Cooperative Management

FARMER COOPERATIVES IN THE UNITED STATES
COOPERATIVE INFORMATION REPORT 1
SECTION 8

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL BUSINESS–COOPERATIVE SERVICE

Contents

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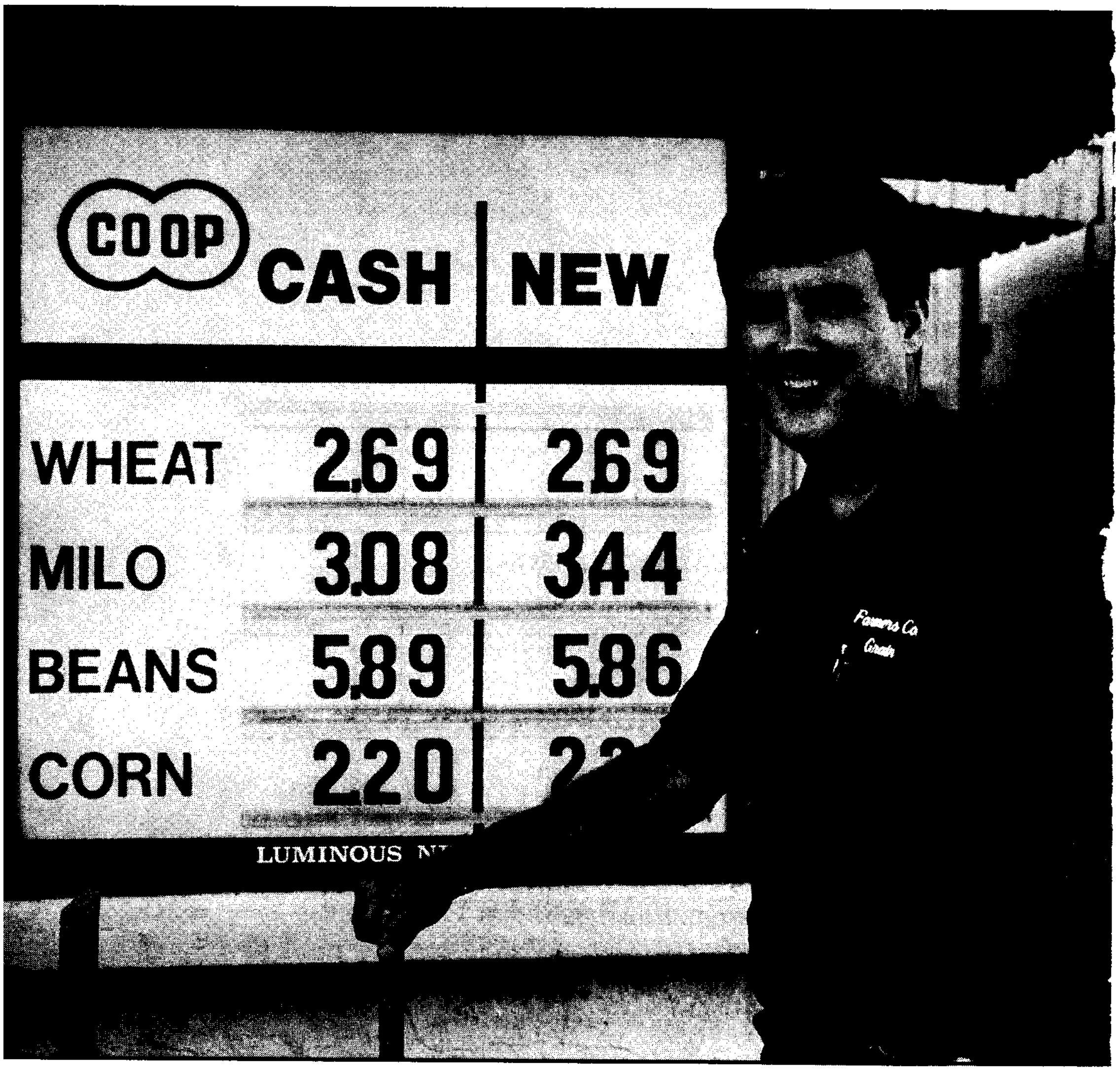
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CORN 2.20

Cooperative Management

Management has greatly improved as cooperatives have become larger, more diversified, and integrated to match similar advances in the marketplace and on the farm.

In the early years, local cooperative managers not only supervised operations but also maintained accounting records, waited on customers, and swept floors. Boards of directors knew little about off-farm businesses. Many cooperatives failed because of inept operating management and poor monitoring by the board.

Specific examples included overextension of credit and unsound collection practices, poor technique in grain marketing, inadequate attention to keeping products in condition, overexpansion of facilities, underfinancing, overadvances to growers in pooling operations, dominance of the hired manager, and board interference in management of operations.

Both surviving and new cooperatives learned important lessons from these experiences.

As regional cooperatives developed and became stronger, they began providing more assistance to local boards and managers through general field representatives. This included helping recruit and train managers and assistants. Later, several provided financing and direct management service to the weaker locals, and auditing and analysis service to all member locals.

With the advent of The National Cooperative Bank (CoBank) and other Banks for Cooperatives, valuable management and financial counsel became available to cooperative borrowers. In many cases, this perhaps is more valuable than the funds loaned to them.

In the past, local cooperatives often viewed their bookkeepers or office managers as potential replacements for general managers. Now, many employ assistant managers and department heads who have had prior business and sales experience.

Regional cooperatives employ university graduates with training in business administration, agribusiness, or sales management and place them in management trainee programs before moving them to managerial positions.

Some regional cooperatives provide management training for local managers, using their own staffs or management consulting firms as trainers. Most regionals send key employees to management schools or seminars.

Some State cooperative councils and cooperative centers offer basic director, management, and employee training to local cooperatives. In their training, they often use case studies and roleplays based on local problems. Personnel from regionals sometimes assist in conducting the program.

Cooperatives have increased in size and diversity of products and services, and have departmentalized their operations. Larger regionals have numerous subsidiaries. This stimulates more training for secondary level managers. Training is provided by personnel or formal training departments of regional cooperatives, who often contract with outside providers or universities.

Most farmer-directors have become more business-minded as their own farm operations grew. They give more attention to their cooperative's management. They employ managers with more training and expect them to improve their knowledge and skills. Also, a growing number of directors seek to become more proficient in directing the affairs of their cooperatives.

Public concern about food safety, pollution control, health and the environment, monopoly, and related issues focuses attention on the competence, integrity, and behavior of cooperative directors. As a result, cooperatives are becoming more aware of the need to indemnify directors who are subject to increased legal exposure.

