



United States Department of Agriculture

Co-op Essentials: What They Are and the Role of Members, Directors, Managers, and Employees

(Powerpoint Slides corresponding with Cooperative Information
Report 11, Chapters 1- 5)

United States Department of Agriculture

Rural Development www.rurdev.usda.gov

Committed to the Future of Rural Communities



CHAPTER 1 – WHAT COOPERATIVES ARE

Focuses on what cooperatives are, and explains their business, principle, and structural characteristics. It introduces the major participants—members, directors, managers, and employees—whose roles are discussed in greater depth in Chapters 2-5.



In the U.S., businesses are organized in different ways depending on:

- Who owns it
- Who controls it
- Who uses it
- Who gets the profit (earnings) from it



Business Organizations

- Individually owned
- Partnership
- Corporation
 - ***Cooperatives***



Individually Owned Business

One Person

- Owns
- Controls
- Operates
- Benefits/profits



Partnership

Two or more people

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



Corporation

Multiple owners

- Are investors
- Share profits (according to investment)
- Purpose - gain value for 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 in the U.S.

- There are more than 29,000 cooperatives
- Serve 350 million members (many people belong to more than one cooperative)
- They have assets of more than \$3.1 trillion
- They generate revenue of more than \$510 billion
- Employ more than 850 thousand people

Source: University of Wisconsin Center for Cooperatives, Research on the Economic Impact of Cooperatives, 2009.
<http://reic.uwcc.wisc.edu/issues/>



Financial, Consumer Service, Business, and Worker Cooperatives Provide

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

And more...



Cooperatives Have Unique Principles

User - Owner

User - Control

User - Benefits



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 it.



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
- Political action
- Community strength
- Value-added
- Reduced costs
- Improved products and quality of services
- Economic enhancement
- Competitive yardstick



Cooperatives Implement and Facilitate Basic 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
- Cooperation with other cooperatives - 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

Defines a cooperative's size and scope of operations in reference to serving its members. May be:

- Local - small region covered, a county or so (may or may not have multiple locations)
- Regional – cover a State or a number of States; some have international operations

