COOPERATIVE MANAGERS ARE UNIQUE*

By

Charles H. Ingraham
Extension Economist
Business Management

Cooperatives are one of the four methods of doing business in a competitive economy.

A cooperative is a business formed by a group of people to obtain certain services for themselves more effectively or more economically than they can obtain them individually. Those who use the business own, finance, and operate the business for their mutual benefit. Often by working together through such a cooperative business member-owners obtain services not available to them otherwise.

Cooperatives perform one or more of three kinds of functions: Marketing products; purchasing supplies; and providing such services as electricity, credit irrigation and domestic water, and artificial insemination.

In certain respects, cooperatives are organized like other businesses and operate in the same way. They usually incorporate under the laws of the State in which they have their main office. They draw up by-laws and other necessary legal papers. Members elect a board of directors. The board hires a manager and makes general policies. The manager runs the day-to-day business.

A COOPERATIVE DEFINED1/

"A cooperative is a voluntary contractual organization of persons having a mutual ownership interest in providing themselves a needed service(s) on a nonprofit basis. It is usually organized as a legal entity to accomplish an economic objective through joint participation of its members. In a cooperative the investment and operational risks, benefits gained, or losses incurred are shared equitably by its members in proportion to their use of the cooperative's services. A cooperative is democratically controlled by its members on the basis of their status as member-users and not as investors in the capital structure of the cooperative."

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*Presented by Dr. Charles H. Ingraham, Extension Economist, Business Management, Ohio State University at the Landmark 1975 Management Training School, January 23, 1975.

1/ Cooperative Criteria, Service Report 71, Farmers Cooperative Service February, 1965.

A cooperative is not an easy solution to all economic problems. A cooperative is a business operation. It must be organized, financed, and operated just as any other business on Main Street. A co-op cannot assure that a farmer, upon joining, will immediately solve his problems; nor can a coop guarantee to turn a marginal farm into a successful commercial operation.

When a cooperative is organized and goes into business it can increase competition and improve the service of the existing businesses dealing with farmers in the area served by the new cooperative.

A member of a farmer cooperative must do business with his cooperative if he expects it to be successful. Far too often producers have used their cooperative as a dumping ground for their low quality or excess products. As a result, the cooperative has not been as successful as it could have been. Even though it may continue to operate, it cannot achieve its potential if members do not use it as fully as possible.

COOPERATIVES ARE PEOPLE

A cooperative is a business enterprise; it is a business that is organized, owned, and controlled democratically by people who have joined together voluntarily in a contractual arrangement to provide themselves with needed supplies and/or services.

Most agricultural cooperatives are chartered under State laws and operate under the same Federal and State business laws and regulations as other firms.

The primary objective of a cooperative is to further the economic welfare of its members. Economic welfare does not merely refer to financial savings (lower prices) or increased monetary returns (higher prices). It cuts much deeper and goes to the relationship of man to man in his economic life. Quality of product, a needed service, ownership control, increased equity in his cooperative business and the satisfaction of self help are all important benefits of a cooperative and sometimes of more importance than the direct financial benefit which result from the cooperative enterprise.

COOPERATIVES HAVE REPRESENTATIVE CONTROL

The method of government of a corporation is in its nature representative and is, in some respects, analogous to representative democracy.

The governing body of all types of corporations is the board of directors. Members of the board of directors of all types of corporations are elected by shareholders and these boards in turn elect the officers of the corporation.

Boards of directors for all types of corporations are the policy determining bodies of the corporation, and also the bodies which, either generally or specifically, authorize business transactions.

AMERICAN FORMS OF BUSINESS

A Comparison

CHARACTERISTICS	TYPES OF BUSINESS ENTERPRISE			
	INDIVIDUAL	PARTNERSHIP	ORDINARY CORPORATION	COOPERATIVE CORPORATION
FUNCTIONS	To buy or produce goods for sale or to render service	Same as individual	Same as individual	To purchase supplies, market products or render needed services
OBJECTIVE	Profit for the individual	Profit for the partners	Profit for the investing stockholders	Profit for the members and patrons
USERS	The public	The public	The public	Members and/or patrons
OWNERSHIP AND CONTROL	The individual	The partners	The investors	Members--usually one vote each
MANAGEMENT	The individual	The partners	Board of Directors	Board of Directors
LEGAL STATUS	Usually unincorporated	Legal agreement between associates under State law	Incorporated under State law	Usually incorporated under specific State law
LIABILITY	Assets of the individual	Assets of the partners	Assets of the corporation	Assets of the cooperative
RETURN ON CAPITAL INVESTED	Unlimited	Unlimited	Unlimited	Limited by law
WHO GETS NET PROCEEDS?	The individual	The partners	The stockholders	The patrons in proportion to use

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Boards of directors of any corporation are, therefore, analogous to the Congress, State legislature or city council.

