Equity Capital - members form cooperatives for service, not for a monetary return on investment
- Cooperative Cooperation - joint ventures, MAC's, networks, alliances, working relationships, etc.
- Cooperative Education - promote the cooperative way of doing business and educate members, directors, and employees



Geographical Structure

Geographical characterization defines a cooperative's size and scope of operations in reference to serving members.

- Local - small region covered, a county or so
- Super local - two or more counties, branches
- Regional - numerous counties, State or more
- National - United States-wide
- International - worldwide

Cooperative Governance System

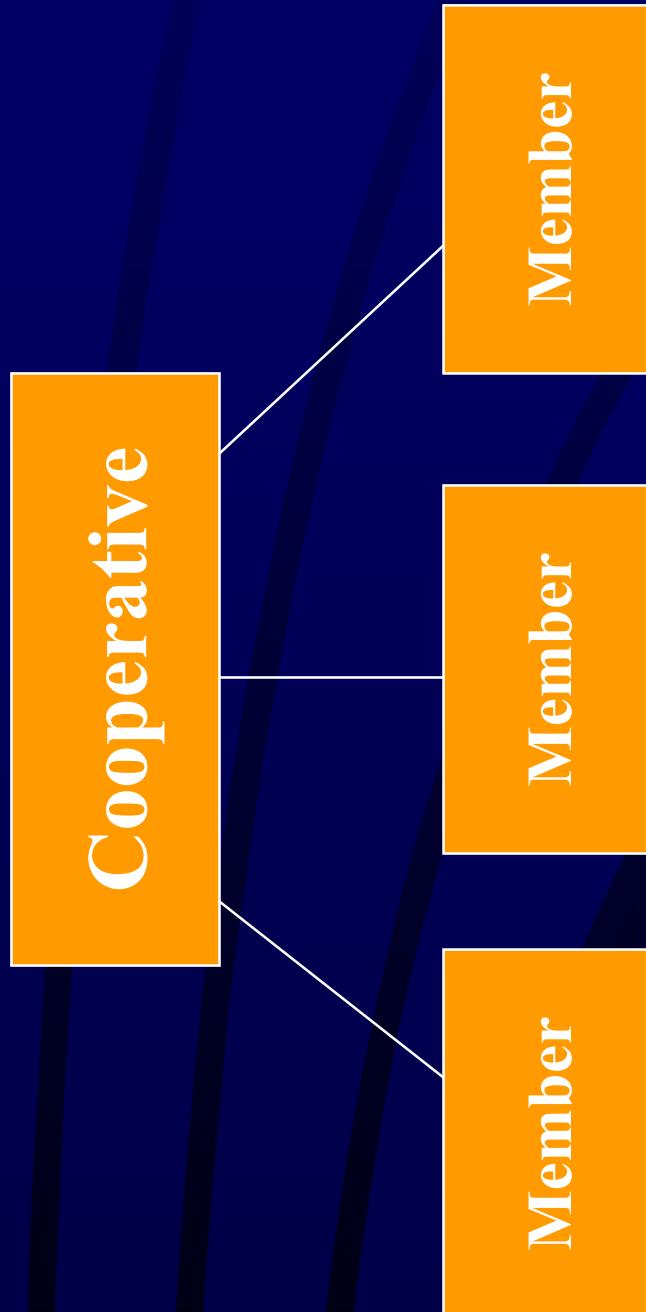
Structure

Based on membership structure and essentially defines who the members are and how the cooperative is organized to serve them.