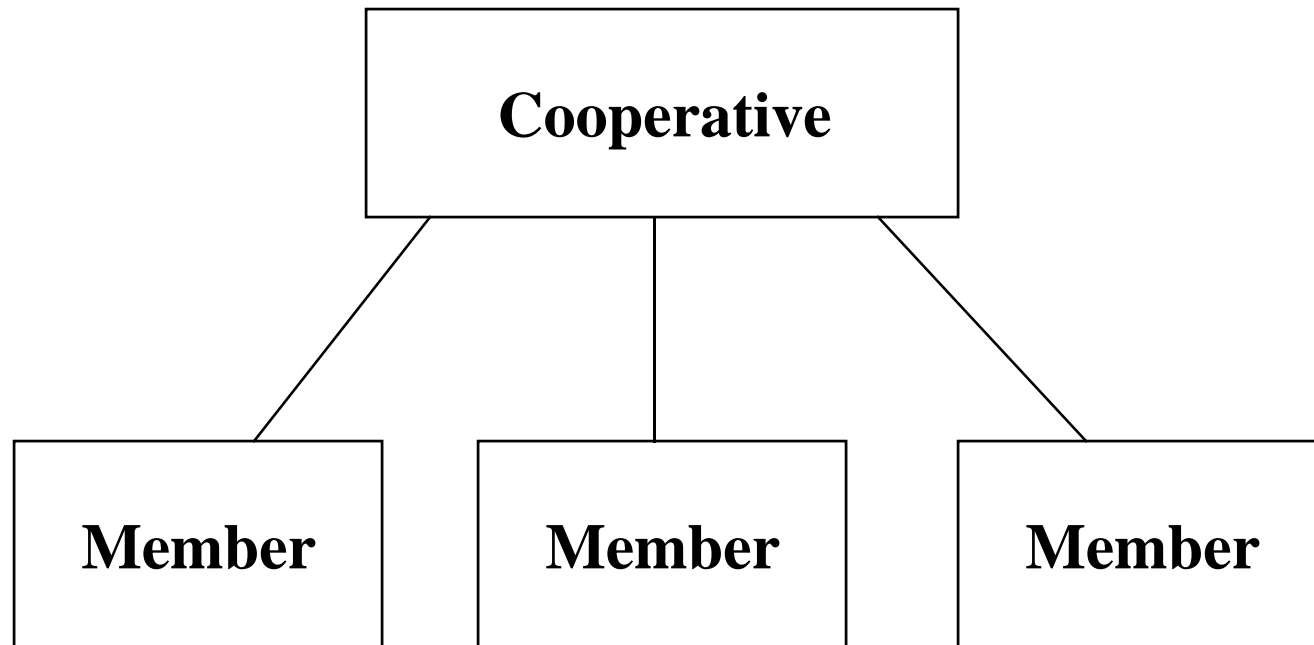


Cooperative Governance System Overall Structure

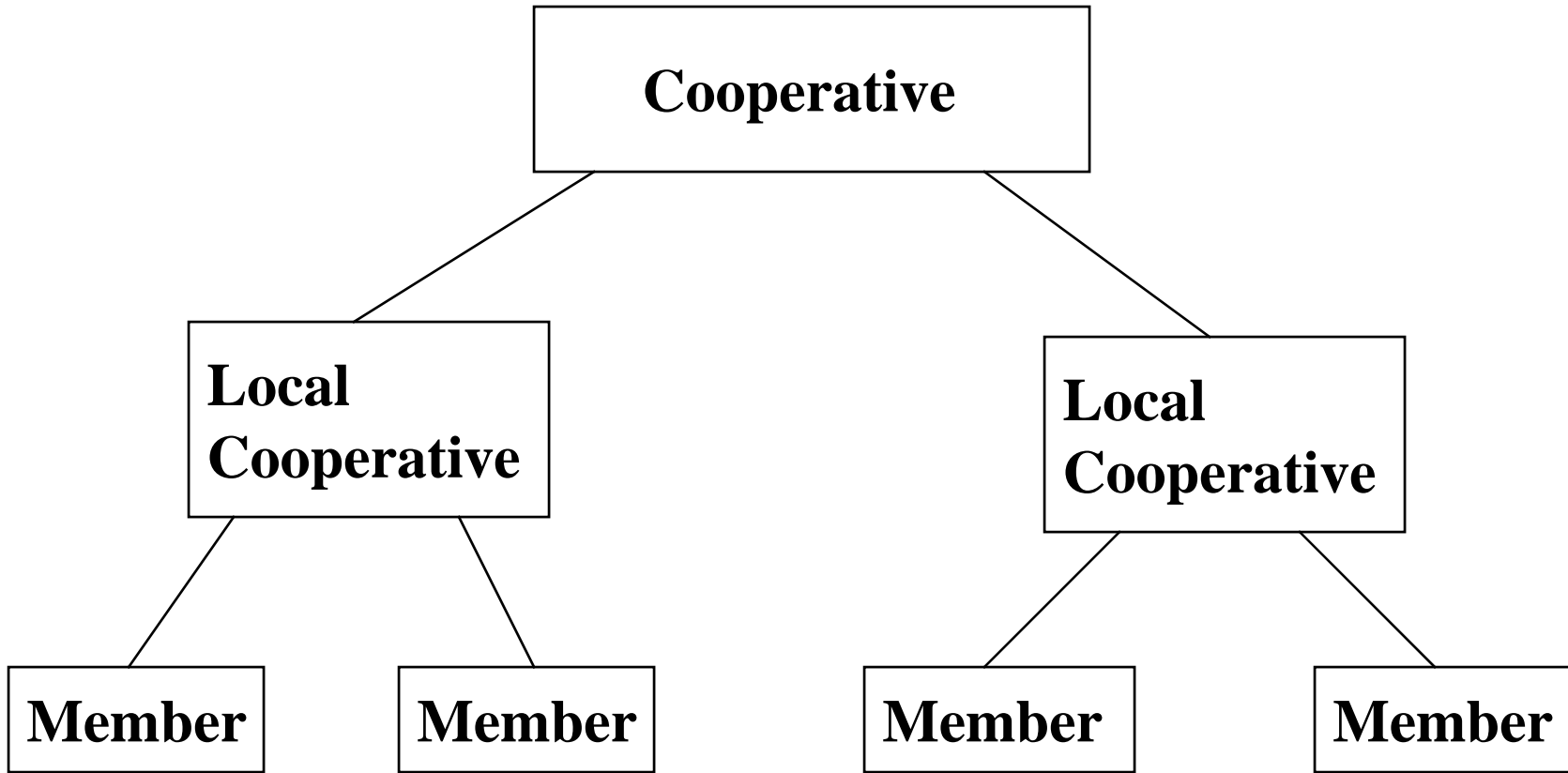
Defines who the members are and how the cooperative is organized to serve them. May be:

