

DIRECTOR RESOURCE HANDBOOK

USDA/Rural Development
Rural Business-Cooperative Service
Timothy W. O'Connell
Assistant to the State Director/Cooperative Development Specialist
154 Waiianuenue Ave., Room 311
Hilo, HI 96720
(808) 933-8313, (F) 933-8326
e-mail: tim.oconnell@hi.usda.gov
<http://www.rurdev.usda.gov/hi/index.html>

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Cooperative Principles and Practices

DISTINCTIVE BUSINESS ORGANIZATIONS

Free enterprise is an economic system that provides individuals the opportunity to make their own economic decisions, free of government constraints, and as private profit-potential businesses. The system allows for the privilege of individual ownership of property and the means of production. The key ingredient of the free enterprise system is the right of individuals to make their own choices in the purchase of goods, the selling of their products and their labor, and their participation in business structure.

Our business system is based upon four basic principles:

- (1) freedom of choice;
- (2) private property rights;
- (3) profit motive of owners; and
- (4) owner control.

In the United States, there are **three** basic types of business firms -- individually owned, partnerships, and corporations. See Figure 1.

A **proprietorship** is owned and controlled by one person primarily to provide service to others.

A **partnership** is owned by two or more persons or companies and controlled by one or more, to provide a service primarily to others.

A **corporation**, of which there are two types, each with distinctive characteristics:

An **investor-owned corporation** is usually owned and controlled by many to provide a service primarily to others.

A **cooperative corporation** is owned and controlled by the people using its services.

In certain respects, cooperatives resemble other businesses. They have similar physical facilities, and must follow sound business practices.

They usually incorporate under State laws. They draw up bylaws and other necessary legal papers. Members elect a board of directors.

The board sets policy and hires a manager to run the day-to-day operations.

In other ways, cooperatives are distinctively different from other businesses. These differences are found in the cooperative's purpose, ownership and control, and how benefits are distributed.

COOPERATIVE PRINCIPLES

Cooperatives follow principles that are considered underlying doctrine or tenets defining or identifying a distinctive characteristic. In simpler terms, it's a basic idea defining special characteristics.

A **cooperative practice** is an action that supports, complements, or carries out a principle. The practice is particularly important for a cooperative to achieve success, yet it is not necessarily unique to cooperatives.

History of Cooperative Principles

The first set of rules, commonly identified as cooperative principles, was a combination of true principles and desirable business practices. Developed by consumers' cooperative of trades-people in England in 1844, these rules though outdated in many respects are still considered first expressions of modern cooperative principles. This group of trades-people are commonly referred to as the "**Rochdale Pioneers.**"

Rochdale Principles were:

1. The store is open to all.
2. The store charges ordinary market prices.
3. The store received only ready money and gives no credit.
4. The store gives dividends in proportion to purchases.
5. Every member must have a share of shares and receive good interest on them.
6. All are equal in voting power, whether they have few or many shares.
7. The store sells genuine articles that are what they profess to be.
8. The store has an honest manager and an active committee (board of directors).
9. The Society insists on efficient and intelligent audit and stocktaking.

The **Grange** in 1876 developed a statement to a misunderstanding of about what cooperatives could and could not do for its farmers and frequent failures of newly formed cooperatives.

The Grange principles were:

1. One member, one vote.
2. Limitation of interest on invested capital.
3. Payment of dividends on patronage.
4. Cash trading.
5. "Neither fear nor court competition."

Standard Principles:

1. Service at cost. Members form or join a cooperative to get services that otherwise would not be available such as quality supplies at the right time and at a lower cost; to have access to markets; to gain market share; or for other reasons. Acting together gives individual members the advantage of acting as a larger whole (economies of scale) and bargaining power. A cooperative is in business to provide services to its member-owners at the least possible cost. Determining true costs of the service at the beginning is almost impossible. A necessary practice, therefore, is to charge competitive market prices. The cooperative needs to generate enough income to cover expenses and meet continuing capital needs. Service at cost is reached when at the end of the fiscal year, surpluses (or profits) are returned to members. It operates on behalf of its member-owners and the benefits belong to them. Any net earnings (profits) in excess of the cost of the cooperatives' doing business belong to the member-owners and not to the cooperative corporation. This means, for example, a member with 10% of the cooperatives volume will get 10% of the net earnings allocated to the members at the end of the year.

The net earnings are allocated to the member-patrons after the fiscal year is over. The cooperative has the option of retaining some of the earnings in the cooperative to be used as capital (retained earnings). These earnings are held by the cooperative in capital accounts for each member and eventually are revolved back to the members and paid in cash. Net earnings not retained for capital are paid in cash to patrons. The board makes these decisions each year.

Service at cost does not mean a cooperative can provide services at a loss. For any business to be successful, whether it be a partnership, investor-owned corporation, or cooperative, it must generate net earnings; it must create enough income to cover operating expenses and meet continuing capital needs.

2. Democratic (or member) control Control of a cooperative is exercised by the members, usually on a one member, one vote basis. Some cooperatives permit voting in proportion to the amount of business each member does with the cooperative. However, some limit is usually placed on the maximum number of votes any member may cast. It would be counter-productive to have a few growers controlling the cooperative for their own interest. Since cooperatives are owned and controlled by the people who use them, only producers can be members of and vote in an agricultural cooperative.

Adoption of and amendment to the bylaws, election of directors, and votes on other important cooperative business issues are ways in which members exercise their control.

3. Financial obligation and benefit in proportion to use. Members gain both direct and indirect benefits from the cooperative. A direct benefit is assured source of supplies and markets for your products, which should increase your farm income. Indirect benefits include policing the marketing of goods and services; leadership development; business knowledge, and recognition in the community. How much you benefit depends on your level of participation. Members may have the privilege of sharing in the benefits of the cooperative, but they also must share the responsibility of providing financing based on proportional use. Since members own the cooperative, they have the benefits and financial responsibilities associated with ownership.

As earnings are given back to members in proportion to their use, members also have an obligation to provide adequate capital to the cooperative in proportion to use. A person with 10% of the volume uses 10% of the facility and should have a corresponding 10% investment. The more you use the cooperative (thereby benefiting) the more capital you will be required to invest. Retained patronage refunds and per unit retains are some of the tools to implement this user-financier objective.

4. Limited dividends on stock: Members form or join a cooperative to obtain a needed service: a source of supplies; market for products; or performance of specialized functions. The main value of a cooperative to its members is in services it provides, not as a monetary return on investment in the cooperative. This means that payment for the use of members' equity capital is limited. Limiting the payment for members' capital used to operate the cooperative supports the principle of distributing benefits in proportion to use. This basic principle is that current users of the cooperative finance it in proportion to their use, and returns to their financial investment is secondary to the value of services received. It does not mean that overall benefits are limited.

Limiting the return on invested capital complements the service orientation of the cooperative and assures profits are distributed on the basis of use, not on the basis of investment. Due to the limited return on investment principle for a cooperative, there is no real monetary incentive for outside investors to invest in a cooperative, so most capital will have to come from membership.

Modern cooperatives recognize the following Contemporary Principles:

1. **User-Owner:** People who own and finance the cooperative are those that use the cooperative.
2. **User-Control:** People who control the cooperative are those that use the cooperative.
3. **User-Benefits:** The cooperative's sole purpose is to provide and distribute benefits to its users on the basis of their use.

International Cooperative Alliance Principles

International Cooperative Alliance Principles

Cooperatives worldwide generally operate using the same principles as adopted in 1966 by the International Cooperative Alliance, and amended in 1995:

- 1. Open and Voluntary Membership.** Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
- 2. Democratic Member Control.** Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are organized in a democratic manner (in contrast to one share, one vote in private enterprises.)
- 3. Member Economic Participation.** Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.
- 4. Autonomy and Independence.** Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.
- 5. Education, Training and Information.** Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public -- particularly young people and opinion leaders -- about the nature and benefits of cooperation.
- 6. Cooperation among Cooperatives.** Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.
- 7. Concern for Community.** While focusing on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.

COOPERATIVE PRACTICES

Cooperative practices are actions that support, complement, or carry out that basic idea.

1. Continuous education. Member-owner support ensures the co-op will stay alive and continue serving. This practice recognizes that even owners can't support if they don't understand. Keeping owners educated on what is happening is important for any business, but it is vital in a cooperative for at least three reasons:

- Democratic control, exercised through majority rule, requires that the entire ownership be informed and involved to ensure enlightened decision-making.
- The cooperative can be responsive to members' needs only if members express them and recognize they must bear the financial burden to fulfill those needs.
- The rarity of the cooperative form of business in this country means that our education system, at any level, does not give much instruction about cooperatives in business and economics courses, and, therefore, the cooperative must be the educational institutional for itself.

Reasons for a continuous education program are:

Reasons for a continuous education program are:

- o Turnover in membership.
- o Establish greater understanding by members of the cooperative way of doing.
- o The cooperative idea deteriorates rapidly without the re-education of both old members and new members.
- o The cooperative way of doing business and its underlying principles are not natural recurring ideas.
- o The rarity of the cooperative form of business in this country means our education system doesn't give much cooperative instruction in business and economic courses, and therefore, the cooperative must be the educational institution for itself.
- o Technical skills are needed to operate an efficient business with competent employees directors and management.

2. Cooperation among cooperatives. Cooperatives share the same nature and the same problems and receive needed strength through mutual support.

3. Membership is open and voluntary.

Agricultural cooperatives are limited to bona fide farmers, and even some of these have closed membership. The type of cooperative and its purpose will largely determine whether it can practice open membership.

An exception would be in the case of a marketing cooperative. When the processing plant's capacity is reached, the cooperative may be forced to close its membership.

Membership must not be denied on grounds of religion, race, sex, or natural origin. Cooperative membership must be open to those who have reasonable use for the services offered.

Local policy or State laws may set up qualifications for membership. For instance, the member must be an active producer of agricultural goods and good standing with the cooperative. The good standing portion of that statement may be tied to having done business with the cooperative at a particular dollar volume, unit level or within a certain time frame.

Most cooperatives restrict membership to only producers or users while others say non-producers may be members with certain restrictions such as voting.

4. Cooperatives are politically neutral. Neutrality means not becoming identified with particular parties or candidates. But it does not mean a cooperative is not supportive of ideas and issues beneficial to the business or its members.

5. Cooperatives don't assume unusual risk. The future success of agriculture and agribusiness is one of risk management.

Risk should be assumed by cooperatives only with clear knowledge by board and management.

Examples of risk are expansion of facilities, new equipment purchases, grain and produce inventories, farm supply inventories, and new lines of inventories.

Methods of risk management used by cooperatives are insurance, hedging, forward cash sales, audits, security policies, and inventory control.

The manager usually assumes the responsibility of overseeing risk management for inventory and facilities.

6. Cooperative but competitive. Prices paid and prices received by the cooperative are at

... cooperative's competitors. These paid and prices received by the cooperative are at prevailing market levels. This doesn't limit the cooperative from making price differential for volume, grade, and direct shipment, reflecting less handling or marketing costs.

7. Trading on a cash basis. Advances on products marketed for members and credit sales must be regulated under conservative policies established by the board of directors and enforced by management.

Conclusion

To understand and explain a cooperative's principles, the answers to several questions will help:

- ‡ Who are the members of the cooperative?
- ‡ What is the cooperative's goal?
- ‡ How is the business financed?
- ‡ How is control exercised?
- ‡ Who benefits from its existence?

A cooperative is different from other businesses in the American free enterprise system, yet it plays a vital and important role. Using the answers to the above questions will help in understanding its difference and uniqueness.

The Structure of Cooperatives

Cooperatives exist in nearly every business sector and are organized in a variety of ways. Like other businesses in our economy, they range in size from organizations with only a few member-owners to massive and complex organizations with thousands of member-owners.

The way a cooperative is organized determines how it is operated, managed, and controlled by its members, and the types of benefits offered. Cooperatives may be organized to provide just about any good or service:

- ✓ Business services
- ✓ Health and child care
- ✓ Housing and Credit
- ✓ Insurance and Employment
- ✓ Legal and professional services
- ✓ Equipment and hardware, farm supplies
- ✓ Personal financial services
- ✓ Utility or cable TV service
- ✓ Food and food services
- ✓ Land leasing
- ✓ Funeral planning
- ✓ Craft/art marketing
- ✓ Marketing of agricultural
- ✓ Educational services

For Everyone...

Over 100 million people are members of 47,000 US cooperatives. These people have organized to provide themselves with goods and services in nearly every sector of our economy. Their cooperatives may be organized in a number of ways and for many purposes.

Producer-owned cooperatives are owned by farmers, producers or small businesses.

Agricultural producers or crafts people organize cooperatives to process and market their goods, and to provide themselves with credit, equipment and production supplies. Similarly, retail stores or small businesses organize cooperatives to provide supplies or common services.

Consumer-owned cooperatives enable consumers to secure a wide array of goods and services. For example, they may offer health care, utilities, insurance or housing. They may buy and sell food, heating fuel, hardware and other consumer goods. Or, they may operate

credit unions, child care facilities, and funeral and memorial societies. Almost all consumer needs can be met by a cooperative.

Worker-owned cooperatives are businesses owned and controlled by their employees.

Worker cooperatives may be found in almost any industry. Examples include employee-owned food stores, processing companies, restaurants, taxi cab companies, sewing companies, timber processors, and light and heavy industry.

Cooperative structure can be classified into five types as follows: geographic, governance, functions, financial, and other arrangements. Each will be defined and discussed.

Geographic Territory Served

Cooperatives can differ in structure, depending on the size of the area served: local, super local, regional, interregional or national, and international.

Local cooperatives operate in a relatively small geographic area, typically within a radius of 10 to 30 miles. Individuals are the members of these local cooperatives.

Super local cooperatives operate over two or more counties, with several branch facilities.

A **regional** cooperative usually serves an area comprising a number of counties, an entire State, or a number of States.

Interregional or national cooperatives are organized, owned, and controlled by regional cooperatives, usually to provide specific services. They may serve a major portion or virtually all of the United States.

International cooperatives operate on an international basis, with headquarters in the U.S. or other countries.

Governance or Control Structures

Based on membership structure, cooperatives can be classified as centralized, federated, or mixed. A local cooperative is a **centralized** cooperative -- individual producers make up the membership. centralized regional may serve members in a large geographical area, such as a major portion of all of an entire State or all or parts of several States. A centralized regional has one central office, one board of directors, and a manager (chief executive officer) who supervises the entire operations, which may be conducted through several or many branch offices.

A **federated** cooperative is a cooperative of cooperatives. The members of a federated cooperative are local cooperatives, operated by a manager hired by and responsible to local boards of directors. Each local association in a federated cooperative is a separate business entity that owns a membership share entitling it to voting rights in the affairs of the regional.

The federated cooperative has its own hired management and staff, and a board of directors elected by and representing the local associations.

A **mixed** cooperative is a combination of the two -- their members may be individual producers as well as local cooperatives.

Functions Performed

Cooperatives may perform one or more of these functions for members:

- marketing products,
- purchasing supplies, and
- providing services.

Marketing-- The need to meet consumer demands and expand markets for products presents an increasing problem for farmers acting independently. Few farmers produce in quantities needed to deal directly with large wholesalers or retailers. The marketing cooperatives as quantity assemblers provide an increasing variety of off-farm processing and marketing services

for about one-fourth of all products that farmers produce.

Marketing cooperatives help farmers produce and process quality products to market specification. Cooperative marketing includes the operation of grain elevators, milk plants, wool pools, cotton gins, livestock markets, vegetable markets, and fruit packing plants. Some marketing cooperatives include the coordination of processing, canning, drying, blending, concentrating, extracting, freezing, or consumer packaging of animal and animal products, such as dairy, fish, meat, and poultry and the same for fruit, nut, and vegetable products, and many other products in integrated organizations.

Marketing cooperatives enable farmer-members to extend control of their products as long as the cooperative retains physical or legal title to a commodity handled through processing, distribution, and sale.

Some marketing cooperatives also can be called bargaining associations, which may not handle the actual product but rather act as the selling agent on behalf of the member.

Purchasing --Farmers first turned to cooperatives as economic tools to gain advantage of quality and quantity of farm production supplies such as feed, fuel, fertilizer, and seed. These early efforts often became businesses having full-time managers and warehouses to handle other production supplies and services such as farm chemicals, animal health products, fencing, building supplies, construction contracting, automotive accessories, etc.

Most cooperatives have affiliated with other cooperatives, often through regional and interregional cooperatives. These efforts reduce farmer costs and strengthen purchasing power through owning large-scale facilities such as petroleum refineries; phosphate, potash, and nitrogen manufacturing plants; feed mills; research farms; and laboratories.

One of a purchasing cooperative's objectives is to reduce production costs for members through quantity purchasing, manufacturing, and distributing, procuring quality products, and providing related services as needed. Distribution to producer members is a major concern at the local level because added services are needed. Another objective is to provide a dependable supply of quality products for members.

Many cooperatives now perform both marketing and purchasing functions, although they started as single-function organizations.

Service-- Agricultural service cooperatives provide services related to the production and marketing of farm commodities, or they may provide general services.

Related service cooperatives offer unlimited possibilities and are used in ever-widening circles to solve mutual problems and provide specialized services that affect the location, form, or quality of farm products or supplies for members. Services may be part of the operation, or they may be performed by separate cooperatives. Examples of services related to handling farm supplies are recommending and applying fertilizer, lime, or pesticides; animal feed processing; and crop harvesting. General service cooperatives provide a number of specialized services assisting farmers in their business such as credit, electricity, and telephone service.

Financial

Cooperatives are incorporated as either **stock** or **non-stock** organizations. The type of capital structure is specified in the articles of incorporation.

If the association is a capital **stock** organization, members receive stock certificates as evidence of their ownership interest. More than one type of stock may be issued, but usually no more than two types are necessary. Most stock cooperatives issue one share of common stock per member to show membership. Preferred stock is issued to show additional capital contributions. (Common stock is usually the voting stock; preferred stock is generally nonvoting.)

If the association is a **non-stock** organization, it issues some kind of certificate to show capital

contributions of members. Two types are usually used -- a membership certificate as written proof of the right to vote and capital certificates in a manner similar to the way stock cooperatives use preferred stock.

Other Structural Arrangements

Subsidiary -- a corporation organized, owned, and controlled either totally or partially by a parent cooperative. Its purpose is to assume certain duties and functions of the parent cooperative.

Marketing Agency-in-Common -- organized by two or more marketing cooperatives to market products or provide services for member cooperatives. It does not physically handle products, and it generally does not take title to them. Its sole responsibility is to arrange for the sale of its members' products.

Joint Venture -- an association of two or more participants, persons, partnerships, corporations, or cooperatives to carry on a specific economic operation, enterprise, or venture. The identities of these participants remain separate from their ownership or participation in the venture.

Holding Company -- a corporate entity with a controlling ownership in one or more operating companies. The degree of ownership can vary widely, as long as the holding company can exercise control through the operating company's board of directors. Usually the holding company generates no revenues from operations; income is limited to returns from investments in the operating companies.

Contract Agent -- a county or community cooperative may organize, owning nothing but contracts and paying only the money to hire an agent to handle the goods and keep patronage records. The cooperative then pays patronage refunds on the basis of the agent's records.

Private Dealers -- the dealer, as a franchise, keeps records. If the franchiser cooperative makes money and pays patronage refunds, these go to the dealer's customers and the dealer is paid a commission on sales.

Conclusion

Cooperatives are classified as a way to easily identify the nature of the business. The classifications do not mean that one type may necessarily be better or worse than another. It simply means that there are distinguishing differences among the types, and shows the wide variety of cooperatives and the differences in their operations, management, control, etc.

What is important for cooperative members to understand about cooperative structure and their own organization is: what type of cooperative it is; how it is structured; and how the cooperative can be most effectively used by its members for serving their needs and achieving objectives.

Organizational Structure

Establishing certain lines of authority enables a cooperative to function smoothly and create an environment for meeting overall objectives.

Ultimate authority rests with the membership. They elect directors to carry out their wishes and oversee the business. Members have the power of the ballot to replace a director whom they feel is not carrying out the will of the membership. In most cooperatives, control rest with each member having one vote (in a few instances, voting according to use). This is called democratic control, one of the guiding principles cooperative follow. It means a board of directors serves at the will of at least a majority of the membership.

The board has responsibility for policies that set the direction for the cooperative. To carry out these policies and objectives, a board delegates responsibility for the daily operations, to one individual, the manager. Board members are independent businessman and lack the time needed to become directly involved in the daily operations of the cooperative.

needed to become directly involved in the daily operations of the cooperative.

The manager, in turn, must select people who can effectively operate the cooperative. The directors give the manager authority to hire and or/fire the employees needed to carry out delegated responsibilities. Employees report to and take directives from the manager.

This process, provides line of authority. Only if these lines are developed the cooperative can operate effectively. Ask yourself, what would happen if a board of directors no longer functioned in a way that meets the needs of the memberowners? What would happen if a board tried to direct the daily activities of the employees? From the obvious answer, one concludes that lines of authority must be followed for a cooperative to smoothly and effectively meet the needs of its patron members.

Design of Organizational Structure

Creation and design of an internal organization structure is an important exercise for a cooperative once objectives have been established and needs and desires of members identified.

A cooperative must identify its needs, strengthen weaknesses and areas of potential growth, and set its limitations given its geographical area and financial base. A structure of people must be created to take advantage of strengths and reduce weaknesses. Structure must dictate lines of authority that give people responsibility, so the manager can carry out the wishes of the board. A manager unable to delegate responsibility, soon becomes so bogged down in daily details to the point of running rather than managing the business. A cooperative can't meet the needs of members if it isn't properly managed. Organization structure often fails when created around people in a cooperative rather than designed around positions or abilities needed to enable the organization to meet overall objectives. A structure developed around a group of people may jeopardize the cooperative's entire operation if a key member resigns. People are flexible and can develop their abilities around the needs of the cooperative.

Manager Authority Within Organizational Structure

The board delegates responsibility for carrying out its policies and directives to the manager who has authority to hire or fire employees. The structure helps the manager organize the employees so the cooperative's objectives can be met.

Employees work for and report directly to the manager. The board is concerned with end results and leaves the daily operations to the manager. Employees can't report to a manager and still take orders from the board. If this happens, established lines of authority get crossed.

An employee's performance should be evaluated by the person to whom he/she reports to or works for on a daily basis. It is difficult to accurately evaluate how well an employee is doing a job if observed only occasionally.

Boards are often guilty of evaluating employees' performance while attempting to administer wages. Wage and salary expenditures must be controlled by the board of directors. They are usually the cooperative's largest annual expense.

How should wage and salary adjustments be administered? Should they be given equally across the board or based on the employee's performance? Logic suggests they be based on the particular employee's worth to the cooperative. Performance evaluation is the only way to accurately judge that worth.

An employee's supervisor, whether it be the manager or person given that responsibility by the manager, is the logical person to evaluate how well a particular employee is performing his/her job. Therefore, many contend the manager should administer wages and salaries using guidelines established by the board. Guidelines are best defined by a wage and salary plan based on the labor market in which the cooperative operates.

We have now walked through the importance of organizational structure, seen how urgent it is to have developed lines of authority, and seen the needs to follow those lines. The system works as a set of checks and balances--each built on the other. The ultimate authority is still

...to be a part of the system and to be held accountable for the system. The ultimate authority is placed in the membership. For the system to work properly, levels of authority must be thought through. Each person or group of people must understand this accountability and how it relates to the others.

Legal Structure

Construction of a solid foundation under a building requires the proper use of numerous materials and tools. Only when the foundation is securely in place can the remainder of the structure be built with confidence that it will become a permanent part of the community.

Likewise, to make sure it is prepared to serve its members for years to come, a cooperative requires a solid foundation. That foundation is comprised of laws and legal documents that define the organization and operation of the association. This report summarizes the legal underpinnings that support the cooperative venture and suggests a management tool, the director handbook, to facilitate effective use of these and other important documents.

Incorporation Under a State Statute

The first step to building a strong legal foundation to support your cooperative is selecting the appropriate business structure. Some groups organize as an unincorporated association-- usually to save the cost of incorporating. This strategy is seldom in the best interests of the members.

At least three advantages exist to organizing a cooperative as a corporation:

- The personal liability of each member for losses suffered by the cooperative is limited to the member's equity in the cooperative.
- Transfer of ownership and control is simple. New members purchase a membership certificate or a share of voting stock. When a person is no longer eligible to be a member, the cooperative repurchases that person's membership interest.
- A corporation conveys to members and outsiders the image of a solid, long-lasting venture.

Cooperatives, like other private businesses, are organized according to a State statute.

Persons who form a cooperative may choose from several incorporation statutes. Most cooperatives are organized under a cooperative incorporation statute of the State where the association's headquarters is located. If the home State's cooperative incorporation law does not permit a structure that meets the desires and needs of the members, the General Business Corporation Act and out-of-state incorporation laws are available options.

A few so-called cooperatives are organized under a General NotforProfit Corporation statute.

These acts are designed to facilitate the development of charitable and educational institutions, not businesses. Such associations are frequently barred from distributing margins to members and can have difficulty enforcing marketing agreements with their members. Because of these restrictions, careful thought should precede organizing a cooperative under a not-for-profit statute.

A cooperative organized under an inappropriate State statute can usually reorganize without seriously disrupting the ongoing business of the association. This task usually involves redrafting the organization papers to conform to the new law and paying a modest fee to the appropriate State agency.

Organizational Documents

The State incorporation statute sets mandatory rules for all cooperatives organized under it.

Other basic legal documents are written by the association leaders. While these other documents must comply with statutory requirements, considerable flexibility is available to tailor the documents to the needs and desires of the membership.

Articles of Incorporation

The first internal organizational document, prepared when a cooperative is formed, is the articles of incorporation. To become official, the articles must be recorded in the office of the appropriate State official. When properly recorded, the articles establish the cooperative as a unique person in the eyes of the law, separate from its members and possessing many of the rights and responsibilities of real people.

The specific information that must be included in the articles is set out in the incorporation statute. Other provisions may be included in the articles, but this is usually not done. Amending the articles often requires a new filing with the State. Also, the member-voting requirement to amend the articles is frequently more demanding than simply changing other documents that can contain the same information.

The courts usually give articles the same respect they do statutes. They are binding on the directors, officers, and managers of a cooperative. When a cooperative does something not permitted by the articles, the organization and its leaders can be subject to legal liability.

Articles of incorporation usually cover these items:

- Name of the cooperative
- Principal place of business
- Purposes and powers
- Duration of the cooperative, usually perpetual
- Names and addresses of the incorporators
- Description of the capital structure

Bylaws

Shortly after a cooperative is incorporated, the members adopt a set of bylaws. Bylaws provide a detailed description of the internal operations and structure of the cooperative. Bylaws are a working plan for how the association should function. References to bylaws in the statutes are usually permissive, giving the members the authority to write their own rules on how to handle a particular issue.

While bylaws do not normally need to be filed with the State, they are also treated similar to statutes by the courts. Failure to follow the bylaws can also lead to legal liability. Issues commonly covered in bylaws include:

- Membership eligibility requirements
- Meetings
- Voting at member meetings
- Election and duties of directors
- Election and duties of officers
- Finance
- Handling of losses
- Nonmember business
- Dissolution
- Amending the bylaws

Policies

A third organizational document is not required by statute but is strongly recommended by most advisers to cooperatives. (see later section, Page XX).

In drafting and reviewing articles, bylaws, and policies, three factors are especially important:

- Compliance with the statute of incorporation and other relevant Federal and State laws
- Accuracy in reflecting how the members want the cooperative to operate
- Consistency throughout

A well-conceived set of organizational documents will conform to applicable law, complement each other, and provide the leadership clear and concise guidelines on how the cooperative will function.

Marketing Agreement

Cooperatives that market farm products and other goods of their members often sign a separate contract with each member establishing the terms upon which they will conduct their business transactions. This contract is commonly called a marketing agreement. It requires the member to market certain product(s) with the cooperative. And it obligates the cooperative to obtain the best possible price for the product(s).

A cooperative marketing agreement is unique. It is both a contract between the member and the cooperative as well as a pact between the member and the rest of the membership. A well-written marketing agreement should eliminate the risk of confusion about the mutual obligations of the producer and the cooperative. As a binding contract, the cooperative or the member can enforce the agreement should the other party fail to carry out prescribed duties.

A marketing agreement will generally cover such issues as:

- Whether the cooperative acts as the members' agent or instead takes title to the goods for resale
- Terms for delivery by the grower and acceptance by the cooperative
- Duration, price, and payment terms
- Modification and termination of the agreement
- Assignment of rights and duties
- Enforcement and remedies

Membership Agreement

When a person applies for membership in a cooperative, many associations have the applicant sign a simple document stating he or she meets the eligibility requirements for membership and will abide by the rules of the cooperative. When the application is approved by the board or the manager, the document serves as official notice that the applicant is a bona fide member of the association.

Sometimes cooperatives will merge the membership and marketing agreement provisions into one document for the member to sign.

Director Handbook

What Goes in the Board Manual?

The foundation of a committed, knowledgeable, and effective board is orientation and education. As an essential companion to orientation and education, every cooperative should have a thorough, easy to use manual that board members can use throughout their terms.

Familiarity with the documents reviewed in this section is a continuing responsibility of each cooperative leader, particularly members of the board of directors. The same is true for other important cooperative papers--audit reports and current financial statements, loan agreements, the manager's job description, and the minutes of recent board and membership meetings.

Directors need to have these documents readily available so that they can check them for information and ask informed questions when necessary. A good director handbook meets this need.

For the new board member, it is an orientation handbook that provides useful information about the cooperative, board structure and operations, and fellow board members and staff. For the balance of a member's board service, the manual then becomes an indispensable working tool and a central resource about the cooperative and the board. Materials can be added and removed to create an up to date reference. The board manual is developed by staff in consultation with the board chairperson and other officers.

Every new director should get a current handbook as soon as he or she is elected to the board.

At each board meeting, the manager or the president should distribute minutes of the previous meeting plus the new version of any document that has been modified or adopted since the last meeting. Directors should carefully place the new pages in the proper place in the book so they can be easily reviewed and questions asked about the additions and replacements.

The director handbook gets the important cooperative papers out of the file cabinet and into the mainstream of the decision-making process. It minimizes the risk that leaders will innocently violate a provision of the articles or bylaws, contracts, or other written guidelines. The handbook should provide ready answers to questions about limitations on leadership discretion imposed by these documents. And it facilitates the conduct of business meetings in a professional and efficient manner. In summary, it becomes a valuable tool for cooperative management and planning.

management and planning.

The director handbook need be as simple as a solid three-ring binder that contains up-to-date copies of all documents the directors need in setting cooperative policy. Present it to board members in a durable, attractive loose-leaf notebook with a table of contents and clearly divided and labeled sections. Date every item, and replace material when necessary. Insert stationery, brochures, and similar items in pockets of the notebook.

To develop a working manual that board members use and rely on:

- Don't overwhelm new board members with too much information. When several examples are available (e.g., current press clippings), include only one.
- Keep each item brief. A two paragraph biography of the General Manager is preferable to a four page resume, for example.
- Use the handbook as a "textbook" during board orientation.
- Encourage board members to read and ask questions about the material.
- Ask board members to evaluate the usefulness of the manual each year.
- Revise the contents or format based on their comments.

Board manual contents checklist

A thorough board manual can include the following materials. (Remember to keep each item as concise as possible.)

General information:

- History, Purpose, and Administration Mission statement
- Cooperative fact sheet (brief history and summary of current programs)
- Articles of incorporation (corporate charter) and bylaws
- Current strategic plan (or a summary)
- Organizational chart
- Biography of General Manager
- Annual calendar or program schedule.

Board Information:

- Description of individual board member's responsibilities
- Committee job descriptions
- Current annual calendar of board and committee meetings
- Up to date list of board members' names, addresses, telephone numbers, and e-mail address (if available) (identify officers and committee chairpersons)
- Description of board members' liability insurance

Finance:

- Current financial statements and budget for the current fiscal year
- Most recent audit report

Other Information:

- Annual report
- Selected press releases and articles
- Promotional material (membership brochure, information brochure, advertisements, etc.)
- List of suggested resources (publications and organizations) related to the cooperative's area of interest
- Board and Committee Minutes
- Most recent minutes
- Board Member Information Forms

Characteristics of a Successful Cooperative

A successful cooperative is one which meets an economic need of its members, increases members income over the long run, and is aggressively positioned for the future.

There are no guarantees a cooperative, or any business for that matter, will be successful. However, due to the uniqueness of the cooperative form of business, there are procedures and

However, due to the uniqueness of the cooperative form of business there are procedures and general practices that can enhance the potential for success. Namely a successful cooperative:

1. **Must Operate According to Sound Cooperative Principles**

We are talking about successful cooperatives, not just successful businesses. Successful cooperatives are based on sound cooperative principles:

- o Financial obligations and benefits in proportion to use,
- o Limited returns on equity capital,
- o Democratic control, and
- o Service at cost.