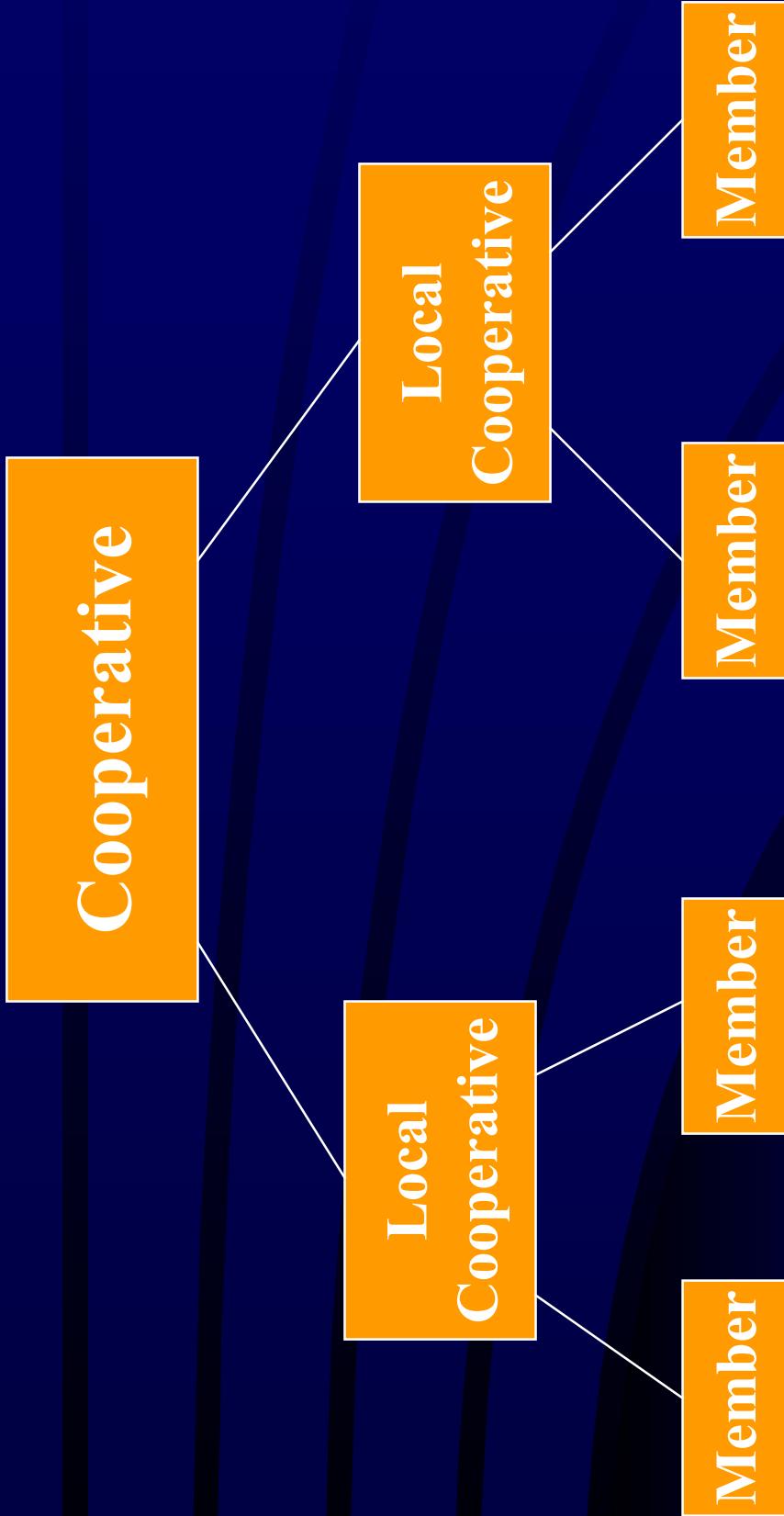
- Centralized Structure - Individuals are direct members
- Federated Structure - Cooperatives are direct members
- Mixed Structure - Individuals and cooperatives both are direct members



