



## Understanding Cooperatives:

# Who Runs the Cooperative Business? Members

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When you think about sports, whether it be football, baseball, or basketball, you realize several key ingredients are needed to set the stage for a successful, winning season — a coach, players, fans, and a game plan. People, using these ingredients, work together to make it happen — the coach serves as the guider; the players are the executors; the fans are the support system; and the game plan is the blueprint for the team to come together and perform. Each segment is an important part to the whole.

Cooperatives, as a form of business owned and controlled by the people who use it, are the same as a sports team in that they, too, have several important ingredients needed to make a complete team. The most essential one is people:

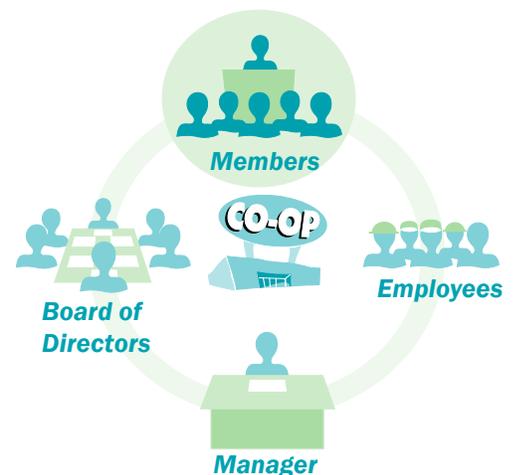
- ◆ Members, as the owner-users;
- ◆ Board of Directors, as the policymaking body;
- ◆ Hired Management, as the supervisor; and
- ◆ Employees, as the work force.

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 or her 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 the manager/employees. Each group must shoulder its responsibilities.





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## Rights and Responsibilities of Members

This section specifically discusses the responsibilities of members. (Sections describing the responsibilities of the board of directors and management /employees are numbers 5 and 6, respectively.)

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

But along with all of this comes rights and responsibilities that members must accept and exercise for the cooperative to meet effectively the needs of its owners — specific rights under the law and as outlined in the cooperative's bylaws and articles of incorporation, and responsibilities, both moral and legal, regarding those rights.

### Rights

Rights of a cooperative member normally include:

- ◆ Adopt and amend the articles of incorporation and bylaws.
- ◆ Elect and, if necessary, remove directors of the business.
- ◆ Dissolve, merge, or consolidate the cooperative or form a joint venture with others.
- ◆ Require officers, directors, and other agents to comply with the law under which the business was set up, and with its articles of incorporation, bylaws, and membership contracts.
- ◆ Hold directors and officers liable for damage injurious to members.
- ◆ Examine the annual reports.

### Responsibilities

- 1. Patronize the cooperative.** Members must make a conscious decision to be committed to the cooperative and to maintain that commitment even when short-term prices or services may be better elsewhere, or competitors make more attractive offers. If members do not want to use the cooperative, the need for it must be reexamined.
  - 2. Be informed about the cooperative.** To carry out their responsibilities, members must know what the cooperative is, what it can do for them, its purpose, objectives, policies, and the issues it faces. They can obtain information through annual reports and newsletters, and from talking to the manager, staff, directors, and other members. To effectively exercise their right of ownership, a member needs a good understanding of the present situation and projected future operations.
  - 3. Participate in selecting and evaluating directors.** As owners, members assume a positive, broad role in the cooperative's management. Although the cooperative is a user/owner (democratically) controlled form of business, members cannot make all the decisions directly. They select from among their peers individuals with the best judgment and business management skills to represent them in most management affairs as the cooperative's board of directors. This is definitely one of the most important responsibilities.
- Selecting the most popular or least controversial person is not the wisest choice for this job. Members need to study carefully the strengths and weaknesses of the cooperative and determine how the leadership skills of the candidates address them. Loyalty, integrity, the ability to make wise business decisions, and willingness to



serve are necessary characteristics for board members.

But this election does not mean the end of the members' responsibility. They need to keep in contact with the directors to ask questions, make comments, and request changes or new services. They also need to observe and evaluate how directors perform.

**4. Provide necessary capital.** A primary responsibility is to finance the cooperative for the purpose of acquiring needed goods and services, not for financial returns. This is done initially through the purchase of stock or a membership. It is continued through patronage and/or use of the cooperative. One-time assessments or investments also may be necessary to finance special fixed assets or services. For a cooperative to be successful, it must have a volume of business. Normally, the greater the volume of business, the greater the efficiency obtainable, the more services available, and the higher the earnings (profit) are for members. Members' patronage finances the cooperative so the business can continue. The greater the patronage, the more likely the cooperative will be able to provide, expand, and improve its services. But if that is not the case, and the cooperative loses money, members have the same responsibility to share in those losses as they do in the earnings.

**5. Adopt legal papers.** Members are responsible for understanding, adopting, and amending legal papers. They should read and understand the cooperative's articles of incorporation and bylaws to know how the business is to operate and what services it can provide. Before voting to approve bylaw amendments, they need to analyze them to determine how they will affect the business. Members must also become acquainted with the contents of

legally enforceable marketing contracts or other legal papers before signing them so that they can fulfill their obligation to the business.

**6. Evaluate performance of the cooperative.** Members should examine the annual report, observe whether the cooperative is meeting their needs, and analyze efforts of the cooperative to communicate with members and the public.

Certainly this list is not all-encompassing, and some of the responsibilities listed are more important than others. But to be a meaningful and useful business organization, the cooperative must have members who understand it and take their rights and responsibilities seriously.

### Qualifications of Members

Requirements for membership in cooperatives can consist of the following:

- ◆ Members must be producers of farm products (if an agricultural cooperative). They may be a landowner receiving share rent as well as an owner-operator or tenant-operator. The bylaws of many cooperatives provide that if members do not patronize their cooperative for (1 or 2) consecutive years, they lose the right to vote, and the



**Members**

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membership stock or certificate is transferred to a non-voting status.

◆ They must have a financial investment ranging from \$1 to \$10,000 or more. A few agricultural cooperatives do not have any financial requirements — only that a person must be a farmer patron, or in some cases also do a specified minimum amount of business a year.

◆ A formal application for membership must be completed, including payment of a membership fee or purchase of a share of common stock for membership.

Members are obligated to patronize their cooperative. This varies from a loosely implied obligation to a legally binding contract between members and their association to patronize it on a specific basis. Types of service that members want dictate the nature of the patronage obligation. Generally, these agreements are more binding in cooperatives providing marketing services than in those purchasing supplies or providing specialized services. Some cooperatives require in their bylaws or legally enforceable marketing contracts that members must do a specified percent of their business with the cooperative annually.

Farm Credit System cooperatives require eligible persons seeking loans to purchase membership stock before completing the

loan. Rural residents, nonfarmers as well as farmers, in areas served by rural electric or telephone cooperatives, become members to receive service. Persons wanting to participate in rural housing, recreation, credit unions, or other cooperative programs must become members to receive these services.

**Conclusion**

The sole reason for any cooperative's existence is to serve the needs of its user-owners. But these needs can neither be flashed on a computer screen in response to the push of a button nor drawn from a hat at the opening of each board meeting.

In truth, there is no way to learn what these needs are unless the cooperative member voices them to the board of directors and paid management. The annual meeting is the vehicle for this. Cooperative members attending their annual meeting are not intended to be only an audience, but rather a vital part of the meeting. This is their opportunity to evaluate the operations, finances, and policies of the cooperative, along with expressing their needs and views.

Exercise your rights and responsibilities in participating in the business you own and control, as a cooperative member. ■

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