Cooperatives can have problems operating on sound cooperative principles. Some trouble spots:

- o Inactive members retain the right to vote and determine outcome of major decisions such as mergers.
- o Members abdicate their decision making to the board. Example of cooperative that lets the board make bylaw changes without member approval.
- o Equity is not revolved so the cooperative is financed by farmers who no longer use it or have reduced their volume. This can create a lot of friction to the point of some members trying to liquidate the cooperative so they can get their equity back.

2. **Must Operate on Sound Business Principles**

4 out of 5 business go under within 5 years. Cooperatives are subject to the same statistics.

They are subject to the same economic and business problems as their non-cooperative counterparts: inflation, downturns in the economy, oversupply, increasing interest, labor shortages, etc. Some business principles that can help minimize cooperative failure:

Good accounting system with accurate information. This includes annual audits, comparing expenses with industry standards, adequate checks and balances in accounting or inventory control, proper bonding and insurance, and constantly asking questions (why, why, why and what, what, what). Adequate controls are essential.

Adequate capitalization. It is essential for the cooperative to be adequately capitalized so it can take advantage of new technology, expand when it needs to, borrow working capital when it needs to, and be cushioned against downturns.

Realistic business plan and commitment to adhere to it. A cooperative needs to plan for the future. It needs controls, plan to build equity, look long range, develop budgets, figure out market trends, etc. Don't divert efforts to get a quick fix.

Adequate fees. You have to expect to pay necessary commissions and margins. It is a business fact it costs money to market products. The cooperative cannot get away from paying marketing costs just because it is a cooperative. It can offer lower marketing costs by having adequate volume and quality of product. A cooperative must be able to compete with other forms of business, so it cannot be expected to provide a service to you at a loss.

Wise and timely use of professional services. This includes attorney, engineer, accountants, USDA, etc. Cooperatives shouldn't wait until the problem is so far advanced that it is difficult to solve. Get early treatment! Get sound accounting system, get advice on collecting old accounts receivable, do an annual insurance audit, etc.

Thorough research of commitments. Check partners out carefully--inadequate investigation is a real problem.

3. **Must Have Capable Management**

Every business needs a system of planning and setting direction, of getting the job done, and of

Every business needs a system of planning and setting direction, of getting the job done, and of accountability. A cooperative has a three tiered management system to do this: members, board, and manager. The characteristics of a good team are further defined in the section COOPERATIVE MANAGEMENT.

4. Committed to Marketing

Cooperatives need to be marketed oriented. Successful cooperatives use their intimate relationship with members to better serve consumers, even if it implies increased costs for their members in the short run. If there are additional earnings to be made by having superior quality or better coordination with production, members will be required to change their production practices. While members bear the short term costs of changing their production practices, they also benefit from the increased earnings in the long run.

In analyzing competitive positions, an important characteristic of cooperatives is first, knowing their own strengths, second, knowing their own weaknesses and finally, knowing the strengths and weaknesses of their competitors. Moreover, the standards of comparison with which they judge themselves are the most well-known, if not the most progressive, food marketing corporations in the world.

5. Must Fill An Economic Need

The main purpose of a cooperative is to increase the long run income of those who use it. If it can't do that, it shouldn't be organized. Members or potential members must determine whether or not a cooperative can meet their individual economic needs. The cooperative must provide beneficial services and scale of economies not otherwise possible. In other words, a cooperative offers buyers a steady source of quality products, it develops markets generally unattainable to single farmers, it gets competitive prices for its products and it gives fair treatment to its members. If the cooperative does none of these for you then there is no point in having a cooperative.

In looking at how the cooperative can increase their income, farmers should consider:

- Competitive market price.
- Fair treatment
- Provides services and economies of scale otherwise not possible
- Offers buyers more and better services and products
- Develops markets

Members need to know the purpose behind the cooperative. If members don't remember the economic need for the cooperative or don't see the research and development as an insurance policy for the future, they will go elsewhere. "We are the industry leader and the only one who is willing to pay for working with governments on lowering import tariffs aboard, and working on product and market development. By telling the members our story honestly, again and again, we get the message across. Our members realize that they need our services and that in the long run they are paying for tomorrow's success."

Use economic need as a measuring stick for decision making. For example, a supply cooperative is organized to provide a consistent supply of quality supplies and services to members at the best possible prices. In considering whether to attract retail trade from urban customers it should keep this economic need in mind. If the retail trade will reduce costs to the farmers, it should be added. If it doesn't reduce costs or takes away services, scarce cash flow for inventory, etc, it shouldn't be added.

6. Board and members must develop staying power

Every person, business, and cooperative has problems. Failure is not having problems--failure is not seeing those problems as opportunities.

Staying power for boards--directors must see the cooperative through a crisis.

Staying power for members--members must make a commitment in advance to stay with the

Staying power for members--members must make a commitment in advance to stay with the cooperative. Success isn't final, failure isn't fatal--it courage that counts.

7. Must Have Member Determination.

Members must be DETERMINED to see the cooperative succeed for the LONG RUN.

Members must have the determination and patience to help a cooperative during its lean years. You have to help make the decisions. Just joining does not ensure a cooperatives success. Every member, every owner must be active. Keep informed. Members are the foundation upon which the cooperative is built. Your support of the cooperative requires you to understand the cooperatives purpose, objective and operations. Misunderstanding can lead to discontentment amongst members and can lead to the downfall of the cooperative. Keep informed and help in the decision making process.

8. Must Have Member Commitment.

In addition to determination, members must be committed to the cooperative. Commitment is demonstrated in a members willingness to invest the necessary capital in the cooperative and the willingness to do business with the cooperative. In our experience at USDA/RBS, this is one of the biggest items that can lead to a cooperative failing. It appears to be a general trend everywhere, when the market price is good, people tend to desert the cooperative and market on their own. When the market price is down, cooperative membership jumps. In order to be successful, a cooperative has to have a steady supply of products to market. This kind of fluctuation in membership does not lead to a steady supply. Therefore, a cooperative needs to keep members committed to marketing through the cooperative even when the market price outside the cooperative is higher. The key to this commitment is to remember higher prices outside the cooperative are generally short term in nature. It is our experience with cooperatives, they obtain a better price for members over the long run. This is very important to remember but is so easily forgotten. Just remember, you are in farming for the long run so you need to make long run decisions.

Members must also be committed in providing a product that is consistent with the market demands. Inevitably, a cooperatives economic success relies on members producing a quality product in adequate quantities to ensure a successful sales program. Inadequate volume increases the average per unit price to market and process a product. Higher costs are then deducted from each members share of the returns, which leads to an overall lower price to the farmer. Remember the sole purpose of a cooperative is to increase your farm income. By having an adequate and dependable supply of product to market, the cooperative will be able to search out better markets and return a better price to you. You can see, member commitment directly affects your pocketbook.

9. No Member Competition With the Cooperative

Remember you as members own the cooperative. It is not the cooperative but it is your cooperative. It is not some abstract 3rd party. It is you, the member. It is your organization through which you sell your products or purchase your supplies from. The cooperative is not in business for itself, it is in business to earn a "profit" for you as members. Therefore, if you are in competition with the cooperative, you are in competition with yourself. You wind up fighting over markets instead of fighting to improve markets.

10. Creative Problem Solving

As farmers you've trained your eyes to see insect and chemical damage to your plants. In the same way, you must train yourself to see solutions to problems. And have the confidence to be tested. There is a solution to every problem, but not every problem gets solved.

Ability to treat problem as opportunity is critical. In fact a study of marketing approaches of most successful cooperatives shows that all developed an offensive attitude as a result of an abrupt decision. Problems are opportunities to strengthen market position, cut cost, etc.

It takes effort to be competitive. Successful competitive managers work hard and out think their competitors. The successful competitor plans and controls his environment instead of letting his environment control him.

11. Stick to its decisions

Let your "yes" be "yes" and your "no" be "no". Don't go around in circles. This is another critical area for successful cooperatives. Strong board leadership with the ability to project confidence, face problems when they start, make sound decisions, and adhere to decisions. Decisions and policy should not be rehashed or changed to suit individual circumstances (or special needs of the board). Discussion should not go around in circles. Policy may not always be correct, but it is important to offer consistency.

12. Keep Members Informed/Member Education Program

Members hear a lot of rumors--they can usually be dispelled if dealt with quickly. Major problem is question of price--this can be particularly difficult in case of pools where final price isn't known until the end of the year.

Cooperatives have to be careful to present their good points without being misleading. The cooperative has to make sure members understand the industry and competition. It has to put the cooperative's performance in perspective.

People generally make the right decision if they have the right information.

The cooperative needs the support of its members through good times and bad. It can't retreat and hide things from members in bad times-- the news will eventually come out anyhow. Members are more resilient than most think.

Failure to involve members in decision making is best demonstrated at the annual meetings of the cooperatives. Some annual meetings have developed into closed affairs. Some members have been asked to submit their questions in writing well in advance. Some cooperatives do not make financial reports available to the membership. There is no way that agricultural cooperatives can be progressive institutions if these practices continue.

Having members serve on the cooperative committees makes good sense. Through committee participation, members are made to feel a part of the cooperative. They are involved and have valuable inputs into the decision making process. These committees are usually chaired by a member of the board and committee decisions are submitted to the board of directors. These committees frequently have more time to work on a problem than the board, and can do a more thorough job of searching for facts applicable to issues. The advice of the committee shortens the time that the board of directors must spend in decision making. The decisions are also more sound.

IMPORTANT FACTORS FOR COOPERATIVE SUCCESS

- *Economic need is essential*
- *Expect to use the cooperative*
- *Cooperatives must be free to operate in any market*
- *Directors must be committed*
- *Good managers, directors and responsible members are essential*
- *Quality, Quality, Quality*
- *Expect to help finance the cooperative*
- *Expect to pay necessary commissions and margins*
- *Cooperatives cannot provide service at a loss*
- *If you don't know where you are going, any road will get you there--plan ahead*
- *Developing leadership is essential*
- *Advisers do not have controls to make cooperatives go*
- *Expect to help make decisions*
- *Know the roles of members, directors, management*

- *Expectations must be similar*
- *Know the limitations of a cooperative*
- *Cooperate*

Member Responsibilities

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

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

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

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

Cooperative Management (see also page XX)

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

Rights and Responsibilities of Members

This section specifically discusses the responsibilities of members. Members are the foundation of the cooperative business. They organized it. Their needs are the reason for its existence.

Their support, through patronage and capital investment, keeps it economically healthy. And their changing requirements shape the cooperative's future. But along with all of this comes rights and responsibilities that members must accept and exercise for the cooperative to meet effectively the needs of its owners -- specific rights under the law and as outlined in the cooperative's bylaws and articles of incorporation, and responsibilities, both moral and legal, regarding those rights.

Rights

Rights of a cooperative member normally include:

- Adopt and amend the articles of incorporation and bylaws.
- Elect and, if necessary, remove directors of the business.

elect and, if necessary, remove directors of the business.

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

Responsibilities

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

Selecting the most popular or least controversial person is not the wisest choice for this job. Members need to study carefully the strengths and weaknesses of the cooperative and determine how the leadership skills of the candidates address them. Loyalty, integrity, the ability to make wise business decisions, and willingness to serve are necessary characteristics for board members.

Directors must be selected who can use their decisionmaking ability and then support the entire board on decisions that has been made, even those passed on a split vote. Directors must be able to represent the entire membership in developing objectives for the cooperative. Acquainting members with the types of decisions a board must make will lead to more effective election of directors.

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

4. **Provide necessary capital.** A primary responsibility is to finance the cooperative for the purpose of acquiring needed goods and services, not for financial returns. This is done initially through the purchase of stock or a membership. It is continued through patronage and/or use of the cooperative. One-time assessments or investments also may be necessary to finance special fixed assets or services.

For a cooperative to be successful, it must have a volume of business. Normally, the greater the volume of business, the greater the efficiency obtainable, the more services available, and the higher the earnings (profit) are for members.

Members' patronage finances the cooperative so the business can continue. The greater the patronage, the more likely the cooperative will be able to provide, expand, and improve its services. But if that is not the case, and the cooperative loses money, members have the

its services. But if that is not the case, and the cooperative loses money, members have the same responsibility to share in those losses as they do in the earnings.

5. **Adopt legal papers.** Members are responsible for understanding, adopting, and amending legal papers. They should read and understand the cooperative's articles of incorporation and bylaws to know how the business is to operate and what services it can provide. Before voting to approve bylaw amendments, they need to analyze them to determine how they will affect the business. Members must also become acquainted with the contents of legally enforceable marketing contracts or other legal papers before signing them so that they can fulfill their obligation to the business.
6. **Evaluate performance of the cooperative.** Members should examine the annual report, observe whether the cooperative is meeting their needs, and analyze efforts of the cooperative to communicate with members and the public.

Other Responsibilities:

- See the importance of the cooperative.
- Want fairness-not more than their share.
- Listen for facts instead of rumors.
- Pay operational costs.
- Must see the common need.
- Must want to help themselves.
- Are committed to the long term increase in income.

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

Qualifications of Members

Requirements for membership in cooperatives can consist of the following:

- Members must be producers of farm products (if an agricultural cooperative). They may be a landowner receiving share rent as well as an owner-operator or tenant-operator. The bylaws of many cooperatives provide that if members do not patronize their cooperative for (1 or 2) consecutive years, they lose the right to vote, and the membership stock or certificate is transferred to a non-voting status.
- They must have a financial investment ranging from \$1 to \$10,000 or more. A few agricultural cooperatives do not have any financial requirements -- only that a person must be a farmer patron, or in some cases also do a specified minimum amount of business a year.
- A formal application for membership must be completed, including payment of a membership fee or purchase of a share of common stock for membership.

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

Farm Credit System cooperatives require eligible persons seeking loans to purchase

... rural electric system cooperatives require eligible persons seeking loans to purchase membership stock before completing the loan. Rural residents, non-farmers as well as farmers, in areas served by rural electric or telephone cooperatives, become members to receive service. Persons wanting to participate in rural housing, recreation, credit unions, or other cooperative programs must become members to receive these services.

Conclusion

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

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

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

General Areas of Board Responsibility

Director Responsibilities

- H**ire Manager
- O**versee basic strategies
- M**onitor cooperative performance
- E**valuate itself
- S**et policy

Incorporating State statutes for both cooperative and non-cooperative businesses require that affairs of a corporation shall be managed by its board of directors.

The board's authority is to establish policy, approve plans and programs, and delegate authority to its general manager except those rights that are, under law, expressed in the association's articles of incorporation and bylaws conferred upon or reserved to its members.

Ever since artificial entities (later identified as business corporations) were created thousands of years ago, questions have been asked about ultimate responsibility and accountability. In response, boards of directors were formed.

As early as 2083 BC, boards of directors (then called directorates) were formed in the Babylonian Empire under an edict in the Code of Hammurabi. This edict established the groundwork for boards that has continued for centuries. It established how the leadership or control of that entity (board) could pass on in an orderly fashion.

Napoleon's coup d'etat in November 1799 brought an end to what could have been considered rule by Directorate (board of directors). The French Constitution of 1795 established the Directorate. It failed because the Directorate was unable to administer the will of the people and maintain an orderly transition of leadership. One member of the ruling board was to be replaced annually. When the duties of the Directorate were not carried out, it failed and it was replaced.

Election to and service on a board of directors is a timehonored tradition. The current challenges and threats to cooperatives and their boards of directors occur because of their widely varied effectiveness, or lack of it, in carrying out the basic functions of a board or directors.

directors.

Boards of directors have a variety of duties and responsibilities in carrying out the cooperative's objectives. The greatest responsibility of a board is to **direct** the cooperative toward its overall objectives. Management is assigned to carry out those directives or policies.

Most articles of incorporation and bylaws explicitly list that one of the major responsibilities of a board of directors is to select a competent manager capable of carrying out its directives and policies. By hiring a manager, the board brought another player into the game. Although the manager is accountable to the board, the board can't transfer its responsibility of ultimate accountability to the membership.

Selecting a qualified and imaginative manager is the most important single act of a cooperative board of directors. The manager guides the day-to-day progress of the cooperative within the policies established by the board. Successful managers appear to have no behavioral, physical, educational, age, or sex standards that assure success. The men and women who move businesses forward successfully come from a wide variety of backgrounds.

Finance

Among the many areas of board responsibility perhaps the one of greatest concern involves financial matters.

Most board decisions have a bearing on the financial position and continuity of the cooperative. The board is responsible for its financial structure. Shortsighted and overly conservative financial decisions may restrict growth. On the other hand, a status-seeking "big spender" board may indulge in expansion that could threaten the life of the cooperative.

All directors, to be effective in financial decision-making, need to be thoroughly acquainted with conventional accounting reports. They must understand the balance sheet and statement of operations, the concept of depreciation, and how to interpret the statement of changes in financial position (or source and use of funds statement). Directors should understand the more important financial ratios, including test of profitability, liquidity, and solvency.

One of the greater expectations of members and stockholders is that the board will maintain or increase the value of the owners' investment by prudent guidance of the cooperative. Directors are elected as trustees of the cooperative's assets with the responsibility to safeguard them.

The board must exercise sound judgment when issuing securities, and be sure requirements are met. Unwise issuing of securities may reduce the value of members' equity. The board should study the effects of new stock issues, retained earnings, changes in revolving of patrons' equities, and long-term debt when questions of financing expansion arise.

The board is accountable for pledges of assets and the possible effects on existing capital obligations to members. This responsibility cannot be delegated to employees. It must be handled by the board. Pledging assets to secure capital for poorly planned programs can rapidly erode members' equity.

Declaration and allocation of dividends and patronage refunds is another financial responsibility of the board. The extent of dividends and patronage refunds, and how they are declared, may determine the confidence of members in the cooperative. It may also affect the acceptance of new issues of securities.

A cooperative board must decide the time periods for marketing pools, the amount of and timing of advances to be made before final settlement, amount of capital to be retained (per unit retains), or the necessary investment of each patron if a base capital plan program is used to finance the cooperative. Upon advisement of management, the directors determine the time period for revolving members' equity capital.

Harmonizing Members Interests

A cooperative is a complex, living group of special interests, including members, patrons, managers, and employees. The board must promote harmony among these diverse interests.

managers, and employees. The board must promote harmony among these diverse interests.

The board must deal with conflicts that arise among producers of different crops, marketing programs, users of different services, and supply purchases. To maintain harmony, preserve equity, and abide by Federal tax regulations is critical for boards.

Managers and members have diverse interests regardless of the type of cooperative. Owners may desire a stable, conservative organization, while managers may want an expanding organization. Conflicts such as these provide challenges to the board. A reasonable degree of harmony is needed for the sake of the business.

Sound Planning

Planning responsibilities are covered under a later section.

Communicating with Members

As a representative of members' interests, directors have a special responsibility to assure effective channels of twoway communication between the board and management on one hand and members on the other. Farmer cooperatives, in particular, must maintain close coordination between members' interests and those of the cooperative.

A monthly newsletter and the annual meeting should be supplemented by special letters, local meetings, and communicating with small specialized groups.

Board Responsibility to Adapt to Change

The environment in which it operates and the personality of the business are constantly changing. The board has an important role in either perpetuating or changing the personality or public image of the business. As the needs of the business change, so to do the responsibilities of the board.

In many companies, the board and managers share responsibilities for handling relationships with Government, industry, and general public. Such relationships include participating in trade associations and industry study or research programs, and coordinating with Government commodity programs. Increasingly, changes in Government relations with business, as well as social changes, are bringing about a need to clarify the role of directors.

Social and Public Responsibilities

Directors are limited in their authority by members, the law, and public opinion. If the board arbitrarily follows a course of action, it may encounter considerable criticism from members, the press, and community.

Furthermore, a cooperative gets its ultimate sanction from its usefulness to society. While it receives its legal documents from administrative agencies, the cooperative's ultimate purposes must be compatible with standards established by society. Directors must be sensitive to everchanging standards. The board also assumes a great deal of social responsibility and must consider the effects of its decisions on others in the community.

Business Moral and Ethics

Modern business ethics no longer require that the "buyer beware." A remarkably high degree of business ethics is practiced by American business today. Some of these ethical standards have grown out of business practices, some evolved from Government persuasion, and others have been set by trade associations.

Responsibility of the cooperative to society is only part of the picture. The directors' integrity toward their cooperative and its members is important. Each director should promote the balanced welfare of the cooperative, rather than serve partisan interests of individual directors who believe they represent special commodity groups or geographical interests. When directors attempt to protect or favor their constituents, results may be internal conflict detrimental to the cooperative's health.

The board must consider the demands and interests of all groups in the cooperative. Effective

The board must consider the demands and interests of all groups in the cooperative. Effective boards develop a nonpartisan point of view. Good faith and integrity must prevail within a board. Distrust and suspicion add internal difficulties to problems from outside sources. Modern conditions require directors to possess and practice integrity in all their responsibilities.

Government Relations

Government influence permeates nearly every aspect of today's business organization. Governments not only provide business opportunities, but also set restrictions on what business organizations do.

Recognizing the influence of Government, many businesses increasingly are becoming active in the politiceconomic field to protect their interests. Legislatures are constantly being pressured. Foes of an industry may propose legislation to curb certain industry activities. Some industry groups may seek special or selfinterest legislation. In the future, there will be more calls for direct intervention by boards in legislative proceedings. Directors can no longer hesitate to enter this controversial field, because opposing interests already are active.

Directors' responsibilities are constantly changing. Directors are being asked to consider a broader scope of business activities than ever before. Their effectiveness may depend on a willingness to view business conduct from the standpoint of both society and the owners.

Electing and Perpetuating a Sound Board

By perpetuating a sound board for the cooperative, directors help assure its continuation. The responsibility of directors is not necessarily to perpetuate themselves as board members but rather perpetuate a board composed of capable directors.

In some cooperatives, past directors or other farm leaders constitute an advisory council that is used as a sounding board by the manager and present board. Other cooperatives may use an auxiliary board to educate members on specific topics. Auxiliary boards can acquaint members with the workings of the business. Its members also can serve as a pool of knowledgeable people who might become future directors.

Cooperative members, while electing directors, may inadvertently elect someone who has a particular grievance with the cooperative or lacks understanding of the cooperative and the role a director must play. To avoid this, members must become more aware of the needs of their cooperative, the director's role and the limitations on the authority of board members acting individually or as a group. Directors must accept certain disciplines imposed on them as representatives of the cooperative.

Board Information System

Good governance depends on enlightened decision making. Board members in turn need to be knowledgeable about the cooperative's status and needs if they are to make sound decisions that advance its mission. But boards often say that the information they receive hinders rather than facilitates good governance and strong leadership. They protest that they are overwhelmed with large quantities of irrelevant information, that they don't get enough information, or that they receive material too late to devote serious attention to it. An effective board information system should focus decision making, stimulate participation, and support an appropriate balance of responsibility between board and staff.

Types of board information

- Decision information is used to make decisions, such as establishing selection criteria for the General Manager. It looks to the future and is not designed to measure performance.
- Monitoring information enables the board to assess whether its policy directions are being met. It looks to the past and provides a specific survey of performance against criteria. An example is an annual review of the cooperative's strategic plan.
- Incidental information is for the general information of the board and not related to board action. Committee reports are frequently in this category.

Too often, board information is primarily incidental information. Although such material is useful

Too often, board information is primarily incidental information. Although such material is useful for maintaining an overall impression of the administration of the cooperative, it is not usually specific or substantive enough to help board members make decisions or monitor the cooperative's success at carrying out its mission.

Establishing a system

Establishing and maintaining a board information system is the joint responsibility of the board chairperson, board members, the General Manager, and staff who work with the board. The board should discuss:

- what information it needs to do its job
- how often it wants this information
- in what form it needs the information

Given this board feedback, the staff can establish the content, format, and frequency of information they will provide the board.

Characteristics of good board information

1. **CONCISE.** Is the information communicated as quickly or as briefly as possible?
2. **MEANINGFUL.** Is the information presented in relationship to a significant factor, such as a goal set by the board, past performance, or comparative data?
3. **TIMELY.** Is the information relevant to the current agenda?
4. **RELEVANT TO RESPONSIBILITIES.** Does the information help the board or board committee discharge its responsibilities?
5. **BEST AVAILABLE.** Is the information the best available indicator of the situation or condition being described? Can better information be provided?
6. **CONTEXT.** Is it clear why this information is important?
7. **GRAPHIC PRESENTATION.** Could the information be presented better graphically than in words?

Basic ingredients of a board information system

Every board must decide for itself exactly what information it needs. For most cooperatives, however, the following checklist is a starting point.

At least two weeks before each board meeting:

- Agenda
- Information about issues for discussion, when appropriate
- Financial information
- Committee reports

At least two weeks before the board meeting at which it is discussed:

- Annual budget
- Audit report
- Strategic plan

After each board meeting:

- Minutes
- Notice of next meeting

Monthly:

- Financial report
- Significant published articles about the cooperative

Quarterly:

- Financial report

Regularly, when appropriate:

- Memo from General Manager summarizing current activities, accomplishments, and needs
- Updated material for board handbook
- Advance copies of publications, brochures, or promotional material
- Annual report

New Director Orientation and Training

Most experienced board members say it takes too long to become acquainted with the functions of a director. Many don't feel they can be effective until their term of office is nearly over. This is a real problem. It can be addressed only by directors actively participating in orientation and training programs.

Most members may feel they have a good understanding of their cooperative's structure, both financially and operationally, but a rude awakening once they become a director. Things are much more complex than many think.

An orientation program for new directors is essential to acquaint them with their cooperative.

This orientation must be done as soon as possible after the election. Usually it works best when a small group (new director, board president, and manager) meet informally and discuss such things as the annual audit, budget, board and personnel policies, articles of incorporation, and the bylaws. A complete tour of the facilities helps the new director better understand the entire operations. This should be done before the new director's first board meeting to provide a better understanding of the scope of the job. It can contribute to the decision-making process and make the directors more comfortable in the new role.

Acquainting the new director with the cooperative's lender, auditor, and some of the principal suppliers or marketers adds greatly to developing a total understanding of the cooperative.

USDA's Cooperative Services, Extension agents associated with the landgrant universities, lending institutions, and State cooperative councils have training programs that offer valuable information to all directors and acquaints them with other cooperatives and their directors.

Participating in board planning sessions, retreats, and training programs can help build the board into a policymaking unit that can make the needed decisions to properly direct the cooperative.

SUMMARY

Everyone should realize that a cooperative is not just one group of people working toward their personal goals, but rather several groups working together to accomplish the common objectives established by the group as a whole. To function smoothly and effectively, the proper structures, policies, and people must be in place. Each group must play its role and understand its part in the overall task.

Good strong cooperatives and boards do not just happen. They are planned. It takes hard work to continually improve them.

Criteria for Separating Cooperative Board and Executive Decision Areas

¹There is no fine line of distinction between the executive's and the board's authority for specific action. The following ten criteria may be helpful in distinguishing board and executive decision areas.

Criterion 1

Ultimate accountability to stockholders or members is vested in the board of directors, who may subsequently grant certain authority to officers, agents, and employees as permitted under the

corporate charter, bylaws, and applicable laws. The executive or general manager, in turn, is accountable to the board and initiates action within the boundaries of authority granted by the board.

Criterion 2

The board of directors is primarily concerned with idea decisions; executives are primarily concerned with action decisions.

Criterion 3

Decisions on overall objectives, policies, and goals of the company are the responsibility of the board.

Criterion 4

Decisions related to attaining objectives and goals are the responsibility of executives.

Criterion 5

Decisions involving long range and consequential commitment of resources, which include facilities, finances, or manpower, are the board's responsibility.

Criterion 6

Decisions involving long range and consequential commitment of resources, which include facilities, finances, or manpower, are the board's responsibility.

Criterion 7

Decisions related to the assurance of capable executive succession by providing for executive depth and training are the board's responsibility.

Criterion 8

Decisions specifying the ideal pattern or model of board behavior and performance, and the review of and perpetuation of this ideal through indoctrination and training of directors, are the board's responsibility.

Criterion 9

Control over the executive and of board performance, decisions involving long range and substantial financial commitments and financial structure, objectives and policies, and public and member relations are the board's responsibility.

Criterion 10

Control over operations and over subordinate managers and employees, decisions involving budgets, procurement, production, and marketing plans, and industrial and employee relations programs are the responsibility of executives.

The following are some decision areas that are often performed by the board, management or shared.

Board Decisions Solely

1. Defining corporate objectives, policies, and goals (but with opportunity for management participation and recommendations for setting goals).
2. Long range financial commitments, including sources and type of financing.
3. Selection of chief executive (manager) and his salary.
4. Defining duties of chief executive.
5. Filling board vacancies.
6. Employing corporate auditing firm (unless bylaws provide for membership approval).
7. Retaining board legal counsel.
8. Basic changes in financial structure.
9. Approval of major plans and commitments.
10. Matters where stockholder or member decisions are due.
11. Selection of banking, insurance, and related entities.
12. Approval of employee retirement and benefit programs.
13. Basic affiliations with suppliers.

Management Decisions Primarily

1. Defining operating or management level objectives, goals, and policies within constraints of corporation-wide decisions.
2. Short run commitments of resources.
3. Preparation of budgets, production plans, and market plans for approval by board.
4. Defining duties of division and department heads.
5. Administration of employee benefits program and salary determination (consistent with salary scales approved by board for key management people).
6. Selection of employees.
7. Short run decisions on sources of supply that do not modify basic board decisions.
8. Selection of management's legal counsel.
9. Employee working conditions.
10. Measurements of employee performance.

Shared Decision Areas

The following were identified by respondents in a survey by the USDA/Rural Business-Cooperative Service. There is some difference from the above list.

1. Relations with government, industry, and general public.
2. Insurance requirements (but not the source selection).
3. Amounts and sources of working capital.
4. Engaging professional services.
5. Employee benefits plans.
6. Selections of depositories.
7. Appraisal of cooperative's performance.
8. Distribution of earnings.
9. Financial relationships with affiliates.
10. Employee bonding.
11. Changes in basic organizational structure.
12. Issuing capital instruments.
13. Authorizing facility construction, expansion, etc.

Criteria for Separating Board/Management Responsibility Areas

	BOARD	MANAGEMENT
Accountability	To Members	To Board
Areas of Concern	* Idea Decision, Judge * Ends/Purpose	* Action Decisions, Manage * Means/Activities
Commitment of Resources	* Determine Values * Long Range, Consequential * Set Limits, Monitor	* Intermediate and Short Range * Organize and Control Resources
Information	Request, Review	Develop, Analyze, Provide
Goals, Policies	Determine	Implement
Management Evaluation	* Set Policies Regarding Results to be Achieved and Limitations on Activities * Monitor Progress Toward Results * Monitor Compliance with Limits	Provide Information for Monitoring
Operations	* Determine Values and Goals * Set Limits * Monitor	Conduct
Perpetuation	Assurance of Capable Management and Board Succession	Support, Participate
Board Process	Determine Structure, Behavior, Performance Evaluation, Calendar and Agenda	None

¹Adapted from Leon Garoyan and Paul O. Mohn, "The Board of Directors of Cooperatives,

"University of California, Davis, 1976.

Building and Improving Membership Programs

Members are the lifeblood of a cooperative: a truism of cooperatives. Without members a cooperative wouldn't be a cooperative; it would be just another local grocery store. A cooperative exists to serve the needs of its members.

But members provide more than a cooperative's reason for being. They provide the capital, the patronage, the accountability, the control, and the goodwill that allow a cooperative to survive and thrive. Members are the cooperative's owners, customers, and ambassadors. Consumer ownership is the cooperative's mark of distinction and the foundation upon which any successful food cooperative will be built.

Unfortunately, all too often membership is the forgotten aspect of a cooperative's operations. Membership functions are viewed as secondary and a low priority. They are approached without any creativity or enthusiasm. This shortsighted approach leaves too many cooperatives with lackluster membership programs and without the advantage of a strong, engaged membership base.

A strong membership program

For a membership program to produce a supportive membership, it must be planned carefully. It can't be an afterthought. It has to be integral to all aspects of the way the cooperative operates.

The mentality of consumer ownership must be an essential part of the way the cooperative operates and must be a core consideration in all decisions. It must fundamentally shape the way cooperative management approaches its job. This basic orientation will provide the structure upon which membership programs and specific activities are built. Membership programs have to creatively and meaningfully reinforce the message that consumer ownership is important and valued. Typically, we find membership programs, or their specific aspects, falling into one of the following categories:

Ignore and fail

Cooperatives with programs in this category do not fulfill even the basic responsibilities of being a cooperative. They do not have an accurate listing of members and the amount of equity contribution made by individual members. They do not provide for meaningful elections or communications to members and may forget to hold annual meetings.

Basic but uninspired

These programs get the basic functions accomplished, but they are generally perfunctory and lifeless. While the cooperative is meeting a basic responsibility, the absence of any creative effort or fresh approaches renders the activity uninspiring. More than likely, only a few of the most dedicated cooperative members pay attention to these activities.