The growing impact of world markets, even on the individual family operation, is changing the management perspective from the local cooperative level. The local is being viewed less and less as an independent entity and more and more as part of a system.

Therefore, planning and strategy are evaluated in terms of the local's relationship to neighboring cooperatives, other areas, agribusinesses, the regional cooperatives in which it has ownership, to the markets into which members' products flow, and to the ultimate use of those products.

ROLE OF MANAGEMENT

Management combines ideas, processes, materials, facilities, and people to effectively provide needed services to member-owners. Management is the decisionmaking element of the cooperative. Broadly speaking, its role entails formulating and executing operating policies, providing good service, maintaining financial soundness, and implementing operating efficiencies to successfully meet its objects.

A successful cooperative is viable in an economic or business sense and maintains or improves its cooperative character or features. A cooperative may succeed as a business, but gradually lose its cooperative character regarding member control, serving the needs of members, and distributing net margins. Likewise, it may succeed for a while as a cooperative, but fail as a sound business institution.

Managing a cooperative is challenging and difficult. It involves not only managing resources and business operations, as in other businesses, but also dealing with problems stemming from the cooperative's distinctive characteristics. Because the cooperative's members are both owners and patrons, special relationships and problems arise concerning member and board of director roles and responsibilities.

Seemingly conflicting answers to questions arise. What's different in managing a cooperative from any other type of business? The answers can range from "all the difference in the world" to "none at all." A former regional cooperative chief executive officer offered this answer: "Decisionmaking techniques are identical, but the cooperative's objectives are different; therefore, the manager's conclusions will be different."

Cooperative principles and objectives present a distinctly different managerial premise. That premise is revealed in more detail through the following perspectives an executive must acquire to be a good cooperative manager:

1. ***Adjusting decisionmaking to a business where the customers are*** also ***the owners.*** In a supply purchasing cooperative, the manager of an investor-owned firm (IOF) may discover that many of the successful techniques associated with developing a salable and satisfactory product (for the customer) and achieving maximum return on capital (for the owner) no longer apply.

A cooperative manager has to adjust priorities and objectives to the realization that what's best for the customer (also the owner) really is best for the cooperative. This realization may explain why some low- or no-margin services continue to be provided and why certain unrelated and perhaps high-margin activities are not considered in a cooperative.

The manager of a marketing cooperative must understand why the cooperative often is obligated to take all of the members' products and attempt to find a market for them. The manager is not at liberty to pick and choose among such product suppliers and cut off marketings when inventories build up. And certainly to allow the member-producer to dictate the terms on which the cooperative business should receive the product would be a situation foreign to non-cooperative managers.

2. ***Dealing with complex issues of equitable treatment of owner-patrons, the manager of an IOF will discover that distributing the net earnings of a cooperative is much more complicated than declaring a dividend on capital stock. The*** standard cooperative practice of distributing net earning on the basis of individual member volume, such as units marketed or quantity of supplies purchased, also will be new should he/she become a cooperative manager.

For larger cooperatives that handle many products and involve value-added activities, the issue of equitable treatment of member-owners can be complex.

Another concept new to an IOF manager now heading a cooperative is the requirement that member-owners share equitably in financing the cooperative, and that management communicates that responsibility to them and develops financing programs they'll accept.

3. ***Working in a service-oriented organization is a spotlighted atmosphere. The*** manager of a typical cooperative will find that members formed it to provide a needed marketing or purchasing service or both. Hence, every time they use the cooperative they evaluate the service performed by its employees. Often, members may wish to express their views directly to the manager or to get management advice about supplies to use or when to market their products.

Therefore, a cooperative manager may feel that he/she is operating in an enclosed environment, compared with the manager of an IOF whose only interface with most stockholders occurs at annual meetings when they want an accounting of why there were changes in the market value of their stock or in the dividends declared on it.

Even in the day-to-day routine of a large cooperative, the new cooperative manager may encounter a different working environment. A senior manager of a regional cooperative once observed, "A major change I had to face was what I call working under a spotlight.

"Soon after joining the cooperative, I found that the half-million farmers who owned our member cooperatives wanted to know what I was doing. Their interest was genuine. Thousands toured the cooperative each year and some wished to meet the executives and professionals, They were important to us and not just ordinary visitors. Rather, they were managers of local cooperatives that owned the regional, or farmers who owned the locals."

He concluded, "an executive or professional joining a cooperative must adapt himself to the publicity surrounding his work."

4. ***Cooperatives have unique management implications of business ownership and control.*** Managers perform under the influence of various motivational factors-pay, power, prestige, and a place in history. Not all are fully transferable from an investor-oriented business to a member-user oriented cooperative.

An example concerns the ownership and control of the business. An investor-oriented business executive or manager looking for a company to "gain control of' either by outstanding performance, political maneuver, or eventual ownership will be surprised if the company is a cooperative. A cooperative manager can never acquire "ownership rights," and must become resolved to always being an employee.

Further, the manager will discover it necessary to deliberately involve a majority of the member-owners, not just a few principal stockholders, in major decisions affecting cooperative policy and its business objectives. The prospective cooperative manager, therefore, needs to carefully assess whether his/her management style and personal performance motives and ambitions are compatible with the constraints of a cooperative owned and democratically controlled by member-users.

RESOURCES TO MANAGE

Like any other business, three major types of resources must be managed in a cooperative-people, capital, and facilities.

People

The most important resource in a cooperative is people. The success of all phases of the business depends on competent personnel working together smoothly and efficiently. In a 1994 study conducted by Janice Dresbach, Ohio State University, cooperative mangers said training was highly important in the areas of improving customer relations, educating members about the cooperative way of doing business, working effectively with a board of directors, identifying member needs.

In an earlier study, managers cited the ability to deal effectively with people was the qualification most important to the success of the best manager they had ever known. Ability to size up a situation and act accordingly was ranked next in importance. Qualifications considered least important were ability to keep pressure on until the job is done and technical knowledge of supplies handled.

Personnel management thus is a critical phase of business management. It begins with the selection of personnel, followed by training and evaluation. Much depends on personnel supervisors who must plan the work, delegate responsibilities and authority, analyze jobs, and set performance standards, as well as train workers, review performance, set up grievance procedures, and provide leadership. And proper compensation, including fringe benefits and incentives, is important in personnel management.

Management should also motivate and reward employees. This coaching function involves seeking suggestions from staff, creating an environment where employees can be innovative, establishing goals, inspiring and recognizing good performance, and developing teamwork and an esprit de corps among employees.