Theoretically, control of the investor-oriented business enterprise is in the stockholders on a capital ownership basis. However, the various devices of holding companies, voting trusts, and the like, permit economic domination over the business by a relatively small group.

COOPERATIVES HAVE DEMOCRATIC CONTROL

The democratic control feature of a cooperative commonly referred to as one-member one-vote is a corporate device being used in its original form since, historically, all members of a cooperative had only one vote.

Historical accounts of cooperatives report that in the late 1800's some farmers gave up control of their cooperatives and lost their investment in their cooperative when they abandoned the cooperative principle of democratic control.

It is reported that farmers were led to believe that in order to attract investments and large farmers they needed to provide for control of the cooperative on the basis if investment. The new firm operated for the benefit of its controlling investors not its patrons.

Most state cooperative statutes passed in the 1920's were very specific in protecting the democratic control features of agricultural cooperatives as a result of these experiences.

The democratic control feature of a cooperative is well recognized. Some writers have used the term democracy to mean a society in which the people who compose it are their own governors, much as the policy holders of a mutual insurance company are their own insurers or members of a marketing cooperative collectively provide their own marketing facilities.

The membership of a cooperative has the responsibility to periodically check to make certain that their cooperative is still democratically controlled. The test is a simple one. Do the people (member-stockholders) rule?

Such variations in equality of voting are but one factor to be considered in determining the cooperative character of an organization. The others are distribution of savings and limited return on equity capital. Certainly minor inequalities in control, if sanctioned by the democratic action of a majority of the membership and permitted by statute, do not prevent an organization from being a cooperative.

DIRECTORS HAVE DEFINITE RESPONSIBILITIES

When a member of a cooperative is elected by his fellow members to a position on the board of directors, he faces a two-fold challenge: (1) To represent stockholders or members of the business, and (2) he is vested by law with the responsibility to reasonably conduct the affairs of the business for the welfare of the cooperative.

As a board member he has legal, general, and moral responsibilities in representing stockholders or members of the cooperative.

What does the word responsibility mean? A definition I like to use is, "Responsibility is the obligation of an individual to carry out assigned activities to the best of his ability."

Melvin Sims, President of FS Services, Bloomington, Illinois, said at the 1963 AIC meeting, "To define the responsibilities of the directors in one statement we might say, 'To exercise sound judgment on key and significant matters.'"

In a publication, General Report 85, Nelda Griffin of Farmer Cooperative Service, USDA, described cooperative directors as a committee and said, "Of course, the board of directors itself is in reality a committee--a top level decision-making committee. As a committee elected by the membership, the members of the board of directors of a farmer cooperative share full responsibility for making overall policy decisions and are by law accountable to the membership.

The acceptance of an obligation by an individual to perform work on or carry out assignments creates his responsibilities. Therefore, when the member of the cooperative who has been elected a director accepts the position, he implies that he recognizes the responsibility of the position, the specific responsibilities set forth in the cooperative's bylaws, and agrees to discharge these responsibilities to the best of his ability.

A board of directors is the governing body of a corporation legally created under state statutes and issued a "charter". The state statutes give the directors authority to exercise all the powers of the corporation, limited only by any conditions set forth in the statute and the corporation's bylaws.

Members of the cooperative elect a director to a position of trusteeship. In effect, they legally place their financial interests in the cooperative in the hands of the director they elect.

Directors Represent People, Not Dollars. -- A cooperative director does not make decisions for himself but for the total membership of the cooperative. A director has the duty to vote for the best interest of the total membership, not for his own interest. In this respect, his power to vote as a director is entirely different from that of a general corporation board member who may quite properly vote to serve his own interest as a major investor or an agent for a few major investors.

The position of director in a cooperative differs from that of a director of an investor-oriented business. Directors of non-cooperatives are usually the principle owners of the firm, and they may serve not only as a director of their firm but also as an executive or manager.

The director of a cooperative is elected democratically without regard to his investment in the cooperative. In fact, the total investment of the president of a cooperative usually needs to be only one membership fee or one share of stock. The president of an agricultural cooperative is prohibited by statute and bylaws from owning sufficient voting shares of stock to assure his reelection to the board, let alone assuring him of the presidency. The cooperative's ownership is not controlled by the board of directors as is often the case in the general corporation.