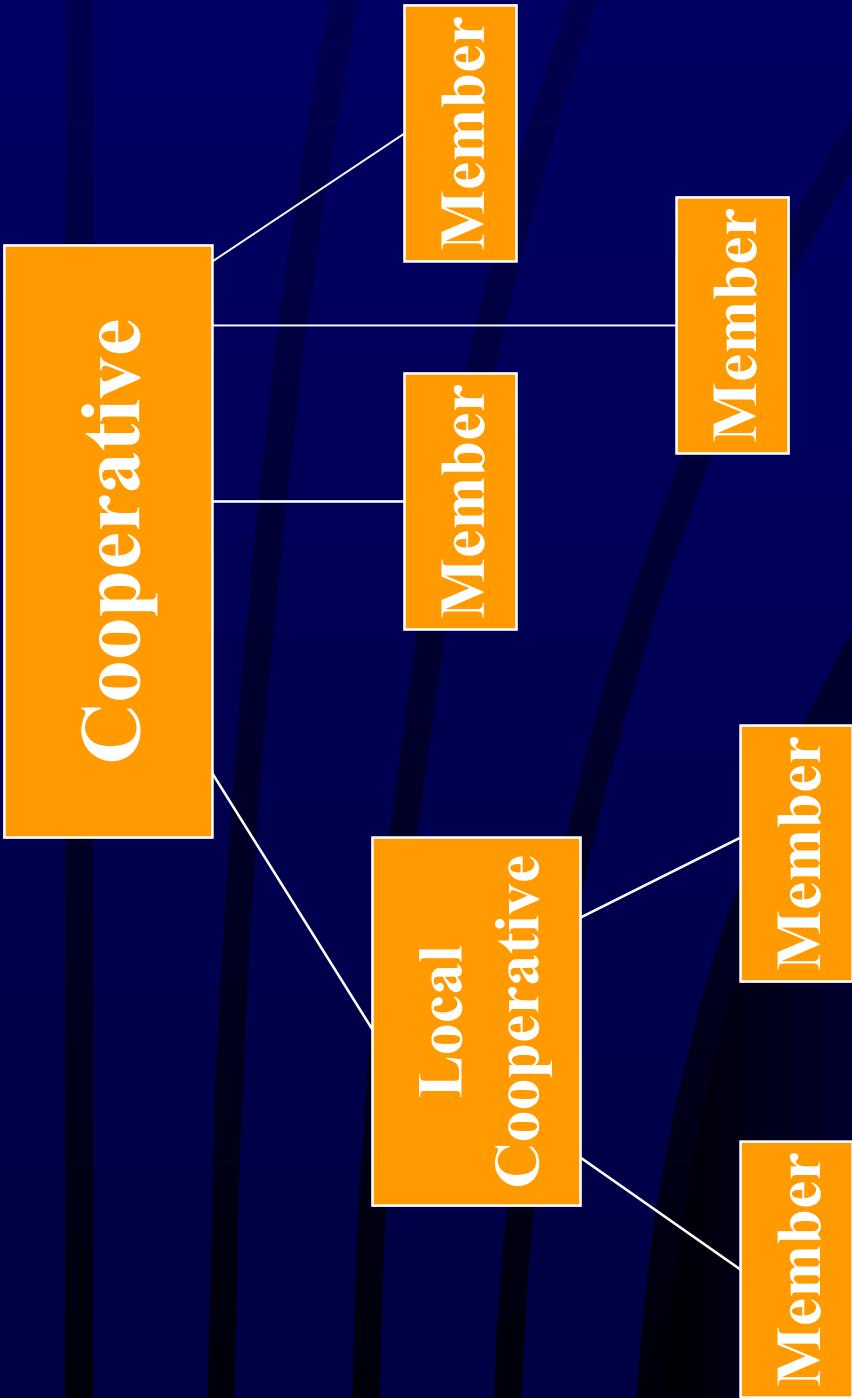
Centralized Structure



Federated Structure



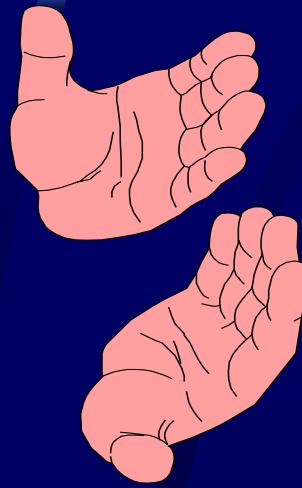
Mixed Structure



Cooperative Functions

Three Core Functions

- Marketing - extend control of members' products through processing, distribution, and sale
- Purchasing - providing affordable supplies and goods
- Service - provide needed services



Marketing Cooperatives

- Assist members in maximizing returns from goods they produce
- Handle, process, and sell
- Grade, transport, bargain
- Add value
- Research-new product development

Marketing Cooperatives

Assist members to maximize the return they receive for the goods they produce!

Member Products

Agricultural
Forestry
Aquaculture
Horticulture
Crafts

Functions

- Transport
- Process
- Grade
- Add value
- Research
- Distribute
- Bargain
- Sell

Member Benefits

Extend control of their products and realize additional margins

Purchasing Cooperatives

Allow members to gain access to affordable production supplies and goods

- Purchase in bulk to reduce costs and increase purchasing power
- Provide direct ownership of refineries, plants, retail facilities, research facilities

Purchasing Cooperatives

Used by members to gain access to affordable, quality supplies

Members

- Producers
- Hardware stores
- Independent grocery stores
- Fast food franchises

Functions

- Refineries
- Plants
- Feed mills
- Warehouse
- Manufacture
- Buy in bulk
- Deliver



Member Benefits

- Reduced costs
- Volume discounts
- Quality control
- Increased access



Service Cooperatives

Provide needed services

- Meet many needs
- Custom application of purchased supplies, transport of product, etc.
- Provide utilities, credit, housing, health care, technology, etc.

Service Cooperatives

Used by members to gain access to affordable, quality services

Functions

- Farm applications
- Credit
- Electricity
- Communications
- Insurance
- Health care
- Schooling
- Housing

Members

- Producers
- Rural residents
- Urban residents
- Public

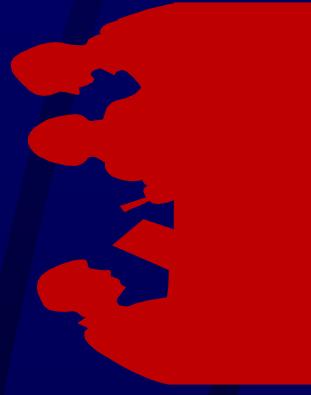
Member Benefits

- Access to services
- Affordable services
- Quality
- Increased access

Participation Roles

*Cooperatives operate through
the roles of principal parties*

- Members
- Directors
- Manager
- Employees



Organizational Make-Up