In a cooperative, management also must strongly emphasize member relations because ownership, control, and patronage all are member functions. This involves adequate two-way communication and information from management to members and from members to management. Continuous efforts are also needed to obtain new members to maintain the organization and an adequate volume of products or services.

Maintaining or improving good member-patron relations involves providing good, honest service and helpful information about the cooperative and the products it handles. It means keeping members informed about policies, operating practices, and financial requirements; and pointing out their responsibilities for making the cooperative successful.

Management of a cooperative, as in other businesses, also must be concerned with public relations. If there is to be public understanding and acceptance of the cooperative, the public must have information on its objectives, accomplishments and benefits, and limitations.

Capital

Financial management, a key to operating cooperatives, involves managing assets such as cash, accounts receivable, inventories, fixed assets, and investments in other organizations. It includes managing liabilities, such as accounts payable and current notes payable, and obtaining favorable long-term financing. Sufficient member or equity capital and a sound financial position must be maintained that will be acceptable to creditors, suppliers, or buyers of cooperative products. This requires periodic analysis of the cooperative's financial position, its operating efficiency, and proposals for expansion.

Financial management involves: (1) considering funds available and source for additional capital; (2) allocating funds among assets to be financed; and (3) ensuring that all aspects of financing are dealt with in a manner consistent with sound business practices and cooperative principles.

Facilities

Building and equipment can represent a large proportion of a cooperative's assets. Therefore, important management considerations include scheduled maintenance; rearrangement, remodeling, and replacement to improve operating efficiency; daily operating cost records; preventive maintenance programs for rolling stock such as delivery trucks; grounds maintenance and pest control; adequate insurance; disposal of unproductive assets; and observance of safety, health, and other environmental regulations.

MANAGEMENT FUNCTIONS

Overall, management embodies four functions-planning, organizing, motivating, and controlling.

Planning determines where the organization is going and how it will get there. It sets organizational objectives and goals, forecasts the environment in which objectives must be accomplished, and determines the approach by which objectives and goals are to be accomplished. Planning is used to determine a policy and the procedures for putting it into effect.

Planning usually considers several alternatives. Each should be judged on the basis of its economic or competitive effect and accompanying problems. Also, it must be consistent with cooperative principles and the association's objectives. Planning helps a manager shape the future of the organization rather than being caught in an endless trap of reacting only to current crises or problems.

Organizing is concerned with determining the specific activities needed to accomplish the planned objectives and goals; grouping the activities into a logical pattern, framework, or structure; assigning the activities to specific positions and people; and providing means for coordinating the efforts of individuals and groups. Organizing is a bridge connecting the planned objectives to specific projects for accomplishing these objectives.

Motivating concerns the people side of the organization. Cooperatives are people-driven organizations, from the standpoint of both employees and members. Managers must have leadership skills and be effective communicators. The manager's ability to influence members through leadership will help determine the extent to which both individuals and the entire organization accomplish their goals.

A manager spends up to 95 percent of the time communicating. Good communication is essential to coordinating the organization's human and physical elements into an efficient and effective working unit.

In controlling, management monitors the progress of planned activities. If progress is lagging, necessary adjustments are made. Controlling is the checkup part of a manager's job.

MANAGEMENT TOOLS

Management uses a number of tools to carry out its functions-accounting system, control reports, security and safety, training and evaluation, incentive programs, communications, and strategic planning.

Accounting System

A complete and accurate accounting system is vital for effective management. It must produce several financial statements needed in planning and controlling, such as: (1) monthly and annual balance sheets and operating statements; (2) functional or enterprise accounts pertaining to departments or specific lines of business; and (3) special accounts such as patronage records, accounts receivable aging, member equity, and patron financing.

An independent auditor periodically verifies the accuracy of the cooperative's business records. This is especially useful to directors in performing their controlling and planning functions. It helps the board determine the extent to which the manager has followed financial policies, and evaluate how the cooperative is accomplishing its basic objectives. The external audit is primarily a board tool.

Larger cooperatives also use internal audit reports. The internal auditor's primary duty is to monitor the cooperative's accounting policy. The auditor checks the cost of prescribed procedures, including their effect on patrons and personnel, and suggests ways to prevent errors. Usually, the auditor reports to the chief accounting officer, but sometimes to the general manager or even to the board of directors. Internal audits are primarily manager tools.

Control Reports

Credit and inventory analysis include a monthly aging of accounts and notes receivable; selected financial and operating ratios; and a monthly accounting of selected inventories, including shrinkage reports.

Security and Safety

To protect the cooperative, the board is responsible for adequately insuring employees and assets. Employees handling funds should be bonded. Facilities need to be appraised and arranged internally and fenced to minimize pilferage.

The board should adopt programs to protect the health and safety of employees and patrons and measures to comply with environmental protection standards.

Evaluation and Training

Management will be evaluated even if the process is not formally planned. Member-owners continually evaluate their hired management in terms of how well the cooperative is serving members. Regardless of cooperative size, supervisory personnel are evaluated on the basis of how they perform day-to-day.

In addition, business leaders, who know about or deal with the cooperative, indirectly evaluate its management. While this type of evaluation may have a direct impact on the cooperative, the process usually doesn't clearly identify weaknesses so they can be corrected.

Larger cooperatives use professional management consulting firms to assess whether the cooperative's management structure is efficient, locate weaknesses and strengths, and suggest what types of management training are needed.

A cooperative of any size can lay a fundamental basis for evaluating its management. The essential requirement is to develop an evaluation plan and then follow it (figure 1).

Present and prospective supervisors can be encouraged to improve their management abilities by using a wide range of training resources. Cooperatives often send many of their top management staffers to commercial seminars on management or to specialized educational seminars such as the Graduate Institute of Cooperative Leadership sponsored by the University of Missouri-Columbia. Other resources are land-grant universities, banks of the Farm Credit System, regional cooperatives, and the Federal extension service. State cooperative councils, in conjunction with land-grant universities and cooperatives, also offer a variety of workshops and seminars.

Management Appraisal Report

Management's traditional scope concerns land (facilities and equipment), people, and capital. This is accomplished by using the management functions of planning, organizing, motivating, and controlling.

Therefore, this appraisal report (figure 1) considers those general areas (motivating is appraised in the people section). Specific items will be addressed under each of the major areas. Specific areas will be rated first and then an overall rating given for that area. The rating of each major area will be justified with written comments.

Figure l-Management Appraisal Report

Key question to ask:	Rating: Circle Number[1]
	F G C

I. Land (facilities and equipment)

A. Specific Indicators:

1. Adequacy of facilities and equipment. How well does the general manager analyze equipment and facility needs and make appropriate recommen dations?

