



Understanding Cooperatives: Who Runs the Cooperative **Business?** Board of Directors

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When you think about an opera, there are several key elements you need for a successful performance -the conductor, the musicians, a score, and the staging. These elements work together to make it happen — the conductor serves as the guider; the musicians are the performers; the score is the composition each person follows; and the staging is the process of putting it all together.

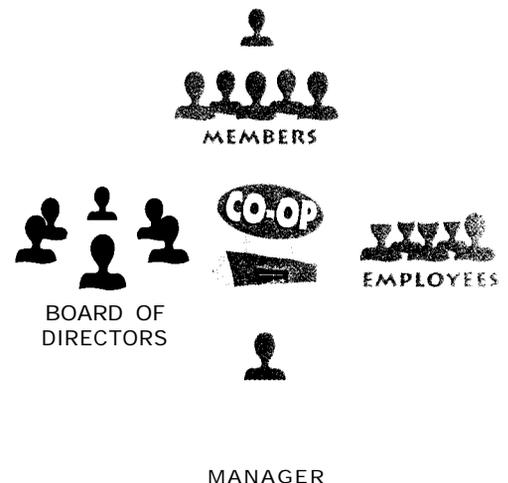
Cooperatives, as a form of business owned and controlled by the people who use it, are the same as an opera in that they, too, have several important elements needed to be successful. The most essential one is the people:

- ◆ Members, as the owner-users;
- ◆ Board of Directors, as the policymaking body;
- ◆ Hired Management, as the supervisor; and
- ◆ Employees, as the work force.

Each has specific roles and responsibilities in the overall operation of a cooperative.

Cooperative Management
Management of a cooperative is often incorrectly thought of as including only the hired manager and his key staff. This is far from the truth. Cooperative management should be regarded as a team consisting of four elements — members (owners), board of directors (elected), the manager (hired), and other responsible employees (paid). Each part of the team has its own distinctive duties and responsibilities for performing management functions in a cooperative. This allows them definite, reserved rights in the ownership and control of the business. These important rights give them the privilege of taking an active part in the management of the business. To be effective, each must exercise these rights; otherwise they will have no voice in management.

Successful management of a cooperative, therefore, is based on intelligent and active cooperation of the members with the board and with the manager/employees, each group shouldering its own responsibilities to the best of its ability.





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Duties, and Responsibilities of the Board of Directors

This section specifically discusses the responsibilities of the board of directors. (Section 4 describes the responsibilities of members, while Section 6 discusses responsibilities of management/employees.)

A cooperative is a user-owned and user-controlled business in which benefits are received in proportion to use. But it is not possible for member-owners to directly make all cooperative decisions. That control is preserved by members electing directors to represent them in much of the operation of the cooperative.

The board of directors occupy a key position between members and hired management. They represent the members as users of the cooperative's services, and consequently must be informed about the needs and directions of the members. The board must also remember that the cooperative functions for the benefit of those members.

Acting as a group, the primary responsibilities of the directors are to employ the manager, establish operating policies, and direct the cooperative toward its overall objectives.

In discussing the roles of directors, those that reflect an obligation on the part of the individual person are listed as duties. Those that require board members to act collectively are listed as responsibilities.

Duties

1. Become familiar with the articles of incorporation and bylaws of the cooperative and conduct the business in accordance with their provisions.
2. Attend regular and special meetings of the board.

3. Understand the terms of all contracts into which the cooperative has entered by authority of the board — leases, loan agreements, membership and marketing agreements, supply and other contracts, etc.
4. Be familiar with the State law under which the cooperative was incorporated.
5. Understand the general legal responsibilities of serving on a board of directors.
6. Be responsive to new ideas and changes that are in the best interest of meeting member needs.
7. Commit to participate in training programs to better understand the cooperative's operations, and a director's role in it.

Responsibilities

In addition to the general duties and powers of directors as set out in the association's articles of incorporation and bylaws, the following responsibilities are particularly important:

1. Hire a competent manager; determine the salary, outline the duties and authority of the position, and formally review his/her performance at least annually.
2. Adopt broad, general policies to guide the manager and make them a part of the minutes. They should include such items as credit to patrons, source and limits of supply inventories, general personnel regulations, etc. It is the manager's job, rather than that of the board as a whole or as individual members, to make the detailed decisions on how to implement the board's policies. Once established, the board needs to monitor and review policies annually and make changes when necessary. Remember, board members make policy decisions. They should not assume responsibilities that are clearly part of day-to-day operations.