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

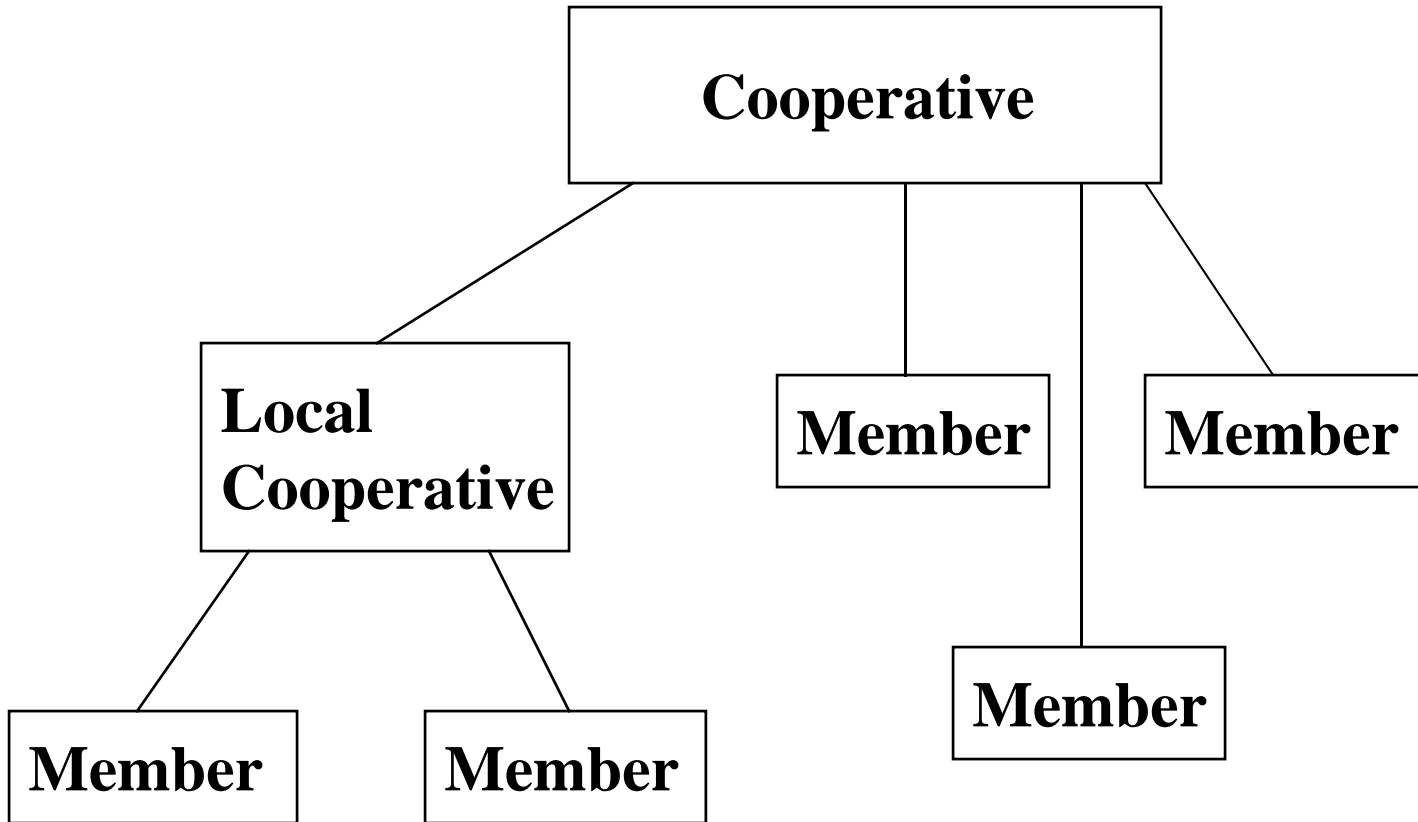
Centralized Structure



Federated Structure



Mixed Structure





Cooperative Functions

Three Core Functions

- Marketing - take members' products through processing, distribution, and sale
- Purchasing - providing needed supplies and goods
- Service - provide needed services



Marketing Cooperatives

Assist members in maximizing returns from goods they produce by:

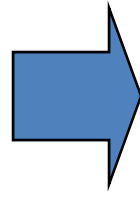
- Handling, processing, and selling
- Grading, transporting, and bargaining
- Adding value
- Researching and developing new products

Marketing Cooperatives

Assist members in maximizing the return they receive for the goods they produce!