Added value

A step up from those at the basic level, these programs reflect the effort that has been made to consider what might help make events or functions distinctive, interesting, and meaningful to members. These events and activities go beyond just meeting a basic responsibility and will be attended and noticed by more than just the core members.

WOW!

These programs change the way people think about the cooperative. They reflect tremendous creativity and leave people wanting more or looking toward the cooperative for great things. They meet a membership responsibility while at the same time creating a distinctive sense of ownership and community among members. Membership programs characterized by the "WOW" level are:

- * real and meaningful
- * lively and interesting

- * accurate and efficient
- * thoughtful and wellplanned

"WOW" programs demonstrate to members that membership functions are truly important to the cooperative not just a perfunctory business requirement.

What level for your cooperative?

Most cooperatives operate "basic but uninspired" membership programs. Some operate at that level but have one or two activities at the "better" or even "best" level. No matter how your cooperative is currently operating, some principles apply:

- * The first step is to meet all basic responsibilities: have good membership records, hold annual meetings, meet communications requirements. For cooperatives that have not devoted sufficient resources toward the membership function, this is the starting point.
- The next step is to set some goals in the area of membership. Start with some benchmarks for the membership function, after assessing your current membership programs. For instance, indicators could be:
 - ✓ percentage of sales to members
 - ✓ member equity as a percent of assets
 - ✓ percent of members' purchases from the cooperative
 - ✓ net new members per year percent of members voting
 - ✓ number of members attending annual meeting
- Once you have assessed current functions and established some benchmarks, you can start improving the quality of membership activities. For instance, you can improve a newsletter by hiring good writers to prepare interesting, topical articles and by changing the format, design, or graphic elements.
- The key to achieving the "WOW" level is to hire staff or involve members who care passionately about the cooperative and who bring talent and skill to that area. Some staff (paid or volunteer) have more creativity and talent. Match people with the project where they have the greatest skill. As you set your sights on getting some of your membership activities to this level, start with those areas where you can get the most "bang for the buck."
- Don't set unrealistic goals or expectations . A cooperative can probably never or only rarely conduct all of its membership activities at the "WOW" level. More importantly, make sure all basic functions are being fulfilled, and then work to bring improvements.

Covering basic functions

Membership in a cooperative means ownership members legally own and control the assets of the cooperative. Cooperatives have a legal and moral obligation to fulfill fundamental responsibilities related to membership. First and foremost among these responsibilities is accurate recordkeeping. The cooperative must keep accurate records which identify:

- who is legally a current member;
- who is entitled to vote;
- how much equity each member owns;
- what benefits for which each member is eligible.

Additionally, the cooperative's membership system should be efficient and understandable. This means that it should be easy to:

- join
- remain a current member
- understand member benefits understand the expectations, requirements, and responsibilities of members resign membership and receive a refund of invested equity
- vote
- give input on all aspects of the cooperative's operations.

Keep in mind that the basics need to come first. Before you spend time working on organizing a "WOW" annual meeting or newsletter, make sure that the coop has accurate records and efficient membership systems. With all the elements in place at a basic level, you can then take membership programs to the next level.

Making membership meaningful

Consumers must value and understand their role as member/owners before they will assume the responsibilities of ownership. It's unrealistic to assume that people will understand and value joint ownership without explanation. Most people don't understand what it means to own a business, let alone share ownership democratically with many other people!

It is vital to the success of cooperatives that membership be a meaningful part of the cooperative. There are four keys to making sure this is the case:

1. Offer real and meaningful benefits.
2. Provide effective member control of the cooperative.
3. Communicate clearly the nature of the relationship between the cooperative and its members.
4. Keep the program (communication and activities) lively and interesting, while maintaining consistency.

Real and meaningful benefits

The primary benefit to members as a whole is the cooperative's continuing existence! The cooperative is a business designed to provide the members good quality products and services at fair market prices, and this benefit is delivered day to day, year in and year out. Joining the cooperative gives each member a chance to help build an ethical and honest business that operates with customer interests at heart and is controlled by member/owners.

Most cooperatives offer additional incentives to members for the investment they make when joining the cooperative. These benefits should provide a fair return to the member and be economically feasible for the cooperative. There are a great variety of benefits offered by food cooperatives across the country, but the primary additional financial benefit to individual members is a fair share of the surplus. This surplus is typically delivered to members either at the time of purchase through member discounts, or after the end of the year as a patronage refund. Most importantly, such surpluses are shared with members in proportion to their use of the cooperative that is, their purchases. This notion of rewarding members proportionate to their use rather than the amount of their investment is a key element of cooperative philosophy.

Many cooperatives offer additional benefits to their members. There is no magic formula to putting together a benefits package. The key is to find what is meaningful to your members, balanced with what is feasible and economically possible for the cooperative.

Effective member control

In addition to economic benefits, the cooperative offers consumers a chance to participate in a variety of ways. Effective member control does not mean control of every or even most decisions. Cooperative members empower the board of directors to make decisions on their behalf. Boards in turn empower general managers to make further decisions, and so on throughout the cooperative. Members should not be asked to make complex business, investment, and real estate decisions that require indepth analysis and understanding. However, members should be assured of the chance to elect a board of directors and hold them accountable for making or delegating these decisions in the best interest of the cooperative as a whole.

Beyond member votes, good cooperative membership programs will offer other meaningful ways for member voices to be heard, considered, and responded to. Suggestion or comment boxes are essential. A critical factor is not the amount of member control but members' satisfaction with their cooperative. To ensure satisfaction, create meaningful opportunities for member voices to be heard, and be responsive to that input.

Clear, understandable communication

Most fundamentally, the cooperative's communications must build understanding of the cooperative and of members' role as coowners. To do this, cooperatives must work to ensure that all communications with members are clear and effective for both parties.

Effective communication helps members, potential members, and the general public understand the power and the promise of cooperatively owned business. Effective communication does not

the power and the promise of cooperatively owned business. Effective communication does not come from one event, one brochure, or one meeting. It comes from care and attention to the communication aspect of each of these activities and more. Every activity and decision of the cooperative should communicate that this business is different, this business is owned and controlled by the people who use it.

Live, interesting, consistent

Membership programs and activities should be lively and interesting. To achieve a "WOW~" level, membership activities must be fun and intriguing. Too often membership events are seen as a burden something we have to do rather than as an opportunity to express our uniqueness. Guilt is not an appropriate motivator for increasing attendance at membership meetings. However, a good meal, an interesting topic for discussion and/or a well-known speaker will attract members and communicate that we want you to be part of this event.

Here is the perfect chance to be creative and try new ideas for making membership meaningful in your cooperative.

While membership programs should be fun, take care not to be overly creative with the fundamentals. Pay attention to those aspects of membership programs which need to remain consistent creativity in recordkeeping is rarely a good thing, for example. However, look for ways to breathe new life into routine areas and keep them from feeling stale:

- Cooperative Month might have the same type of events each year, but always with a new theme.
- Types of classes and schedules may be fixed, but each year new presenters teach different aspects of the topics.
- A membership drive may be held every spring, with new "premiums" for joining.
- A standardized format for the newsletter, but with interesting and varied content, photographs, an interesting layout, and color can keep readers engaged.

A supportive membership has a basic understanding of what it means to own and control the business. They recognize that in return for the benefits of membership, they have a responsibility to support the cooperative with patronage, investment, and participation in its affairs. By systematically planning, assessing and improving membership programs, you can build a supportive membership and a stronger foundation for a successful cooperative.

Getting Input from the Members

As a director, you are a representative of the people — your cooperative's member-owners. You have the responsibility of listening to your members and responding to their needs and desires. To do this, you must know what their needs and desires really are. There are many ways to collect this information.

- Regularly conduct member focus group meetings. Farmers Union Oil Company, Rugby, N.D. has used focus groups for several years. Dan Brossart, board president, reports, "These meetings are really helpful for getting information and ideas. We ask people to tell us both positive things and negative things as well as to give us their wish list." As a result of these meetings Brossart's cooperative has started offering innovative pricing on crop protection products and seed as well as providing new product delivery options.
- Send out regular newsletters. Include information about changes in the cooperative and add information about recent board decisions.
- Use customer surveys. Be sure to leave room for members to write in their comments and suggestions.
- Talk with employees. They interact with members daily and are a great source of member information.
- Listen to complaints. Taking a positive approach to customer complaints can help the cooperative improve products and services while building goodwill.

- Set a program that encourages members to attend the annual meeting. The annual meeting is beneficial to both the board and the members.
- Hit the road and visit members. If you know of members who have strong opinions on key issues, visit them.
- Promote your cooperative by having directors join and become active in community clubs or organizations. They are excellent tools for building membership and gauging how the community feels about the co-op.

Getting input from your members may take time and effort, but in the end it pays off. You will make better decisions, you will feel more confident making those decisions, and best of all, you will know that your decisions are supported by the whole cooperative.

Recruiting Directors

Methods of nomination are:

- by the chair
- from the floor (sometimes called "open nominations")
- by committee
- by ballot
- by mail

The Nominating Committee

The method most commonly approved for nominations to the board of directors within a cooperative is through the use of a nominating committee followed by open nominations from the floor.

The nominating committee is in effect, a proposal to fill-in-the blank and assume the motion "that.....be elected" to the board of directors. Thus, in choosing someone to fill that role, a more effective freedom of choice is maintained through the practice of nominating persons for the office, rather than moving that a given person be elected.

An important but often under-emphasized job within the membership of a cooperative is serving on a nominating committee. Most cooperatives use some type of nominating committee to develop a slate of candidates for electing directors. Committee members are chosen in many different ways. But bear in mind that those who serve on it will have a tremendous impact on the direction the cooperative. Therefore, the selection of members to serve on the nominating committee is extremely important. The task before a nominating committee is an important one, for in deciding who shall be nominated, the committee is playing a major role in the cooperative's future. It is their responsibility to seek out those persons whom are best qualified to act in the best interest of the cooperative. As will be discussed later, while the day to day operations are the responsibility of the manager, it the board that is ultimately responsible to the membership of its cooperative.

The committee's job is much more than meeting for coffee at the local restaurant on Monday morning, for instance, and picking some candidates for the board. Committee members need to carefully study strengths and weaknesses of the cooperative that must be addressed by the leadership skills of the candidates.

The committee should look for individuals based on the job description on page XX.

Incumbents must not be considered automatic candidates simply because they have served on the board for several years.

A nominating committee's primary responsibility is to present the membership with a slate of candidates. The committee feels can direct the cooperative in meeting its overall objectives and

candidates the committee feels can direct their cooperative in meeting its overall objectives and improving its success. The committee must also consider how it can present the candidates properly, explain why it selected the candidates, and what specific strengths the candidates can give to the board. It is important to remember that as a committee, those who serve on it, do not have the privilege of repeating to other persons the discussions that take place in committee meetings. The business of the committee properly goes outside the committee only in the chair's report.

It is the committee operating as a unit that must decide on the best qualified person for nominees. It is desirable that its decisions be unanimous. If not possible, however, the majority rules.

The nominating committee should select more than one nominee for each position, thereby, giving the membership a choice of qualified candidates.

A nominating committee can be an excellent tool for recruiting directors. There are several advantages to using a nominating committee:

- Candidates can be interviewed ahead of time to determine willingness to serve.
- Prospective directors' qualifications can be reviewed and weighed.
- Committee can promote balance by nominating individuals representing a cross section of the membership.

Boards may find the following process and guidelines helpful when setting up or working with nominating committees:

1. Select nominating committee three to four months prior to annual meeting or at the time and in the manner specified in the company's Articles of Incorporation and Bylaws.
 - Determine committee size (recommend three to five members)
 - Identify committee member qualifications
 - ✓ May be current or prior directors, but current board chair should not be on committee
 - ✓ Should represent a crosssection of membership
 - Interview each nominating committee candidate
 - ✓ Review committee purpose
 - ✓ Selecting qualified candidates
 - ✓ Building enthusiasm for being a director
 - ✓ Discuss responsibilities and expectations
 - ✓ Outline director selection process
 - Select committee members
 - Designate temporary nominating committee chairperson
2. Conduct first nominating committee meeting
 - Discuss committee responsibilities
 - Elect committee chairperson
 - Review support materials
 - ✓ Director candidate qualifications. The position of a director carries specific duties and responsibilities; it confers certain privileges and prestige in the community. The position does not change, only the person filling the position changes. A committee member must then look at the position first and person second. You need to look at the position as it is spelled out in the bylaws of the association. You need to consider the duties involved; the skills, training and experience needed. You need to know your cooperative association well enough to have clearly in mind the kind of performance needed to fill the job well.
 - ✓ Information on board openings including term length and geographic territory represented (if applicable)
 - ✓ Membership characteristics of the cooperative
 - ✓ List of candidates for last five years
 - ✓ List of past and present directors
 - ✓ Balance Sheets and Statements of Operations for the last five years
 - ✓ Cooperative's oneyear and longterm goals
 - ✓ Expansion plans

3. Nominating committee conducts candidate search

- Identify potential candidates
- Contact candidates to determine interest
- ✓ Present information
- ✓ Stress board's important role
- ✓ Discuss candidates' ideas and concerns
- Prepare listing of candidates
- ✓ Typically one candidate for each open position
- ✓ Include background information for each candidate

4. Prepare voting information

- Once the slate of nominees is firm, the membership should be informed prior to the annual meeting. This could be done either by direct mailing to the membership or by publishing the names of the nominees (preferably with pictures and brief statement of qualifications of each) in the cooperative's newsletter.
 - Develop timetable for publicity
 - Include candidate information with annual meeting notice
 - If ballots are to be used they should be printed leaving space for nominations from the floor
 - Make sure candidates attend annual meeting
5. Conduct elections at annual meeting
- Nominating committee chairperson introduces candidates and makes motion that names be placed in nomination
 - Board president asks for additional nominations
 - Member nominated must accept nomination before it is official
 - Nominations do not require a second
 - Vote is taken by voice, show of hands, or ballot.

What Makes a successful Board Member?

A board member's success is determined not only by her business skills and experience, but by her personality traits, or character. In his book "Welcome to the Board," [©1995, Jossey-Bass Inc. Publishers] author Fisher Howe identifies several characteristics of successful, happy board members:

- They are honest.
- They are enthusiastic.
- They keep an open mind.
- They are team players.
- They tackle complex problems with relish.
- They take an orderly approach to decision making.
- They are competent.
- They have a sense of humor.

Personality traits in "problem" board members may include:

- Obsession with a single issue.
- Always taking the "contrarian" view--just for show.
- Expounding on strongly held opinions that are rarely backed up by fact or research.
- "Board hopping" - or sitting on many boards, but serving none well.

New Director Orientation Checklist

We recommend the board president or general manager conduct an orientation with each new director before the director's first board meeting. To allow adequate discussion and study time, we suggest the orientation be conducted in two meetings.

Meeting One:

___ Provide brief history of cooperative. Include information on key issues or problems.

___ Outline cooperative's regional affiliation.

___ Define cooperative's mission and provide director with a copy of mission statement.

___ Discuss director job description and/or director responsibilities. Give director a copy of his or her job description or responsibilities listing. Identify board officers and subcommittee members.

___ Review key sections of the cooperative's articles and bylaws. Provide director with a copy of articles and bylaws.

___ Explain board's role in policymaking, review policies and give director a copy of board policies.

___ Share highlights from last year's audit report and give director a copy of the report.

___ Review cooperative's organizational chart and give director a copy of the chart.

___ Arrange for a facilities tour. We suggest that each department head greet director and conduct a brief department tour.

Meeting Two:

___ Answer any questions from previous meeting.

___ Review annual business plan and give director a copy of the plan.

___ Explain patronage distribution process.

___ Detail cooperative's longrange plan and give director a copy of the plan.

___ Supply director with director policy handbook.

___ Expound on the board's need for welltrained directors.

___ Review plans for attendance at regional annual meetings, director conferences and director training sessions.

___ Outline board meeting schedule. Specifically address meeting time, location and general meeting procedures. Reinforce importance of attendance.

___ Summarize highlights of previous board meetings (use board minutes).

___ Review director's monthly reports and give director a copy of current month's reports.

A good orientation provides new directors with critical information needed to be an effective member of your leadership team.

A to Z Guidelines for Board Members

Accurate: Seek accurate financial reporting according to the criteria of an independent, outside auditor.

Best : Hire the best manager you can.

Confidence: Express confidence in the cooperative when outside the board room.

Different: Recognize that serving on the cooperative board is different from being a patron of the cooperative.

Earn a margin: the cooperative must earn a margin on the package of services rendered to

... the cooperative must earn a margin on the package or business received by each member or it will not continue to exist.

Fun: Take time to celebrate victories. Spread the credit to all team members involved in making a difference.

Grudge: If you hold a grudge based on past co-op decisions, it will make attending meetings extremely stressful. Forgive and forget.

Hurry up! In a hurry-up atmosphere, mistakes will be made. Why not take the time needed to do it right?

Integrity: Integrity is why you were elected to serve on the board. Do not leave your common sense at home on board meeting days.

Judge from this perspective: View the cooperative as though you own it. What would you change?

Kick the political habit: The basic purpose of the cooperative is financial in nature.

Length of life: No cooperative has to last forever. Be flexible about re-organization concepts such as up-sizing or down-sizing.

Meet new people: When attending industry meetings on behalf of the cooperative, you are there to meet new people and learn.

No dart board: You are not a dart board for every co-op member's complaint. If members can get special treatment by complaining to you, then they will do just that.

On time: Arrive at meetings on time. Start meetings on time. End meetings on time.

Patronage dividend: Conduct all transactions at market price levels. Then reflect earnings in your cooperative's patronage dividend.

Quality: If you are going to make decisions about your co-op, then you probably need to know much more about the quality of its products.

Run for the board: Do not run for the board if you fail to believe in the co-op's basic mission.

Strategic planning wins in times of low margins or high margins. Does your board action pass this strategic test?

Time for family: Take the family pledge--my family has great needs for my time and I will not let the emotions (or telephone calls) of co-op business affect my relationship with my family. It's just not worth it.

Unallocated: If you allocate overhead to every department, the money-making departments will get loaded with more than their fair share and the losers will get treated with kid gloves. Instead, rely on your common sense regarding overhead.

View the banker as a valued advisor.

When is the last time you acted like the very best board member you can imagine. Follow your intuition, speak your mind, be eager to hear the other side of the story and accept truth where you find it.

X marks the spot! If your board meeting is becoming a contest to spot a flaw in CEO presentations ... then it is vital that you are reunited as a team.

Your partners are the cooperative's customers.

Z - the end. Just as the alphabet comes to an end, so will your time on the board. After all the effort, will you be able to look back and say you made a difference? Will you be able to look back and say you had some fun?

A Code of Ethics for Cooperatives

"Ethics". This seldom used word relating to the discipline of dealing with good and bad and to moral duty and obligation is out of vogue! Or is it? Ethics in the '90's is still very much practiced in both our personal and corporate worlds. In a society numbed by the shocking news of government, religious and business leaders who have ethically gone astray, the majority across America still clearly choose right over wrong. Unfortunately, the honest, the faithful, the upright, the moral, the ethical majority don't capture the headline stories.

In our personal lives each of us has an unwritten "code of ethics". It governs in large part our life style. The multitude of choices we make--like how we treat our fellow man, the way we conduct our personal and business affairs, whom we associate with, how we talk and think--are all driven by our internalized code of ethics.

Rather than personal unwritten codes, many cooperatives have adopted written codes of ethics. They set forth the expected behavior of the cooperative and the people who represent it to its public.

Most codes begin with a preamble--the cooperatives mission statement, statement of purpose or its general philosophy. Following the preamble, the code should contain two subject areas: (1) the general organizational goals; and (2) more importantly, the responsibilities and obligations of its officials and staff.

How should a code be used? A recent survey of credit union CEO's revealed several uses. Often a code is a part of the board policy manual and reviewed by directors from time to time. Other uses found the code being incorporated in new member packets, presented to all new volunteers and employees of the credit union and formally displayed in the lobby or posted on a bulletin board for member to read. In one credit union the compliance officer makes certain that all staff members sign a form stating they have been advised of the code and that they will comply with it...

While more CEO's than not gave the code of ethics light treatment, there are exceptions. One such example represented a credit union with 13,000 members and \$24 M in assets. The credit union, because of the adopted code, implemented several policies. For example, no employee is allowed to enter into a transaction to benefit himself or a family member who has an account at the credit union.

Does your cooperative have a code of ethics? If so, when was the last time you read it? Do you know where to find it? Does it accurately represent the practices of the cooperative's operation, officials and staff?

If a code of ethics is currently in use, I might suggest the five following steps:

1. **Review your present code.** You should know whether and to what extent the code is applicable to your activities. Amending a code when you are trying to enforce it is simply too late.
2. **Decide what you need in your code.** Set goals and responsibilities that are realistic and relate to your cooperative's mission and social conscience. Try to avoid language that is too general and too vague to be understood and enforced.
3. **Establish a fair procedure for enforcement.** Violations of the code are

likely to be minor and unintentional. Nevertheless, infractions for whatever reasons should be dealt with in some formal manner, be it a verbal reprimand, a written warning or appearance before an ethical practices committee. Be certain that enforcement procedures comply with all applicable laws and with the cooperative's own articles and bylaws.

4. **Publicize the code.** Once adopted by the board, make certain that all volunteers, all staff and even the members of the cooperative are made aware of the code. Many member will find it reassuring to do business with a financial organization that pledges itself to a standard of excellence.
5. **Periodically review your code.** It is recommended that a board review its code of ethics at least every two years. Laws, as interpreted by courts and agencies, can change quickly. Your attorney should be called upon to render an opinion upon your code.

By having a code of ethics for your cooperative, it commits you to a mission with certain principles and ideals.

Why Ethical Issues Have Emerged

Through the focus group interviews we were able to discern six major themes that managers and directors believe have contributed to declining ethical standards.

1. There is extreme pressure on managers to obtain higher savings with lower prices. One manager in a focus group expressed his frustration by noting that any manager can make a profit if he does not have a conscience.
2. In some cases, managers run the cooperative like a private business because the boards have relinquished their roles. Without effective board participation, it is easy for the manager to become lax, let ethics slide, and submit to pressure from individual members, customers and sales-people.
3. With the complexity and increased size of cooperatives and the proliferation of rules and regulations, the job of managing a cooperative is becoming increasingly complex. Yet, those most qualified to serve on the board of directors are often reluctant to serve. Many members believe that there is little incentive to serve or to take the director's role seriously. The \$25-\$35 honorarium per board meeting frequently results in the board members earning less than minimum wage.
4. The changing structure of agriculture means that fewer farmers have greater economic power over cooperative managers and directors. Losing a customer is very difficult to accept as the number of farms declines, the size of farms increases and gross margins decline. Individual members often ask for a special deal but they don't want anyone else to get the same deal. Some focus group members believe that cooperative contracting with producers results in the cooperative competing with individual producers.
5. There was some belief that young farmers lack an understanding and appreciation of the role of their own cooperative. Loom commented that younger college-educated farmers display some of the most unethical behavior. If true, perhaps young farmers with heavy debt loads, along with less loyalty and wanting to be successful quickly, contributes to cutting corners and unethical behavior.

behavior.

6. Reduced profitability along with weather-related disasters (floods and droughts), have placed many farmers in precarious financial positions, with some on the edge of bankruptcy. This may contribute to declining ethics. Some believe that ethics would improve if farm profits improved. It is an old maxim that people want to do business with organizations they can trust.

Areas of Unethical Behavior

1. Shirking responsibilities - Some boards of directors have become too lax and trusting of the manager or have abrogated their responsibilities by failing to keep informed about important cooperative affairs. The focus groups indicated that both managers and directors sometimes shirk their responsibilities by allowing unfavorable or unethical events to progress too far before taking action to correct them.
2. Business dealings with relatives, friends or management in private business was a second major source of unethical activities. Concerns here included: giving preference to friends and relatives of the manager or directors for job vacancies; granting special favors or price advantages to friends or relatives of directors; or granting favorable treatment to large producers.
3. Sales incentives including gifts, bonuses, and giveaways for shifting purchases or sales to a competing firm. Private suppliers and companies frequently offer trips to vacation areas if managers will shift the cooperative's purchases to the offering companies. One manager reported a salesman laid a \$20,000 check made out to the manager on the corner of his desk and said, "We would like your chemical business." Often, jackets, televisions, VCR's and other merchandise are awarded by suppliers if cooperatives meet or exceed certain sales goals. These so-called prizes create ethical problems not only in purchase decisions but also in deciding who will receive the awards.
4. The fourth area of unethical business practices identified by the focus groups were pricing decisions. The existence of secret bids where some farmers receive higher prices than those posted was deemed unethical by some, although not by all focus group members. Pricing sales below variable cost or buying grain at a margin less than variable handling costs raises important ethical issues. In effect, the cooperatives engaging in these practices are simply transferring equity from all members to one or a few members. This was referred to as "buying the market."

Ethics Checklist

- | |
|---|
| <ol style="list-style-type: none">1. Does the contemplated action violate law?2. Is the contemplated action contrary to widely accepted moral obligations?3. Does the proposed action violate any other special obligations which stem from tenets of cooperative organization?4. Is the intent of the contemplated action harmful?5. Are any major damages to people or organizations likely to result from the contemplated action?6. Is there a satisfactory alternative action which produces equal or greater benefits to the parties affected than the proposed action?7. Does the contemplated action infringe upon the inalienable rights of the consumer (right to information, to be heard, to choose and to redress)?8. Does the proposed action leave another person or group less well off? Is this person or group already a member of a relatively underprivileged class? |
|---|

Sample Code of Ethics

1. Adherence to the laws of the United States is the minimum basis for measuring ethical and legal conduct.
2. Company policy does not sanction the acceptance of gifts, except for items of nominal value. This prohibition does not preclude exchange of ordinary hospitality, such as lunch or dinner.

3. Individual self-interest should never be permitted to conflict with or take precedence over the interest of the company. Be alert to all potential conflicts, direct and indirect, and resolve all such perceived conflicts in the company's favor. Where a conflict may even appear to be present, this should be disclosed immediately to the individual's superior or the board of directors.
4. Honesty and integrity are essential to maintenance of the respected name enjoyed by the company. Establishment and preservation of such respect is a factor in every decision made and activity undertaken.
5. If profitability is incompatible with ethical behavior in a business, (our cooperative) will not engage in that activity. Emphasis on employee safety, product quality and equitable dealings with customers and suppliers relates to ethical considerations as much as economics.
6. Failure to properly consider the rightness of our actions clearly would be coercive to the individual integrity of (our cooperative).
7. Perjury or any illegal act ostensibly taken to protect the company is wrong. A sale made because of deception is wrong. A production quota achieved through questionable means or figures is wrong. The end does not justify the means.

Rules for Board Members

- Make meeting attendance a high priority. It is important to attend board, committee, and task force meetings. Be prompt. If unable to attend a meeting, directors should notify someone they will be absent.
- Come to meetings prepared to discuss the issues and business to be addressed, having read the agenda and all background material relevant to the topics at hand. Be attentive. Directors should help the chairman stay with the agenda.
- Work with and respect the opinions of peers who serve on the board and leave personal prejudices out of all board discussions.
- Represent the interests of all people served by the cooperative on an impartial basis for the best interest of the cooperative, and not favor special interests inside or outside the cooperative.
- Always act for the good of the cooperative. NEVER use board service for personal or political advantage or for the advantage of friends or associates.
- Avoid conflict of interest or the appearance of conflict of interest between your position as a board member and your personal life.
- Represent the cooperative in a positive and supportive manner at all times and in all places.
- Observe parliamentary procedures and display courteous conduct in all board, committee and task force meetings.
- Refrain from intruding on administrative issues that are the responsibility of management, except to monitor the results and prohibit methods that conflict with board policy.
- Respect and support, in a positive manner, all actions taken by the Board of Directors, even when in a minority position on such actions.
- Serve on at least one committee or task force, attend all meetings, and participate in the accomplishment of its objectives.
- Participate in 1) annual strategic planning events, 2) board self-evaluations, and 3) board development workshops, seminars, and other educational events that enhance board member skills.
- Keep confidential information confidential.

- Approach board issues with an open mind, prepared to make the best decision for the cooperative.
- Not violate the trust of those who elect or appoint to the board as well as those served by the cooperative.
- Never exercise authority as a board member except when acting in a meeting with the full board or when delegated authority by the board.
- Act as a trustee of the cooperative, ensuring that it is well maintained, financially secure, growing and always operating in the best interests of those served by the cooperative.
- Keep informed and grow in skills and understanding as board members and arrange for a systematic program to keep the board growing in its abilities.
- Inform members of final results of operations through annual membership meetings and local news media.
- Be sure that any projected expansion program is definitely needed, and that provision is made for adequate financing before giving final approval.
- Maintain an active interest in the amount and condition of inventories and make such inspections as conditions warrants.
- Continue to give your cooperative close attention even when it seems to be functioning successfully under able management.
- Maintain a continuous program of member and public relations to obtain membership understanding and acceptance of the cooperative's objectives, viewpoints, policies, plans, and programs.
- Be alert to every opportunity to improve knowledge and understanding of cooperative business procedures.
- The board should not delegate any of the responsibilities which clearly belong to the board.
- Remember that boards of directors make policy decisions and should not assume responsibilities which are clearly in the field of management.
- A credit policy established by directors for members should be observed in every respect by directors themselves when making purchases.
- Board members should not act independently on matters which should be decided by the entire board.
- Continuous non-use by a director of the services of his/her cooperative should disqualify him/her as a member of the board.
- Must not, in any way, be affiliated with any enterprise that is in competition with the association.

Job Description for Directors

Cooperative Mission:

INSERT MISSION STATEMENT HERE

Board Objective:

Establish operating policies of the cooperative within the guidelines of the articles of

incorporation, bylaws, policies, and all other applicable laws, statutes and codes and to protect the assets of the cooperative and the equity interest of members.

Reporting Requirements:

Members at annual meetings, one on one contact, and newsletters.

Responsibilities:

Participate with other directors in identifying and carrying out responsibilities in the following areas:

Cooperative Structure

- Establish the mission, policies, and objectives for the direction of the cooperative.
- Establish the organization of the board including described responsibilities, authorities, and relationships.

Manager

- Select and evaluate the manager, write a job description, set compensation, and approve a plan of development for a manager.
- Approve organization structure, wage and salary plans, and personnel policies for cooperative employees.

Finance

- Review and approve financial structure, budgets, and financial policy.
- Review and approve long-range financial plans and goals.
- Review and approve monthly financial results.
- Employ an auditor annually.
- Determine net income distribution and retention annually.
- Establish an equity redemption policy.

Operations

- Review and approve marketing and processing structure and operational policies.
- Review and approve goods and services offered.

Leadership

- Support the cooperative both in voice and 100 percent patronage of its products, programs, and services.
- Maintain proper relations with community and government.
- Annually review the boards performance.
- Analyze and evaluate established goals and objectives.
- Maintain democratic control structure.
- Encourage membership participation.
- Maintain a well informed membership.
- Encourage effective board operation and development.

Other Responsibilities

- Be a member and a resident of the area served by the cooperative,
- Ability to represent the membership on an impartial basis for the good of and in the best interest of the cooperative.
- Must not, in any way, be affiliated with any enterprise that is in competition with the association.
- Attend regularly and special meetings of the board of directors.
- Volunteer service for the term of office for which elected.
- Not use the position further political or personal ambitions.
- Make decisions in constantly changing circumstances that have a direct and indirect effect upon the cooperative.
- Support all decisions and actions made or taken by the majority of the board.
- All decisions and discussion about confidential matters must be made within, not outside, a board meeting.
- Maintain a personal code of conduct that's favorable to the cooperative;
- Avoid critical discussion of the cooperative or its management in public.

- Avoid critical discussion of the cooperative or its management in public;
- Recognize the separate responsibilities of the board (policy) and management (operations).
- Represent the interests of all members in decisions and avoid giving unfair advantages to certain special interest groups.

Personal Characteristics

- Integrity and good character/Loyal,
- Courage to resist pressures from special interest groups,
- Ability to ask good questions and an inquisitive mind,
- Community leader capable of working with people,
- Ability to analyze and use good judgment,
- Good formal or informal education background,
- Progressive,
- Ability to express ideas clearly,
- Ability to be perceptive and forward looking,
- Emotionally stable, and
- Constructive and energetic.

Business Characteristics:

- Successful in managing personal business,
- Knowledge of industry,
- Active interest in cooperative affairs as a member,
- Ability to organize,
- Ability to evaluate managerial potential and performance,
- Knowledge and understanding of finance and ability to read financial statements, and
- Ability to relate information to the affairs of the cooperative.

