



## A Handbook for New Cooperative Directors

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## **Introduction**

Cooperatives are a type of business where the owners of the business are also the users of the goods or services provided by the business. They differ from investor owned firms in that the members supply some or all of the capital to start the business. Cooperatives are democratically controlled firms in that in most cases, each member gets one vote. Also, profits are distributed based on the amount of business (patronage) that the member generates for the cooperative. As a result of these unique features of cooperatives, members of cooperative board of directors face challenges that members of investor owned boards do not face.

The composition of the board of directors for a cooperative also differs from the composition of a board of directors of an investor owned firm. While some cooperatives have a single non-member director the majority of board members are also members of the cooperative and most cooperative boards are completely made up of members. While this ensures that the cooperative members control the business, it also means that some board members may lack the background to be effective board members.

This brief handbook is designed to provide some background on the responsibilities of board members. It will also consider the responsibilities of members, and the managers of the cooperative. Cooperative board members are busy people and hiring and retaining a good general manager is critical to the success of a cooperative. In many respects the board is the link between the membership and management (Wadsworth). Finally, there is a brief discussion of important financial ratios and how to run a board meeting. The rules for running a board meeting are the same as for running an annual meeting for the entire cooperative.

## **Responsibilities of Members**

One of the biggest responsibilities of the membership is to be informed. This includes education of the membership with respect to cooperative principles, major issues facing the cooperative, and policies pursued by the cooperative. Effective communication with the membership is the responsibility of the board and the management, but it is the responsibility of the members to be informed (Wadsworth and Eversull).

One critical responsibility of the membership is to provide capital (Wadsworth and Eversull). This is especially important when the cooperative is beginning operation; the cooperative will incur startup costs with little or no revenue being generated. The cooperative needs to have sufficient funds available from members to keep the cooperative operating. Additional capital campaigns may be needed to expand or replace aging equipment and building.

Some of the other member responsibilities are:

- to attend and participate in annual meetings
- serve on committees and be open to run for a board seat

- only criticize the board in a constructive manner and not to expect special treatment
- adopt and amend articles of incorporation, bylaws and motions brought up at annual meetings
- elect and remove directors
- help ensure that board members, management, and employees abide by the cooperative's bylaws and policies
- contribute equity to the cooperative
- patronize the cooperative
- Abide by the cooperative's board and management decisions (Zeuli and Cropp)

All of these responsibilities are important but providing equity and patronage are particularly important. Without sufficient capital investment and patronage, a cooperative will not be able to survive.

One responsibility of the cooperative membership is to provide some type of compensation for board members for the work they do. At the minimum, board members should be reimbursed for travel and expenses incurred to attend board meetings. Some type of payment per meeting should also be considered, especially for larger cooperatives. Very large cooperatives may consider a salary for board members. In the early 2010s, median compensation for board members was \$650 per member per year, or \$55 a meeting if they met monthly (Eversull). However, most cooperatives, especially small cooperatives, do not pay board members.

### **Responsibilities of Board Members**

Members elect directors to represent those members (Baarda). The primary responsibility of the board of directors of a cooperative is to set the cooperative's strategy and develop policies and guidelines to achieve the goals of that strategy. The board is the link between the members and the cooperative's management (USDA). The day to day operation of the cooperative is not the primary responsibility of the board but of the general manager. Other important responsibilities include hiring a manager, require and analyze monthly financial reports, approve the budget for the upcoming year, have an audit of the cooperative prepared, conduct an annual meeting of the entire cooperative membership, determine patronage refunds, obtain legal counsel, keep records of the board's actions, approve major capital expenditures and how to finance such expenditures, and how to retire or return members' capital investment (Wadsworth).

Board members generally elect their own officers. The president generally presides over meetings, the Vice-President presides when the President is not available. The Secretary keeps records of the meetings (the minutes), and is the official keeper of the cooperative's seal, bylaws, and membership records. The treasurer oversees the financial records of the cooperative and presents financial reports. (Wadsworth and Eversull). Employees can be used to assist the Secretary and Treasurer. Most boards also have one or two at large members who are not officers.