- 3. Develop and adopt long-range business strategies.
- 4. Require written monthly financial reports and operating statements for board meetings in order to be informed of adverse as well as favorable operations.
- 5. Direct the manager to prepare before the close of each year an operating budget for the next fiscal year for board approval. This budget should estimate the volume of sales and gross income of various items to be handled, the expenses by account classifications, and the net income expected. This constitutes necessary forward planning on the part of the board and management. The budget should be reviewed at intervals throughout the year to determine the trends of the business.
- 6. Employ a qualified auditor to make an independent audit at least once each year to determine the accuracy of the financial records. This audit, reported directly to the board, is used to evaluate the effectiveness of the policies and budget, performance of the manager, and insight into the effect of past decisions and the need for new ones. An audit is the primary method the board uses to report the financial condition of the cooperative to its members.
- 7. With the aid of the manager, plan and conduct the annual meeting to keep the membership informed about the status of their business, including operations, finances, and policies.
- 8. Determine the patronage refund allocation, weighing legal requirements against the need for reinvesting refunds to provide money to retire old equities and still meet current capital needs.
- 9. Obtain competent legal counsel.
- 10. Keep a complete record of the board's actions.

A cooperative director should not expect to be granted special favors from the manager or employees and does not have the following responsibilities:

- 1. To act independently on matters that should be decided by the entire board.
- 2. Be a representative of special interests, factions, or political entities.

He/she was elected to direct the business activities of the cooperative, not serve as a representative of these groups.

Board Size

Incorporation law normally sets the minimum number of cooperative members serving on the board of directors. Most have an odd number such as five, seven, or nine. Extremely large boards can be cumbersome, slow, and expensive, while smaller boards can be more efficient and effective. Generally, small boards will have more frequent and effective meetings.

Board Officers

The board officers are usually elected from within the board members, frequently at a re-organization meeting after the annual meeting. Each officer has specific duties as detailed in the cooperative's bylaws.

Board officers are:

- ◆ The president who presides at all meetings, carries out the members' wishes, and watches over the association's affairs linking communication between hired management and members.
- ◆ The vice president who, in the absence or disability of the president, performs the duties of the president.
- ◆ The secretary who 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.

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BOARD OF DIRECTORS



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◆ The treasurer who keeps watch over the bookkeeping and accounts to ensure accuracy and proper handling and also is responsible for presenting periodic financial reports.

Selection of Board Members

At most cooperatives, before the annual meeting, the president of the board of directors appoints a nominating committee to develop a slate of candidates for election to the board. This committee nominates cooperative members they feel can direct their cooperative in meeting its overall objectives and improving its operations.

In serving, they often look for guidelines to use in selecting the right individual. The following are some of the important qualifications to consider.

Is the candidate?

- ◆ objective, willing, and anxious to learn;
- ◆ accepted by the members for having good judgment and business sense;
- ◆ successful in his/her own business operation;
- ◆ a loyal, participating member of the cooperative;
- ◆ willing to take the time necessary to prepare for, attend, and take an active part in board meetings;
- ◆ able to protect highly sensitive, confidential material, that if disclosed could damage the cooperative, but still be willing to give, and even insist on giving,

members all possible information;

- ◆ knowledgeable about cooperatives and the job of a director, including listening to members;
- ◆ willing to accept the responsibilities and obligations of a director;
- ◆ someone who will work well with others as a team, and support majority decisions, even if not agreeing with them;
- ◆ open-minded in considering issues;
- ◆ representative of the goals and direction of the members;
- ◆ recognized as a community leader; and
- ◆ honest and fair.

If the candidate is seeking the job of director to gain a personal advantage or favors for friends, it is questionable whether that candidate should be elected. Electing someone to the board to gain that person's patronage is not in the long-term interest of the cooperative.

Conclusion

The ultimate control of any corporation is legally in the hands of the board of directors. In a cooperative, however, the board is responsible to its members as users rather than to investors whose first objective is to maximize profits. Taking the time to listen to member-users, learning the issues, understanding the responsibilities of directors and how their role differs from other key people, and making decisions based on what is in the best interests of the membership, will allow the cooperative director to serve members effectively. ■

This circular is one in a continuing series that provides training information and presentations for education resource persons who may or may not be familiar with the cooperative form of business. This series provides the basic background material they need, in a form that can be readily adapted, with limited preparation time, to a lecture or other presentation.

For a complete listing of the series, write to USDA/Rural Business-Cooperative Service, Stop 3257, Washington, DC 20250.3275

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