F G C

2. Is the physical plant well repaired and main tamed-quality of elevators, fertilizer plants, and other buildings and equipment?

F G C

3. Do facilities and equipment appear clean and attractive?

F G C

B. Rate the manager's overall performance in manag ing and equipment.

F G C

C. Comments:--

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[1] These ratings are used in evaluating the various sections of this report: F - Fair: Performance usually meets standards, but improvement is possible and desirable. G - Good: Performance meets and sometimes exceeds standards. Contributions are consistent and reliable. C - Commendable: Performance often exceeds standards or expectations. Considerable initiative has been exhibited.

II. Labor (including employees, board, and patrons)

A. Specific Indicators - Employees:

1. Do cooperative employees appear to enjoy their work?

F G C

2. Are employees given performance appraisals reg ularly? Are they provided training and develop ment opportunities?

F G C

3. Does the cooperative have sufficient backup in key positions? Can the cooperative operate effectively when the manager is absent?

F G C

4. How well does the manager resolve conflicts among employees and between employees and patrons?

F G C

B. Rate the manager's overall performance in handling employees.

F G C

C. Comments:--

D. Specific Indicators - Board:

1. Does the board receive quality information on a time ly basis so it can make informed decisions?

F G C

2. Does the general manager provide leadership and direction to the board?

F G C

3. Does the manager make good, timely decisions? Are me decisions made within the sphere of management?

F G C

4. Does the manager create an atmosphere of trust that makes the board comfortable with management deci sions?

F G C

E. Rate the manager's overall performance in relating with the board.

F G C

F. Comments:--

G. Specific Indicators - Patrons/Public:

1. Does the manager project a positive image to the patrons? Is he/she respected in the community?

F G C

2. Does the manager effectively communicate to mem bers about cooperative activities?

F G C

3. Does the manager respond promptly and effectively to resolving patron concerns or complaints?

F G C

4. Do the manager and staff strive toward prompt and courteous service to patrons?

F G C

5. Does the manager have a good working relationship with the cooperative's lender?

F G C

6. Does the manager have a good working relationship with the cooperative's regional cooperative(s)?

F G C

7. Does the manager participate in community affairs in an effort to promote the cooperative?

F G C

H. Rate the manager's overall performance in dealing with patrons and the general public.

F G C

I. Comments:--

____

III. Capital (financial affairs)

A. Profitability Ratios: Standard Actual

1. Local Return on Sales ____________________

F G C

2. Local Return on Local Assets ____________________

F G C

B. Liquidity Ratios: ____________________

F G C

1. Interest Coverage Ratio ____________________

F G C

2. Current Ratio ____________ ______________

F G C

3. Working Capital to Sales ____________________________

F G C

4. Days' Sales in Accounts Receivable ____________________________

F G C

5. Debt Service Ratio ____________________________

F G C

C. Efficiency Ratios:

1. Firm Productivity Ratio ____________________________

F G C

2. Labor Income Ratio ______________________________

F G C

D. Solvency Ratios:

1. Local Leverage Ratio ______________________________

F G C

2. Term Debt to Fixed Assets ____________________________

F G C

3. Ownership Ratio ______________________________

F G C

E. Rate the overall financial management of the coop erative including financial strength, earnings performance, and financial improvement.

F G C

F. Comments:--

____

IV. Planning

A Specific Indicators:

1. How well does the manager provide vision and fores ight to the board?
F G C

2. How effectively does the general manager include the board and the staff in the planning process?
F G C

3. How well are the plans implemented and the results evaluated?
F G C

4. How accurate and adequate is the budget process?
F G C

B. Rate the overall performance of the manager in the planning process.
F G C

C. Comments:--

____

V. Organizing

A. Specific Indicators:

1. Does the manager have and effectively use an orga nization chart outlining chain of command and report ing relationships?

F G C

2. Does the manager have in place current job descrip tions for each position in the company?

F G C

3. Does the manager appear to delegate effectively to department heads or key employees?

F G C

B. Rate the overall performance of the manager in effec tively organizing the cooperative.

C. Comments:

VI. Controlling

A. Specific Indicators:

1. Are monthly financial statements accurate and time ly?

F G C

2. Are year-end statements reasonably close to infor mation provided in monthly financial statements?

F G C

3. Are additions to fixed assets within the parameters of board policies?

F G C

4. Is the board's credit policy implemented and admin istered appropriately?

F G C

5. Are short-term loans used effectively to minimize interest expense?

F G C

6. Are relevant policies and procedures in place to min imize problems?

F G C

B. Rate the overall performance of the manager in estab lishing and administering an adequate control sys tern.

C. Comments:--

VII. Summary

1. What are the manager's strengths and in what ways does he/she contribute best to the success of the coop erative?

F G C

2. What are the most significant weaknesses that need to be corrected?

F G C

3. What does the board expect the manager to do during the next 12 months?:

F G C

4. Based on this evaluation, the board rates the general manager's overall performance:

[ ] Fair [ ] Good [ ] Commendable

This appraisal of my performance has been reviewed with me by the chair of the board. I accept this appraisal of my performance for the past 12 months and will strive to improve upon those areas as noted.

Manager ______________________________ Date _____________

Chair,
Board of Director ____________________ Date _______________

Incentive Programs

In addition to job descriptions and salary ranges, managers in an increasing number of cooperatives use incentive payment plans to encourage productivity. Also, many use certificates of merit or special activities to recognize superior employee performance.

Communications

Managers communicate with employees, members, and the public in a variety of ways-membership and employee publications, annual reports, member and employee meetings, and reports by educational and Government agencies.

One regional cooperative has used satellite transmission for conducting its annual meeting simultaneously at multiple sites. Distance learning, CD-ROM computer media, computer simulation and self-contained units with video tapes, facilitator guides and workbooks are being used in educational programs for directors, managers, and employees.

Budgets

Budgets are valuable tools in planning and controlling the cooperative. Hired management usually prepares three types of budgets-operating, cash, and capital.

Operating budgets are completed each year. The first step is to project revenue sources, an estimate of the sales or income volume in physical units and their values. Next, prepare estimates of variable and fixed costs based on the income projections. Last, calculate net earnings. To obtain maximum benefit of the budget, operating management should compare the actual income and expense against the monthly projections. Where actual results are worse than the projections, corrective actions should be taken.

Cash budgets estimate the flow of funds for a fiscal year. If completed on a monthly basis, they help plan borrowing or investing of operating capital, the ability to take advantage of discounts, and serve as a financial control. Cash budgets are important for seasonal businesses.