Exercise Financial Control. -- The directors of a cooperative have important financial functions. They have the responsibility of returning the net margins or assigning the losses to the patrons on a patronage basis.

Members, if they are going to control their cooperative, must provide a reasonable amount of the necessary capital.

Inform Members. -- The director of a cooperative has the responsibility of keeping membership informed as to the activities of the cooperative. This responsibility is shared, however, with members who have the responsibility of seeking out this information by reading reports and attending meetings.

The members are also responsible for the prudent use of information they receive about their cooperative. A cooperative gives a report of its affairs, activities, and future plans to all members. Non-cooperatives may need only to inform the major investors of the firm of their activities and future plans. These major investors may all be members of the board of directors.

Are Also Members. -- The director of a cooperative must recognize that, except when the board is in formal meeting, his authority is equal only to the rights and authority of any individual member of the cooperative. This applies to each director of a cooperative regardless of the position he may hold on the board.

Directors of investor-oriented firms by virtue of their ownership control of voting stock are the major owners, major decision makers, major controllers of the firm, and personally may hold the votes necessary to back up his position.

As individuals, the members of the board of directors of a cooperative have no authority to act for, or bind the corporation, unless they are duly elected or appointed to do so in a legal meeting of the board of directors.

As a rule, members loose control of their cooperative because they abdicate their responsibility to participate in the democratic representative process that governs and controls their cooperative. The law provides for an annual meeting at which time the board will report to the membership on the operation of their coop. Members have the responsibility to participate in annual and membership meetings.

The democratic control principle of a cooperative simply means that each person is entitled to only one or a minute number of votes. In a cooperative, people, not dollars, vote. In a cooperative, the per capita method of voting is used. The demoratic principle of the cooperative exists because of the positive mandate of the cooperative statute which has been used for incorporation. In county Landmarks, the Corporate Papers say one member - one vote.

If a statute contemplates one vote for each share of common stock, pure democracy and control can exist by limiting ownership of each member to only one share or by requiring all members to own an equal amount of voting shares of stock. County Farm Bureau Cooperatives limit each member to one.

It does not follow that the absence of absolute equality in voting prevents an organization from being a cooperative. There are cooperatives in which the members have democratically decided and so set forth in their corporate papers that voting privileges in their cooperative be based upon patronage. Thus, some cooperatives not only provide for the distribution of savings on a partonage basis but also for voting and control on a partonage basis.

Thus the democratic control principle is employed in a particular cooperative as the owners democratically decide within the limits of the statute and their corporate papers. It may be one-member one-vote, a limited maximum number of votes depending upon the number of shares owned, or a number of votes based on patronage.

Some statutes provide for, and some cooperatives have, outside directors who may not meet the requirements of membership -- such as being a producer of agricultural products. Some positions are usually limited in number and designated to represent the general public.

MEMBERS DESERVE THE DIRECTORS THEY ELECT TO THE BOARD

Members of a cooperative deserve the directors they elect to represent them and their interest in the cooperative and, once elected, cooperative directors deserve the support of the membership that requested that they take time from their farming operation to manage the affairs of their cooperative.

COOPERATIVE EMPLOYEES HAVE A UNIQUE POSITION

A distinctive feature of the cooperative is the closer relationship between the business entity and its patron than that characterizing other forms of business. This closer relationship between the cooperative and the patrons is governed by the provisions of the statute, articles of incorporation, bylaws and membership contract.

The relationship may be one of agency, trustee, or otherwise fiduciary in character depending upon the terms set forth in the corporate papers or statute. Since there can be as many variations in the terms it is difficult to generalize. To determine the exact nature of the relationship one must examine separately the rights and obligations setforth in each specific case.

Cooperatives are unique. They are people, people working together. It is the responsibility of directors and employees to capitalize on the uniqueness of cooperatives. Directors must not only effectively represent these people but continually keep them informed and involved in the cooperative. If a director fails to do so, stockholders have the responsibility to select a director who will discharge his responsibilities. Employees must not only sell goods and services by informing customer-owners of the cooperative principles but must use tact and judgement as they communicate between the coop, its owners and the public. To many people, the coop is its employees.

Cooperative management must know (1) principles of cooperatives and (2) principles of management.

Cooperative employees must understand that a firm is a cooperative if:

1. Savings above the cost of doing business are returned to patrons in proportion to the use the individual patron made of his cooperative.