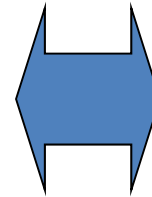
Member Products

Agricultural
Forestry
Aquaculture
Horticulture
Crafts



Functions

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



Member Benefits

Control of products,
securing markets,
realize additional
margins



Purchasing Cooperatives

Provide members access to production supplies and goods by:

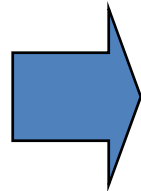
- Purchasing in bulk to reduce costs and increase purchasing power
- Providing members with direct ownership of refineries, plants, retail facilities, research facilities, etc.
- Obtaining supplies not available elsewhere.

Purchasing Cooperatives

Used by members to gain access to affordable, quality supplies

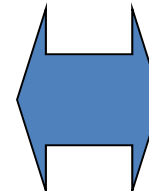
Members

- Producers
- Hardware stores
- Independent grocery stores
- Fast food franchises
- Hospitals
- Building supplies



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

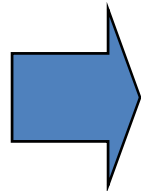
- They meet various needs
- They provide custom application of purchased supplies, transport of product, etc.
- They provide utilities, credit, housing, health care, technology, transportation, etc.

Service Cooperatives

Used by members to gain access to affordable, quality services

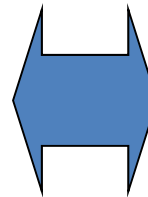
Members

- Producers
- Rural residents
- Urban residents
- Public



Functions

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



Member Benefits

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



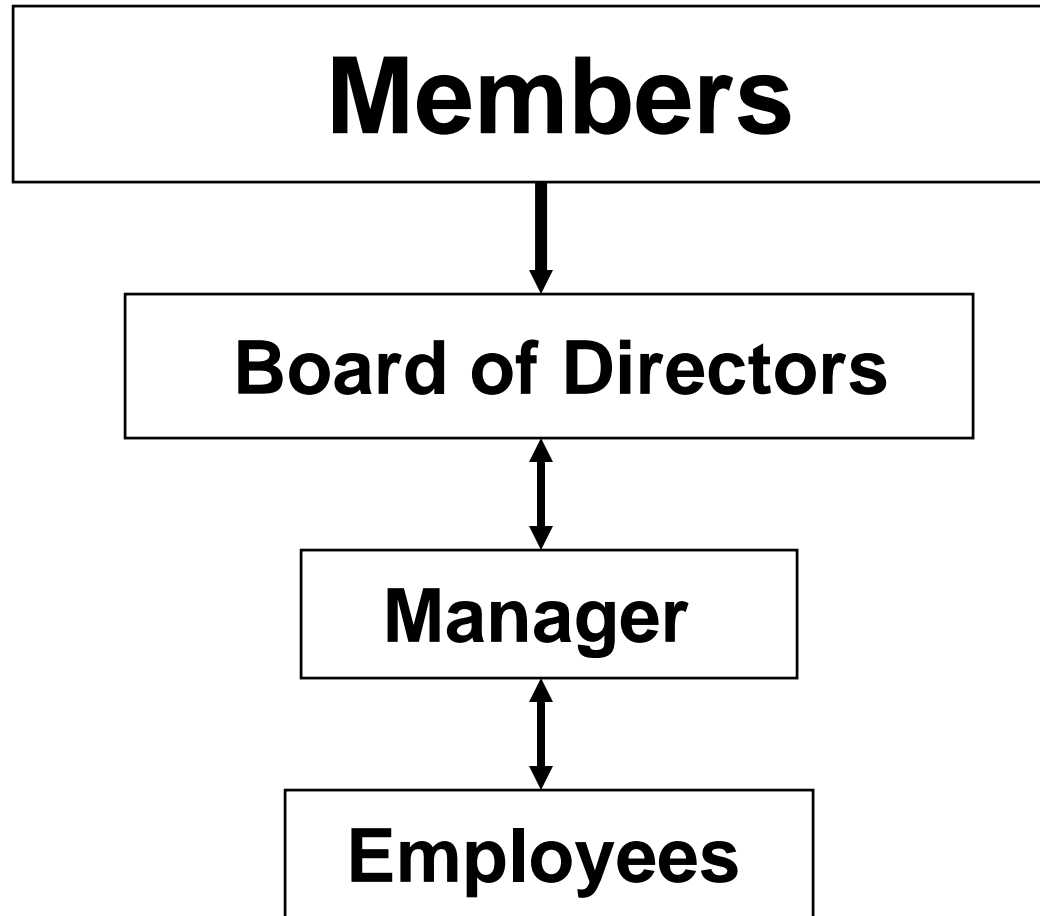
Participation Roles

Cooperatives operate through the roles of principal parties

- Members
- Directors
- Manager
- Employees



Organizational Make-Up





Summary

- Cooperatives serve common interests of people for mutual benefit.
- They are complex organizations with unique principles, practices, member benefits, and structural characteristics.
- Cooperatives exist in many segments of the economy today providing many kinds of services that benefit their member owners.
- Cooperatives consist of members, directors, management, and employees. All have important participation roles to fulfill.



CHAPTER 2 – MEMBERS MAKE COOPERATIVES WORK

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



Cooperative Members Are

- The foundation of the cooperative
- The reason for the co-op's existence
- The supporters and financiers, and the shapers of the co-op's future
- Individuals, businesses, or other organizations (including other co-ops)
- The ones that control the cooperative



Exercising Member Responsibilities

- Commitment and Use
- Ownership and Control
- Finance



Member-Owner Commitment and Use

Members need to commit to:

- Using Products and Services
- Maintaining Control
- Providing 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, or what is required by them (given agreements), members help the cooperative succeed and is also how they gain the benefits it provides.



Using the Cooperative Is Essential

Members' use helps them:

- Maintain control
- Fulfill the cooperative's mission of service
- Gain continuing benefits
- Own a successful cooperative



Member Ownership and Control