Minimal Job Requirements

- Demonstrated interest in the cooperative's goals
- Specific experience and/or knowledge in at least one area: human resources, planning, finance, community relations, or organizational operations
- Willingness to expand knowledge of board responsibilities through orientation and ongoing education
- Six to ten hours per month distributed as follows:

3-4 hours	Board meetings - preparation and attendance
2-3 hours	Committee meetings - preparation and attendance
1-3 hours	Special requests
6-10 hours	Total

Responsibilities of Officers

Duties and responsibilities of directors have been reviewed in general terms. But board officers have specific duties and responsibilities. Most cooperative's bylaws detail the duties and many boards give additional duties to their officers.

All directors should become acquainted with the duties and responsibilities of the officers. Most directors will have an opportunity to serve as an officer at least once during their tenure on the board.

President

Firstline duties personally performed by the board president and recognized by most cooperative bylaws include:

- presiding over all meetings of the cooperative and the board;
- calling special meetings of the board;
- signing all membership certificates and other papers of the association as authorized or directed by the board;
- carrying out traditional acts and duties of an executive and presiding officer;
- assuming other duties as prescribed; and
- representing salaried management to the board

- representing salaried management to the board.
- The board's president, responsible for several additional specific areas, acts to:
 - . Ensure the board fulfills its legal, decision-making, and control responsibilities as the representative of members' interest.
 - . Provide guidance and leadership by orientating new directors on:
 - content of articles of incorporation and bylaws;
 - responsibilities as a director;
 - operation and structure of the board including its committees; and
 - extent and limits to a board member's activities.
 - . Ensure outside expertise is obtained and used to assist the board in its decision-making and control capacities by using:
 - audits;
 - feasibility studies;
 - legal opinions; and
 - other key skills.
 - . Ensure the minutes of the board meeting are properly recorded and the cooperative's records are orderly.
 - . Ensure timely reports on key operating areas of the cooperative are made to the board including but not limited to:
 - credit reports;
 - inventory reports;
 - financial statements;
 - bonds and insurance; and
 - legal proceedings and litigation.
 - . Maintain board discipline and proper board behavior by:
 - discouraging nonsupportive actions by dissenters on matters passed by majority of directors,
 - discouraging discussion of confidential matters outside board meeting,
 - encouraging attendance of regular board meetings by directors,
 - preventing unauthorized action by directors,
 - preventing requests for favored treatment, and
 - minimizing other such improper behavior by directors.
 - . Provide for an informed, competent board by:
 - identifying areas where additional knowledge and information for directors is necessary;
 - encouraging directors to take advantage of training opportunities; and
 - promoting development of fair and effective procedures for nominating competent directors.
 - . Establish and maintain a proper separation of board and management responsibilities by:
 - maintaining separation of operational and board decisions;
 - avoiding interference with personnel management;
 - avoiding interference with operational plans; and
 - avoiding delegation of responsibilities for actions that clearly belong to the board.
 - . Ensure establishing and maintaining good communications between the board and management by providing direction for:
 - regular management evaluation;
 - participation in planning;
 - policy statements enacted by the board;
 - communications from patrons; and
 - inviting management input.
 - . At each meeting, in addition to the papers needed for conducting business, the presiding officer should have:
 - a copy of the bylaws and other rules of the cooperative;
 - a copy of parliamentary procedures (Roberts Rules of Order);
 - a list of all standing and special committees and their members; and
 - a memorandum of the complete order of business, including all known matters to be discussed, listed in proper sequence by headings, and, if applicable, listed with the time allotted to each.
 - . Other duties may be assigned to the president by the board of directors.

Vice President

In the absence or disability of the president, the vice president performs the duties of the president. It is important to elect a vice president who is sufficiently knowledgeable about the cooperative.

cooperative.

Secretary

The secretary is recording officer of the board. The secretary keeps a complete record of the all meetings of the stockholders and board and has general supervision of the cooperative's records. Most bylaws list these responsibilities for the secretary:

- keeps a complete record of all meetings of the cooperative and board of directors;
- maintains general charge and supervision of the books and records;
- signs with the president all membership certificates and other papers pertaining to the cooperative as authorized or directed by the board;
- serves notices required by law and the bylaws;
- keeps the corporate seal and affixes it to all required papers;
- reports to the stockholders at the cooperative's annual meeting on all matters and business pertaining to the office;
- gives all books and other property belonging to the cooperative to a successor;
- maintains complete and current membership records; and
- makes all reports required by law and other such duties as required or requested by the cooperative or the board.

Specific duties may require the secretary to:

- prepare and distribute minutes of all board meetings;
- distribute information materials to the board;
- check attendance after the board president has opened the meeting;
- act as parliamentarian in deciding procedural questions,
- maintain the cooperative's records such as bylaws, standing and special rules of the board, and other official documents, keeping them current and available for all meetings of the directors;
- send out notices of special or regular membership meetings and conduct the general correspondence of the cooperative that isn't a function of other offices or recognized committees, and
- maintains a list of all standing or special committees, and furnishes committees with documents as required for performance of their duties.

In the absence of the president and vice president, the secretary opens the meeting and presides until the election of a temporary president.

Treasurer

The treasurer is responsible for the duties pertaining to the finances of the cooperative. A treasurer should be selected for their ability to keep financial records, and integrity.

Specific duties may require the treasurer to:

- Keep an accurate record of all money taken in or paid out.
- Design and implement or cause to be designed and implemented an accurate accounting system.
- Pay out money only when authorized and directed by the board .
- Present regular financial reports at the membership annual meeting. Reports must include, but are not limited to:
 - a. Balance Sheet
 - b. Statement of Operations
 - c. Changes in Financial Position
 - d. Basis for Allocation of Patronage
 - e. Member Equity status.
- Recommend and arrange for annual audit of the cooperative's financial records, with board approval.
- Maintain or oversee maintenance of other financial records as directed by the board.

In many farmer cooperatives, the duties of the secretary and the treasurer are combined.

Director Liability

This has been called the Age of Litigation. a time when it seems anyone can sue for huge sums

This has been called the Age of Litigation, a time when it seems anyone can sue for huge sums of money-and for just about any reason. The only restraints (which are seldom applied) are a judge's rejection of a frivolous law-suit or a state's principles of legal ethics, which limit a lawyer's ability to bring unwarranted litigation.

Cooperatives are not invulnerable to lawsuits. For the most part, they can be sued for the same reasons as other corporations are sued. Sometimes an organization may incur liability as the result of something done (commission) or not done (omission) by another organization. For example, two or more organizations may be involved in a partnership or a joint venture. The conduct of one organization may bring liability to it and/or to another organization.

A lawsuit brought is not necessarily a lawsuit won. Still, a cooperative may have committed no wrong, it can face stiff legal fees.

The charges against cooperatives seldom include other parties; nonetheless, directors, officers, and key employees can be dragged into the fray. Conduct by most employees in their role as employees is considered conduct by the organization itself. If the employees' actions are outside the scope of their employment, however, they are held entirely responsible.

When an individual is personally sued because of something done or not done in the name of a cooperative, the potential liability is termed personal liability. Instances are rare, but they do occur, usually for one or more of the following reasons, if the individual:

- o had a responsibility to do something in connection with operation of a cooperative and failed to meet that responsibility.
- o had a responsibility to refrain from doing something in connection with a cooperative, and did not.
- o failed to dissociate from the wrongful conduct of others.
- o actively participated in wrongful conduct.

For example, a cooperative may have wrongfully terminated the employment of an individual on a discriminatory basis. If this was the result of discrimination by a manager within the organization, the organization may be found to be the only wrongdoer. But if a member of the board of directors actively conspired with the manager to cause the firing on a discriminatory basis, the director may be found personally liable. If another member of the board knew of the discriminatory action (and the conspiracy underlying it) and did nothing to thwart it, that board member may be found personally liable as well.

This example involves commission. But liability can also result from a failure to act. The members of the finance committee of a cooperative may fail in the obligation to oversee adequately the credit policies of the cooperative. These individuals could be found personally liable for their omission. Their obligation is to act prudently in their handling of the cooperative's resources. The trustees are fiduciaries, and the law imposes on them standards of conduct and management that, together, comprise fiduciary responsibility.

Some forms of personal liability are imposed by statute. For example, if cooperative fails to deposit withheld taxes as required by law, the IRS has the authority to extract the taxes from the organization's directors or trustees personally.

How can an individual who is serving a cooperative avoid the ravages of personal liability?

1. **UNDERSTAND THE ORGANIZATION**
2. **UNDERSTAND THE ORGANIZATION'S ACTIVITIES**
3. **ASK QUESTIONS**
4. **READ CURRENT RELEVANT MATERIALS**

Directors are key persons in the cooperative. The position carries serious responsibilities and liabilities. Because cooperatives elect directors from the membership, directors may have little or no experience as an executive of a complex corporation. The cooperative director serves in pretty much the same capacity as a director of a corporation.

pretty much the same capacity as a director of a corporation.

Directors are charged with the ultimate responsibility of operating the cooperative by acting in concert with a board of directors to set policy, oversee operations, and making top-level decisions affecting the welfare of the cooperative and its members. When a director violates a duty given in state statute, common law, articles, bylaws, and policies, they can be held liable.

Directors can be sued by other directors, by the membership, by third parties or by agencies of the Federal and State Governments.

Directors are held to certain standards of conduct and performance. Liability can be found if these standards are broken. Therefore, as directors, you must act with undivided loyalty, diligence, and obedience. If you don't, and the cooperative or members suffer losses, you can be held liable for the loss.

Your duties as directors require you to maintain a high standard of careful conduct. You must avoid conflicts of interest, favoritism, dishonesty, carelessness, violation of rules and statutes.

You are liable for negligence that causes damage to the cooperative, members, and third parties. You have to adequately supervise the officers, use diligence when handling the business, and make reasonable inquiries into areas that require further investigation.

Directors can be held liable for statutes on occupational safety, handling of chemicals, and other environmental regulations. You can be criminally prosecuted for fraud, embezzlement, and theft. You can be held liable for false or misleading financial statements that causes losses to others.

Directors can be sued for:

- violation of statute,
- violation of bylaws and articles,
- fraud,
- negligence,
- committing a crime,
- antitrust violations,
- misappropriation or misuse of funds or property,
- authorizing preferential treatment of directors,
- paying patronage dividends in cash that exceed current net income,
- failure to require financial statements,
- failure to give annual reports to members,
- illegal political activity,
- entering into a contract with the cooperative that is different from others,
- failing to attend board meetings to the extent the cooperative suffers due to inattention,
- obtaining property that is adverse to the cooperative,
- operating a business that competes with the cooperative,
- failing to adequately insure the cooperative against loss

... failing to adequately insure the cooperative against loss.

A director is a fiduciary, which is defined as a person to whom property or power is entrusted for the benefit of another. Directors owe a fiduciary duty to the cooperative, to its members, to other directors, and occasionally to the cooperative's creditors. A fiduciary status signifies a special relationship between a director and the cooperative. As a fiduciary, a director is obligated to act prudently and primarily for the benefit of the cooperative and to avoid benefiting personally or prejudicing the cooperative. A director has by virtue of the position assumed, a fiduciary duty and is therefore liable for damages resulting from a breach of the duty. Three principal aspects of a director's fiduciary duty are Loyalty, Due Care, and Obedience.

LOYALTY

A director's responsibility is of undivided loyalty to the cooperative. It includes a duty to forego seizure of the cooperative's business opportunities, a duty to refrain from conflicts of interest and a duty of honesty and faith. These duties are owed to all members, the cooperative, other directors, and creditors.

Loyalty prohibits a director from taking opportunities that properly belong to the cooperative. For example, if as a director you found out about a new market or a new product, and instead of the cooperative marketing, you marketed for your own benefit. This would be considered a breach of loyalty to the cooperative.

Conflicts of interest. In general a conflict of interest exists if a director uses the position or the cooperative's assets for personal gain. These include involvement with a competing business, or sitting on more than one board. An example would be if you as a director owned stock in a corporation that was in competition with your business.

If a director has a personal interest, direct or indirect, in a proposed contract or transaction, such interest should be fully disclosed to the board, and carefully examined by the other directors.

- a. All material facts regarding the proposed transaction must be disclosed to the board.
- b. The board must ratify the transaction without counting the vote of the interested director.
 - The disinterested directors should ask:
 - (1) Is the transaction made in good faith?
 - (2) Are the price and terms fair and reasonable and in the best interests of the cooperative, or can the cooperative get a better deal elsewhere?
 - (3) Did the interested director conceal any material fact from the directors?
- c. Such transactions are usually avoidable, not automatically void.
- d. A director may be compensated for services rendered to the cooperative in a capacity other than that of director, e.g., attorney or real estate broker, as long as the above procedures are followed.
- e. Remedies for violating these rules usually include repayment of profits from the transaction to the cooperative, repayment to the cooperative for the use of its property in the transaction, and return of property to the cooperative together with any lost income or appreciation.

DUE CARE

This is defined as the degree of skill, diligence and care that ordinarily prudent people would make in similar circumstances in similar positions. Exact duties are defined by the circumstances and needs of the particular cooperative, type of business, and customs and usage in the business.

Due care requires independent judgment that is careful, skeptical, scrutinizing, and at all times, honest and unbiased. Ignorance, or "I didn't know, or I didn't understand" is not an excuse. Due care requires you to ask questions if you don't understand.

Each director must exercise the degree of care which an ordinarily prudent person in a like position would use under similar circumstances. Good faith is not enough. Thus, directors will not be held personally liable for the debts, liabilities or obligations of the cooperative when they exercise ordinary and reasonable care in the performance of their duties, acting honestly and in good faith in the best interests of the cooperative. Personal liability of directors is rare; the burden is on others to show that this standard of care was not met.

A director will generally not be liable for honest mistakes in business judgment, but may be liable for one's own gross negligence, fraud, or intentional misconduct detrimental to the cooperative or others, or for otherwise failing to exercise reasonable care and diligence.

Business judgment rule is the standard used to judge the adequacy of actions taken by managers and directors. It says the power of managers and directors to conduct the affairs of a cooperative is virtually absolute so long as they:

- act in accordance with their best judgment.
- do not exceed their authority, act negligently, commit a breach of trust or fraud, or convert cooperative assets to unauthorized uses.

OBEDIENCE

A director must comply with the cooperatives articles, bylaws, statutes, and contracts. A director can only act within the limits of the power granted.

Specific items to help achieve loyalty, due care, and obedience:

1. Understand the role of directors and management.

The board is elected by membership to serve as the cooperatives governing body. The directors set general policy and are responsible for the overall management, operating policies, and supervision of the progress of the cooperative enterprise. Boards are responsible for long range planning. They are concerned with how the cooperative can better serve members' needs and what general changes may be necessary in organizational and operating policies.

Managers make the specific decisions necessary to implement the Boards general policies; are responsible for the day to day operations. Managers are action and tactical oriented in running the cooperative in response to the goals and objectives set by the board. The board must not meddle in the day to day operations of the cooperative.

Remember members delegate direct control to the board, who in turn delegates daily operational control to the manager.

2. Understand the Cooperative

Board members are responsible for understanding their cooperative--its purpose in serving members, objectives, benefits, limitations, operations, finances, and long range plans.

Board members should read and know the:

- articles of association
- bylaws
- antitrust laws
- income tax laws.

Board members must understand that laws limit their rights or powers. You must operate within the framework of statutes, codes, bylaws and policies.

A good idea is to have a director's handbook that contains the articles of incorporation, bylaws, policies, and Chapter 421 of the HRS.

3. Develop Policies: A policy is a statement that provides guidelines for action to attain objectives of the cooperative, and reflects the cooperatives basic philosophy. It is the duty and the responsibility to originate and approve board, personnel, and operational policies. Keep them up to date and review at least annually.

The reasonably prudent person avoids:

- *Mismanagement-* A failure to follow fundamental management principles, e.g. failure to ensure that planning occurs: to establish management systems.
- *Non-management-* Failure to use existing opportunities for good management, e.g. failure to use available control systems.

- use available control systems.
- **Self-Dealing**- Board members make decisions in which they obtain possible personal gain.

Examples of Mismanagement, Non-management and Negligence:

- Drawing improper conclusions from available information.
- Not looking into problems (failure to review reports for problems).
- Not making decisions based on information.
- Making decisions without adequate information
- Drumming up lots of bills.
- Mishandling of funds: inter-fund transfers; commingling.

Examples of Self-Dealing

- Fraud
- Embezzlement
- Corporate loans to board members or organizations in which board members have interest
- Wrongful distribution of assets to board members
- Improper financial dealings (e.g. redemption by the organization of certificates, bonds owned by the organization)
- If the cooperative is dissolved, improper distribution of assets

The concept of the board as an adviser to management that acts only in crises, or one that hires a good manager and watches his or her performance with an option to retain or fire is totally inadequate under prevailing economic and social conditions.

Board should opt for responsibilities in line with legal requirements and members' expectations.

Board functions relate to responsibilities given by members.

Board Meetings

Board of Director Meetings

Most of the board's work transpires during meetings of directors. Meetings should be punctual and professional. Both the chairman and manager should be prepared and know what is to be accomplished. Plans and policies are made, operations are reviewed, and decisions reached for the guidance of management. Directors are elected by the members to officially and effectively serve as the cooperative's governing body.

Board meetings provide the vehicle for directing the cooperative. They must be run efficiently. The productivity of a board meeting is directly proportional to how well directors judge proposals, reach sound conclusions, establish measures of evaluation and cooperate in the efficient use of time.

Making prudent decisions on behalf of the entire membership requires a degree of patience and cooperative spirit. An efficient meeting should not mean hasty decisions. Each director should have the opportunity to become involved in the discussion before voting. If directors don't have sufficient information for making a decision, the manager should be asked to supply information before a vote is taken. Use of a set procedure or guide in board meetings allows for efficiency, yet protects the rights of individual directors.

The president of the board must be familiar with the parliamentary rules to conduct an effective meeting. Some informality is acceptable at board meetings, but informality shouldn't be confused with being undemocratic or sloppy. Formality tends to expedite business, aid communications, and bring more order to board meetings. But the president must decide how much informality to allow.

Directors are also busy agricultural producers. They frequently attend board meetings at a sacrifice to their own individual farming operations. However, this personal urgency should not hinder the complete consideration of issues affecting the cooperative. Discussion should be full, but limited to the business at hand.

In cooperatives, the board operates under a set of bylaws, the parliamentary authority, and any applicable special rules of order or standing rules of the cooperative, except as the bylaws authorize the board to adopt its own rules.

Most cooperatives use Robert's Rules of Order as their parliamentary authority. Whether in a large assembly or a small board meeting, parliamentary rules applied ensure adequate protection of all parties and conducting business in a fair and equitable manner. The amount of formality may be dictated by the size of group, but the basic concepts must remain intact if the group is to function properly. In any case, there are a few areas where it is essential for the board to follow set procedure. Here are some of them:

- Business can only be conducted with a quorum present at a properly called meeting of which every board member has been notified. A quorum is a majority of the total board unless otherwise specified in the bylaws or established by the constituting power. The personal approval of a proposed action obtained separately by telephone or individual interview, even from every director shouldn't be considered as approval of the board. Members weren't present in one room where they could mutually debate the matter. If action on such a basis is necessary in an emergency, it must be ratified at the next regular board meeting to become an official act of the board.
- Minutes of the board proceedings should be kept by the secretary. They are accessible only to the directors unless the board stipulates a member of the cooperative may inspect them. Another exception would develop if the cooperative membership by twothirds vote orders the board's minutes to be produced and read to the assembly.
- In regular board meetings, the executive committee, if there is one, should be required to report on its activities since the last board meeting. No further action is needed on the report. It is generally intended as information only.

The purpose of a board meeting is to:

- exchange information between the board and manager,
- evaluate current operations with the manager,
- make decisions on current topics, and
- prepare shortandlong term plans.

A good board meeting:

- accomplishes it purposes and makes decisions,
- is conducted crisply and effectively,
- encourages discussion by all directors on matters presented to the board within reason, and
- begins and ends on time.

Board meetings should be planned both in content and time. A specific date should be selected each month and the time be planned around an agenda. When meetings are changed to a different date each month, it soon becomes impossible for members to plan for them and participation begins to slip away.

Here's a sample board meeting agenda:

- Call the meeting to order promptly at the time stated in the notice;
- Request additions to and approval of the agenda;
- Read minutes of last meeting;

- Discuss unfinished business;
- Study management reports including
- Financial statements such as statement of operations, balance sheet, budget comparisons, and projected cash flow;
- Accounts receivable;
- Marketing activity and current position;
- Plans for improving the business;
- Read any correspondence of concern to the directors;
- Receive committee reports;
- Discuss old business or business under review carried over from previous board meetings;
- Consider new business; and
- Adjourn.

Questions the Chair or a Member Can Ask to Improve Discussions

To Open Discussion:

"Could we clarify the terms connected with this topic?"

"What do you think the general idea or problem is?"

"What are the elements essential to understanding the topic?"

"Would anyone care to offer suggestions on facts we need to better our understanding of the problem or topic?"

To Broaden Participation:

"Now that we have heard from a number of our members, would others who have not spoken like to add their ideas?"

"How do the ideas presented thus far sound to those of you who have been thinking about them?"

To Limit Participation:

"We appreciate your contributions. However, it might be well to hear from some of the others. Would some of you who have not spoken care to add your ideas to those already expressed?"

"You have several good statements, and I am wondering if someone else might like to make some remarks."

"Since all our group members have not yet had an opportunity to speak, I wonder if you would hold your comments until a little later?"

Sandwich approach: reflect, reason, divert.

To Focus Discussion:

"Where are we now in relation to our goal for this discussion?"

"Would you like to have me review my understanding of the things we have said and the progress we have made in this discussion?"

progress we have made in this discussion?"

"Your comment is interesting. However, I wonder if it is quite on-target for the problem we're discussing."

To Help the Group Move Along:

"I wonder if we have spent enough time on this phase of the problem. Should we move to another aspect of it?"

"Have we gone into this part of the problem far enough so that we might now shift our attention and consider this additional area?"

"In view of the time we have set for ourselves, would it not be well to look at the next question before us?"

To Help the Group Evaluate Itself:

"I wonder if any of you have a feeling that we are blocked on the particular question; why are we tending to slow down?"

"Should we take a look at our original objective for this discussion and see where we are in relation to it?"

"Now that we are nearing the conclusion of our meeting, would anyone like to offer suggestions on how we might improve our next meetings?"

To Help the Group Reach a Decision

"Am I right in sensing agreement on these points?" (Leader then gives a brief summary.)

"Since we tend to be moving in the direction of a decision, should we consider what it will mean for our group if we decide the matter in this way?"

"What have we accomplished in our discussion up to this point?"

To Lend Continuity to the Discussion

"Since we had time for a partial consideration of the problem at the last meeting, would someone care to review what we have covered then?"

"Since we cannot reach decision at this meeting, what are some of the points we should take up at the next one?"

"Would someone care to suggest points which need further study before we convene again?"

Essentials of Good Minutes

Most state statutes requires that a board of directors maintain adequate records of cooperative business. Records, other than accounting, should include minutes of board and membership meetings. The board may be held liable if this requirement is not met.

For a newly elected director or one appointed to the position of secretary, questions of what should be recorded and how to record minutes is a key issue. Too much detail may result in recording personal philosophy or feelings, while too little detail may fail to adequately record the activities of the board or responses of individual directors.

Board minutes are an official account of what transpired at the meeting. They chronicle the proceedings and decisions on actions and policies made by the cooperative's directors. They provide a record of business transacted, activities initiated, plans projected and policies. The proceedings of all board meetings, whether regular or special, should be recorded.

The minutes should list all business introduced, committee reports submitted, motions made, votes on motions, nominations during elections, results of elections and many other meeting concerns. Minutes should contain what is done, not what is said, and be written in the third

person.

Accurate minutes are essential. They bring unfinished business from prior meetings to the attention of the directors and refresh their memories of past actions and policy decisions.

Minutes document and record decisions and policies of the board. They are a historical document of past board decisions and provide background information for new directors and management.

Minutes are admissible in court and can be used to defend or indict the board. The secretary must exercise discretion when writing about sensitive business issues, tensions between directors, management and members or emotional issues that come before the board. The minutes may also be used to help explain board actions to members.

The board secretary is legally responsible for an accurate accounting of the board's actions and permanently maintains those records. Taking accurate notes at the meeting will vastly improve the final minutes written after the meeting.

At the discretion of the board, this activity may be delegated if taking notes for minutes limits the person's ability to participate in the discussion. If the board elects to have an outside person take the notes and prepare the minutes that person should be informed in advance about what type of minutes the board expects. For the convenience of the secretary, management and committee reports may be submitted in writing and attached to the minutes.

Accurate board meetings minutes are crucial and represent the best evidence available to show that the directors have made conscious decisions and used their best judgment in a businesslike fashion. Accurate minutes help protect directors from incurring personal liability.

To ensure accuracy, the board should review minutes before approving them. For an accurate review, minutes should be distributed in advance of the approval meeting so directors can review them at an unhurried pace.

What to Avoid in Minutes

Another approach to maintaining quality is to review what to avoid in preparing board minutes.

Proofread the minutes after preparation and make necessary corrections. Remarks recorded in the minutes should be impersonal and address only the subject of the motion being considered, not the member proposing the motion. Rude and offensive language or irrelevant discussion should not be recorded. Poorly drafted minutes may place too much emphasis on the wrong things and needlessly focus on the trivial.

Don't confuse incidental information or personal philosophical positions with motions or decision-making information. Some directors may feel this type of information written in minutes may help justify their actions and positions. However, this type of information may later cause adverse results.

Changing board minutes to reflect policy adjustment or to be "politically correct" undermines the credibility of the board. Falsifying records to cover errors of business judgment by the board is illegal.

Minutes must be kept current. Those which fall in arrears for two or three months are poor instruments for making accurate judgments.

Reason for Good Minutes

1. They are the only record of the committee or board.
2. Committee chairpersons use them for constant referral.
3. President must be informed of committee activities at all times.
4. They are essential in continuity and information for succeeding committees and board.

Guide for Recording Good Minutes

1. The following heading should be placed at the top of the first page: (Name of Cooperative)
Committee or Board.

Include in the first paragraph:

- a. Kind of meeting - Regular, Special, Annual
 - b. Name of committee - board
 - c. Date, including the year, time and place of meeting
 - d. Name of presiding officer - (Mrs. John Doe, Chairperson, presided) and recording secretary
 - e. Names of members present - and those absent
 - f. Whether minutes of the previous meeting were approved as read, mailed or corrected.
 - g. Opening and adjournment times,
2. Record ideas: Listen to comments, put down main points. Summarize. These records are the committee's or board's use - make them brief but as complete as possible.
 3. Minutes should clearly indicate:
 - a. Major problems stated
 - b. Suggestions proposed
 - c. Conflicting points of view for clarification of action
 4. Record all main motions:
 - a. Name the member who made the motion and underline the action (Jane Doe moved that...)
 - b. Do not include that motion was seconded
 - c. State and underline whether motion was carried or failed - (Motion carried)
 5. Time of Adjournment
 6. End minutes simply by:
Jane Doe, Secretary
 7. After minutes have been approved, the secretary should write in approved with the date.

Helpful Tips for Records

1. Have the chair give you a copy of the meeting agenda.
2. If a special lengthy report is given, obtain the notes from the person giving the report and summarize. It is not necessary to record reams of information from a report if the information is available in the files of another committee. For example: Refer to Community Research Committee minutes of November 2, 1999, for further information.
3. Request that lengthy involved motions be written out and given to you after being made.
4. Minutes should be written up within five days after the meeting.
5. When applicable, use a capitalized, underlined topical heading to introduce a subject. For example: WELFARE, REGIONAL COUNCIL, EVALUATION. This helps the reader focus in rapidly on a specific area.
6. Place a notice of the next meeting at the top of the first page either before or immediately after the heading.
7. Under notice of the next meeting, include items on the agenda that need special thought in preparation for the meeting.
8. Go over the minutes with the chair to ensure correctness.

Distribution of Minutes

Minutes should be sent to all committee and board members a week or two before the next board meeting.

Meeting Checklist

Setting up for success involves thinking through and making conscious choices about these key elements. They are all listed in a general sequence for a meeting planner to cycle through as appropriate.

Purpose:

- A general statement of what the meeting is intended to accomplish (i.e. information-oriented, action-oriented or a combination of both).

Pre-meeting Assessment:

- Context, environment in which the meeting is being called. The "context" includes such things as external pressures, internal constraints, group changes, group politics, group goals. Examining the context helps meeting planners and participants know where a particular meeting fits in the overall scheme of things, which helps determine if and how they need to participate.
- Analysis of key stakeholders. A stakeholder is any person (or group of people) who is responsible for the final decision, is likely to be affected by the outcome, or is in a position to prevent a decision from being implemented. A stakeholder analysis is done by identifying the stakeholders and developing an understanding of what might be success for each one.

Desired Outcomes:

- Desired end results or product of the meeting. It is a clear and concise statement of the desired end result or product of the meeting.
- Having desired outcomes provides direction for developing the agenda. At the end of the meeting, the group can see if it accomplished the desired outcomes.

Topics:

- Topics/issues to address.
- To develop desired outcomes, it is often helpful to identify meeting topics and develop a desired outcome for each one.

Attendees & Roles:

- Who needs to attend the meeting.
- Meeting roles allow groups to define who will take responsibility for performing the meeting functions. These functions include decision making, participating, facilitating and recording.
- The meeting **leader** and **member** can perform more than one function in a given meeting. When the meeting leader needs to focus predominately on the decision-making and participating functions, the facilitating function can be performed by a separate person, the **facilitator**, who focuses entirely on the meeting process. The recording function can be performed by the meeting leader, a group member, or a separate individual, the **recorder**, who focuses entirely on recording.
- Specifying who takes responsibility for which functions clarifies how each person will participate. It also insures that all functions will be covered.
- Principle for choosing how to distribute meeting functions: the larger, more complex the meeting is, the greater the amount of role separation needed.

Room Arrangement:

- The arrangement of the room can either contribute to or detract from a group's effectiveness during a meeting. A room set-up tends to be helpful when it allows for:
 - (1) Wall space (or flip chart easel for group memory).
 - (2) Movement of chairs so all group members can focus on the group memory.
 - (3) Enough space so members are not crowded.
- Factors to consider when choosing room arrangement:
 - (1) Purpose/desired outcomes for meeting.
 - (2) Need for group memory.

Decision-Making Method:

- A decision-making option describes how a decision will be made, by whom, who will be involved and how they will be involved.
- A clear and explicit decision-making process:
 - (1) Enables decision makers to set clear boundaries for involvement.
 - (2) Provides members of organizations with clear guidelines on whether and/or how to participate.
 - (3) Lets people know what to expect and what is expected of them.
 - (4) Defining the decision-making process helps build support for the final decision.
- Decision-making options include:
 - (1) decide and announce,
 - (2) gather input from individuals and decide,
 - (3) gather input from group and decide
 - (4) consensus,
 - (5) delegate consensus within constraints, and as a last resort,
 - (6) majority vote.

Detailed Agenda Planning:

- Production of a detailed road map for the meeting, including topics, process steps and time.

Twenty-One Steps to a Better Meeting

Before the Meeting

1. Explore alternatives to meetings.
2. Plan the meeting carefully: who, what, when, where, why, how many.
3. Time-limit the meeting and the agenda. Allocate a time to each subject proportional to its relative importance.
4. Distribute the agenda in advance. This helps the participants prepare-or at least forewarns them.
5. Come early and set up the meeting room.

During

6. Start on time. Give warning; then do it. There is no substitute.
7. Assign timekeeping and minutes responsibilities. Keep posted on the time remaining and the amount beyond schedule if any.
8. Get participants to introduce themselves and state their expectations for the meeting.
9. Review, revise and order the agenda. After it has been agreed too, stick to it!: "We're here to...The purpose of this meeting is....The next point to be decided is..." Focus on the same problem in the same way at the same time.
10. Clearly define roles.
11. Control interruptions. Allow interruptions for emergency purposes only.
12. Review action items from the previous meeting.
13. Accomplish your purpose. What was the specific purpose of the meeting-to-analyze a problem, to generate creative alternatives, to arrive at a decision, to inform, to coordinate? Was it accomplished?
14. Restate conclusions and assignments to insure agreement and to provide reinforcement or a reminder. Establish action items: who, what, when.
15. Set the date and place of the next meeting and develop a preliminary agenda.
16. End on time. Adjourn the meeting as scheduled so that participants can manage their own time. Close the meeting crisply and positively. Placing the most important items at the start of the agenda insures that only the least important will be left unfinished.
17. Use a meeting evaluation checklist as an occasional spot check. Questions should be answered by each participant before leaving.
 - Was the purpose of the meeting clear?
 - Was the agenda received in advance?
 - Were any materials essential for preparation also received in advance?
 - Did the meeting start on time? If not, why not?
 - Was the agenda followed adequately, or was the meeting allowed to wander from it unnecessarily?
 - Was the purpose achieved?