Some boards have an outside director. This director usually has some special skill or has an insight into the industry that other board members may lack. Often this board member does not have voting rights. Outside directors usually do receive some type of compensation for their work on the board.

The single biggest decision faced by most cooperative boards is hiring a general manager. As is the case in most businesses there is strong competition for qualified staff. Preferably a general manager should have experience in the industry as well as experience in a cooperative setting. Understanding cooperative principles and supporting those principles is important for a manager to be successful. There are training programs available for managers who may be lacking experience in a cooperative environment.

Another important task of cooperative boards is to keep members informed (Baarda). A well educated membership will understand board decisions and why those decisions were made. An informed membership is more likely to be loyal to the cooperative. Board members also need to be fully informed; they can be held accountable for what they know and what they should know (Baarda). Newsletters, annual meetings and e-mails are all ways to keep members informed and engaged.

One important concern members may have, especially given the current labor market is wages and salaries of employees. Employee compensation is a major expense for most cooperatives (Eversull). Hiring and managing employees is primarily the responsibility of the management team, but the board is responsible for ensuring that wages, salaries, and benefits are high enough to recruit and retain employees.

One way to reduce the workload of directors is to create committees that handle some of the work. Examples would be a finance committee, a human resources committee, a members relations committee, and a marketing committee. In addition to sharing the workload, committees are a good way to identify future board members. Recruiting board members is also an important role of an existing board. A nominating committee made up of some board members and non-board members could identify potential board members and encourage them to run for a board position.

One critical aspect of the board member's job is to act on behalf of the entire cooperative. The board as a whole, not individual board members, have the authority to act on behalf of the entire cooperative (Baarda). As a board member, she has to put the interest of the cooperative before her own interests. Failure to do so could make the director subject to liability. A board member needs to be able to identify potential conflicts of interest and recuse themselves from any decisions relating to that conflict of interest. One way to address some of these issues is to institute some type of compliance program (Baarda). Good legal support is important to address potential conflicts of interest and other issues. Liability insurance can also be purchased to cover boards and management (Baarda), but board members are not covered if they do not perform their duties responsibly.

Good time management is important for effective board performance. Board members should be informed before the monthly meeting. This will allow the board to focus on major issues and decisionmaking (Conger, Finegold, and Lawler). Too often excessive time is spent on discussing financial matters that could have been covered with the timely delivery of information before the monthly meeting.

Some of the traits of being a good board member are:

- good business judgement

- independent thinking and a willingness to ask questions
- respect for other members
- integrity
- a good work ethic
- a good understanding of cooperative principles (Zeuli and Cropp)

A person who has these characteristics has the potential to be a good board member and should be encouraged to run for the board. Many cooperatives have difficulty getting members to run for board positions.

### **Responsibilities of Managers**

Finding a good general manager for a cooperative may be difficult. Managing a cooperative is more difficult than managing an investor owned firm (Zeuli and Cropp). The customers and the owners are one and the same. Also, many potential general managers may not understand cooperative principles.

The primary responsibility of the general manager is to oversee the day-to-day activities of the cooperative. While the division of duties between the manager and the board is not always clear cut, Figure 1 shows the general division of duties between the management and the board.

**Figure 1: Division of Duties Between the Board and Management**

<b>Board Responsibilities</b>	<b>vs.</b>	<b>Management Responsibilities</b>
Ideas		Actions
Decisions about what the cooperative should be doing		Decisions about how the coop does something
Long-term and substantial commitments and resources		Short-term and moderate commitment of resources
Personnel development of board and committees		Job related training for employees
Monitoring board and management performance		Evaluating employee performance

Source: Zeuli and Cropp

Figure 1 shows that the primary responsibilities of management are to put the plans of the board into action. Additional responsibilities are to ensure that there are sufficient resources to meet the short-term needs of the cooperative. The manager, with input from the board, should also generate a budget for each year to help the cooperative measure performance and plan for the next year. The budget should include forecast sales, expenses and the net income expected. Revenues and expenses should be broken out by category or line item (Wadsworth and Eversull).