Capital budgets have a longer planning span, usually 5 years. These budgets might include the cooperatives needs for more land, buildings, equipment, services and operating capital. An integral part of this budget are feasibility studies on projected asset purchases and to consider alternative investments that could produce greater returns and still satisfy the mission of the association. Finally, identify the source of funds for capital projects. Sources to consider could be equity capital, borrowed funds, or retained net earnings.

These three types of budgets quantify the financial resources needed to satisfy the capital requirement of the overall strategic business plan.

Strategic Planning

Strategic planning is a formal and systematic process. It is long-term and different than short-term or annual budgeting. Its primary purpose is to determine the current position of the cooperative and chart its future direction. The planning horizon is usually 3 to 10 years.

Strategic planning is objective oriented and focuses on specific measurable actions. It is based on available and factual information and assumptions regarding the future. It clarifies relationships, promotes understanding of established objectives, and assigns specific responsibilities, tasks, and time schedules. It includes orderly review of progress.

Strategic planning uses the cooperative's strengths to put it in the best possible position while change is occurring. It also devises steps to minimize the cooperative's weaknesses, or even better, devises steps that turn weaknesses into strengths.

Strategic planning helps obtain the confidence of lenders and investors. It evaluates alternative actions. In short, strategic planning makes a cooperative proactive instead of reactive.

ELEMENTS AND DIVISION OF RESPONSIBILITY

Management of the cooperative is a team effort that combines three elements-members, elected directors, and hired management. Often, management is construed to be only the full-time general manager, or chief executive officer, and department heads. This is understandable because this is their full-time responsibility. Members and directors look to them for information and guidance. Obviously then, the responsibilities of these three elements should be clearly understood and followed.

Members

Articles of incorporation spell out member's specific powers. Members also have moral and legal responsibilities in relationship to these powers. Members are involved in the broad management aspects of a cooperative because they are both its owners and patrons. They live close to it and exercise more control than the stockholders of other corporations.

Powers of the membership are: (1) adopt and amend articles of incorporation, bylaws and agreements; (2) if necessary, select and recall a board of directors; (3) examine annual reports; and (4) study major issues and cast informed votes. Examples of issues include: (a) adoption of long-range strategic plans, (b) major expansion in facilities, (c) changes in capital structure, (d) adoption of a marketing contract, (e) addition of a major type of supply or service, (f) sale of major assets and, (5) dissolve or merge the association.

Members are responsible for: (1) providing the necessary capital, (2) patronizing the cooperative to the fullest possible extent, (3) paying the cost of operations, (4) assuming the business risk, (5) controlling the cooperative through its elected board of directors, and (6) keeping informed about the cooperative.

Board of Directors

Directors represent members within the framework of an official board of directors. All corporate powers of the cooperative, other than those specifically conferred upon members, are vested in its directors. These powers and responsibilities are outlined in the bylaws.

Three major responsibilities are to set policies, employ a general manager to carry them out, and then evaluate the manager's performance.

Ten more specific management responsibilities of the board are: (1) functioning as trustees for the members in safeguarding assets in their cooperative; (2) determining the mission of the cooperative and setting objectives and general policies; (3) defining and adopting long-range strategic plans; (4) employing a competent manager; (5) preserving the cooperative character of the organization; (6) requiring accounts and records; (7) appointing an outside auditor; (8) controlling the total operation; (9) distributing corporate net earnings or savings; and (10) redeeming equities in an expedient manner.

In the past, directors often were farmers who have been members for many years and made maximum use of the association.

Today, progressive cooperatives are electing a more balanced representation of the membership. Both younger and older members provide direction for both current operations and meeting their future needs.

The member elected to become a cooperative director probably wonders, how much of my time will this job require? And perhaps present directors wonder if they're spending too little or too much time fulfilling their cooperative responsibilities. Past studies revealed that 37 percent spent 2 weeks or less; 52 percent spent between 2 weeks and a month; and 11 percent spent more than 1 month per year.

Sixty-eight percent of the cooperatives compensate their directors for attending meetings. The frequency of meetings ranged from two or three per year to monthly.

Hired Management

The board of directors, in turn, delegates much of its overall management responsibility-the daily operations-to a full-time manager or chief executive officer. The manager, in turn, is empowered to employ and discharge key employees such as department heads, who together with the manager comprise the hired top management staff or team.

Characteristics of a successful manager are difficult to identify. Individual managers have different characteristics and skill levels. One board could determine that an individual manager was not performing to expectation, while the same manager could perform successfully in another cooperative. The challenge is to match the individual's characteristics, personality, and skills with the job.

Generally, the ability to work with people-employees, directors, and members-is exceedingly important. This includes ability to hire, train, supervise, and motivate competent employees and to delegate responsibility. A second trait is business knowledge. A third is the ability to keep the cooperative meeting the needs of members and following sound cooperative principles.

A past study found that a positive self-concept and knowledge of economics and products usually resulted in improved performance of managers and increased net earnings of their cooperatives. Education, training, and knowledge of the business were reasonably good predictors of managerial performance, but only knowledge and management experience were good predictors of economic success of the cooperative. The study also indicated some indirect relationships or correlations. For instance, managers with the most education tended to acquire more training and thus gain more knowledge. This eventually boosted the cooperative's net earnings.

Common management responsibilities are: (1) manage or direct daily business activities; (2) set goals and develop short-term strategic plans including budgets and cash flow statement as requested by the board; (3) employ, appraise, and terminate employees as necessary; (4) organize and coordinate internal activities and subordinates; (5) control daily operations; (6) maintain an accurate bookkeeping system; (7) prepare and present accurate financial and operational reports; and (8) attend all board meetings.

Often, questions arise about the division of responsibilities between the board of directors and hired management. Sometimes they overlap and an exact division cannot be made. Consider these factors: (1) long-term decisions are the responsibility of the board and operational decisions are those of management; (2) idea decisions are usually handled by the board and action decisions by management; (3) trustee decisions involving policy are the responsibility of the board while trustee actions are handled by management; (4) broad primary control activities fall to the board while secondary controls pertaining to short-run operations are the responsibility of management; (5) employment of the manager is the responsibility of the board; but (6) employment, supervision, and evaluation of cooperative employees is the responsibility of hired management.

The use of policy and procedure manuals and job descriptions along with frank discussion of problems when they arise help maintain an understanding of the division of responsibility.

MANAGING LOCAL OPERATIONS

Management of the local cooperative is perhaps the most difficult and demanding on the total personality and ability of the manager.