Members need to:

- Know their legal responsibilities
- Understand the cooperative
- Make decisions
- Vote
- Express opinions
- Serve on board and/or committees



Member-Owners Have Legal Responsibilities

Member responsibilities include:

- Incorporating the cooperative
- Approving legal documents
- Signing marketing agreements or other binding contracts (if applicable)
- Electing directors according to State statute and cooperative policy
- Ensuring that general business and cooperative-specific laws are followed
- Making (voting on) major decisions that alter legal status or structural organization



Owners Must Understand Their Cooperative

Members need to know and understand its:

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



Member Governance

Members need to participate by:

- Voting on major decisions
- Nominating and electing directors
- Amending bylaws, accepting audit report, voting on resolutions and motions
- Serving on advisory committees or undertaking special assignments
- Considering a run for the board
- Placing the health of the cooperative in the hands of directors
- Learning as much as they can about the cooperative



Members Have Financial Responsibilities

Member-owners finance cooperatives by

- Direct Investment
- Retained margins
- Per-unit retains

They also provide startup capital when co-ops are formed



Member-Owner Financial Responsibilities

Control follows finance

- Members finance in proportion to their use of the cooperative (distribute earnings according to use)
- Members should contribute a majority of equity capital (given co-op's capital requirement)
- Active member-users are the financiers (revolve equity, return equity to inactive members)



Summary

- As owners, members have important responsibilities of use, control, and finance
- Members should fully understand their responsibilities and actively participate in and use their cooperative
- Cooperative membership can provide personal and business achievement along with the numerous economic and service benefits the cooperative provides



CHAPTER 3 – COOPERATIVE DIRECTORS

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

- Holds the key position between members and hired management
- Makes cooperative policy
- Has specific responsibilities
- Sets overall objectives and charts the cooperative's course



Directors

- Must be well versed in many areas
- Need to have time and energy
- Carry out formal and informal duties
- Listen, inform, and advise
- Lead
- Represent the cooperative



Selecting Directors

Some attributes of potential directors:

- Communicate well
- Clearly express their views
- Good listener
- Are active in community
- Have leadership ability
- Think independently
- Place cooperative's interests first
- Make good business decisions
- Make the most of resources available to them
- Promote the cooperative



A director also:

- 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 that of management



Electing Directors

Equitable representation is achieved by various methods:

- At-large
- Geographical districts
- Along commodity lines
- Volume of business done