A critical responsibility of management is to hire, train and manage employees. Wages and benefits should be set by the board with input from the management. The board needs to realize that to recruit and retain good employees the cooperative will have to offer competitive wages and benefits. Managers are also primarily responsible for educating employees about cooperative principles; most new employees are unlikely to fully understand how cooperatives differ from investor owned firms.

## **Important Financial Ratios**

While there may be a tendency for boards to spend too much time on the financial performance of the cooperative in monthly meetings, being able to understand the financial performance is a critical component of being a board member. While not a complete list, the following are some important financial ratios to consider when assessing the financial performance of the cooperative. These ratios allow the board to measure performance over time, and to compare the cooperative's performance to other firms in the industry. It also assists the board's ability to set patronage refunds and redemption of members' capital contributions.

### ***Current Ratio***

The current ratio is current assets divided by current liabilities. It is cash, inventory and other short-term assets divided by the liabilities that must be paid off during the next 12 months.

### ***Operating Cash Ratio***

The operating cash ratio is cash and cash equivalents (such as saving account balances) divided by current liabilities. This measures the cooperative's ability to have sufficient cash on hand to pay off the liabilities that are due in the next 12 months.

### ***The Debt to Asset Ratio***

The debt to asset ratio is total liabilities divided by total assets. This is a measure of the cooperative's assets that are purchased via debt financing. New cooperatives should try to keep the debt to asset ratio at 50 percent or less. The debt to asset ratio is one of the most important ratios lenders consider when providing credit.

### ***Return on Assets***

Return on assets is net income divided by total assets. It is a measure of how efficient the cooperative is. The higher the ratio the more efficiently the cooperative is using its assets.

### ***Return on Equity***

Return on equity is net income divided by owner's equity. It is the net return available to the firm's owners. It is the true measure of profitability.

These ratios and other help the cooperative assess performance. The board should track these ratios over time to make sure the cooperative is profitable and is meeting its goals. If the cooperative can obtain information from competitors, especially publicly traded firms, they can use these ratios to compare the cooperative's performance to their competition.

## **A Brief Introduction to Meetings**

Robert's Rules of Order is almost universally used for meetings. Robert's Rules of Order is used for board meetings and the annual meeting. The purpose of Robert's Rules of Order is to make sure that meetings

are focused on the agenda and that all viewpoints have an opportunity to express themselves. Figure 2 shows some of the major procedures that can occur at a meeting.

**Figure 2: Outline of Robert’s Rules of Order**

<b>Action</b>	<b>Need a Second</b>	<b>Can Be Debated</b>	<b>Can be Amended</b>	<b>Votes Needed</b>
Introduce Main Motion	Yes	Yes	Yes	Majority
Amend a Motion	Yes	Yes	Yes	Majority
Move item to committee	Yes	Yes	No	Majority
Postpone item	Yes	Yes	No	Majority
End debate (call the question)	Yes	Yes	No	Majority
Object to procedure (point of order)	No	No	No	Chair Decision
Call a recess	Yes	No	No	Majority
Adjourn a meeting	Yes	No	No	Majority
Overrule the chair	Yes	Yes	No	Majority
Verify voice vote with count (call for division)	No	No	No	No Vote (must happen)
Reconsider something already disposed of	Yes	Yes	Yes	Majority
Personal preference (noise, room temperature, distractions)	No	No	No	Chair Decision

Source: Hoy

It is important to note that a person cannot speak for a second time until everyone who wants to speak has had a chance to speak for the first time. This ensures that no individual is able to dominate the conversation.

Generally speaking, the president or vice-president presides at the board meeting, with the secretary taking the minutes. Each of these people are members of the board with the selection of the board officers generally selected by the board members. At the annual meeting, the President of the board should preside with assistance from the cooperative’s legal counsel. The legal council could also assist new board members in learning Robert’s Rules of Order and assist the President at the annual meeting.

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