- Were assignments and deadlines fixed where appropriate?
 - Of the total meeting time, what percentage was not effectively utilized? Why?
18. Clean up and rearrange the room.

After

19. Expedite the preparation of the minutes. Concise minutes should be completed and distributed within 24 hours if possible or 48 hours at the outside. Minutes are also a reminder and a useful follow-up too, as shown in the next suggestion.
20. Insure that progress reports are made and decisions executed. Provide follow-up to insure the implementation of decisions and checks on progress where warranted. Uncompleted actions should be listed under "Unfinished Business" on the next meeting's agenda.
21. Make a committee inventory. Survey all committees, investigating whether their objectives have been achieved and if not when they can be expected to be. Abolish those that have accomplished their intended purpose.

Agenda Planning Worksheet

Pre-Meeting Assessment:

Context

How meeting links to organizational, departmental goals:

How meeting relates to last and next meeting:

Organizational events that affect this meeting:

How this meeting affects events elsewhere in the cooperative:

Pre-meeting Assessment:

Stakeholder Analysis

Stakeholder

"Win"

Who are the key stakeholders?

What is the "win" for each?

Desired Outcomes and Topics:

Topics

Desired Outcomes

Attendees & Roles

Room Arrangements

Decision-Making Method

Fallback, if consensus

Summary of Key Points

Agendas are useful tools for setting a meeting up for success, for conducting the meeting (keeping it on track), and for following through (measuring success).

Agenda planning is a process of thinking through a detailed flow of topics, process steps, time, and the decision-making option necessary to accomplish the desired outcomes of a meeting.

An agenda is a road map which the group can consciously choose to change as it moves through the meeting.

Keeping Board Meetings on Track and on Time

Purely social get-togethers don't have the problem. They last just as long and no longer than people want them to, and everyone goes home satisfied.

The problem comes up in co-op board meetings, where many complex decisions must be made. The meetings drags on longer than anybody wants it to. The discussion wanders aimlessly as everyone's eyes glaze over. In spite of the hard work, sometimes it seems as though nothing gets done. Board members become irritated with one another and the cooperative spirit wears pretty thin as the meeting drones on through the middle of the night.

The problem can be solved. Co-op board meetings can be kept track and on time, if you use the right techniques. Business can be conducted in a cooperative spirit. The techniques that change a frustrating meeting into a satisfyingly productive meeting are easy to learn and to use.

"Prepare a Typewritten Agenda"

The first technique is to prepare a typewritten agenda, with a copy for each person in the room, including directors, members, speakers and visiting guests. There are, alas, those chairs who prepare an agenda only for their own use, as though it were nobody else's business where the meeting was going. No, give everybody a copy.

The first item on the agenda after the call to order should be the board's approval of the agenda itself. Ask if there are more items to be added. Or, less likely, items to be taken off the agenda. As a courtesy, if one director wants to talk about an item the board will usually agree. Yet, sometimes other directors will not feel they are ready to take up a particular item at this meeting.

They should say so. The agenda belongs to the whole board, not to any one director, not even to, the president. The agenda as adopted is the will of the entire board. It cannot be changed by one director, only by the entire board.

The board should feel it is their agenda, not the chair's. All the directors should take ownership of the meeting and assume responsibility for making it work as set forth in the agenda. They aren't just sitting in as observers of someone else's meeting. Therefore, anyone trying to digress from the agenda will have the entire board to contend with, not just the chair. It is perfectly good manners for any director to demand, "Let's get back to the agenda, please," or under traditional rules of order, to call for the orders of the day.

The second thing you could do to keep your board meeting businesslike is to specify just how much time should be spent on each item on the agenda; one minute and thirty seconds to approve the agenda, two minutes to approve the minutes of the previous meeting, four minutes to hear the president's report, twenty minutes to hear the treasure's report--and so on, all through the agenda.

The chair suggests these allocations of the meeting's time as part of the proposed agenda. The group may change the time allocations when approving the agenda.

Once the time allowed for each item is approved, along with the rest of the agenda, the chair should quickly add up all the time allocations and announce, "We've got a lot to do, but if we keep to this schedule we can adjourn at 9:23 and go home--or wherever..."

These first two techniques help a great deal to keep your board meetings on track and on time, but if you are really serious about preventing your meetings from wandering on until two a.m., you will put this third procedure into effect. Appoint the meanest, most resolute and imperturbable member of the board as Time Enforcer. Oh yes, one additional qualification: the Time Enforcer must be wearing a watch with a second hand.

The Time Enforcer keeps track of the time, noting when discussion on an item starts. If the item is allocated say, five minutes, after three minutes have gone by, the Time Enforcer calls out, "Two minutes left." Later: "Sixty seconds left." And, "Ten seconds left."

When the allocated time runs out, the Time Enforcer calls out, "TIME'S UP!" Don't wait until the speaker comes to the end of a sentence. That could be five minutes away. Break right in, forcefully, decisively and in a loud voice, so that no one will have the nerve to keep on speaking after time has been declared up.

The chair cannot be the Time Enforcer. The chair has other things to attend to. Also, the chair cannot extend the time. Only the board as a whole can extend the time if it wishes to. The chair's job is to move immediately to the next item on the agenda. Of course, if the board as a whole wants to extend the time, it can easily and quickly be done. The chair will see the sense of the meeting, glancing around the table, and say, "If there is no objection, we'll allocate another minute to conclude discussion." Members may object if they wish, and the chair may quickly count the heads nodding and the heads shaking. When you get used to this procedure, it takes practically no time at all.

If the board extends the time by one minute, the chair says, "Now we'll adjourn at 9:24."

Keep in mind that if the board decides not to extend the time, that is the board's right. They may feel the topic isn't worth the extra time, or they simply are not ready to make that decision now.

The important point here is that the person who is in love with the sound of his own voice is definitely not the person to decide about extending the time. Yes, he may feel a tinge of regret when he is cut off in mid-sentence, but the alternative is to thoroughly annoy all the other directors by letting him go on endlessly. The compassionate choice is to distress the lesser number of sensitive souls.

There are some side effects derived from the timed agenda. Board members understand when the meeting is scheduled to end and are less likely to walk out ahead of time. They'll stay, if the board keeps its promise to end the meeting at the appointed time. Also, because the timed agenda focuses their attention, you'll find less time taken up in hearing how a son-in-law is making so much money it is backing up on him, or how a granddaughter is getting such good grades her teachers don't know what to do with her.

A fourth procedure is up to the chair: be sure everyone knows what is happening at every moment. TELL what's happening. If a motion has been made, state the motion. If discussion is centered upon putting all the facts on the table about a problem, say, "We're getting out all the facts now, that's what we're looking for, the facts." If the treasurer is about to give a report, say, "Okay, Sarah is about to give us the treasurer's report. Madame Treasurer, your report please."

But, you object, everyone knows what is happening. Ah, but they don't. At least a third of the board members are thinking about something else at any given moment. Another third are confused. As the chair, your job is to eliminate confusion and bring wool-gatherers' attention back to the business at hand. Keep telling people what is happening and what is about to happen.

"Spread the Work Load"

A fifth procedure: Spread the work load. No way can your board handle all the work there is for it to do without outside help. Rarely does help walk in the door unbidden; you have to ask for it.

Do. Ask members to work on a committee to take on a task the board knows is very important but can't find the time to deal with. Be specific in what you want done. Tell the committee not to spend any money, unless they get an okay from the board first. And put your charge to the committee in writing, just to be sure there is no misunderstanding about what the board needs done.

Too often committees are appointed without clear directions from the board. Someone says, "I move we refer this to committee." Refer what? The power to build a building? To hire an expensive consultant? Or just to gather some information the board needs? If the board doesn't say, how is the committee to know? The motion merely to refer to committee, without specific instructions, means only that the board is using the committee as a wastebasket, to get

rid of something they hope they never hear about again. Big mistake. Use committees freely, but tell them exactly what you want. In writing. (I know I already said that, but it bears repeating.)

Sixth thing you can do to keep meetings on time: Stop making the same decision over and over again. When an issue comes up, don't decide just that one incident. Make a decision solving all similar problems. When such a problem comes up again, you don't spend a minute on it-you just refer your manager or officers to the policy you established earlier.

"Have a Book of Policies"

If your co-op is more than one year old, you should have a book of policies available to staff and members covering most of the things that happen in the co-op. You will be astonished at the serenity such a book of policies can bring to the co-op. Everyone knows what to do, most of the time, and everything runs smoothly.

Also, when you have a written policy, and circumstances call for a change in policy or at least an exception to the policy, having it in writing makes it susceptible to thoughtful analysis, rather than a panicky expedient you drift into without prudent consideration.

The seventh procedure you can use is a bit complicated. It takes a little practice to get it right. But this seventh procedure is so valuable that once you start using it you will never want to abandon it.

Buy a pad of very large sheets of newsprint, the kind kindergarten kids use. Buy several juicy felt-tip markers, the kind that make letters easily read from the back of the room. Now appoint your most perceptive and eloquent board member to be Recorder. The Recorder's job is to summarize succinctly the points made by everyone who speaks during the meeting, writing with the juicy felt tip pens on the large sheets of newsprint so everyone can see. As one sheet of newsprint is filled up with the accumulated wisdom of the meeting, which happens pretty fast, the Recorder tears it off the pad and tapes it to the wall, way over to the left side of the spectators. The second sheet goes up on the wall to the right of that.

As the meeting progresses, these succinct summaries cover the walls. Anyone can see where the meeting has gone, reading from the left to right around the room. Nothing beats the Recorder's newsprint summaries for eliminating repetitive, meandering discussion. Board members find satisfaction in seeing the points they have made being recorded on the wall. They find no need to say them over and over again. In fact, if someone else has already made a particular point, they don't have to make it at all.

When discussing complex issues, the board can easily handle a large number of facts and opinions because they are spread out on the newsprint before them. If the logic of a position seems labyrinthine and obscure, having the supporting points in writing helps everyone understand.

The psychological impact of these seven techniques for keeping your board meetings on track and on time is magical. Instead of a tedious, baffling ordeal, your meetings become satisfying, understandable and productive. Such a meeting builds mutual respect among the board members. The spirit of cooperation can thrive, even in a board meeting.

Robert's Rules of Order

What Is Parliamentary Procedure?

It is a set of rules for conduct at meetings, that allows everyone to be heard and to make decisions without confusion.

Why is Parliamentary Procedure Important?

Because it's a time tested method of conducting business at meetings and public gatherings. It can be adapted to fit the needs of any organization. Today, Robert's Rules of Order newly

revised is the basic handbook of operation for most clubs, organizations and other groups. So it's important that everyone know these basic rules!

Organizations using parliamentary procedure usually follow a fixed order of business. Below is a typical example:

- Call to order.
- Roll call of members present.
- Reading of minutes of last meeting.
- Officers reports.
- Committee reports.
- Special orders -- Important business previously designated for consideration at this meeting.
- Unfinished business.
- New business.
- Announcements.
- Adjournment.

The method used by members to express themselves is in the form of moving motions. A motion is a proposal that the entire membership take action or a stand on an issue. Individual members can:

- Call to order.
- Second motions.
- Vote on motions.

There are four Basic Types of Motions:

- **Main Motions:** The purpose of a main motion is to introduce items to the membership for their consideration. They cannot be made when any other motion is on the floor, and yield to privileged, subsidiary, and incidental motions.
- **Subsidiary Motions:** Their purpose is to change or affect how a main motion is handled, and is voted on before a main motion.
- **Privileged Motions:** Their purpose is to bring up items that are urgent about special or important matters unrelated to pending business.
- **Incidental Motions:** Their purpose is to provide a means of questioning procedure concerning other motions and must be considered before the other motion.

How are Motions Presented?

Obtaining the floor

- Wait until the last speaker has finished.
- Rise and address the Chairman by saying, "Mr. Chairman, or Mr. President."
- Wait until the Chairman recognizes you.

Make Your Motion

- Speak in a clear and concise manner.
- Always state a motion affirmatively. Say, "I move that we ..." rather than, "I move that we do not ...".
- Avoid personalities and stay on your subject.

Wait for Someone to Second Your Motion

- Another member will second your motion or the Chairman will call for a second.
- If there is no second to your motion it is lost.

The Chairman States Your Motion

- The Chairman will say, "it has been moved and seconded that we ..." Thus placing your motion before the membership for consideration and action.
- The membership then either debates your motion, or may move directly to a vote.
- Once your motion is presented to the membership by the chairman it becomes "assembly property", and cannot be changed by you without the consent of the members.

Expanding on Your Motion

- The time for you to speak in favor of your motion is at this point in time, rather than at the time you present it.
- The mover is always allowed to speak first

- The mover is always allowed to speak first.
- All comments and debate must be directed to the chairman.
- Keep to the time limit for speaking that has been established.
- The mover may speak again only after other speakers are finished, unless called upon by the Chairman.

Putting the Question to the Membership

- The Chairman asks, "Are you ready to vote on the question?"
- If there is no more discussion, a vote is taken.
- On a motion to move the previous question may be adapted.

Voting on a Motion:

The method of vote on any motion depends on the situation and the bylaws of policy of your organization. There are five methods used to vote by most organizations, they are:

- By Voice -- The Chairman asks those in favor to say, "aye", those opposed to say "no". Any member may move for a exact count.
- By Roll Call -- Each member answers "yes" or "no" as his name is called. This method is used when a record of each person's vote is required.
- By General Consent -- When a motion is not likely to be opposed, the Chairman says, "if there is no objection ...". The membership shows agreement by their silence, however if one member says, "I object," the item must be put to a vote.
- By Division -- This is a slight verification of a voice vote. It does not require a count unless the chairman so desires. Members raise their hands or stand.
- By Ballot -- Members write their vote on a slip of paper, this method is used when secrecy is desired.

There are two other motions that are commonly used that relate to voting.

- Motion to Table -- This motion is often used in the attempt to "kill" a motion. The option is always present, however, to "take from the table", for reconsideration by the membership.
- Motion to Postpone Indefinitely -- This is often used as a means of parliamentary strategy and allows opponents of motion to test their strength without an actual vote being taken. Also, debate is once again open on the main motion.

Parliamentary Procedure is the best way to get things done at your meetings. But, it will only work if you use it properly.

- Allow motions that are in order.
- Have members obtain the floor properly.
- Speak clearly and concisely.
- Obey the rules of debate.
- Most importantly, BE COURTEOUS.

Cooperative Management

A cooperative as a corporation functions only through people:

- members
- board of Directors
- personnel

The two primary aspects of management are:

- people
- activities

What is management? As activities, business management is the science and the art of combining ideas, facilities, processes, materials, and people to produce and market a worthy product or service profitably and with satisfaction to all affected.

Business management is the process of getting things done by and through others. In cooperatives, the management team consists of two distinct entities--the board of directors elected by the members and a professional business manager hired by the board

elected by the members and a professional business manager hired by the board.

Working in concert, both have the same overall objective but each has separate and divisible functions. Conflict within the management team arises when either doesn't know, or fails to recognize the division of functions.

Functions are actions or activities needed to perform a particular role. The management functions of elected directors and hired management may appear similar, but because of different levels of authority and responsibility, the directors and manager have different activities and roles for the same function.

The job of management requires the ability to:

- establish objectives, policies, and programs -- plan, investigate, and forecast results desired,
- attain results through people --build and maintain a sound cooperative, adequately staffed,
- look for improvements -- appraise results; make decisions; effect remedial (corrective) action, and
- develop subordinates -- understand people; inspire confidence; motivate teamwork -- maintain respect, discipline and training.

Cooperative management can't be discussed without recognizing functions of three elements -- members (owners) (board of directors (elected), and supervisory employees (paid). However, incorporating statutes (legal) for both cooperative and non-cooperative businesses requires affairs of a corporation be managed by its board of directors.

The management functions of directors are often defined as planning, organizing, directing, coordinating, and controlling (PODCC). The functions of hired management may be identified as planning, organizing, motivating, and controlling (POMC). Following are the functions common to directors and management:

Planning Function

Board

Planning is the decision-making function of management and requires sound judgment.

Collecting information concerning business alternatives, synthesizing the information, and evaluating it are important parts of decision-making. Planning involves deciding when, where, and how to take action and projecting anticipated results.

The board is responsible for determining and systematically arranging all the main factors to achieve the goals and objectives of the business. The planning function by directors is usually considered long-term and broad in scope. Strategic planning and preparation of a capital budget are specific examples.

Manager

Managers assist the directors in developing the overall goals and objectives of the business.

They are an essential part of the decision-making process. Managers set goals and objectives for day-to-day operations, design operating procedures and methods, and make financial projections. Managers are primarily responsible for making yearly plans and projections. They must plan and implement the tasks that accomplish the goals and objectives established by the board. Managers also make annual projections of balance sheets and operating and cashflow statements.

Organizing

Board

When the planning is completed, all of the cooperative's resources, both physical and human, must be grouped according to function. Organizing involves arranging all of the groups so the business operates as a productive unit. The group needing the most consideration is human resources. People are an important part of successful cooperative operations.

The board's role in human resource activities is hiring a competent manager and designing the overall organizational structure. Board approval of a competitive wage and salary plan plus a benefits package is a necessary component. The manager hires, trains, and makes work assignments for the employees.

The nature and location of the business plus the services owner-members want determine how physical assets will be grouped.

Manager

Managers are responsible for grouping operational processes, assets, and personnel and establishing their relationships for efficient day-to-day business operations. Developing personnel organization charts which show employee relationships, writing job descriptions, and establishing acceptable levels of performance are manager responsibilities. Manufacturing processes, sales programs, and service schedule relationships also must be organized to meet the cooperative's goals.

Directing (Board only)

The board of directors provides direction to the affairs of the business to ensure development and growth in products, markets, and positive financial results.

The planning and organizing functions must be accomplished for the directing activity to be effective. Effective directing requires setting well-defined, clearly understood, and consistently administered policies. For the manager to function effectively, the directors must delegate responsibility with the appropriate authority and predetermined measures of accountability.

Directors engage in contract negotiations, approve membership applications, and make recommendations on day-to-day operations. Directors focus on approving short- and medium-range plans of the manager, reviewing reports, and making decisions about long-range plans.

Coordinating (Directors only)

Directors coordinate all phases of the business so that each supports the other. The use of physical and financial assets and personnel activities must be integrated to accomplish predetermined goals and objectives. Specific examples include overseeing facility use, arranging timely financing, preparing the manager's job description, and purchasing and selling assets to meet members' needs.

Controlling

Board

Directors exercise control of the cooperative by keeping themselves informed of the progress of the business, and assuring acceptable performance in all phases of the business. They interpret trends and results and know when to initiate corrective action. Directors are responsible for preventing unauthorized actions and keeping members informed of the cooperative's progress. Accepting and approving management reports, reviewing financial statements, and reviewing physical facilities are specific examples of director control.

Manager

The supervisory function assures satisfactory performance in all phases of business. Measuring and evaluating the results of employee performance, executing board policies, and overseeing physical assets are critical to accomplishing the cooperative's goals and objectives. The last phase of the control function concerns unmet goals and objectives and decisions of how, when, and what corrective action is needed.

Manager Functions

With certain given resources, the manager has the responsibility for organizing and operating the cooperative in a way that will optimize the benefits members desire. Resources are the manager's capabilities, physical facilities, employees, and the net worth of the business.

Motivating

Coaching and leading the cooperative's employees, members, and customers are essential functions of the manager. The manager must create positive employee working conditions and

functions of the manager. The manager must create positive employee working conditions and act as a liaison and spokesperson for the business, its owners, and other stakeholders.

Managers are responsible for staffing, training, and mobilizing the personnel under their supervision. Responsibility for internal and external interpersonal relationships places a heavy time demand on managers.

RESPONSIBILITIES OF GENERAL MANAGER

The manager also has responsibilities to the board, such as reporting operating results and making recommendations for needed changes.

Consistent with decisions of the board, the manager directs the business operation by organizing the work, making plans, delegating responsibilities, and arranging to train personnel.

Some of the manager's responsibilities to the board are to:

1. Furnish information for longterm planning. The manager brings matters to the board's attention and makes recommendations that will assist in reviewing the cooperative's objectives and goals in establishing policies, regulations, and programs, and making related plans.
2. Prepare and present reports to help the board appraise the operation. The manager regularly reports progress made in achieving the aims and objectives of the cooperative. Reports should be in the form prescribed, supplemented by additional pertinent facts about operating results. The manager makes comparisons and points out trends, and focuses attention on overall results while avoiding unnecessary minor details.
3. Assume responsibility for the overall operation as delegated by the board. The manager is responsible for the planning, organizing, coordinating, controlling, directing and conducting all programs and activities of the cooperative in conformity with the board's approval.
4. Select and provide training and development of employees required to operate the cooperative.

The manager outlines duties of employees and delegates authorities as the cooperative requires. Management gives personnel an opportunity to develop and qualify to handle larger responsibilities.

The manager must have a good working relationship with the board and provide the cooperative with a good management team.

To develop teamwork, the board and manager must have an understanding of each other's responsibilities. Setting aside time to discuss these respective duties can be a rewarding experience for both. Each must learn to understand and respect the other's responsibilities.

Overall cooperative objectives must be established before work assignments can be divided between a manager and the board. The membership has outlined the cooperative's objectives, but they must be further refined. Objectives must center on current and longterm needs and desires of the membership. They must be evaluated continuously and then used as a guide to direct the manager in carrying out the directives of the board. Once objectives are established, the board can evaluate the manager's performance in guiding financial performance and following the board's policies and directives.

Specific Duties include:

- work in close cooperation with the board of directors,
- conduct the business within policy guidelines,
- develop board and personnel policies for board approval,
- develop and implement operating policies subject to board review,
- review and evaluate present policy and suggest changes if necessary,
- supervise and coordinate the activities of the cooperative following sound business practices,
- develop for board approval a financial budget annually

- develop for board approval, a financial budget annually,
- develop for board approval a long- range business plan and update yearly,
- maintain and revise as necessary, an adequate accounting system,
- prepare proper financial reports regularly for board review,
- direct and supervise all employees to carry out the day-to-day activities of the cooperative,
- maintain fixed assets,
- recommend and prepare feasibility for fixed asset additions and revisions,
- keep current on local, State, and Federal regulations and pending legislation,
- hire, train, evaluate, and set compensation for employees,
- replace employees who cannot meet acceptable job performance levels or willfully violate policies,
- execute policies adopted by the board,
- attend all board meetings, and prepare and discuss necessary reports,
- communicate developments of the cooperative with the membership,
- encourage membership and active patronage,
- educate the general public of the cooperative's activities.
- know the industry: FOB prices, the direction of the market, coming changes and trends,
- be aggressive at seeking new accounts, and
- maintain rapport with board and membership.

Interrelationships--Manager and Directors

The manager and directors have different roles within the same management function. They function as a team to reach the same goals and objectives established for the business. To avoid conflict they should:

1. Know the differences in the roles each plays,
2. Respect each other's different role,
3. Recognize how the separate roles interact,
4. Acknowledge how the same function relates to separate groups in the cooperative structure, and
5. Relate and accept each other's independent role and judgment in the same function.

Harmonizing Director and Manager Roles

A harmonious management team starts with well defined and documented organizational charts. Members, employees, financiers, and holders of other contractual agreements with the cooperative are able to recognize the point of authority or decision for business actions.

Frequent and open communication between the board and the manager helps to resolve small problems before they become complex or a source of irritation.

The use of an executive committee from the board will reduce the time and complexity of solving problems and speed up the decision-making process. Formal and written evaluations of a manager's performance on an annual or more frequent basis provide guidelines for making corrections or adjustments desired by the board. Written recommendations and agreed upon changes with target dates are desirable. Evaluation sessions also permit the manager to express views on board operations and decisions in a neutral setting.

Cooperative management is complex. It often involves managing the affairs of several unlike businesses under one structure. Adding to the complexity, the user-owner cooperative business must satisfy the majority of the customers. All have different needs depending upon how they are interacting with the business. This is not a small or easy task in any management arena.

Problem Solving

One of the most important duties and responsibilities of directors of cooperatives is making decisions. This process can fall in either of two categories, solving existing problems or deciding about future operations.

Most cooperative directors receive only limited compensation for their efforts. Yet, the whole effectiveness of the cooperative either from the standpoint of profitability or service quality

effectiveness of the cooperative, either from the standpoint of profitability or service quality, depends on their decisions.

All of the board's official decisions are made in recognized board meeting. They are usually conducted each month. The cooperative director has a special responsibility in addition to daytoday decisions about operating their own private farm businesses.

Is it any wonder that many decisions about the cooperative get less than full attention when you consider the lateness of the hour or the mental and physical stress directors have experienced from their own operations prior to the board meeting?

A wellorganized approach to decision-making and problem solving can make the actions of directors more effective and produce greater results for the cooperative and its members. The process must be simple, easy to explain, and understood by all participating.

The step by step procedure of decision-making may be used by all personnel involved with the cooperative. Only the types of problems or decisions change.

One board of a cooperative solved this dilemma under the guidance of a longterm director. He explained their procedure like this. "For 20 years, more than half of our board meetings were spent making decisions and recommending ways to solve problems to our manager. We would get tense, twist in our chairs, argue, and go around in circles. Most of us were physically tired when we began the meeting. The added mental stress was more than any of us wanted.

"Winter meeting were even worse after working outside all day and then coming into a warm board room. Drowsiness soon took over several directors. We came up with a better method. We start with several "givens" that apply to all directors and staff participating in the board meeting."

The first understood "given" is:

Each of us were elected by the membership and not as a representative of any one group or community. Members elected us to use our best individual judgment about the business affairs of their cooperative.

The second "given" is:

We work from a prepared agenda. It not only contains a list of business items to be considered, but also backup material is supplied for major items prior to the meeting. Generally, the board president and general manager prepare the agenda.

Each board member is responsible for reviewing the prepared material prior to the meeting.

The individual review is just as important as oral comments in the board session. This fulfills the first step in our decision-making or problem solving technique.

What is the problem?

The problem is identified in the form of a statement. For example, net margins are 10 percent below budget or a certain piece of equipment needs to be replaced. We find that often what appears as one large problem or decision may have subparts that needs separate handling.

The problem must be identified in writing. Subparts are handled in the same way as the original problem.

The second step is to identify the problem cause by gathering data related to the problem.

Directors and staff members are expected to offer any data about the problem or cause that would contribute to the decision-making process. In our first round of discussion, everyone's input is accepted at face value.

However, little time is spent discussing personal desires, prejudices, rumors, or hearsay. The focus is on actual data, exhibits, statistics, personal testimony, demonstrations, and examples.

The board evaluates the information, and decides which data is relevant, and organizes it into written statements.

Step 3 is to list the various alternative solutions to the problem. Most important problems have

Step 3 is to list the various alternative solutions to the problem. Most important problems have more than one solution. The procedure for considering alternatives is similar to one used for listing causes of the problem.

Step 4 is to select the best alternative or solution. Sometimes the solution may be a combination of two or more alternatives. We feel more comfortable and professional about this process if we do it by voting and recording action in the board minutes.

Any directors may request his particular position be recorded in the minutes. However, if this practice becomes excessive by one or a group of directors, it could result in that group not wanting to be responsible for total board actions. A majority vote always rules on the alternative or solution selected by the board.

The last step is to implement the decisions or solution. Immediately after the decision or before the close of the meeting, someone or a committee is usually assigned responsibility of carrying out the decision. The responsible party knows certain ceilings of expenditure, goals, time constraints, legal parameters, or contractual agreements. If necessary, followup dates for review or evaluation are established.

This procedure doesn't guarantee the board will find the perfect alternative or solution. But it is superior to lengthy and heated arguments when no one wishes to make a decision or reach an agreement by consensus simply because they are tired of wrestling with a problem or decision, and wishes to move on to the next piece of business, or go home.

PROBLEM:

Defined as a discrepancy or difference between an actual state of affairs and a desired or ideal state of affairs. It is a situation you want to change.

PROBLEM SOLVING:

The process of resolving the unsettled matters, or finding an answer to a difficulty. It is a process that results in a solution to a problem, and it involves changing the actual state of affairs until it is identical with the desired state of affairs.

There are four concerns in problem solving:

1. Determining the actual or current state of affairs;
2. Specifying the desired state of affairs;
3. Determining the best means of moving the group from the actual state of affairs to the desired state of affairs;
4. And doing so.

Five basic steps in the problem solving process:

1. Defining the problem;
2. Diagnosing how big it is and what causes it;
3. Formulating alternative strategies or plans for solving it;
4. Deciding upon and implementing the most desirable strategies; and
5. Evaluating the success of the strategies involved.

Every step in the process is vitally important for different reasons, and the steps are interrelated.

1. Defining the problem.

The clearer and more accurate the definition of the problem, the easier it is to complete the

other four steps in the problem solving process.

Steps:

- a. begins with getting everybody in the group to agree on what the desired state of affairs is,
- b. obtain valid information about the existing state of affairs, and
- c. discuss the difference between the desired and actual state of affairs.

Defining whose situation is within the resources of the group is perhaps the hardest step in the problem solving process:

- list a series of statements about the problem. Describe it as concretely as possible by mentioning persons, places, and resources. There should be as many different statements of the problem as members are willing to give. Write them on newsprint, avoid arguing over whether they are perfectly stated,
- restate each problem statement so it includes a description of both the desired and actual state of affairs,
- take out alternative definitions that are beyond the resources of the group to solve,
- choose the definition the group members agree is the most correct. The problem should be important, solvable, and urgent.

2. Diagnosing the Problem.

The objective here is to identify the nature and magnitude of the forces helping the group to move toward the desired state of affairs as well as the forces hindering this movement.

Determining what forces are acting upon the problem situation is called force-field analysis.

Force field analysis sees the problem as a balance between forces working in opposite directions. This balance is the actual state of affairs. A "quasi-stationary equilibrium" that can be altered through changes in the forces (see figure 2):

3. Formulating Alternative Strategies

Creativeness, divergent thinking, opposition among ideas, and inventiveness are essential for this phase. According to the force field analysis (figure 2), changes in the present situation will occur only as the helpful and restraining forces are changed so the level where they are balancing is altered. Two basic methods for changing the equilibrium point: increase the strength or number of helping forces and decrease the strength or number of the restraining forces. Of the two, preferable strategy is to get rid of the restraining forces or reduce their strength. Experience has shown, as pressure applied to the helping forces, natural resistances also increase, reducing the effectiveness of that strategy.

Reducing restraining forces and increasing helping forces at the same time can also be very effective. One way, change a restraining force so it becomes a helping force. The resistance of group members to change desired by other members is a typical restraining force in a problem solving situation. One of the most successful strategies for changing the direction of this force is to involve the resisting members in diagnosing the problem situation, and planning the solutions--virtually guarantees their commitment to the proposed changes.

Force field analysis is useful for two reasons: 1) it avoids the error of single-factor analysis of a problem by, 2) helping to identify a number of problem related factors. It gives group members several points at which they may intervene. Bringing in an expert who knows a lot about the substance of the problem is often extremely helpful at this point.

4. Deciding upon the Implementing Strategies

This step involves two central aspects of problem solving--decision making and decision implementation. Decision making requires alternatives from which a group can choose, and decision implementation requires internal commitment by group members to the decisions made. The following points may be helpful to a group that is deciding upon and implementing strategies:

- a. Select the alternatives that seem best. List three positive values in adopting each alternative.
- b. List the materials and other resources needed to implement each strategy. The cost of implementation in terms of time, people, and material resources should be specified.
- c. Evaluate how realistic each strategy is: the necessary variables should be within the power of the group members to influence.
- d. Weigh the probabilities for success against the cost of implementation.
- e. Try to anticipate all the barriers to implementation and how the group members will handle them.
- f. Put the ideas and actions of each strategy into a time sequence and estimate specific dates for the actions to occur.
- g. Assign responsibilities to group members for implementing the strategies.
- h. Begin taking the first step.

5. Evaluating the Success of the Strategies

At this step, group members must figure out 1) whether the strategies were successfully implemented and 2) what the effect was. Planners should estimate ways in which to judge the effectiveness of their actions in implementing the strategy, and review their progress as each action step occurs. Major criterion in assessment is: WHETHER THE ACTUAL STATE OF AFFAIRS IS CLOSER TO THE DESIRED STATE OF AFFAIRS.

The result of evaluation step should be to show the group problems have been solved and to what extent, what problems need to be solved, and what new problems have come up.

Evaluation should result in a new definition of a problem, re-diagnosis of the situation, and the beginning of a new problem solving sequence.

Barriers to Problem Solving Effectiveness.

1. Lack of clarity in stating the problem.
2. Not getting the needed information.
3. Poor communication within the group.
4. Premature testing of alternative strategies or premature choice of strategies.
5. A critical, evaluative, competitive climate.
6. Pressures for conformity.
7. Lack of inquiry and problem solving skills.
8. Inadequate motivation.

Workshop Exercise 5 Whys?