(Also, sometimes proportional voting is used)



Potential Directors

- Are identified by a nominating committee or nominated by other members
- Should be studied by the membership - biographical sketch - prior to the election
- Are considered for election at the annual meeting
- Secured nominations (nominated, seconded, favored) are put on the ballot for voting



Elected Directors Have primary control:

- Develop sound policies for the cooperative to follow
- Use strategic perspective to better serve members' needs
- Delegate daily operational control to the manager
- Need to understand their role



Directors Recognize Division of Responsibility

Directors:

- Have primary control
- Tactical 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 directors' direction
- Hires/fires staff



Director Responsibilities

- Preserve cooperative character
- Safeguard assets
- Hire the manager
- Set policies
- Distribute benefits
- Plan for the future
- Evaluate (co-op, manager, plans, etc.)
- Elect board officers
- Appoint committees



Directors Preserve Co-op Character

By serving according to:

- Laws
- Bylaws
- Articles

And by ensuring that ongoing co-op education is available to:

- Members
- Directors
- Managers
 - Staff



Directors Safeguard Co-op Assets by:

- Protecting members' investment and increase value of benefits
- Being accountable and making sound financial decisions
- Hiring an auditor and presenting an annual report



Directors Set Co-op Policies That relate to the internal and external functions and business conduct

- They originate and approve them
- They periodically review and update them



Policies Set By Directors Cover

- Director and manager functions and relationships
- Employee and public relations
- Organizational requirements
- Operational activities such as credit, pricing, functions performed
- Purchasing, marketing, and services provided
- Distribution of net income



Example Policies

- Policy: the manager shall prepare an annual business plan for approval and make progress reports at monthly board meetings. Implementation: without further specifics, the manager prepares a budget for approval, then compares it to actual business transacted, and reports any other information that will help the board understand the cooperative's operational and financial status.
- Policy: An annual membership meeting shall be conducted; the board president addresses the membership. Implementation: management plans, organizes, and conducts the annual meeting; the board president presents a report to the membership at the meeting.



Directors Distribute Benefits

How net income is to be distributed:

- Amount of patronage refund
- Allocated and/or unallocated equity
- Proportion in cash (at least 20% of allocated equity)
- Retained earnings
- Equity revolvment and retirement terms



Directors Strategically Plan

- Assess general and changing business climate
- Evaluate challenges—internal and external growth, business volume, membership, territory, assets, etc.
- Develop objectives and corresponding strategies for management to implement
- Monitor plan progress and adjust if necessary



Directors Self-Evaluate Board should conduct internal assessments

- How well the board is performing and how effective its meetings are
- Directors should assess themselves
- Assessments identify weaknesses
- Allows for corrective actions

Provide education to address weak areas.



Directors Choose Leaders By electing board officers

- President – presides over all meetings, main communication link between management and directors
- Vice president – performs the duties of president in absence of president
- Secretary – keeps a record of meetings, custodian of seal, bylaws, membership records
- Treasurer – oversees bookkeeping and business accounts to ensure proper handling, presents periodic financial reports to board and membership



Directors Appoint Committees Divides board's work

- Special (temporary) or permanent
- Certain phases of operations (finance, purchasing, marketing, feasibility, membership, marketing, etc.)
- Study problems and make recommendations to the board
- Power to decide (in some instances), subject to review by entire board



Summary

- Board is the co-op's central decision center
- It is a listening post, communications hub, advisory body, and decisionmaking group
- It is accountable to members in all its capacities
- Members choose and elect directors
- Directors set objectives and makes decisions that set the course the cooperative follows to achieve objectives and to be successful
- Directors serve like trustees, charged with legal obligations to protect members' assets
- Directors fulfill their responsibilities and exercise due care to act within the parameters of the co-op's policies and the law



CHAPTER 4 – WHAT THE COOPERATIVE MANAGER DOES

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



Managers

- Investor-owned firm managers seek to maximize return on stockholder investment and satisfy stockholders

VS.