2. Control of the firm is in the hands of its members as individuals rather than as investors.

3. The firm limits the interest paid on equity capital to an amount less than 8%.

Landmark employees must understand how the cooperative meets these three principles and be able to explain this to customers.

Landmark employees should have some knowledge of the law under which the cooperative is incorporated. This will give him knowledge of who is eligible for membership, opportunities and limitations of the cooperative firm.

The articles of incorporation will set forth the purpose and other information required by law.

The Bylaws are the directions or rules established by the membership for the board to follow in managing the cooperative.

Directors of your cooperative must be farmers. Today farming is a fulltime occupation. Coop directors need assistance from management in order to discharge their responsibilities with dispatch. Coop employees must collect data, both pro and con, to assist directors in making the decisions necessary for cooperatives to succeed. The unique poistion of coop directors rewards the coop director and all owners for the efficiency with which directors manage the cooperative.

Cooperatives are creators of change. The coop employee must always be willing to look ahead and help chart a successful course for the cooperative through the uncharted sea of our dynamic economy.

Management is the attainment of objectives through the efforts of other people. The manager must first determine what he wants the firm to accomplish. The objective of the firm or department or branch must compliment each other. Once the objective has been established and communicated to the owners, customers, public, board, management and employees, the manager allocates the work to those persons most capable, the resources to their most efficient use and schedules all tasks to be completed as planned.

Managers at all levels perform five fundamental functions of management: planning, organizaing, directing, coordinating and controlling.

Planning is the selection of objectives and the determination of action to be followed to reach these objectives.

Organizing is the grouping of activities and the structural arrangement of persons, facilities and equipment and all allocations of authority and responsibility.

Directing is getting the members of the group to carry out their task enthusiastically.

Coordination is obtaining and maintaining a balance among essential activities and individuals involved to harmoniously and effectively reach the objective.

Controlling is seeing that activities conform to the plan.

These five basic functions of management are interrelated and are performed simultaneously.

The basic functions of planning, organizing, directing, coordinating and controlling are the activities involved when the true role of management is being performed.

Lawrence Appley, president of the American Management Association, in his 42nd Annual Report to the membership stated, ". . . let there be no question about the success of managers up to this time. Those who have done well without specific organized or conscientious manager training have done so because few others were any different and circumstances did not require more than what they had to give. This situation is different today. It is only a matter of years before the manager who has left his training to chance will be in the minority. His chances of success, therefore, will be far less than they have been in the past. I think it is well accepted that the requirements of the manager's job are more complex today than ever before.

"There is no manager in the past who ever had problems of the same magnitude or ones that offered the challenge of today and tomorrow. In view of this challenge, let us put management training, what it is, what it is all about in the proper perspective. There are two vast areas of knowledge a manager must master: (1) the nature of the business he is managing; and (2) the principles and techniques required to manager..."1/

Management training is a lifelong proposition. Technical knowledge of a business is no longer sufficient preparation for the job of managing it. The manager of an agribusiness firm in today's dynamic competitive economy must be trained in processes of business management distinct and apart from his unique knowledge of the industry, his company, and its immediate environment, if he is to make a worthwhile contribution to his firm.

The competitiveness of today's economy does not allow sufficient time for acquiring management skills on the job simply by trial and error. The magnitude of the risk that can result from mismanagement is so great that management by intuition is no longer acceptable.

Management of agribusiness firms is continually increasing in complexity. Economic integration, the combining of economic functions, has become commonplace in our competitive economy. Furtherfore, the increased size in complexity of Ohio agribusinesses creates new problems in such matters as planning, financing, staffing, and public and member relations. These changes demand that the managers must understand management and economics in order to develop and establish proper objectives for the business which he manages.

Cooperatives, Landmark in particular, has recognized the requirements for a modern successful manager. That is why you are here. Landmark recognizes that product knowledge is not all that is required for successful management. You were fortunate to be provided this opportunity-it's up to you what use you make of it.

1/ Appley, Lawrence, "42nd Annual Report, American Management Association 1966."

Education is not a painless one shot deal. You must do a lot of homework. Study cooperative principles and management principles and add to these marketing principles.

Participate in church, civic and agricultural organizations. Managers are leaders. Community activities need leaders like you. You need the support of other leaders you will work with in civic organizations.

Remember, to the owners, customers and public, you are Landmark. We communicate to others all the time. Be neat, enthusiastic, optimistic and happy.