1. Ask Why? a problem is occurring.
2. Ask Why? four more times

A clearer statement of a possible causal problem.

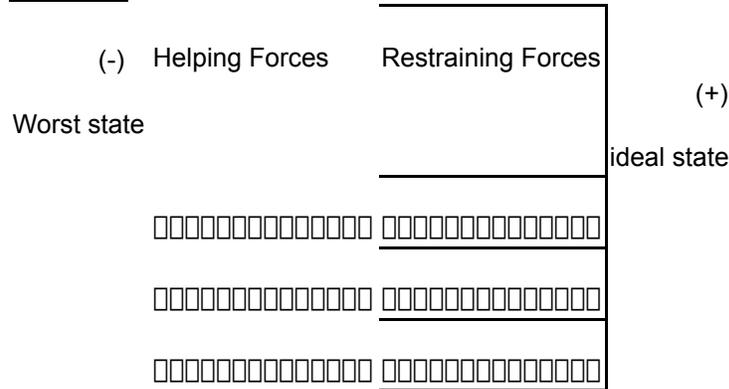
One interesting comment on the 5 Whys, is that the final (5th) Why? almost always revealed a problem in COMMUNICATION.

1. Why has the machine stopped?
2. A fuse blew because of an overload.
3. Why was there an overload?
4. There wasn't enough lubrication for the bearings.
5. Why wasn't there enough lubrication for the bearings?
6. The pump wasn't pumping enough.
7. Why wasn't lubrication being pumped?

7. Why wasn't lubrication being pumped?
8. The pump shaft was vibrating as a result of abrasion.
9. Why was there abrasion?
There was no filter, allowing chips of material into the pump.

Installation of a filter solves the problem.

FIGURE 2



CURRENT STATE OF AFFAIRS

There are two basic steps for a group to follow in doing a force-field analysis:

1. Make up lists of forces by first brainstorming all the helping forces and then all restraining forces. The lists should include all possible forces, whether psychological, interpersonal, organizational, or societal. If a force seems to be a complex of variables, list each variable separately. Avoid critical judgment; it is essential every member's ideas be publicly requested and aired.
2. Rank the forces according to the importance of their effect on the present situation. Agree on the most important helping and restraining forces, which may total from three to six each. Rate the important forces according to how easily they can be increased or decreased. Avoid spending time discussing those the group cannot impact with their current resources.

SUMMARY

PROBLEM?

1. State it as a fact
2. Limit it
3. Clarify terms
4. Give some background

POSSIBLE SOLUTIONS?

1. Be specific
2. Give evidence
 - ✓ Statistics
 - ✓ Example
 - ✓ Demonstration
 - ✓ Analogy
 - ✓ Testimony
 - ✓ Exhibit

3. Summarize often

ACTION

1. Place responsibility

CAUSES?

1. Accept as many as possible
2. Don't evaluate
3. Summarize often

THE BEST POSSIBLE SOLUTION?

1. Review solutions and evidence
2. Vote
3. Action to be taken

Dealing with Differences

Expect to deal with differences and conflict. Differences are natural. People have different values, priorities, beliefs and biases. People often look at the same data, information or proposals and come to widely different conclusions. Poor communication is not always the cause of disagreements. People can know the facts and disagree! Openness, encouraging involvement of members and honest discussion are vital to reaching agreement. The same is true in dealing with differences.

Leaders can perform a vital role by working toward clarification of differences. This facilitates an accurate understanding of positions. This can be done by thinking of differences as data and information to be considered and used. It is important to realize two major points: those who disagree may be right, and differences should not be treated as absolute positions but as information. Each position may offer insights or ideas. From a variety of positions a new one may be formed. This process can be greatly enhanced by treating the variety of positions as valuable, respected data instead of items to be attacked or defended.

Dealing with differences requires accurate information. It is vital because positions are often rooted in opinions based on incorrect information. Many leaders have found it useful to be clear in stating the situation. It is better to base comments on reports, studies, analyses rather than basing them on opinions. Presenting facts, figures and reports to people at the beginning of discussions increases the probability of people not stating opinions based on inaccurate information and feeling trapped into defending them.

A Process for Dealing with Differences

Leaders or the planning group can bring people/stakeholders from throughout the cooperative together to discuss the issue. They can be taken through a process to bring out questions, concerns or positions surrounding a given issue. This is much easier to accomplish early in the discussion before positions become fixed.

The total process should be explained, before beginning. It functions as follows:

1. Present the purpose statement so people can understand the concern.
2. Discuss the scope of the issue.
3. Outline what is to be accomplished.
4. Present the data and information regarding the issue. This should be prepared as a handout for clarity and mutual understanding.
5. Hand a card to each person present and ask them to think about the proposal and the cooperative for a few minutes. Then ask them to write on their cards any questions, concerns, positions and names of other stakeholders.
6. After about 10- 15 minutes or when people are through, collect the cards. Shuffle and hand them out.
7. Ask each person to read their card. This allows all the ideas to be presented anonymously.
8. Take notes on a flip chart or chalkboard by recording key words or phrases.
9. Write on flip chart paper the list of questions, concerns, positions and other suggested stakeholders that the participants have generated.
10. At this point, a general discussion of the list is often helpful. Start by asking those present, "What do you think of what we have developed? Are there any gaps or surprises?" Listen and take notes. Do not defend the group's previous work, or any one point of view.
11. As the discussion ends, if time allows, deal with questions for which there is data and information. Do not give opinion as data.
12. Getting to this point often requires 2 ½ to 3 hours. Ask the group of people present to return on a given date and time to further discuss the proposal. If possible, state that based on the items recorded, further positions may be developed and efforts made to reach consensus.

The above process does not ensure agreement. It does provide a knowledge base to work from in regard to questions, concerns, positions and other potential stakeholders. Work to develop and provide information that deals with questions and concerns and on taking ideas from the different positions to be incorporated into the proposal. This can be reported back at continuing sessions with stakeholders and others.

Putting all the points of view on the table creates openness. This is especially important with issues that are controversial or need to be voted on. By clearly stating the reasons for proceeding, people have the information necessary for them to make a decision.

Isms

There are other differences with people that can limit development in general and often stall issues. These differences are a collection of *isms* such as racism, sexism, ageism, or biases based on physical or social differences.

In today's global economy, a cooperative cannot afford to waste human capital or potential. Successful competition demands that cooperatives develop all their human capacity to its fullest potential.

A historical review of the cooperative should provide a sense of the past and present tensions among and within groups. A review of the stakeholder list at this point is useful. Determine how this list matches the population profile of the cooperative. Are women, ethnic groups, young people, or older people present and involved?

This is important to the cooperative, because communities are becoming more diverse in their make-up. From the point of view of successfully designing and implementing projects, ownership and support of the broad community base is increasingly necessary. People tend to support what they have helped create and invest in what they value.

Social barriers to broad based participation in board issues are not easily broken. This is especially true when their existence is denied. The leader should consider taking an opportunity to express realization of what has existed and what currently exists within the community that limits participation and development. The leadership action required is to approach the excluded people and discuss the situation. State interest in developing the project with their input. Realize in situations where there has been a long tradition of separation and mistrust between groups that change occurs over time as these positions are supported by behavior.

Dealing with racial prejudice, class differences, and stereotypes based on sex, age or ethnicity is not easy. However, trends indicate that development and implementation of projects which require support must include all the stakeholders. It is easier to accomplish this early in the process. It is very different to be asked to develop a proposal than to be asked to approve someone else's plan.

Putting People to Work

1. Before setting up a meeting, draw up a checklist of things to be done before, during and after the meeting. Before the meeting, check the following: where and when the meeting will be held, publicity, participants, physical arrangements of room, supplies needed, and audiovisual aid requirements.
2. During the course of a group meeting identify members who make contributions to the three major functions of leadership: accomplishing tasks, building group relations, or meeting the needs of group members. Keep track of these people.
3. If your group or committee is just beginning an activity and is in need of volunteers, suggest that the group ask a number of individual members to name three or four other people in their area with whom they would most like to work with. The responses, when tabulated, will give you an indication of a network and should help identify people who could be of help on the project.
4. During a meeting list each action taken and note what you consider an appropriate follow-

- up. At the end of the meeting, if all of these "follow-ups" have not been attended to, call this to the attention of the group.
5. Near the end of a meeting ask members if they plan to inform others about the results of the meeting. If the answer is affirmative, ask them who will be informed and how.
 6. During meetings look at the listeners as much as you look at the speakers. You will be able to pick up non-verbal feedback that can be directed to the speaker, brought to the attention of the group, or handled in what seems to be the most appropriate way.
 7. Listen for jargon, words and phrases that may offend some members and other terms that may not seem appropriate. After a meeting seek out an opportunity to talk to the person about the power of language and the importance of effective communication.
 8. Find someone in your group with media experience or recruit an experienced person to help you work with print and broadcast publicity.

When They Look at Us, Can They Find Themselves?

Our greatest thought leaders use elegant, spare language to challenge tomorrow's leaders and organizations. In 1980, in *"Managing in Turbulent Times"*, Peter Drucker wrote: "A time of turbulence is a dangerous time, but its greatest danger is a temptation to deny reality." In 1989, in *"Leadership is an Art"*, Max De Pree wrote: "The first responsibility of a leader is to define reality."

Resisting the temptation to deny reality, and daring to define the new realities, may be a leader's greatest challenges. The challenges we confront today are numerous and daunting, but perhaps the most pressing are the demographic shifts that are reshaping Western society.

Given the growing impact of these changes on our society and its institutions, our ability see the remarkable opportunities in the growing diversity -- not to try to "manage" it -- may decide the future of our organizations.

How we help people deal with their deepest differences is not just a challenge for public officials; far from it. Every leader, in the smallest community agency or the largest corporation, needs to anticipate the effects of rapid demographic change on the people, the services, and the resources of every market and community. For example, by 2025 the Asian American population will have more than doubled to 7.5 percent of the population from just over 3 percent in 1995, according to U.S. Census Bureau estimates. The Hispanic population will grow to nearly 17 percent from 10 percent, African Americans will increase to 14 percent from 12 percent, and in the same period the white population will shrink to 62 percent from 74 percent.

If we fail on the key challenge of equal access to opportunity, our efforts in every other realm may falter. It does little good to formulate a brilliant competitive strategy unless we include the people inside the organization who must carry it out and the people in the marketplace and the community who will benefit. To further our mission and build the richly diverse organization, we must make inclusion and participation top priorities for all governance and management teams. "Missionfocused," "valuesbased," and "demographicdriven" will describe the viable and relevant organization of the future.

Understanding Diversity

The language we use as leaders will determine whether the people of the enterprise see demographic change as threat to the organization's present status, or as remarkable opportunity to innovate. Making our organization demographicdriven can be a catalyst for change, a way to build a more productive workforce, find new significance and new ways to serve, and build a more cohesive community.

We cannot ensure equal access or build upon our diverse strengths by sitting at our desks and proclaiming, "Let there be diversity." Rather, we must scan the environment and gather current and credible information about our workforce, our boards, our supporters, our customers, and our communities. Understanding our constituents' demographics is key to meeting their needs, and to creating conditions in which the diversity of the organization brings new vitality to the workplace and to our neighborhoods.

Only with such understanding can our leadership teams hold before the people of the organization a vision of the future. For our most effective organizations, that vision will include a richly diverse organization with governance, management, and the workforce representative of the whole community. Leaders of these organizations know it takes committed, energetic, and able people to serve present and future customers who are the changing community.

Steps toward the Future

If the vision is inspiring, the mission is compelling, and the goal of equal access is unambiguous -- and all three are clearly communicated throughout the organization -- what are the essential steps toward building the vibrant, viable, relevant, and productive enterprise?

I have found that defining the reality of equal access is a fivepart process:

- A vision of a diverse future -- with rich representation throughout the organization, starting with the board and management team -- begins and remains a clear priority of the leader. That vision must be shared across the organization and among leaders at every level, but the board chairman and chief executive retain the final responsibility for achieving equal access.
- The annual plan of work and its supporting budget include specific action steps and activities that ensure the realization of the vision.
- All policies, practices, and procedures are examined for barriers to full board, management, and workforce participation. We abandon policies that impede, while developing policies that facilitate inclusion.
- We ask the board, the management team, the dispersed leadership of the organization, the sales force and the workforce, all to consider one shared question: "When our customers look at us, can they find themselves?" This key question is as important for our marketing and educational materials -- print and electronic -- as it is for our people.
- If the answers (to "Can they find themselves?") are not what we want them to be, we mobilize around the shared vision and together define how we will get there. Here again, language is important. We purge our vocabulary of the tired language of "managing diversity," and use the powerful and positive language of future relevance and viability -- of equal access.

Building Commitment and Accountability

In assessing our performance we look not just at people currently employed and engaged, we examine those still making their way into our orbit, as prospective leaders, customers, donors, contributors, or partners. Are we grooming people today for tomorrow's leadership positions? Are there new faces in the pipeline? And in the position descriptions of all those who direct the work of others, is there a clearly stated accountability for building the richly diverse organization we require?

Our customers of tomorrow will be far more diverse than those we are serving today; so in addition to using demographics as an indispensable planning tool, we also study the psychographics of our new constituents -- how they think and feel -- what they value.

The challenges of leadership and citizenship are daunting, yet they offer incredible opportunities for new significance and performance if we have the courage and commitment to define the new realities in human terms. In doing so we free up the organization, release the spirits of our people, embrace the changes in workplace and workforce, and open doors by providing equal access to opportunity supported by development, education, and commitment for full and energetic participation.

Turbulent times create possibilities beyond today's most optimistic views. Leaders can unleash the talents and energies of all of their people as they pursue a vision of a country of healthy children, strong families, decent housing, good schools, and work that dignifies, all embraced by the inclusive, cohesive community. We have a long way to go before we fully appreciate, let alone redefine, current realities. But the individual efforts of thousands of leaders in millions of organizations will transform the vision into the new reality. When they look at us, they will find themselves.

Dealing with Conflict

1. Attempt to define and describe the conflict in cooperative terms (i.e., as a common problem).
2. Try to deal with issues rather than personalities.
3. Deal with one issue at a time.
4. Focus on issues while they are small, rather than permitting them to grow over time, and become larger ones.
5. Attempt to persuade one another rather than using threats, intimidation and power plays.
6. Try for full disclosure of all facts rather than allowing 'hidden agendas' (leftover feelings or old arguments not settled) to function.
7. Encourage validation of the other parties' interests or concerns (feelings are valid, no matter what the facts are).
8. Emphasize what you still have in common.
9. Attempt to portray a trusting and friendly attitude.
10. Try for a 'win-win' feeling (i.e., there is a piece of the pie for everyone) rather than a 'win-lose' feeling (my gain is your loss).
11. Attempt to generate as many new ideas and as much new information as possible in order to broaden the perspective of all persons involved.
12. Involve all principal parties to the conflict at a common meeting.
13. Clarify whether you are dealing with one conflict or multiple conflicts.

Although consensus decision making takes a great deal of time, energy, and group participation, it produces the most effective group decision. In this approach to decision making, attempts are made to get all members of the group to support the decision. When each member of the group accepts the same alternative, the group has achieved consensus. The following suggestions help a group reach a consensus decision:

1. Encourage each member to listen carefully to the views of others before they insist upon their own ideas.
2. Look for the most acceptable solution. Everyone should come out a winner; there should be no losers.
3. Give everyone a chance to be heard. Explore as many views as possible so that the best alternative is chosen.
4. Look at disagreement from a positive view. Differences of opinion can be seen distributing patronage refunds--cash, qualified written notices of allocation, and nonqualified as a way of gathering additional information, clarifying issues, testing group commitments, determining how good an idea is, or forcing the group to seek better alternatives.

Positive Conflict: An Essential Tool for Democracy

Paul Martin Du Bois and Frances Moore Lappe. Focus on Study Circles.

Americans hate conflict. An employer promotes a subordinate for being "a good team player" who "doesn't make waves." A principal decides his good teachers are those with orderly classrooms without noise and, above all, without conflict. A parent praises his teenager for being "a good kid" who "never gives me problems." Entire minority communities are praised or cursed according to whether they "cause trouble" or are seen as "peaceful, good folk."

It may not matter that the thinking, creative employee may challenge conventional wisdom in ways that lead to product innovation. Or that children learn best when they are actively engaged in a subject--which may mean noise and even disagreement. Or that a teenager's developmental tasks include coming to a sense of ownership of his own values, which may require understanding them in relation to the values of his elders. Or that in order to take their rightful place in the American democracy, a minority community may have to demand resources and focus attention on issues that others would prefer to ignore.

Yet if we ask Americans what they think of when they hear the word conflict, we receive answers like "tension," "power grabs," "nastiness," "fights," "win/lose," "war," and "anger." Is it

any wonder, therefore, that we Americans try to avoid conflict at all costs?

Indeed, this limited perspective logically leads to a version of the "flight or fight" response: either avoid conflict or be prepared to "duke it out." And since disagreements--about values, resources, and policies--are unavoidable, our courts are clogged and our city councils hold endless hearings in which parties fight over their respective positions.

We have created a contentious public culture in which a modern warrior class--mainly politicians, lobbyists and highly paid lawyers--argue over every imaginable issue while the rest of us shun "politics" as the public arena of hostile interests groups. Fight or flight, battle or avoidance.

There is hope, however, in this ugly picture. Millions of Americans are acknowledging that neither fight nor flight is a very successful strategy. They are learning that one of the key barriers to a satisfying public life is the very limited set of responses we have to conflict. Fighting over our problems leaves us with polarized positions, and fleeing only allows our problems to grow larger. Yet our nation's problems are so enormous, so complex, so interrelated, we'll never arrive at real solutions by avoiding them or arguing from fixed, narrow positions.

Many are experimenting with techniques for using conflict constructively--with books like *Getting to Yes* soaring to the top of the best-seller list--but before many of us will make the effort to learn new skills we have to uproot our own prejudices about conflict. We have to fully grasp its positive functions.

Conflict means success, not failure. The absence of conflict usually means that diverse perspectives have been excluded from the decisionmaking table. When conflict--the clash of views and values--surfaces, we can congratulate ourselves. It means all interested parties are taking the first step in real problem solving. In order to produce a quality solution, different views must be heard, critically evaluated, and reflected upon before we reach agreement. In fact, the very idea of discussion presupposes different points of view.

Conflict uncovers interests. Often we only fully understand our own interests as they emerge in dialogue with others. Conflict can shake us out of selfishness (narrowly defined interests) as we see the larger consequences of our views through the eyes of those who disagree. Conflict that surfaces divergent interests is a necessary first step in meeting everyone's interest.

Conflict deepens our understanding of a problem. Solutions depend on accurately defining a problem. Considering diverse definitions of a problem--and the consequences of proposed solutions--helps sharpen our understanding of our most complex problems.

Conflict provides more options for action. One of the most common mistakes in problem solving is developing a premature commitment to one solution without being aware of alternatives. Conflict broadens our view of what is possible, and thus gives us more choices.

Conflict is not about "winning or losing" but about learning. Every difference, discomfort, or disagreement can be used to better know ourselves and others. They become clues to uncovering concerns, prejudices, needs, values--and goals to improving the skills we need to interact with others.

Conflict builds organizations. Groups that successfully use conflict for learning become stronger; they believe in themselves more. With confidence in their ability to use conflict constructively, they can take more risks. Since healthy conflict stimulates involvement in the problemsolving process, and encourages each of us to be heard, it deepens our sense of ownership, both of the process and, eventually, the solution.

Conflict will not go away. Yet, think how much energy and time we waste trying to avoid it or engaging in destructive battles. Simply perceiving conflict as both inevitable and useful--even essential--to healthy public discussion is the first step in turning it from a curse to a creative tool.

Consensus

Consensus is agreement by all parties involved, but often at varying levels of commitment and enthusiasm by the various individual team members or sub-teams. Some team members, for example, may be enthusiastically supportive of a decision while others simply pledge to go along with a group decision without any further objections, e.g., a group may have a low level of agreement, but a consensus nonetheless has been achieved. Thus consensus is not the same as unanimity.

Developing a consensus may not emerge easily or quickly. Very often it is a tedious and laborious process. At times consensus building will seem inappropriate in that it is too time-consuming and, therefore, uneconomical. Some people may dismiss it as inconvenient. Others may resist making the required honest investment of disclosing self-interests. Still others don't have the patience and openness needed in making a sincere effort to understand the interests of others.

Consensus may also be regarded by some as a threat to authority, position, status, principles, and to themselves, particularly if they have previously enjoyed controlling the decision-making process.

Nonetheless, consensus building is essential for achieving **internal team unity**. The advantages far outweigh the disadvantages. First and foremost, a sense of **equity** and **ownership** can be realized by each member of the team. These factors alone enhance the possibility of settlement.

GUIDELINES FOR ACHIEVING CONSENSUS

Again, consensus is **NOT** the same as unanimity. A vote of 10-0 is unanimous, but it may not be based on consensus. The basic feature of consensus is not that a decision has been agreed to by all members but that all members have complete understanding of the reasoning leading to the decision, and that each member is willing to support the decision at varying levels of commitment. Each member may not completely agree with the decision, that other group members have heard their information and opinions, that their reviews have been seriously considered, and that now all will abide by the group decision.

Consensus uses persuasion rather than pressure, and the process often requires much patience from all group members.

Consensus encourages:

- a collective knowledge base to be developed by using each member's knowledge, skills and ideas.
- the reduction of resistance by providing all participants a chance to listen to each other's viewpoints and ideas.
- the generation and creation of additional ideas and opinions.
- an opportunity to change an opinion without causing anyone to lose face.
- accountability among all group members.
- group sharing of the responsibility for the decisions made, and a sense of ownership and equity.

When there is no agreement:

- Assist those who disagree to disclose their objections clearly and completely.

- Assist those who disagree to disclose their objections clearly and completely.
- Assist those who disagree to provide alternative proposals.
- Provide time for all to rethink the issues and to develop new alternatives for resolution.
- Suggest a postponement of a decision.

Consensus requires the participation by all disputing team members. When trying to achieve a consensual agreement remember the following items:

- Avoid voting as a decision-making device. Private process polling of a team in caucus sessions as performed in juries is permissible. If voting is used in groups, then those in the minority opinion may feel left out and/or even sense a loss of ownership and equity.
- Discourage dissidents from hitchhiking on group sentiment. Just because a majority feels or believes one thing does not mean other ideas are not more viable.
- Do not let the process be oppressive for anyone. Be aware of the roles and games that people play in groups such as high vocals and silent observers. Remember, all opinions and feelings are valid until factually proven wrong or impracticable.
- Prevent pressuring. Exemplify patience.
- Prevent consensus building through forced conformity. Prevent capitulation from exhaustion and discouragement; this is not true consensus building. Help others in the group understand all positions. Remember, all have a stake in any eventual decision.
- Use logic, education and persuasion. Avoid hard negotiations, trade-offs, badgering and harassment.

Consensus is difficult to achieve because the process strives to develop a collective attitude of all team members. If the process of consensus operates properly then everyone will be satisfied at various operable levels with the final decision.

Consensus demands mutual responsibility. Differences should be honestly aired and explored. Consensus should lead to better evaluation of the problem through collective knowledge, and the process should produce a better decision to deal with the problem.

For the purpose of understanding consensus building, listed below are eight disadvantages and eight overriding advantages for its use.

THE DISADVANTAGES OF CONSENSUS BUILDING

- ⊗ Such a process may be time consuming and uneconomical.
- ⊗ It may be inefficient.
- ⊗ In an emergency situation, consensus building may be too difficult to get all parties to agree and, instead, the decision may have to be made by one or two members who have the authority to do so.
- ⊗ It may be inconvenient in terms of coordinating various schedules, meeting locations and people.
- ⊗ If not handled correctly, it may fragment the group.
- ⊗ It mandates an individual investment which some may not be willing to make.

- ☹ It may be perceived by some as a threat to authority, position and status.
- ☹ It may be difficult to maintain a sense of confidence when and if necessary.

THE ADVANTAGES OF CONSENSUS BUILDING

- ☺ Fosters a sense of team equity and a sense of ownership of the problem, the process, and the solution.
- ☺ Shares perceptions and develops a common reference point for team members.
- ☺ Utilizes collective knowledge, and thus enables members to see a wider picture, other perspectives, and other possible solutions. Allows for brainstorming.
- ☺ Educates all team members as to what is and is not possible.
- ☺ Spreads accountability to the members of the group, particularly when reaching a decision.
- ☺ Acknowledges the positiveness of individual contributions and group membership.
- ☺ Allows for individual face-saving.
- ☺ Enhances prospects for successful implementation and compliance with the decision reached and implemented.

Characteristics of Effective Groups

1. Members do not ignore seriously intended contributions.

Each member needs to know the effect of her/his remarks if any improvement in participation can be possible. When other members don't respond, the speaker cannot know whether:

- no one understands
- the remark was understood and others agreed
- others understood but disagreed
- others understood but thought the remark was irrelevant

When the principle of responding to contributions is followed, discussion is cumulative and the group moves together. When it's not followed, discussion becomes scattered, the same points are made over and over and members feel no progress is occurring.

2. Members check to make sure they know what a speaker means before they agree or disagree with a contribution.

The question "What is Meant?" should precede the question, "How do we feel about it?" In order words, understanding should come before evaluation. In an effective group, members frequently use paraphrasing and provisional summaries to clarify assumptions about what others are saying and feeling.

3. Each member speaks only for herself/himself and lets others speak for themselves.

Each member states his/her own reactions. Reactions aren't attributed to others, nor is there an impression that one person is speaking for others.

Each member reports personal reactions and opinions honestly. Members recognize that unless they are true to themselves, the group can't deal with individual feelings.

4. All contributions are viewed as belonging to the group to be used or not as the group decides.

A member who makes a suggestion does not have to defend it against other ideas. Instead, all accept responsibility for evaluating it as the "joint property" of the group.

5. All members participate but in different and complementary ways.

When some members fulfill task functions, other carry out maintenance functions. While some are providing information, others are making sure it is understood and organized or

identifying points of agreement or disagreement.

Each member doesn't always participate in exactly the same way. Instead, necessary functions are fulfilled as appropriate to an individual's interest, information and the behavior of other group members.

6. Whenever the group senses that there's difficulty in getting work done, the group tries to find out why.

Some symptoms of difficulty are excessive analysis, points repeated over and over, suggestions that are made but not considered, private conversations in subgroups, two or three individuals dominating the discussion, ideas being attacked before completely expressed and apathetic participation.

When such symptoms occur, the group shifts easily from working on the task to discussing interpersonal issues and process. This transition prevents pluralistic ignorance. For example, one member can be confused and assume that no one else shares that condition when, in fact, many others are also confused.

7. The group accepts responsibility for what it does.

No group can avoid making decisions; the group cannot choose **whether or not** to decide, but only **how** to decide. Thus, an effective group makes decisions openly and not by default.

When an effective group faces an issue, it must make a decision. The group may agree to take action or not to take action. Deciding by default not to act (for example, by avoiding discussion or a decision) has the same impact on the problem as openly deciding not to act, but it also has a negative impact on the group itself. Default decisions make group members feel failure and create tensions within the group. With each open decision, the group grows and becomes stronger and more effective.

The effective group makes decisions different ways depending on the issue and factors such as the importance of the outcome and time available. The crucial factor is that the group has an agreement on the way decisions are made.

8. The group brings conflict into the open and deals with it.

The members recognize conflict as inevitable. They know that the choice is theirs as to whether the conflict will be open and subject to group control or hidden and out of control.

Problem behaviors in an effective group are also dealt with openly. For example, the member who continually introduces irrelevancies can get the group off task only if other members allow it to happen.

The group gives helpful information to individuals about the impact of their actions on the group. It does not, however, analyze, dissect or overwhelm any member.

Effective Communication

Your efforts to communicate clearly, accurately and in a timely manner will reap rewards.

Communication, people talking together and sharing ideas, is essential to building groups and developing a sense of community. People need to ask questions, raise concerns, express opinions, and suggest ways to carry out a program or project. If people have basic trust in each other and in what they hear, they will form into a more cohesive group, work more effectively together and accomplish more than a group without trust. Learning to work together means learning to communicate with one another in a free, open and honest environment. Only in this

type of situation can one expect a group to get the job done.

If trust is built from the beginning, and develops over time, group members grow in their appreciation, understanding and acceptance of the group and its members. This leads to a greater tolerance of diverse views and a willingness to consider other ideas and opinions. If communication is open, the flow and quality of information increases.

Trust-Building	and	Mistrust-
Characteristics and		Characteristics
<u>Attitudes</u>		<u>Attitudes</u>
Open		Closed
Supportive		Controlling
Willing to		Risk
Respectful		Unwilling to Risk
Genuine		Disrespectful
Cooperative		Hypocritical
Mutual		Competitive
Problem		Superior
		Centered
Accepting and		Solution Minded
		Warm
Dependable		Rejecting and Cold
Expert		Capricious
Accountable		Inept
		Unaccountable

Chartier goes on to offer twelve interpersonal behaviors which can help build trust in a group:

1. Initiating communication or action with others
2. Establishing eye contact
3. Communicating clearly
4. Giving and receiving feedback
5. Listening emphatically
6. Expressing personal feelings

6. Expressing personal feelings
7. Accepting the feelings of others
8. Using "I" messages
9. Affirming the self-images of others
10. Being present and involved
11. Acting consistently
12. Appreciating the trust of others

The list helps the leader realize the attention and effort that must focus on trust. While all share in this responsibility, leaders carry the major responsibility for trust-building. They can assume this responsibility both by serving as a good example and by helping members of the group interact with others.

Group Size

Group size and communication are related. The larger the group, the smaller the opportunity for discussion, asking questions and expressing opinions. In larger groups, a more formal procedure is necessary and communication becomes less personal and direct. In some cases, several groups may be involved in the same project. The need for networking, coordination or collaboration makes the whole process more complex.

Larger groups can be temporarily broken into smaller groups increasing direct communication and interaction. Small groups have fewer than twelve members.

Regardless of group size, good communication is as direct, open and interactive as size will allow. A group of thirty or more will find it necessary to hold formal meetings which reduces individual member participation. It is useful to set aside time for small clusters of members to discuss a particular issue or proposed action with an opportunity to report to the larger group.

It is important to realize that people join groups for a variety of reasons. One reason is that they want to be a part of a particular group and they want to feel that their participation counts.

Feedback

Communication is a two-way process. Group members constantly send and receive messages. The responses, *called feedback* are both verbal and nonverbal. Pay close attention to feedback because it is through members' questions, comments, attitudes, and expressions that one learns how messages are being received.

Persons at meetings may suddenly realize they do not understand either what is being discussed or why it is a topic of discussion. At times detailed arrangements are spelled out only to find persons confused. A statement may seem clear, but if people in the group look surprised, have a questioning look on their faces, or frown, the feedback indicates that the statement was not clear at all. Response to this feedback with a quick check of those present probably can clear up the matter. Feedback helps members better understand what is going on and makes them a more integral part of the group.

Group members become more cohesive as they work together on projects and activities. This leads to more effective communication and a higher level of trust. As this occurs, feedback increases because members feel at ease with one another.

"Feedback" is a way of helping another person to consider changing his behavior. It is communication to another person (or group) which gives the person information about how he affects others. As in a guided missile system, feedback helps an individual keep his behavior "on target" and thus better achieve his goals.

Some criteria for useful feedback:

1. **It is descriptive rather than evaluative.** By describing one's own reaction, it leaves the individual free to use it as he sees fit. By avoiding evaluation language, it reduces the need for the individual to react defensively.
2. **It is specific rather than general.** To be told that one is "dominating" will probably not be useful as to be told that "just now when we were deciding the issues you did not listen to what others said and I felt forced to accept your arguments or be attacked by you."

- what others said and then forced to accept your arguments or be attacked by you.
3. **It takes into account the needs of both the receiver and giver of feedback.** Feedback can be destructive when it serves only our own needs and fails to consider the needs of the person on the receiving end.
 4. **It is directed towards behavior which the receiver can do something about.** Frustration is only increased when a person is reminded of some shortcoming over which he has no control.
 5. **It is solicited, rather than imposed.** Feedback is most useful when the receiver himself has formulated the kind of question which those observing him can answer.
 6. **It is well timed.** In general, feedback is most useful at the earliest opportunity after the given behavior, depending, of course, on the person's readiness to hear it, support available from others, etc.
 7. **It is checked to insure clear communication.** One way of doing this is to have the receiver try to rephrase the feedback he has received to see if it corresponds to what the sender had in mind.
 8. **When feedback is given in a training group, both giver and receiver have opportunity to check with others in the group the accuracy of the feedback.** Is this one individual's impression or an impression shared by others?

Feedback, then, is a way of giving help; it is a corrective mechanism for the individual who wants to learn how well his behavior matches his intentions; and it is a means for establishing one's identity.