- Cooperative managers seek to satisfy member-owners and serve their needs as determined by the co-op's board of directors



Cooperative Managers

- Are critical to the success of the cooperative
- Must have a good working relationship with the board of directors
- Are hired to operate the business and focus efforts on everyday operations to serve members
- Decide how to best carry out what the board wants the cooperative to do, subject to board review
- Know the difference between their responsibilities and those of the directors



Cooperative 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



Implements Board Policies

The manager:

- Must clearly understand the policies set in place by the board
- Follows the policies to the best of his/her ability



Advises the Board

The manager provides technical advice on:

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



Controls Daily Operations

The manager:

- Supervises and coordinates functions
- Manages people, capital, and physical resources
- Is responsible for day-to-day operational effectiveness and efficiency



Hires Staff

The manager:

- Maintains a competent staff
- Selects, trains, and supervises employees
- Leads, directs, and motivates employees
- Appraises employee performance



Sets Tactical Goals and Implements Actions

The manager:

- Plans as he/she directs the daily affairs of the cooperative
- Creates short-term goals in line with longer term objectives as set by board
- Develops action plans to reach the cooperative goals



Reports to the Board

The manager informs on:

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



Reports to Members

The manager communicates via:

- Informal contact during working hours
- Open houses
- Letters
- Newsletters
- Meetings (district, regional, annual, special)
- Visits
- Social media, website, email
- Formal report at annual meeting



Represents the Cooperative

The manager is the face of the co-op:

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



Summary

Co-op managers wear many hats

In fulfilling a unique role, the manager becomes a:

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



CHAPTER 5 – WHAT COOPERATIVE EMPLOYEES DO

Focuses on cooperative employees, what they do, and the characteristics of quality employees.



Cooperative Employees

- Work closely with members, who are the owners of the cooperative, as well as business associates on a day-to-day basis.
- Need to emphasize people skills given the unique relationship they have with member-owners.
- Are judged whenever they have direct contact with members.



Cooperative Employees

- Promote the cooperative
- Deliver supplies
- Handle members' products
- Order and maintain inventories
- Sell, market, process, manufacture,
- Conduct lab work
- Keep accurate records
- Recommend products/services
- Handle complaints
- Maintain facilities
- Represent the cooperative
- Educate others on what the cooperative is



Characteristics of Quality Cooperative Employees

- Understand the cooperative
- Know and follow policy
- Respect members and treat them fairly
- Are well trained
- Are team players
- Communicate well
- Maintain assets
- Participate in community activities
- Are professional



Understand the Cooperative!

Quality employees:

- Take pride in the uniqueness of the organization
- Understand cooperative principles
- Know who the owners are – members!
- Are well informed and able to answer questions
- Do not reveal information that could help the competition



Know and Follow Policy

Quality employees:

- Keep abreast of current policies and rules
- Implement policies in a fair and equitable manner to safeguard member interests and set good business standards
- Seek guidance when they think there might be an exception to a rule or policy



Respect All Members

Quality employees:

- Treat all members fairly and with respect
- Are polite and professional
- Offer services or products in an equitable fashion to all members, regardless of their status in the cooperative



Are Well Trained Quality employees:

- Are able to explain technical information about services the cooperative provides
- Can recommend the right products and services
- Can answer questions and resolve member problems
- Understand the operations and methods the cooperative uses to provide products and services



Are Team Players

Quality employees:

- Know the objectives of the cooperative and understand their role in achieving them
- Work together toward achievement of objectives
- Are aware of the service level required to meet the cooperative's objectives and their expected contributions to the team effort



Communicate Well

Quality employees:

- Are the eyes and ears of the cooperative in their interactions with members
- Keep supervisors and other employees informed of pertinent working issues and problems
- Listen to supervisors, other employees, and members



Maintain Assets

Quality employees:

- Keep facilities, equipment, inventory, and supplies in good condition
- Take seriously the job of keeping assets in top condition



Participate in Community Activities

Quality employees:

- Carry a positive image of the cooperative to the community when participating in various activities (service clubs, schools, youth groups, business organizations, town meetings, etc.)
- Should try to take part in some aspect of community activity
- May volunteer to help serve the needs and welfare of the community
- Are careful about taking a particular stand if participating in an activity which has special social, political, or religious orientation



Maintain Professionalism

Quality employees:

- Present the cooperative's image while carrying out their day-to-day duties
- They must be professional: they are polite, courteous, serious, articulate, well educated on what they are doing and what the cooperative does, have a positive attitude, and are enthusiastic about the cooperative's mission.



Summary

- Employees play an important role in a cooperative
- Employees must fully understand the uniqueness of the cooperative and its principles
- Employees closely interact with members and management
- They fulfill their responsibilities while forging relationships with member-owners
- Employees, together with members, directors, and the manager, run the cooperative business