Local managers, in most cases, cannot disappear into their offices to make business decisions while skilled supervisors "run the shop." The local manager may have supervisors, and good ones, but usually the manager must do much of his/her thinking in the middle of daily operations. The manager is highly visible to member-owner-customers and may be faced with time-consuming and varied decisionmaking situations.

Marketing

Marketing farm products involves local assembling, packing, semi-processing, processing, storing, selling, merchandising, and transporting the commodity.

Many farm products are perishable. Cooperatives sell them either in an unprocessed (fresh or whole) or processed form. Cooperatives also market them in two basic ways-buy-and-sell or pooling.

These are some typical basic business decisions that characterize the daily operations of a marketing cooperative. Where large businesses, including cooperatives, may have economic and business analysts to assist the manager, the smaller local associations must rely largely on the knowledge, experience, and judgement of the individual manager. Among decisions the manager faces are:

1. ***Providing assembling or trucking services and rates.*** Decisions must be made regarding the level of service from farm to market and rates to be charged. Should the cooperative own or lease trucks or contract for hauling?

2. ***Pricing or paying for products, including handling or pooling expenses and sales proceeds.*** In buy and sell operations, cooperatives determine how daily paying prices will be set and what the gross margin per unit of product should be. Also, discounts and premiums for quality considerations are part of the activity.

In pooling operations, policies regarding cash advances to growers at time of delivery are important. There may be no advance, an initial small advance with succeeding advances or progress payments, an advance based on a fixed percent of the market price, or the advance may reflect the current market price. Also important is the length of the pool-daily, weekly, or seasonal. Will a pool be established for each product or a group of similar products, and for each grade or quality of the product?

Some fruit and vegetable cooperatives operate under State or Federal volume regulation programs that permit the diversion of produce to secondary use. In such cases, policies need to be established as to who will take the loss or gain arising from a byproducts pool-the individual whose products were diverted or all members of the cooperative.

3. ***Using marketing contracts or membership agreements. These*** stipulate the responsibilities of members and of the cooperative and penalties for lack of compliance. They provide for commitment by members, thus aiding management in dealing with customers

for the products and projection of operating capital.

4. ***Establishing patron storage or warehousing policies and rate.*** Considerations include policies for accepting products if storage space is limited, handling costs, storage pool charges and accounting, and keeping the product, such as grain, in condition by proper aeration, drying, and frequent inspection.

5. ***Managing inventories.*** Careful attention to inventory levels, commodity values, and physical condition is necessary to minimize risks of and shrink or loss of inventory.

6. ***Merchandising and selling the product.*** Merchandising involves commingling like products to attain desired grades or quality. Cooperatives owning the product, such as grain, may use strategy based on the commodity futures and options markets to sell inventory. Wool marketing pools, for example, may use sealed bids or private negotiations, and they can sell wool by forward contract or on a spot basis. Terms of sale may include selling wool on a free-on-board (fob) basis-buyer taking all wool offered, requiring an escrow deposit from buyer, or listing specified discounts. Ownership in and use of cooperative sales and bargaining agencies is a major aspect in selling products.

7. ***Establishing the credit rating of buyers.*** Firm credit terms or escrow policies in dealing with them are needed.

8. ***Providing current information to producers.*** Cooperatives can be of real service by providing research findings on production and handling practices that will develop products that meet the quality demands of buyers and consumers.

9. ***Determining market potential.*** Management needs annual estimates on expected trends in agriculture and business activity in the trade area.

Supply

Handling farm supplies involves several levels or operations. These include purchasing or producing ingredients, manufacturing, wholesaling, retailing, and transporting at each of these levels.

Local cooperatives are best characterized as retailing operations. However, some of them have feed manufacturing facilities, bulk petroleum plants, fertilizer blending plants, seed processing operations, and offer transportation services.

The local manager's job may be easier if the cooperative is affiliated with regional cooperative suppliers who offer a wide range of products. This means the local manager deals with fewer people for more supplies. Regional cooperatives are oriented to the needs of the locals and lift some of the burden from the local manager for comparing supplies for quality, price, uniformity, and performance and serves as an assured source of supply.

A local manager has to substitute expertise and experience for the larger organization's team of specialists in making decisions connected with daily operations. Typical areas requiring decisions are:

1. ***Purchasing supplies and ingredients.*** The manager with board approval determines the types and qualities of supplies and equipment to handle.

Managers determine the quantity, when to buy, and factors like warehouse space, volume discounts, seasonal needs, and the price trends. Ingredients purchases include those for feed milling or soil amendments.

The wholesale sources of supply involve decisions by the manager. Many local cooperatives are members of regional wholesaling-manufacturing cooperatives and buy their needs through them if their pricing structure is competitive. Some belong to several regional supply cooperatives. Most cooperatives buy, warehouse, and resell supplies, while others own franchises or dealerships.

2. ***Warehousing and managing inventories.*** Warehousing, handling materials, and controlling stock are important in retail operations. Inventories may be carried at plants, wholesale warehouses or terminals, and at retail warehouses, stores, and bulk storage facilities.

Decisions must be made as to the frequency of taking a physical count of inventories and whether to use a perpetual or periodic system. Managers need to know how frequently the inventory turns to determine if inventory capital is being used effectively. Personal computers and user-friendly software packages have helped to reduce labor costs of these management practices.

3. ***Pricing supplies.*** Cooperatives usually price their supplies "at the market" for items of comparable quality. But sometimes other pricing practices are necessary when price wars occur, or other firms have lower prices and fewer services.

Decisions must also be made about using quantity or volume discounts, cash discounts or credit carrying charges, and discounts for early booking or delivery of supplies and the rates to offer on each. Discounts, services and delivery charges, and booking programs must be communicated to all patrons and applied fairly.

4. ***Establishing distribution methods. This*** area involves the

selling, merchandising, and delivering of supplies. Bulk feed and petroleum products are generally delivered by the cooperative with the product and delivery costs figured into price. Some provide allowances for patrons who want to do the hauling. Wholesale firms may set separate prices for products purchased at their plant or warehouse and another if delivered. The local cooperative may haul its supplies or contract for transportation service.

Cooperatives generally use common merchandising methods such as displays, newspaper, television, or radio advertising, newsletters, flyers, or sales campaigns and contests. Providing technical services and field support augments the sales effort.

5. *Controlling credit.* Management of supply cooperatives continually faces the problem of controlling credit extension on accounts receivable. Specific policies adopted and followed by the board are the first prerequisite. Use of cash discounts, service charges, and seasonal financing must be determined. Knowledge of the costs of extending credit and sound business practices for controlling it are essential.