Listening

Good listening skills are at least as important to effective communication as are good speaking skills. Listening goes beyond keeping silent. It is an active process that involves hearing, understanding, and relating through verbal and nonverbal feedback. The following suggestions will help improve listening skills:

1. Hear what is being said. Focus your attention.
2. Pay attention not only to the meaning of the words, but to the meaning of the body language and the voice inflections of the person speaking.
3. Maintain attentive body posture and facial expressions, such as eye contact, smiling, and nodding to show a positive interest.
4. Encourage the speaker to give more information by asking open-ended questions.
5. Reflect understanding and interest by paraphrasing what has been said, or by asking clarifying questions.
6. Empathize with the speaker. Put yourself in his or her place, and develop understanding based on the other person's perspective.

Working Together

People in work groups and committees learn to work together by trust and paying attention to feedback. Learning to work together takes time and effort. People come together to achieve what they cannot accomplish alone. Even if they know one another they may have had limited interaction before becoming part of the group. They need to get acquainted with one another and with the particular job facing the group.

Communication among the group members and clear directions from those responsible for the group get the group off to a good start. An atmosphere in which members feel free to ask questions, raise concerns, express opinions and, at times, voice disagreement is important for productivity.

There is a social side to every working group. Set aside time when group members can relax, get to know one another better and talk about things that may or may not be related to the work. A coffee break can be helpful. A meal meeting might be arranged at some point during a series of work sessions.

Some question the value of spending time this way. People need the opportunity to interact with the people with whom they work. Time spent this way enhances the group's willingness and ability to work together successfully.

Another important aspect of learning to work together has to do with the roles people play in the

group. Each member will work out most of the ways they function with the group. Some may be initiators, some may be summarizers, some may be coordinators.

There are many possible roles. The important thing is that individuals in a group who take on these roles tend to specialize and the other group members come to expect persons to take group roles over time.

The group facilitator assures that the various roles interact and complement each other. Through this process, the group learns how to work together effectively.

Language

Language can anger people, bring them to tears or excite them to action. There is power in language.

The words used, the context and how they are expressed impact different people differently. For example, *asking* a member or *telling* a member to help with an assignment may send two different messages.

Be aware of how powerful language can be and how much one can help or hinder the group process by communication efforts. Some people use language to stir emotions and excite others. At times this may be appropriate, but it may lead to calls to action when no clear direction has been determined by the group. Others may use language to impress the group with their knowledge on a particular subject. Again, this information may be useful at the right time, but too much information too soon in the process will not be of value to the group. It may not even be of interest to them and may waste valuable time. Others may use words or phrases that offend some members. Speaking in jargon may cause vagueness about what was actually said.

The group must be careful to maintain a balance between open communication among group members and too much communication within the group. Not every member will be equally vocal, and this is not unusual. Every member should feel free to make contribution to the matter under discussion.

Whether speaking or listening, group members are responsible to see that all communications are clear, accurate and in context with the situation. If the speaker fails in any one of these, feedback should be used to bring this to the speaker's attention. If the speaker does not respond adequately, the group should understand their responsibility to handle the situation.

To this point, emphasis has been on oral communication within the group. In discussing the power of language, it is important to give attention to the written word.

Meeting notices, minutes, correspondence, newspaper stories, and news items on radio and television are ways a group communicates outside of meetings. These efforts accomplish specific objectives. Meeting notices and minutes inform. A newspaper story or an item on television or radio may report on accomplishments or seek support from other groups, or recruit volunteers. Communication should always be clear, accurate and in context with the situation.

The Language of Leadership

Leadership is a process shared by group members. Leadership can be described as the process of influencing members by information and ideas. Every member can function in this leadership process. The more frequently shared-involvement occurs, the more responsive and mature the group becomes.

Members seldom share equally in the leadership process but should have the opportunity. The language of leadership comes into play in the comments, questions and other activities that help implement the three major functions of leadership in a group: accomplishing tasks, building group relations, and meeting the needs of group members. Group members who offer information, help analyze and diagnose problems, summarize a body of information, evaluate progress, and other functions lead the group in its efforts to accomplish specific tasks. Efforts to develop dialogue, open communication, and fully involve members in the group's

decision-making process provide leadership in accomplishing tasks and in building group relations. Group communications that either address the job to be done, help in the development of good group relations, or meet the needs that brought people to the group are examples of what is called the language of leadership.

The following five examples of good leadership behavior describes the language of leadership.

1. Help the members get acquainted with one another so they can begin to feel and function like a group.
2. Share information with members and keep them informed as new information becomes available.
3. Seek ideas, opinions and questions from members and respond as appropriate.
4. Help members communicate effectively with each other.
5. Help members become involved in all group decisions and activities.

What Happens After the Meeting is Over?

The first priority is to follow up on events that occurred during the meeting. For example, a list of names, addresses and telephone numbers goes to the group members who volunteered to contact new residents in the area. Copies of a proposal to hold an annual community luncheon goes to civic clubs and organizations that may be willing to participate. Minutes of the meeting may go to all members to summarize actions and keep them informed. The purpose is to build a common understanding of what the group is doing and planning to do in the near future.

The second priority is to maintain contact with organizations that share interests and may have cooperated in the past. This effort keeps others informed and widens the common interests and shared values in the community.

A Comparison of Dialogue and Debate

Dialogue	Debate
Dialogue is collaborative: two or more sides work together toward common understanding.	Debate is oppositional: two sides oppose each other and attempt to prove each other wrong.
In dialogue, finding common ground is the goal.	In debate, winning is the goal.
In dialogue, one listens to the other side(s) in order to understand, find meaning, and find agreement.	In debate, one listens to the other side in order to find flaws and to counter its arguments.
Dialogue enlarges and possibly changes a participant's point of view.	Debate affirms a participant's own point of view.
Dialogue reveals assumptions for reevaluation.	Debate defends assumptions as truth.
Dialogue causes introspection on one's own position.	Debate causes critique of the other position.
Dialogue opens the possibility of reaching a better solution than any of the original solutions.	Debate defends one's own positions as the best solution and excludes other solutions.
Dialogue creates an openminded attitude: an openness to being wrong and an openness to change.	Debate creates a closedminded attitude, a determination to be right.
In dialogue, one submits one's best thinking, knowing that other peoples' reflections will help improve it rather than destroy it.	In debate, one submits one's best thinking and defends it against challenge to show that it is right.
Dialogue calls for temporarily suspending one's beliefs.	Debate calls for investing wholeheartedly in one's beliefs.
In dialogue, one searches for basic agreements.	In debate, one searches for glaring differences.
In dialogue, one searches for strengths in the other positions.	In debate, one searches for flaws and weaknesses in the other position.
Dialogue involves a real concern for the other	Debate involves a countering of the other

Dialogue involves a real concern for the other person and seeks to not alienate or offend.	Debate involves a countering of the other position without focusing on feelings or relationship and often belittles or deprecates the other person.
Dialogue assumes that many people have pieces of the answer and that together they can put them into a workable solution.	Debate assumes that there is a right answer and that someone has it.
Dialogue remains openended.	Debate implies a conclusion.

Board Policies

Policies reflect the philosophy of the cooperative whether they are orally implied "because we have always done it that way" or a formal set of policies researched, skillfully written, adopted by board action, and communicated to all who are to work within their guidelines.

Written policy is important to all kinds and types of cooperatives. As cooperatives mature and long-time directors and employees retire, many of the oral and implied policies are lost.

Cooperatives in the process of organizing or emerging will find a set of written policies a guideline for making routine and recurring decisions. In both cases, policies help cooperatives attain their established goals and objectives.

Written policy statements should be a major ingredient of each cooperative's planning activity.

These policies should reflect the cooperative's basic philosophy and serve as guidelines for actions the cooperative takes to attain its established objectives.

Before determining policy, objectives must be identified. Objectives should be clearly stated in writing so that policies can be consistent with them. A cooperative might declare itself in a written objective to be "a non-profit, member-owned, and member-controlled enterprise established to provide marketing services and products to improve the economic condition of its members." Policy-making becomes the means for achieving this objective.

A policy statement is a guide to consistent decisions in recurring situations. It should be broad and general, leave room for interpretation and the exercise of judgment and initiative. It must not be regarded as sacred once issued, but frequently reviewed and revised as necessary.

Policies are used to:

1. Permit decisions to be made in advance;
2. Assure consistency in decision making;
3. Permit recurring decisions to be made at the lowest possible level in the cooperative;
4. Prevent problems in advance of their occurrence; and
5. Conserve the time and energy of management at all levels.

Policy statements must be tailored to each cooperative, and should conform to the cooperative's other policies. Once adopted, policy statements must be followed by the cooperative and may be used as evidence for or against the cooperative in disputes.

BOARD POLICIES

Development

Policies at any management level are used to guide and shape decisions. on one hand, they may be helpful in delegating particular responsibilities to subordinates. If clearly defined, they also help directors fine tuning plans to be implemented. Development of policy is the board's

crucial and proper role in setting guidelines within which the manager will operate.

How do bylaws differ from board policy?

Policies may be placed in a cooperative's bylaws. However, a written policy adopted by the board is more appropriate. Board policies require less formality for adoption, they can be changed more easily if unanticipated problems occur, and they avoid long, complicated bylaws that mix essential rules critical to a cooperative's success with simply desirable business practices.

How does a policy differ from a plan?

Plans specify detailed actions the cooperative wishes to implement to achieve objectives.

Policies are guidelines that provide a framework in which plans will be formulated, implemented, and reviewed. Policies help focus planning activities on the objectives the cooperative wishes to achieve. Imagine a pasture as an objective and the cattle as an action plan. The fence line around the pasture would be the policy defining boundaries of the plan.

Characteristics

1. A policy is a statement of belief or philosophy -- Each cooperative has a unique personality. Much of this public image is derived from the policies set by the board. In its desire to operate in the best interest of members, the board has certain intentions or desires.
2. A policy is a general statement. Unlike objectives, policies are broad guidelines for the manager to follow. Although the policy may be clearly stated, and its intent clear, it is rarely measurable or given a time frame. As an example, "Our cooperative will pay as much or more than the prices paid by our competitors for green peppers."
3. Board policy is long term. It depicts philosophy. Statements should be considered as permanent "fencelines" in guiding the actions of the cooperative. For example, "Our cooperative will provide further products or services to patron-members whenever the actual returns to members would be positive." This statement is broad, ongoing, and indicates the cooperative's intent to provide members with needed services when the benefits exceed costs. There is no action plan implicit in this policy. However, when a group of members want the cooperative to expand into a new product line, this policy is useful in making a strong "yes" or "no" decision.
4. A policy is a flexible yet firm commitment. A policy is a strong statement of cooperative intentions and should be enforced as stated. However, over time competitive conditions change, new laws are enacted, or the member-patron values evolve. So policies should be regarded as firm but subject to periodic review by the board.
5. A policy should be clearly stated and written. Policies actually are part of decision making, so each guideline should be worded to avoid confusion as to its intent. In this way, the policy makes decision making easier. A clearly stated and easily understood policy minimizes the need for future decisions about a similar problem. Policies must be written and retained for future reference.

Board Policy or Management Policy

Identifying where board decisions leave off and management decisions begin continues to be a problem for directors. In general, board policies are strategic. They are long range and concern the overall cooperative business. Management policy, on the other hand, is operational. The guidelines provide a focus for the day-to-day activities of the cooperative.

Certain guidelines can be used to determine who should make the decisions, the board or management. Here are some important guidelines:

- Ultimate accountability to members is vested in the directors. They may subsequently grant

ultimate accountability to members is vested in the directors. They may subsequently grant certain authority to officers, agents, and employees. The manager, in turn, is accountable to the board and initiates action within the boundaries of authority granted by the board.

- The board of directors is primarily concerned with idea decisions and management with action decisions.
- Decisions on overall objectives, policies, and goals are the responsibility of the board.
- Decisions involving long-range and consequential commitment of resources, such as facilities, finances, or manpower, are the board's responsibility.
- Decisions involving intermediate and short-range commitment of resources, and the organization and control of these resources, are management's responsibility.
- Decisions related assuring capable management succession by providing for executive depth and training are the board's responsibility.
- Decisions specifying the ideal pattern of board performance, and for the review and continuation of this ideal through training of directors are the board's responsibility.
- Control over the long-range financial commitments, financial structure, objectives, policies, public and member relations, and overall management performance are decisions for the board.
- Control over operations, subordinate employees, budgets, procurement, production, marketing plans, and industry and employee relations programs are decisions for management.

Creation, Perpetuation and Use of Board Policies

Some of the most valuable time any board can spend is analyzing policies and procedures. A common statement heard from board members is, "We're just a small group of directors. We all know how we do things as a board, and the manager knows what we expect -- just make money".

A particular director may think he/she knows how the board functions and may think the manager knows just exactly what the board expects. But what happens when another board member's interpretation of board functions varies from the first member's viewpoint? Also, what happens if the manager and the various members of the board see their responsibilities differently? The answer in both cases is chaos and, in turn, problems.

The very act of sitting down as a board and discussing the functions and responsibilities is a starting point. Systematic discussion brings out the varied points of view, and enables a board to analyze those viewpoints, and develop a joint understanding before a given policy must be used and interpreted.

Once policies are developed, a point of reference has been developed. Decisions can be made more easily and timely. There is less chance of disagreement over varying interpretations of just exactly how something is to be done or where responsibility rests.

Remember, policies are not cast in stone. They must be reviewed annually and updated. The environment within which a cooperative functions continuously changes. Policies governing those functions must also change. An annual review refreshes all board members about policies they put in place and enhance the effectiveness of all board functions. New directors can become acquainted faster about how the board functions and more productive sooner.

Board policies pay great dividends when the relationship begins between a board and a new manager. Often, there is an extended period of time when both try to determine what each expects of the other.

Board policies define the division of responsibilities and prevent internal struggles between the

Board policies define the division of responsibilities and prevent internal struggles between the new manager and a board. Those same policies enable the manager to know what the board expects without having to go through the trial and error period.

Board policies are essential. They enable a board to function in a smoother and more efficient way. Beliefs or philosophies of a board are mirrored in its policies and state how well the cooperative is fulfilling its basic objectives.

The Mechanics of Writing Policy

Identify Present Policy

Every business, new or old, large or small, has policies. Present policy may be written or oral. Some policies are mandatory based on state and federal statutes. Others define and clarify the articles of incorporation, bylaws, or accepted contractual agreements (membership documents, marketing contracts, leases, loan documents).

Precedent--the fact that "we've always done it this way" is basis for policy, as long as it does not become the only basis. Printed materials issued by the cooperative such as letters to the membership, advertisements about services, price schedules, employee handbooks, contracts (marketing-purchasing-leases-loans), accounting records, consultants notes, invoices and sales tickets, are all legitimate sources of policy statements.

A careful review of the minutes or notes of a steering committee and prior director meetings is a prime source for statements of policy.

Research should be done in all these sources, materials compiled and formalized statements of policy prepared so it will have meaning and be accepted by the membership and employees.

Few people will take the time to look through all the primary sources for a guide in making a decision. Anyone can be expected to look in a well-documented manual, properly indexed, that describes what they want to know when the situation arises.

Policy Style

Policy style can either be simple or written with considerable explanation. Most policies are written in simple form for ease in effective communication and implementation. However some may feel that written policy should be more complex to be effective and thus leave room for misinterpretation.

Suggested Procedure for Developing Written Policies

1. Management or a board committee or a combination of both should research and compile a list of the present policies now being followed. The topic or subject of either written or implied policies should be listed in their order of importance to the cooperative based on the judgment of the group.
2. On an individual basis each director and member of the management team should review a set of sample policies and the list of current policies now in effect as compiled by the group in step.
3. After appropriate study, and usually upon recommendation of management, the board should agree on the specific policies needed.
4. The chairperson should appoint a committee from the board and management to prepare a draft policy on each topic accepted earlier by the board. Or the board may instruct management to draft policies from its list of recommended topics.
5. Policy drafts should be presented in a special board meeting. Each director and member of the management team must have the opportunity to make suggestions and recommendations as to policy content.
6. A final draft of each policy should be written and include recommendations as accepted in the special board policy session. This draft should be sent to each individual board member

the special board policy session. This draft should be sent to each individual board member and management staff for their extensive review prior to final approval.

7. A second special board meeting should be held to read and discuss the proposed policies. If major revisions are necessary, the draft should be referred back to the original committee. If major revisions are not necessary, the board may adopt written policy by majority vote.
8. Adopted policy both new or revised must be signed by the board president and secretary, dated, and recorded in the board minutes. For the sake of brevity, the policy may be referenced by title or a numbering system in the minutes and the complete policy attached elsewhere. Revisions should be cross referenced to the original policy.
9. Each director and management team member shall be given a complete manual of all adopted policies. The extent of distribution of policies to employees, members and other interested parties is at the discretion of the directors and management. An official updated policies manual shall be on file in the corporate offices of the association or maintained by an elected official of the board.
10. Each policy should be reviewed annually by the complete board or a committee appointed by the chairperson for that specific purpose. A majority vote of the board is required to adopt policy additions and revisions.

PERSONNEL POLICIES

Personnel policies are designed to guide management. They are divided into two sections. The first, or expectation portion covers what the cooperative expects from employees, such as work hours, performances, conduct, and specific work rules. The second portion covers benefits such as vacations, sick leave, and insurance coverage.

Personnel policies are much like board policies. They permit decisions to be made in advance. Situations are analyzed and policies developed to permit consistent decisions for recurring conditions. It saves time at all levels of management. Employees know in advance what is expected of them and know management's stance in recurring situations.

One of the more important things policies address are legal issues concerning personnel administration. Each year, more and more legal guidelines or restrictions are being placed upon employers. Personnel policies can create the proper record or control system to prevent future problems or exposure to potential problems. These policies should be updated periodically to cover new legal situations. Internal review and assistance from an outside consultant versed in personnel policies are essential.

In Summary

1. Identify--Cooperative leaders must select the general areas to be covered by policy, such as the board and management functions, organization, public relations, finances, sales/marketing/production, and employee relations.
2. Formulate--Ideas for changing current policy or introducing new policy may come from the members, directors, management, employees, or paid consultants.
3. Adopt--The board, after considering the various recommendations, should agree on a final format that clearly explains all aspects of the policy. Before finalization, obtain policy acceptance by getting the opinions and reactions of all those affected. A majority vote is needed for adoption.
4. Distribute--Policy which has been identified, formulated, and adopted has no value unless all persons who are to participate with the policy know and accept their content. All policy should be in written form, collected in a manual, classified as to subject matter and distributed to persons concerned with administering them. Knowledge and acceptance help to insure consistent application.

5. Implement--The manager is responsible for carrying out the board policy by developing procedures to be followed, issuing instructions, and making sure concerned individuals understand, accept, and observe adopted policies.
6. Control--This is the board's management job. It is the board's responsibility to determine if the manager is carrying out the established policy. Periodic reports from the manager on aspects of the cooperative's operation are needed and not just at the end of the business year.
7. Review and Evaluate--This is the job of the board and management in judging the effect of any given policy. Evaluating how well policies worked is best determined by the level of understanding and acceptance of the policies by the entire cooperative.

Using Policy Governance to Improve Board Leadership

Cooperatives around the country are talking about Policy Governance a system of board leadership developed by John Carver. While people are drawn to the simple logic behind Policy Governance, it is quite different from previous board experiences. Governance is an important job and should be done well. As a cooperative board states in its policy manual, **"Because poor governance costs more than learning to govern well, the board will invest in its governance capacity."**

This article will go through the most important steps of implementing Policy Governance and provide experiences from coops using the model. I am assuming you have a basic familiarity with Policy Governance. For more information, please refer to one of the resources listed with this article.

Why policy governance is effective leadership

Directors and managers alike welcome a system of leadership that both distinctly defines the role of the board and clarifies the authority delegated to the general manager. Policy Governance is not designed to create a "hands off, board, but rather to ensure that the board has its "hands on the right things. Through its written policies, the board gives clear guidance to the manager and through careful monitoring of these policies holds the manager accountable for organizational performance.

Specifically, the board develops four categories of policy: policies to guide the manager about what should be accomplished (ends policies) and what situations should be avoided (executive limitations policies). In addition, the board develops policies to guide its own internal operations (governance process policies) and to define its relationship with the board's only employee, the general manager (board /general manager linkage policies).

Policies are explicit statements of values and perspectives on various topics that guide current and future decisions. By debating and articulating its values, the board can gain efficiency.

While the board discusses issues in many voices, it must speak officially in one voice. The policies are that one voice of the board.

Let's be clear: Policy Governance is a means, not an end. It is a tool for helping the board fulfill its responsibilities efficiently. The effective board provides leadership to the cooperative on behalf of the member owners.

Making a commitment

First, be sure that all board members and the general manager understand the basic principles of Policy Governance. Understanding the philosophy is critical to transforming leadership.

There are a number of excellent resources listed below. At least two board members should read Carver's two books to gain a thorough understanding of the model.

I recommend training for the full board. Without attention to team building and group dynamics,

a board can easily become less than the sum of its parts. A board "team" needs opportunities to explore new ideas together in a learning atmosphere.

The board as a whole must make a commitment to use Policy Governance. That commitment should be written as a policy the "largest" policy in the board process section. The vote need not be unanimous, but it must represent the voice of the board. Good governance makes a distinction between the position of the board and a minority position. A decision may be made with a 63 vote, but to be successful it must be pursued as vigorously as if the vote were 90.

Part of each director's work is supporting a group decision even if he/she would have made it differently alone. A board cannot allow a dissenting member to disrupt its resolve or undermine its work on this or any decision.

Once the board has made a commitment, you need a plan, a responsible party, and a time frame. An individual or an ad hoc committee takes responsibility for moving the group through the process. The board should use good delegation techniques by being clear about the results it expects and what guidelines must be followed.

Developing and adopting policy

It's time to start writing policies. While a subgroup can lead the process, the full board must participate in the development of policy. Since policies will guide all future activity, the full board needs to participate to ensure that they will know how to use them to accomplish board work.

Actual word crafting is often best accomplished by an individual, but only after the board has discussed and resolved the issues.

Start by developing policies in three of the four categories: executive limitations, governance process, and board/manager linkage. Some cooperatives hold a retreat to develop these policies. Other coops set aside time at each meeting, and still others devote one meeting each quarter to policy development. Whatever your method, it is important not to stay in transition too long. After you have learned a new way of working, you will want to start as soon as possible. Consequently, a policy retreat is best, but other methods can work if you have a clear plan and timeline.

Begin with any of the three categories and continue to develop policies completing executive limitations, governance process, and board/manager linkage. Start with the broadest, most inclusive policy and then develop further detail and clarification. The board continues to define and clarify its values with written policy until it can accept any reasonable interpretation. Most coops start with sample policies from a consultant or other coops. Carver's new book, *Reinventing Your Board*, has an excellent set of sample policies.

Save the ends policies for the last, because they are the most challenging and time consuming. However, do not wait until ends policies are written before beginning to use the model. Write a temporary ends policy. Then adopt the whole policy document and begin the monitoring process. Now you will be ready to gain the full value of the model.

Using Policy governance

Writing the policies is only the beginning and, in fact, is not worth doing if you don't use them!

Unfortunately, too many cooperatives have a set of finely crafted policies but have failed to gain the advantages the model offers by not using them effectively. Before adopting Policy Governance, many coop boards spent most of their time reviewing and approving the manager's work and never had time to do board work. If Policy Governance has not fundamentally changed the way the board uses its time and does its work, the monitoring system is not working as it should

The policies on ends and executive limitations are the monitoring criteria nothing more, nothing less. Policies in these areas authorize the manager to make all further decisions which reasonably interpret the policy. At the same time, the board establishes a monitoring process what type of report, how often and when. Through the monitoring reports, the board is assured that organizational performance meets the criteria they have set.

Monitoring reports are based upon data presented to show that board policies have been

Monitoring reports are based upon data presented to show that board policies have been complied with. The only reason to spend agenda time on monitoring is if the report shows noncompliance. This allows the board to spend its time doing its own job. It is important to keep monitoring reports focused and concise to avoid the board getting lost in information that does not constitute monitoring.

The board can always change its expectations/criteria by changing its policy. But it should never judge a manager for not complying with a policy it meant to write. A manager has a right to expect that a board will be clear about the rules and then to play by those rules.

Getting on to leadership

With policies in place and the monitoring system working, the board is ready to lead. Most of the board's time will be spent on large, fundamental questions which will guide the cooperative into the future, not on the present or the past. Through developing ends policies, the board determines what the coop is for what good, for whom, at what cost? Because these are complex issues, much board time will be spent in ongoing education.

Equally important, the board will develop linkages with the member owners, both to better understand them and their needs and to report to them on what the coop is doing with their money on their behalf.

Summary

Simply stated, the board's job, on behalf of member owners, is to see to it that the cooperative produces what it should while avoiding situations that should not occur. Policy Governance is a tool to help the board do this job effectively and efficiently. Like any tool, it works best when used in the way it was intended to be used. Every board must tailor the model for its particular situation. But the principles of Policy Governance fit together in such a way that each incomplete application could significantly weaken the results.

So, the board should:

- o Learn the principles of the model and see if they will help you lead.
- Decide whether or not to use the model.
- Make a commitment and plan.
- Use the principles to design the board's job in a way that makes sense to you, yet maintains conceptual integrity.
- Establish and use a rigorous monitoring process.
- Boldly resolve to stick to it. Governance is too important to do poorly.

Planning--A Function of Directors

Planning is the process of deciding, in advance, how the cooperative will achieve its objectives. Management normally develops plans, the board reviews and approves them. Short-term planning involves anticipating situations that must be resolved in a time period too short for the cooperative to make adjustments in operations.

Long-term planning concerns a planning period in which the cooperative can vary its operations, by adding or deleting buildings, equipment, and personnel as needed.

All plans should be consistent.

Planning is a continuous process. A five year plan is not set in cement for five years, but is reviewed at least once a year and updated so it projects for the upcoming five year period.

Any cooperative must evaluate its performance to plan effectively for the future.

A budget is a formal written statement of the future objectives of the cooperative, expressed in financial terms. A one-year budget covering income and expenses follows the general outline of an operating statement:

ITEM	DEFINITION
A. Total sales	Total sales - Expected volume (x) expected average selling price.
B. Total cost of goods sold	Total cost of goods sold - Expected volume (x) expected average payment to growers + (beginning inventory - ending inventory).
C. Gross margin (A-B)	Item A minus Item B.
D. Other income	Other income - Interest, grants, cooling fees, storage fees, etc.
E. Total gross income	Item C plus Item D.
F. Operating expenses	<p>Operating expenses - Costs the cooperative incurs to be in business.</p> <p>Variable costs - Costs which are almost directly related to volume of product handled: seasonal employees, packaging materials, shipping.</p> <p>Fixed costs - Remain about the same regardless of the volume of product handled: manager and full time staff salaries, property taxes, depreciation, insurance, interest on long-term debt (more than one year).</p> <p>Partly variable costs - Vary somewhat, but not proportionately, with changes in volume handled: utilities, maintenance.</p>
G. Total net income	Item E minus Item F.

Any business is founded on both qualified personnel and on the objectives, goals, and policies established by the board. A board's objectives and policies for the business are individual matters that must be tailored to the specific needs of the cooperative. Some authorities imply that board planning literally means the board will plan all activities of the business. This is not what happens in actual practice in any size organization. While it actively plans certain matters, the board delegates most of the planning to operating management. Once management presents its plan for the cooperative operation, the board is accountable for approving, rejecting, or modifying them as required.

The board is accountable for planning objectives, goals, and policies and should have a major role in their development. To the manager, it delegates planning of major facilities, services, resources, and many other matters. The board, however, cannot delegate its authority and responsibility for all plans.

Directors have many interests and limited time. Their primary value to the cooperative is in providing a broad viewpoint and guidance to management. As a practical matter, directors often cannot devote the necessary time and resources to development of detailed operating plans.

However, their knowledge of production agriculture and the need to increase the profitability of their farming operations provide an insight to plan evaluation.

Coordinating Short-Term Decisions with Long-Term Objectives

The board is primarily concerned with longrange planning rather than planning of current activities.

Immediate Planning

This is sometimes called emergency planning, but more often "crisis" planning. With some cooperatives, it is planning from one crisis to another. But this is not really planning. Planning by managers and the board should be thoughtful determination and systematic arrangement of all the factors required to achieve goals and objectives of the cooperative. It is getting ready to do the work. Crisis planning is often merely management's reaction to an unexpected situation. An internal crises could be prevented by proper development of policies and objectives or through actual planning.

Short-Term Planning

The manager is concerned with shortterm planning including situations anticipated or expected during a 1year period, although that time element is flexible. This is the time period in which the cooperative can't make major adjustments in operations. For example, if weather conditions hasten the maturity of a crop being processed, the cooperative can't increase its operating capacity by installing additional equipment or adding more floor space to compensate for larger tonnage being delivered by farmers.

LongTerm Planning

With longterm planning, the cooperative can vary or adjust its operations in line with stated objectives. For instance, it can add additional equipment, buildings, and personnel as needed. The board and manager share this function. Longterm plans may be projections kept 3 to 5 years in advance by annual reviews of the directors.

Plan Interrelations

All plans should be interrelated. Plans and programs should be consistent to avoid conflicts. The cooperative short run actions should lead to achieving its longrun objectives. The importance of goals and objectives as benchmarks and targets is evident.

A link exists between one decision or plan and another, so planning can't be viewed in isolation, apart from other activities. This chain effect is really a sequence of plans with one linking with the next. Plans must be considered for:

- their cost;
- effects if they aren't followed;
- expected results if carried out;
- reactions expected from competitors if plans are achieved; and
- future plans required as a result of achieving current plans.

This sequence of decisions recognizes that a plan is based on many changing factors rather than a fixed set of circumstances being considered all at once.

Planning in recent years has been conducted in a scientific framework. Successful cooperatives are using modern planning techniques. Real cooperative growth depends on the quality of longrange planning. Directors must provide a climate for growth and assure that the plans of operating management are consistent with the objectives of the cooperative.

Strategic Planning

Prior Planning Prevents Poor Performance. Otherwise known as "The Five P's".

What is Strategic Planning?

"You don't design the future by what you do now, you do now based on your vision of the future." ...Plato

Strategic planning is a management tool period. As with any management tool, it is used to

Strategic planning is a management tool, period. As with any management tool, it is used to help a cooperative do a better job by:

- helping to focus its energy,
- ensuring that members of the cooperative are working toward the same goals, and
- assessing and adjusting the cooperative's direction in response to a changing environment.

In short, strategic planning is a disciplined effort to produce fundamental decisions and actions that shape and guide what a cooperative is, what it does, and why it does it, with a focus on the future.

A word by word dissection of this definition provides the key elements that underlie the meaning and success of a strategic planning process:

- The process is strategic because it involves preparing the best way to respond to the circumstances of the cooperative's environment, whether or not its circumstances are known in advance; cooperatives often must respond to dynamic and even hostile environments. Being strategic, then, means being clear about the cooperative's objectives, being aware of the cooperative's resources, and incorporating both into being consciously responsive to a dynamic environment.
- The process is about planning because it involves intentionally setting goals (i.e., choosing a desired future) and developing an approach to achieving those goals.
- The process is disciplined in that it calls for a certain order and pattern to keep it focused and productive. The process raises a sequence of questions that helps planners examine experience, test assumptions, gather and incorporate information about the present, and anticipate the environment in which the cooperative will be working in the future.
- Finally, the process is about fundamental decisions and actions because choices must be made in order to answer the sequence of questions mentioned above. **The plan is ultimately no more, and no less, than a set of decisions about what to do, why to do it, and how to do it.** Because it is impossible to do everything that needs to be done in this world, strategic planning implies that some organizational decisions and actions are more important than others and that **much of the strategy lies in making the tough decisions about what is most important to achieving organizational success.**

Strategic plans are not an architect's blueprint that must be followed exactly to achieve the desired result. They are road maps that offer a general destination rather than a specific course, with freedom to adjust the plan along the way.

Before a cooperative can outline future directions, strategic planning participants must arrive at consensus about the cooperative's mission, needs and resources. Strategic planning can be characterized as the intersection of these three things. The mission explains why a cooperative exists and what it intends to accomplish. The needs of the customers, not the needs of the cooperative's governing body, should be the primary concern. Identifying internal and external resources helps define the tools available to accomplish goals. Strategic planning can also help identify new resources, especially those that partnerships offer.

The strategic planning process can be complex, challenging, and even messy, but it is always defined by the basic ideas outlined above and you can always return to these basics for insight into your own strategic planning process.

Strategic planning can be explained as a process similar to the one a hiker might use when walking in the woods. The hiker walks in the woods because it's good exercise. Similarly, the Vision represents the benefits your cooperative believes it can bring its members and to its community. The Mission, like a map or compass that the hiker uses on the walk, can provide a direction in which to go and help your cooperative back to the right path if it loses sight of the purpose. The Goals, similar to how many miles our hiker wants to walk in one day, gives your cooperative a measure of the work that it wants to accomplish. Objectives/Strategies are similar to list of the things our hiker needs to do (like walking fast, leaving early in the morning) in order to make the task successful. Action steps act as the equipment (such as hiking boots, a canteen of water, a map) that help your cooperative (and our hiker) reach the desired destination.