6. *Providing custom and technical services.* Demand for custom and technical services increase as farm labor become costlier and production technology becomes more advanced. Conservation and environmental issues demand increased technological advice. Management with board approval must decide what services to offer and whether they should become self-supporting or be subsidized by product margins.

7. *Providing information to patrons.* Cooperatives can be of real service by providing facts to farmers on the right kind and amount of supplies to use that will give them greatest yields, gains, or satisfaction. Some cooperatives offer recordkeeping, accounting, and hedging or optional markets to their patrons.

8. *Determining the market potential.* Management needs annual estimates on potential volumes for various supplies, and trends in agriculture and business may affect this potential in the trade area.

MANAGING REGIONAL OPERATIONS

Managing regional cooperatives involves the same principles and problems as managing local operations, but on a much larger scale. It requires more delegation of responsibility and authority and the use of more staff personnel.

Regional operations often include vertically integrated services such as processing farm products and wholesaling and manufacturing farm production supplies.

There are three types of cooperative regionals: large-scale centralized associations deal directly with farmer-members; federated associations deal with member local cooperatives; and combinations of direct-farmer membership and affiliated local cooperatives.

Some of the more distinctive functions of managing regional cooperative marketing/supply operations are:

1. ***Establishing line and staff departments.*** As cooperatives merge and increase in size, complexity, and number of locations, departmentalization of line operations and staff becomes necessary. Delegation of responsibility and authority is required to attain specialization and control of services and efficient performance. Staff assistance often available includes personnel, legal, long-term strategic planning, engineering, and economic research. Several associations have formed wholly or majority-owned subsidiaries, and joint ventures with others to perform certain types of commodity or service-related operations.

2. ***Developing "team" management.*** When departments are established, their heads or managers usually participate in the overall management process. They may serve in the management council of the chief executive officer who receives their counsel in making final decisions. This system replaces the more autocratic management in small cooperatives.

3. ***Working with relatively large boards that meet quarterly.*** Regional cooperative managers present more information dealing with policies and major problems and less with details than is customary in small cooperatives. Also, many items are handled by an executive committee of the board, which meets more frequently than the full board. Some regionals appoint nonmembers or nonproducers as "outside" board members. Bankers, lawyers, professors, and consumers, although not eligible to vote, often are appointed to these positions.

4. ***Managing a group of employees, many of them located in outlying districts or plants. This*** is accomplished using a network of supervisors in various departments, sections, or units. Assistance is available from the personnel department in recruiting, training, and evaluating employees and in developing compensation programs, including incentive systems. Management in regional cooperatives, especially those in processing, manufacturing, warehousing, and transportation, may involve working with labor unions on employee

compensation, benefits, and working conditions.

5. ***Communications with a large number of members over wide geographic areas.*** Member relations become more difficult as cooperatives become larger. User-owners cannot talk directly with the general manager or department heads. Many may not live near the director serving their district. Farmers must rely mainly on a local supervisor, field representative, and employees who deliver supplies or pickup products. Newsletters, magazines, and area meetings are used to complement communications with members. Local cooperatives affiliated with regionals that serve several States have less frequent contact with regional top management and must rely more on field representatives and telephone contact.

6. ***Establishing fair operating policies among branch outlets.*** Outlying divisions of regional cooperatives may encounter different types of competition, operating costs, and realize varying degrees of success. These situations may pose problems of pricing, patronage refunds, compensation for local managers, or possible subsidization of location losses. Some of these problems involve both operating management and boards of directors.

7. ***Determining whether and when to expand services into adjoining territories.*** Officials of regional cooperatives occasionally have to make expansion decisions. Such factors as member interest or demand, types of services, transportation costs, market potential, and competition must be considered. If more than one area can be served, priorities must be set.

8. ***Deciding when to integrate operations on a vertical basis or participate in joint ventures.*** This usually means decisions on whether to manufacture a production input such as feed and fertilizer or to process a farm product such as fruit. If the cooperative operates over a wide geographic area, the problem of location priority may arise because the association cannot build or acquire all plants needed at one time. In addition to economic soundness or feasibility of such proposals, the availability of capital may be a deciding factor.

9. ***Deciding whether to market or process supplies and products alone* or *jointly with others.*** As cooperatives see the need to integrate operations forward in marketing farm products or backward in purchasing supplies, they should decide whether to do this alone or in cooperation with others. Often, lack of funds or in-compatibility of management personnel and operating policies may delay these moves.

10. ***Exploring opportunities and challenges presented by an increasingly "global" economy.*** As multilateral trade agreements such as the General Agreement on Tariffs and Trade (GATT) and North American Free Trade Agreement (NAFTA) ease national border restrictions to create both larger markets but greater competition, cooperatives like other types of firms must plan strategically either to take advantage of new marketing opportunities or to protect once-stable domestic or foreign markets.

Cooperatives can use a wide array of creative mechanisms and structures which complement core business and can put them on a more competitive footing without necessarily sacrificing their unique mission and structures. Subsidiaries, coventures, or other joint agreements -with other cooperatives or noncooperative firms can be used successfully to gain access to additional resources and markets. Marketing cooperatives may grow horizontally-to supplement their core-commodity base, broaden product lines, lengthen marketing seasons, tap new markets through the addition of foreign growers as members or through procurement of limited volumes of nonmember products.

Both marketing and supply cooperatives can craft nonprice strategies involving market segmentation, niche marketing, and product differentiation to remain competitive. Supply cooperatives may find foreign producers a ready outlet for farm inputs, and liberalized trading and investment climates could facilitate development of new supply or raw material sources.

11. ***Meeting requirements of Government agencies.*** Cooperatives, especially those operating on an interstate basis, are subject to increasing Government scrutiny. Laws and regulatory requirements, for example, apply to competitive behavior and pricing practices, income taxes, sale of securities, environmental problems, and occupational health and safety protection. Additional attention and expenditures are necessary to comply with these requirements.

12. ***Exhibiting leadership and obtaining public approval.*** Farmers look to large, centralized cooperatives and local cooperatives look to their federated associations for leadership in numerous ways. For example, they want the larger cooperative to plan for the future, research and develop new markets for foods, conduct research on farm inputs, explore the feasibility of new services or supplies, and provide information on production and marketing. They expect the regional cooperative to take the lead in opposing proposed adverse legislation and regulations.

The general public gets a favorable image of cooperatives if, through its efforts, the marketing system becomes more efficient with the resulting economic benefits shared by consumers as well as with farmers. In addition, democratic control of cooperatives also conveys a favorable image to the general public.

Regional cooperatives, by their performance and leadership, are expected to serve agriculture and consumers in a manner that will warrant a considerable degree of public approval.

CHALLENGES: MANAGEMENT OR LEADERSHIP

An earlier Rural Development Administration/Cooperative Services (RDA/CS) publication summarized its discussion of cooperative management by first looking back at management lessons learned from successes and failures over a 100-year period and then looking forward to the challenges and opportunities ahead.

"In looking ahead, cooperative management is faced with increased emphasis on mergers and consolidations, problems of greater size and complexity of cooperatives, a need to develop new transportation techniques, and greater understanding and appreciation of the importance of rural areas development to cooperative progress."

Recent events have borne out those projections. Significant mergers, acquisitions, and consolidations have taken place. Increases in assets and business volume through the ensuing decades attest to cooperatives' growth. Greater functional diversification as well as both horizontal and vertical integration, including joint ventures with other firms, typifies the greater complexity of cooperative operations.

Since the mid 1980s, cooperatives have not developed significantly new transportation techniques. On the other hand, cooperatives have increasingly adapted scientific methods in determining site locations to minimize processing and distribution costs as well as the warehousing of production supplies.Cooperatives also are being recognized as a coordinating mechanism for grappling with the research and economic development problems in rural America.

Directors are viewing problem solving in terms of long-term solutions and "thinking big" about financial requirements, forward contracting, and other binding commitments.

In the 1970s, for instance, directors considered such questions as: Shall we move away from a bargaining posture toward acquiring and operating facilities (brick and mortar)? Directors of cooperatives in the sugar beet and milk marketing industries said yes.

Brick and mortar expansion by grain-handling cooperatives in the late 1970s and early 1980s was followed by a period of accelerated mergers and acquisitions and downsizing during the recession of the 1980s. This activity was most visible at the regional level, but also widespread among local grain handling cooperatives.

Adjustments were accomplished by accelerated value-added involvement by the grain cooperative sector to increase overall margins, revenue, and market share. These trends, except for value-added, abated in the early 1990s.

A growing concern about directors' legal responsibilities confirms the adage that serving as a director is not simply an honor and reward for being a "good person." Nevertheless, real or imagined legal constraints are not deterring directors' considerations of practical solutions to cooperatives' economic problems.

With farmers becoming highly specialized and capitalized, and their cooperatives reflecting a greater market orientation, the demand for sharpened executive leadership skills becomes imperative. This trait harkens back to the very roots of the cooperative form of organization.

In a conceptual sense, about 2 million food and fiber farm production units (1990) produce for home, domestic, and foreign consumption. Flowing into each of these units are production supplies that the farm manager-operator combines with environmental and economic resources to produce a usable product. Flowing out from these farms and into the market stream are a multitude of food and fiber products to serve a hungry nation and growing export market.

The individual producer-marketer asks these logical questions :

1. How can I improve the quality and reduce the cost of supplies I manage in my farm operation?
2. How can I increase the returns from the products entering the marketing stream from my farm?

By following this general line of questioning, the individual farm manager decides to join with other farm operators to organize, finance, operate, and control a cooperative that provides production supplies and meets marketing requirements.

But having created this organization that sits astride the conduits that carry production supplies to, and marketable products from farms, it soon becomes apparent that the farmers' jointly owned cooperative has a life of its own.

Its pulse rate, once governed by the needs of its farmer-owners, becomes influenced by a pacemaker variously called "competition" or "consumer needs." This perception of a change in basic objectives is called "market orientation."

In a figurative sense, therefore, the organization's management antennae rotate 180 degrees from a production orientation to one quite sensitive to the needs and requirements of the marketplace.

Cooperative management must influence membership to adapt and change its production habits to conform with the market's needs.

This evolution of cooperative function and orientation places a further requirement on cooperative management: The burden of leadership. The calls to leadership are evidenced by signals flashed from different sources. For example, signals from government carry a warning: Are cooperatives becoming too big or anti-competitive? Will cooperatives adversely affect prices to consumers?

Signals come from large financial centers: Are cooperatives the stabilizing force in agriculture that provides an opportunity to broaden our loan portfolios in the agricultural industry we once perceived as too risky?

The world of international commerce beckons to cooperatives: You have a comparative advantage in certain agricultural commodities. Are you going to do the exporting job? In 1928, E. G. Nourse, prominent economist and cooperative promoter, hoisted a flag saying "... you cannot throw the whole job on a mere marketing association. It must eventually become a cooperative organization of agriculture, not merely cooperative marketing."

So the challenge to cooperative management in coming decades is not just to improve managerial skills. Rather, it is to accept a leadership role in allocating resources so the whole economic process-from assembling production inputs to the ultimate marketing process-can be operated in the common interest of cooperatives' members and the public.

This concept does not imply that cooperatives control production. In a very pragmatic sense, "only the eyes of the farmer can fatten his cattle." Further, legal issues aside, quite obviously, cooperatives cannot control environmental disasters or seasonal factors. Cooperatives can correct the inefficiencies of the marketplace and seek opportunities for expanding purchasing and marketing simply because of the inherent advantage a unified member-based organization provides.

Thus, leadership should pursue avenues of commerce that can most effectively take advantage of volume, grade, size, uniformity, and quality factors that cooperatives bring to the marketplace.

Directions of such leadership are clear. Cooperative leaders must push into economic activities in which farmers' long-run costs have been high, returns are relatively low, and service requirements unmet. For example, cooperatives' impact on prices of livestock and grain is practically nil.

Ultimately, cooperative leadership will decide the basic question: Shall we do the job (of bargaining, processing, formulating, manufacturing, transporting, sorting, or selling direct to consumers) or let others assume the market development task?

Cooperative leadership will not succeed through evangelistic appeals to social consciousness, or by demagoguery that pits one economic group against another. Rather, it will be through intelligent use of the tools of economic planning. The leader must become prepared for such a role by accumulating skill in managing assets, corporate growth, research, executive development, outside industry relationships, and, most critically, people.

The past decades were eras of intensified management development through intracooperative training programs; management workshops sponsored by the National Institute on Cooperation; and by special management seminars at the land-grant universities with the cooperation of the USDA/Rural Business-Cooperative Service.

The trend to develop topnotch cooperative management will continue at all levels. Out of this training have and will come managers increasingly adept in understanding how producers, bankers, suppliers, and customers will respond to different policies and actions of the cooperative.

But the future belongs to those cooperative managers who translate knowledge, experience, and understanding into action. It belongs to those who evolve from skilled managers into astute leaders.