Strategic Planning and Long-Range Planning

Although many use these terms interchangeably, strategic planning and longrange planning differ in their emphasis on the "assumed" environment. Longrange planning is generally defined as the development of a plan for accomplishing a goal or set of goals over a period of several years, with the assumption that current knowledge about future conditions is sufficiently reliable to ensure the plan's reliability over the duration of its implementation. In the late fifties and early sixties, for example, the US. economy was relatively stable and somewhat predictable, and, therefore, longrange planning was both fashionable and useful.

On the other hand, strategic planning assumes that a cooperative must be responsive to a dynamic, changing environment (not the more stable environment assumed for longrange planning). Certainly a common assumption has emerged in that the environment is indeed changeable, often in unpredictable ways. Strategic planning, then, stresses the importance of making decisions that will ensure the cooperative's ability to successfully respond to changes in the environment.

Strategic Thinking and Strategic Management

Strategic planning is only useful if it supports strategic thinking and leads to strategic management the basis for an effective cooperative. Strategic thinking means asking, "Are we doing the right thing?"

Perhaps, more precisely, it means making that assessment using three key requirements about strategic thinking:

- a definite purpose be in mind;
- an understanding of the environment, particularly of the forces that affect or impede the fulfillment of that purpose; and
- creativity in developing effective responses to those forces.

It follows, then, that strategic management is the application of strategic thinking to the job of leading a cooperative. It is continually asking the question, "Are we doing the right thing?" It entails attention to the "big picture" and the willingness to adapt to changing circumstances, and consists of the following three elements:

- formulation of the cooperative's future mission in light of changing external factors such as regulation, competition, technology, and customers,
- development of a competitive strategy to achieve the mission, and
- creation of an organizational structure which will deploy resources to successfully carry out its competitive strategy.

Strategic management is adaptive and keeps a cooperative relevant. It is about change. In these dynamic times it is more likely to succeed than the traditional approach of "if it ain't broke, don't fix it."

What Strategic Planning Is Not

Everything said above to describe what strategic planning is can also provide an understanding of what it is not. For example, it is about fundamental decisions and actions, but it does not attempt to make future decisions. **Strategic planning involves anticipating the future environment, but the decisions are made in the present.** This means that over time, the cooperative must stay abreast of changes in order to make the best decisions it can at any given point it must manage, as well as plan, strategically.

Strategic planning has also been described as a tool but it is not a substitute for the exercise of judgment by leadership. Ultimately, the leaders of any enterprise need to sit back and ask, and answer, "What are the most important issues to respond to?" and "How shall we respond?" Just as the hammer does not create the bookshelf, so the data analysis and decisionmaking tools of strategic planning do not make the cooperative work they can only support the intuition, reasoning skills, and judgment that people bring to their cooperative.

Finally, strategic planning, though described as disciplined, does not typically flow smoothly from one step to the next. It is a creative process, and the fresh insight arrived at today might very well alter the decision made yesterday. Inevitably the process moves forward and back several times before arriving at the final set of decisions. Therefore, no one should be surprised if the process feels less like a comfortable train on a conventional track, but rather like a wild ride on a

if the process feels less like a comfortable trip on a commuter train, but rather like a ride on a roller coaster. But even roller coaster cars arrive at their destination, as long as they stay on track!

Strategic Planning Traps

- Strategy formulation is treated as a separate task. It isn't. No matter how much time and analysis you give it, no committee, staff support, professional, consultant, or brilliant strategist can develop an effective strategic plan in isolation. Strategy is an interactive process. It might be separated from daily management, but can't it be separated from leadership. It is leadership.
- Relying on an artificial world of budgets, plans, analysis, strategies, concepts, theories, and numbers. The valuable experience of the staff, members, and stakeholders who lived in the real world need to be included in the process.

Successful strategic planning:

- sets a clear direction for the future,
- establishes stability in an uncertain world,
- capitalizes on the rapid changes in technologies,
- evaluates limitations,
- looks for opportunities,
- helps to maintain a competitive advantage,
- mobilizes the cooperative toward a common vision of success and charts the path to reach it,
- defines priorities to provide a foundation for decisionmaking,
- determines the best allocation of resources and the need for redirecting or restructuring,
- provides a tool for measuring progress and evaluating performance,
- provides a clear picture of what's happening around you -- so you can anticipate changes in the business environment and respond to them effectively,
- leads to action
- builds a shared vision that is valuesbased
- is an inclusive, participatory process in which board and staff take on a shared ownership
- accepts accountability to the community
- is externally focused and sensitive to the cooperative's environment
- is based on quality data
- requires an openness to questioning the status quo, and
- is a key part of effective management.

Once a destination is chosen through strategic planning, the journey must be tackled one step at a time. Travel will not always be easy or linear--travelers must veer to avoid obstacles, frequently refer to the road map and change course when necessary.

Many cooperatives have found that planning by crisis does not work. When the going gets rough, there is a tendency to shorten our outlook and react to each new crisis. Strategic planning, on the other hand, helps you assess the long-range opportunities by anticipating change instead of reacting to it.

Strategic planning is an approach that explicitly considers the uncertainty and change that cooperatives face. Strategic planning emphasizes assessing your environment (what is happening around you) and identifying opportunities for adjusting or positioning your business.

Strategic planning anticipates the future. It considers the probabilities of future events, but does not attempt to predict what will happen. Managers can make better decisions about what to do now by considering future possibilities, rather than waiting to see what happens.

Strategic planning is long-range planning. Year-to-year planning is not adequate, because farming is a long-term venture. A plan should look ahead at least five years. But this does not mean you plan only every five years. You should revise your plan at least once a year.

Strategic planning will not guarantee success, but, all things considered, planning can improve your chances of success.

Effective planning is a critical success factor for a cooperative. But the focus and type of planning is what's critical. Two types are needed. First, personal, team, and organization planning should focus especially hard on improvement. This critical planning establishes systems and processes to continually build and improve understanding, skills, and competencies. So when those unexpected opportunities come along that fit your vision, values, and purpose, you're able to capitalize on them. The second type of planning is implementation or action planning. It's disciplined, short term (today, any detailed action planning beyond two years is ludicrous) and centered around annual goals monthly or weekly priorities.

Here are some most important elements when developing a strategic plan:

1. *Check out the environment.*

The best companies find out what's happening with the people who are key to their success: customers, distributors, suppliers, and employees. They evaluate industry trends and analyze the competition. They build a "picture of the future", including new opportunities, challenges, and customer preferences.

2. *Set a clear direction.*

Where will our cooperative be in 35 years if it's **truly** successful? What opportunities will have been maximized? What bullets dodged? The best companies' strategic plans set out a clear vision of success. The management team contributes their inspired ideas and unique perspectives; managers come away with dedication to the cooperative's direction and its vision of success.

3. *Identify the key success factors.*

In every business, there are a few things you absolutely must do right to achieve success. Smart executives hone in on these key factors, then convert them to a "short list" of highpriority objectives for the cooperative.

4. *Choose strategies to get there from here.*

Every objective can be achieved through many approaches. Successful cooperatives select their approaches carefully, based on knowing where the sands are shifting in their environment. They state the selected approaches as strategies. This sets strategic planning apart from oldfashioned goal setting -- choosing a few, well thought out strategic approaches to the cooperative's objectives. Management and key staff thoroughly discuss the options, understand the choices, and agree upon the selected strategies.

5. *Build on the cooperative's strengths.*

Successful cooperative's revisit what they've done right to get where they are. They decide which of these past approaches will work to achieve their future success. They choose the best and build them into their strategies. Equally important, they're realistic about the areas where the cooperative has made mistakes. Their strategies ensure that they won't repeat them.

6. *Set specific goals and objectives.*

When you turn strategies into goals and objectives, it's important to involve the people who must make it happen -- the employees. Key customers or suppliers can also be included.

When you've finalized the goals and objectives, turn them into an "action plan" by setting deadlines and assigning responsibility to a specific individual or team.

7. *Stay flexible.*

The world is changing fast and the market is a constantly moving target. While a cooperative's vision of success may not change much in three years, its key objectives will need to be revised every year or two. Strategies and goals may need adjustment more often. Some cooperatives only need to revise their plan annually; others give theirs a "quick sweep" every six months, focusing just on those strategies and goals that need to be changed. Well run cooperatives know when to shift gears, because they keep an eye on the changing environment, new opportunities, and new threats from competitors.

8. *Measure and reward success.*

The best cooperatives don't just monitor the competition -- they keep tabs on their own

...the best cooperatives don't just monitor the competition, they keep tabs on their own progress. They build into their plans the milestones that must be achieved by specific dates. Then, when progress is made, it's rewarded. Simple recognition is often enough (a handwritten note from the boss, or a team celebration). For the big achievements, the plaque, trophy, or monetary bonus says the cooperative is serious about success.

Strategic planning is an increasingly popular tool in today's fastchanging business environment. Cooperatives are using it to stay on top of the market and ahead of the competition. It works well when the planning process spots the changes that will make or break the business, when the right people are involved at key points, and when the strategic plan has built in flexibility.

What is Needed to Hold a Planning Session?

First, the groundwork is set for the planning session. This means planning the time, arranging the necessary days during which the entire board of directors, all interested members and employees, and key employees such as the manager, accountant, and supervisors can be present and preparing needed materials. The board of directors must set aside uninterrupted time for strategic planning. All directors must be present. All must participate. An informal meeting site away from the business location is advantageous. This permits all participants to devote their full attention and energies to the strategic planning session. A flip chart, tape, and felt pens will be needed in order to write down information. One person should be responsible for writing the information on the flip chart and another for leading the discussion.

The leader is responsible for the smooth functioning of the planning session. In addition, the leader is responsible for having the group assign actual dates for reaching each established goal and strategies. This is very important. Without ACTUAL DATES (deadlines) for progress, there is no way evaluating how well the objectives of the cooperative are being met.

Strategic planning involves completing eleven steps and answering the related questions. They are:

1. Visioning.

- What is the best possible future you can envision for your cooperative?
- To achieve your desired future, you need leaders with certain kinds of qualities. What are they?
- What are the means (resources) your cooperative will need to reach its desired future?

2. External Environment.

- What are TRENDS in the external environment which may have an impact on your cooperative? (TRENDS: technological change, economic forces, social/demographic, political climate; customers, etc. that are outside the cooperative.)
- Identify STAKEHOLDERS in your cooperative's external environment who: (a) are impacted by, (b) can block implementation of, or (c) will implement decisions made by your cooperative?
- Identify COMPETITORS in your cooperative's external environment who may have an impact on your cooperative?
- Identify potential COLLABORATORS in your cooperative's external environment who your cooperative may work with in the future?

3. Internal Environment.

What RESOURCES and aspects of the current CLIMATE within your cooperative can HELP or HINDER it from achieving its desired future? (RESOURCES: work force, facilities, economic, information, competencies, climate, culture, present operations, performance, etc. that are within the cooperative.)

4. Values.

The values you have drive the work you do. Organizational values helps to formulate policy and strategy. What are your most important work-related values? (VALUES are beliefs that certain types of behavior or outcomes are personally or socially preferable. Examples: work ethic, honesty, loyalty, traditional family, rural lifestyle.)

5. Underlying Assumptions.

Underlying assumptions are those beliefs or conclusions about your cooperative or its environment that are seen as fact and true and almost never change. Because they are considered true, they provide a basis from which to make decisions, select options, and develop strategies. Given the values you have, you develop underlying assumptions about how your cooperative operates. What are some of these work-related assumptions?

6. Mission Statement.

A mission statement is a brief description of what the cooperative does (its purpose), and it answers three basic questions: 1) What does your cooperative do? 2) Who is your cooperative, and who does it serve? and 3) How does your cooperative conduct its business?. It incorporates your values, desired future, and underlying assumptions. The mission is used to make decisions regarding the cooperative's future.

The mission statement is broad in scope and should clearly state the cooperative expects to do now and in the future. If the cooperative is attempting a major change in focus, the mission statement should note the role the cooperative played in the past and perceives the cooperative mission to be in the future. Management and key employees may make suggestions about the mission statement and its content, but the board must take ownership and responsibility for its content and direction.

A long complex mission statement isn't necessary, straightforward communication is.

7. SWOT Analysis.

A SWOT analysis identifies emerging external opportunities and threats that may impact your cooperative's ability to achieve its desired future and analyzes your cooperative's internal strengths and weaknesses for meeting these opportunities and threats.

- Strengths. Prioritize your cooperative's most important strengths.
- Weaknesses. Prioritize your cooperative's most glaring weaknesses.
- Opportunities. Prioritize opportunities your cooperative should consider as it plans for the future. Rank these opportunities in order of those which have a higher probability of presenting themselves.
- Threats. Prioritize threats your cooperative must take into consideration as it plans for the future. Rank these threats in order of those which have a higher probability of presenting themselves.

8. Strategic Issues.

A Strategic issue is a problem or opportunity that, if action is not take on it now, is likely to saddle the cooperative with unbearable future costs. The identification of strategic issues relates to the fundamental question of the cooperative's mandates, mission, and values. It also relates to the customers, the types of products and services needed, management, and budgeting issues. It is critical to examine the consequences of not addressing the issues. If there are no consequences, it is not an issue.

There are three concerns that must be addressed when examining strategic issues:

- a. The issue must be described concisely, in a brief paragraph. The issue is often framed as a question that the cooperative can do something about.
- b. The policy questions need to be addressed. What makes this a strategic issue? Factors such as mandates, vision, mission, values, etc. need to be listed. The framing of the strategic issue is very important.
- c. It is critical to examine the consequences of not addressing the issues. This should be done thoughtfully and examined. If there are no consequences, it is not an issue.

It is more useful to address several important issues in depth, or a key mix of long-term and short-term issues. However, if all the Strategic Issues that need to be dealt with are short-term (such as cash flow problems), do not put off dealing with key short-term Strategic Issues in order to address a mixture of long and short-term issues.

What are strategic issues for the cooperative to consider as it plans for the future? Can you prioritize these issues?

9. List and Prioritize Goals

9. List and Prioritize Goals.

Goals describe the purpose or mission of the cooperative. Goals should be 1) future oriented, 2) broad, 3) measurable, 4) action oriented, and 5) outcome specified.

Goals are a general statement of an a desired direction, achievement or improvement.

Goals should be broad but well-defined and address the Strategic Issues of the prior evaluation. Identifying and defining 2 or 3 key goals in writhing is better than a longer list of narrowly defined goals. Fewer well-thought-out goals are most productive.

An example of a goal might be "The cooperative will, through exploration of new marketing channels, increases the volume that we market for our members."

Given the issues prioritized in the last section, what are some goals which will help you address the most important issues?

Prioritize those goals which have the best potential of enabling you to achieve your desired future.

10. Action Plan.

After defining goals, the group must determine the specific actions that will be necessary to accomplish each of the key goals. Actions are measurable statements of accomplishments.

Actions have a measurable outcome, a time frame for achievement, and resources or a budget may be attached to achievement. Actions should be reasonable, attainable and not in conflict with the purpose of the cooperative. They should be able to be quantified such as "The cooperative will call six new brokers." Several actions short-and long-term may be needed to reach an objective.

The strategic planning team should take each goal and list a series of actions that must be accomplished in order to reach that objective. Progress must be measured through evaluation.

From the list of prioritized goals, determine what courses of action will be required to meet those goals. Think about an action plan that has to be developed to assure the achievement of your goals.

WHAT--Activities/Strategies: What specific activities/strategies must be undertaken to achieve each of your highest priority goals (no more than two or three)?

WHO--Responsible: Identify people who will be responsible for each activity/strategy in your action plan.

WHEN--Deadlines: Determine the sequencing of activities and set deadlines for them.

HOW--Resources Required: Think about the resources you will need for each activity. How can resources be allocated so that goal achievement is possible?

Obstacle Consideration: What are some potential obstacles which may prevent you from achieving your goals?

What are your contingency plans for dealing with potential obstacles?

Evaluation: What method(s) of evaluation will be utilized to determine the success of your activities and the progress you are making toward the achievement of your goals? How will you evaluate the success of your action plan(s)?

11. Policies

Setting policy is an important part of the overall strategic planning process. Policy provides structure for and gives management the authority for implementation of programs and plans.

An example of the coordination between policy, objectives, goals, and plans and programs is credit control. The board would approve a credit policy based on a financial objective. With the approval of the directors, management would construct a credit plan or program. The responsibility for implementing and carrying out the plan is management's. Goals would be set like a stated percentage of all accounts receivable to be maintained in a current position of less than 30 days. Programs of action would be approved by the board on how to handle the accounts receivable that exceeded the 30 day credit limit.

Summary

Plans are micro-actions, each of which must be done in order to accomplish a goal. Specific deadlines must be set for each action. Responsibility for the specific work must also be determined. This is the most important part of strategic planning. Unless directors are will to assign and accept a fair share of responsibility for action, no work will be done and no objectives met. Strategic planning without the interest by the board in assigning work and meeting deadlines is a waste of time. In addition, it is not a good idea to assign all the responsibility for action to the manager of the cooperative. Directors need not be responsible for everything. Members can be involved in obtaining goals through working committees with oversight of a director.

Use of Committees With Cooperatives

In many cooperatives, local committees are appointed or elected from the members and directors to serve in many different capacities. These committees can be extremely effective if given authority and responsibility. Size of local committees is no particular problem - the medium size is six to ten. Members can be elected or appointed, and can serve a single one-year term or be elected for two three-year terms in staggered elections.

Each local committee should have clearly defined responsibilities and authorities and a clear cut idea of what is expected of them. They need to plan and budget to carry out their programs.

They hold some well planned meetings each year and provide the minutes to the board of directors and operating management. Local committees are also a training ground for future board members and other cooperative leaders and organizations.

Some purposes of local committees may be:

- To assist in educational and public relations activities.
- To help create a closes liaison between local members, board of directors, and management of the cooperative.
- To encourage greater participation of members in the democratic control of the cooperative.
- To assist the board management in preventing, assessing, adjusting, or correcting misunderstandings and complaints of members.
- To assist in preserving the integrity of the cooperative in the community.
- To help assume the citizenship responsibilities.
- To provide liaison with other cooperative organizations in the community.
- To develop leadership for the cooperative.

Included in this section is an instruction sheet that can be filled out for each committee to ensure that they are aware of their responsibilities and what is expected of them.

Ideas to Generate Participation in Committees

To increase attendance and/or participation in committee meetings, consider some or all of the following:

- Ensure committee chairs understand and can convey the role of the committee to members, and that the chair and members have up-to-date job descriptions.
- Ensure adequate orientation that describes the cooperative and its unique services, and how the committee contributes to this mission.

- Remember that the cooperative and its committees deserve strong attendance and participation. Don't fall prey to the perspective that "we're lucky just get anyone." Set a standard for the best.
- Have ground rules that support participation and attendance. Revisit the ground rules every other meeting and post them on the bottom of agendas.
- Let go of "dead wood." It often help to decrease the number of committee members rather than increase them.
- Consider using subcommittees to increase individual responsibilities and focus on goals.
- Conduct yearly committee evaluations that includes a clear evaluation process and where each committee member evaluates the other members, and each member receives a written report about their strengths and how they can improve their contributions.
- Attempt to provide individual assignments to the committee members.
- Have at least one staff member participate in each committee to help with administrative support and providing information.
- Monitor quorum requirements for the entire board (as set forth usually in the bylaws), or the minimum number of board members who must be present for the board to officially enact business. This quorum, when not met, will serve as a clear indicator, or signal, that the board is in trouble.
- Develop a committee attendance policy that specifies the number of times a member can be absent in consecutive meetings and in total meetings per time period.
- Generate minutes for each committee meeting to get closure on items and help members comprehend the progress made by the committee.
- In committee meeting reports, include noting who is present and who is absent.
- Consider having low-attendance members involved in some other form of service to the cooperative.
- Have a "summit meeting" with committee members to discuss the low attendance problem, and use a round-table approach so each person must speak up with their opinions.
- - o Rotate in new members every year.

Committee Authorization and Instruction Sheet

Date: _____

- A. Name of Committee:
- B. Type of Committee:
- C. Source of Authority:
- D. Purpose:
- E. Specific Duties and Responsibilities:

F. Committee Members:

Chairperson

H. Report to:

I. Time of Reporting:

J. Budget:

K. Coordination with other Committees:

L. Other Responsibilities:

Board Performance Evaluation

The greatest threat to the survival of a cooperative is the board of directors.

While this is a strong statement, it also emphasizes the fact that boards of directors are ultimately accountable for policies, practices, and procedures that will determine whether the cooperative will live or die.

A March 1994 report by the Plunkett Foundation -- Developing Directors of Cooperatives and Other Similar Enterprises -- recommends that boards:

"...recognize that the success of any business ultimately depends upon the capacity of its directors to provide the vision and direction needed not only to survive, but to develop and prosper. Therefore, make a commitment to develop the capacity of the board of directors to improve both their personal and collective contributions to the overall development of the business."

What is your job as a board member?

The job of the board of directors is to improve the bottom line for members. In order to accomplish this, the board must make management of the cooperative better.

Although it may be easier for a cooperative to succeed with good management and a weak board than with a good board and weak management, even the best management eventually will falter without board support.

Strong managers like strong boards.

The board has as its role a "change agent." This differs from the traditional judicial performance of making "go" or "nogo" decisions on management proposals. A board can develop ideas on its own, but this requires an atmosphere conducive to change and board members able and willing to go beyond traditional evaluative or judicial postures. Imagination, innovation, and willingness to try new concepts and ideas are attributes vitally needed in many boardrooms.

User benefits vs. return on equity investment

User benefits versus return on equity investment are resulting in structural changes in cooperatives:

- Conversions to Investor Oriented Firms (IOF's).
- Move to proportionality -- capital more accordance to use; lessens equity redemption problems.
- New cooperative structure -- new generation cooperatives:
 - ✓ value added;
 - ✓ upfront capital;
 - ✓ closed membership; and
 - ✓ appreciable and transferable property rights.

A review of governance of IOF's indicate three major issues:

- How well are boards interacting and communicating with investors?
- How independent and objective are the compensation and nominating committees relative to inside influences?
- Have boards begun evaluating their own performance?

Further, chemistry sessions are in. Boards need to understand each other in terms of values, beliefs, and purpose. This session is "Evaluating Board Performance," or we could refer to this as a "Board of Directors Audit."

Do you represent a cooperative that does or has done a board evaluation?

Some of the important jobs of a cooperative board of directors are to:

- evaluate management;
- evaluate the cooperatives financial performance;
- evaluate the membership and structure; and
- periodically step back and evaluate the cooperative's basic mission and goals.

Evaluation is a way of checking your progress against your plans and visions. For the same reason, it is important for the board of directors to evaluate its own performance on a regular basis. After all, shouldn't the board hold itself to the same standards it holds for all other areas of cooperative operations?

Directors could provide members with a more meaningful measure of accountability and bring the governance process full circle if the board's performance were subject to some sort of formal appraisal.

Why board evaluation?

- Provides the board with a chance to reflect on and assess its areas of strength and weakness.
- May provide the board with an invaluable yardstick by which it can prioritize its activities for the future.
- Can serve an educational and consensusbuilding function -- by clarifying and defining the overall standards of performance for the board.
- A formal appraisal encourages all directors to reflect on what the board has accomplished, as well as on what it should be doing and how it works. Such a review can optimally result in all directors contributing to setting goals of the board.
- The commitment of all directors to the board's priorities and to improving board effectiveness makes those goals all the more likely to be completed.
- Being a responsible board member is hard work and is often a thankless job.
- An evaluation which points up strengths as well as weaknesses can give a board a sense of its own competence and accomplishment as a group.
- This is a good foundation on which to build positive change.

Value of time:

- less time on the weather;
- asking bottomline questions;
- management's role in member needs; and
- board's role in member needs.

Challenges to cooperative board:

- return on management time:

- return on management time;
- return on board time;
- political stability; and
- governance as a leader.

Why the increased interest in board evaluation?

- More accountability expected by:
 - ✓ members/stockholders,
 - ✓ government agencies, and
 - ✓ public in general is interested in business ethics.
- Stricter enforcement of laws.
- More lawsuits against boards of directors.
- Great consequences for mistakes made by the board.

Board evaluation should not be a personal performance review. A board assessment evaluates the performance of the board as a whole.

Who should evaluate the board of directors?

Alternatives:

- Board's selfevaluation:
 - ✓ All board members participate. An internal evaluation can be a good process. As a board, you have an opportunity to know your own strengths and weaknesses better than someone who has only limited contact with the board.
- A committee of the board does the evaluation.
- A nonboard committee does the evaluation.
- The evaluation is done by an outside consultant.
- ✓ An outside consultant may be particularly useful if a board has never evaluated its performance before. The consultant can provide some objective criteria, offer a perspective on the cooperative board standards, and can help the board set up criteria on which to base future evaluations. An outside consultant may be useful where there are emotionally charged issues, or where the board's internal process has not been the best.

Should management evaluate the board?

Management undoubtedly has a perspective on the board's effectiveness. However, it may be hard for an employee of the board to objectively analyze the performance of his/her boss. If management evaluates the board, the board needs to recognize that they may receive a different set of answers from their own selfevaluation. A mature board may effectively use this manager evaluation to strengthen board performance and board/management relations.

What should be done with the evaluation?

A compilation of all directors' responses to questions (or outside consultants' responses) should be prepared and copies distributed to all board members. But this is not the end. One or two board members could review the data and prepare an initial analysis for the board. But more importantly, the entire board should review the data and then discuss priorities for future boardwork -- setting goals for the board for next year or directing a committee to followup on lowscoring areas.

A board evaluation should provide guidelines for effective board of director performance. It should answer the question, "Are we as a board contributing to the cooperatives ability to meet its purpose?"

An honest and frank assessment of board performance and practices should serve as a starting point for discussions about how to improve the board's systems and overall effectiveness.

How often should the board be evaluated?

The board may choose to evaluate itself annually or have an outside consultant conduct the evaluation annually. Rather than annually, every other year may be viewed as adequate.

Starting an evaluation procedure.

The first step in starting an evaluation procedure is to set standards for:

1. Selection procedure for directors. This should not be left to chance at the annual meeting. The selection procedure for the board should be in the bylaws or in the policy manual.
2. Duties of directors. If the board has no job description, one should be developed or adopted.
3. Performance of directors. Many cooperatives currently have bylaw or policy provisions covering board attendance. The board may wish, and the members may include in the bylaws, other performance requirements for directors such as a minimum volume of business done with the cooperative, or some other requirement.

Any evaluation system should:

- Set standards for evaluation;
- Judge performance against these standards; and
- Make corrections in performance.

Steps for an effective board assessment:

- Obtain commitment by all board members to the process.
- Set performance objectives or criteria.
- Plan the process and gather the information.
- Discuss and interpret the data.
- Develop a plan of followup; identify areas for change and set goals.

What criteria should be used?

- Simplicity has great value.
- Each question should ask about one item or aspect of performance. Use a simple rating scale -- such as 1 to 5 (5 for outstanding or excellent performance; 1 for performance that is nonexistent or needs improvement). It is advisable to allow directors to indicate where they don't know the answer to a question. Allow for written comments.

What to evaluate?

- Membership accountability and governance. The board is the representative of the members and the steward of their interests. However, it is important that an individual board member, and the board as a whole, does not cater to special interest groups, but considers what is best for the cooperative (membership) as a whole. Criteria may include:
 - ✓ approval of applications for membership;
 - ✓ effectiveness of membership meetings (annual meeting);
 - ✓ process of director selection;
 - ✓ membership communication;
 - ✓ membership relations program;
 - ✓ annual report is presented to members; it clearly describes the cooperative's operations and financial status; and
 - ✓ the cooperative's capital plan creates an adequate capital base for the cooperative's current and future needs.
- Board operations. Criteria may include:
 - ✓ an organizational chart has been established;
 - ✓ board job descriptions established;
 - ✓ meeting packets that include agenda, clear written reports, recommendations or options from the general manager or and committees (mailed prior to meeting);
 - ✓ length of board meeting;
 - ✓ board discussions and participation;
 - ✓ policies regarding board terms, elections, officers, meeting attendance, committee structure;
 - ✓ orientations of new board members;
 - ✓ are decisions made in a timely manner?
 - ✓ written record of board policies and decisions;
 - ✓ executive sessions;
 - ✓ annual board calendar;

- ✓ board manual;
- ✓ job description for general manager;
- ✓ procedures for appraisal and compensation of general manager;
- ✓ training and development of general manager;
- ✓ procedure for board training and development; and
- ✓ effectiveness of committee structure.

Legal responsibilities.

To direct affairs of the cooperative within the guidelines provided by the act of incorporation, articles, bylaws, and any regulations governing the cooperative. Criteria may include:

- degree in which board members are informed;
- board members are knowledgeable of articles, bylaws, policies;
- articles and bylaws are reviewed (annually) by the board;
- board reads and approves minutes of each meeting; and
- written policies on board ethics and conflict of interests.

Financial overview.

To establish financial plans and policies and to monitor the cooperative's operations for soundness and stability. Criteria may include:

- financial policies reviewed and updated;
- capital and operating budgets approved annually;
- goals/policies for important financial ratios established;
- board receives regular financial reports;
- insurance program reviewed and updated annually;
- policies established for member equity/redemption; and
- procedure for annual audit.

Planning.

To approve the cooperative's mission, the goals and objectives, major plans and programs, capital and operating budgets. Planning is a culmination of all the board's responsibilities. IT is the process that pulls all of the elements together and makes the board's vision for the cooperative become real. Criteria may include:

- board approves mission and vision statements;
- board approves annual business plan;
- board reviews and approves a 3to5 year plan;
- board evaluates the mechanism(s) provided for member input into the planning process; and
- board is adequately informed about the business and market environment in which cooperative operates.

Boardmanagement relations.

The line between board and management roles can be blurred at times. Board and management responsibilities (delegation from board to management) often change as cooperatives grow and/or boards and management mature. Established procedures and strong communication are important. Criteria may include:

- written job description of general manager;
- procedure established for general manager annual review and compensation;
- manager's/ reports to the board;
- board chair or executive committee's relationship with manager;
- board and management work together to determine the direction of the cooperative;
- does the board focus on goals and results and leaves daytoday decisions, methods, to management? and
- board provides overall personnel guidelines to management and remains uninvolved with specific personnel matters.

Conclusions.

Good boards of directors continually strive for improvement.

Good boards of directors:

- understand the uniqueness of userbenefit cooperatives;
- are mentally aggressive;
- ask good questions;

- ask good questions;
- participate in education/training;
- value time;
- are good decision makers; and
- are leaders.

Financing Cooperatives

All businesses, including cooperatives, need financing. A cooperative uses capital to finance its operations, to cover operating expenses, and to invest in fixed assets such as buildings and equipment. Capital comes in two forms: equity and debt.

Equity capital is the ownership capital in a cooperative. It is provided by members in various forms. Debt capital is money that is borrowed, on either a short- or long-term basis. Having adequate equity and debt capital available to finance the business is essential if the cooperative is going to competitively serve its members.

EQUITY CAPITAL

Equity capital is money the cooperative obtains from its members without assuming a legal obligation to pay it back at a stated time. This is the opposite of debt capital, which always has a due date. Equity capital is the "risk" capital in an organization. All or part of it can be lost if operations are not profitable.

The way equity capital is obtained from the membership is important in measuring the cooperative's adherence to cooperative principles. For example, authority over the cooperative's activities should reside with the membership through voting control represented by equity ownership. Also, ownership and control should be held by the membership who are current users of the cooperative.

EQUITY CAPITAL SOURCES

Equity capital is categorized in two ways. It is either allocated or unallocated. Allocated equity is capital recorded on the cooperative's books which is assigned--or allocated--on a proportional basis to each member. Unallocated equity is capital not assigned or designated to specific member accounts.

Cooperatives obtain equity capital from members in three basic ways--through direct investment, by retaining a portion of net income, or by retaining a portion of proceeds from the sale of members' farm products as per-unit capital retains.

Direct Investment of equity is usually obtained through purchase of common or preferred stock. Common stock is an important source of initial member investment and normally carries voting rights. Preferred stock is a second source of initial equity capital. It is called preferred stock because it has preference over common stock during liquidation. It may be purchased by members or nonmembers, often pays a dividend, but is generally nonvoting. Equity acquired through direct investment is always allocated.

Other types of direct investment are membership fees, membership certificates, and capital certificates. These represent forms of direct investments by members in non-stock types of cooperatives.

Retained Net Income represents proceeds from net earnings (net margins) retained in the business to provide equity capital. Part of a cooperative's net income, usually at least 20 percent, is customarily paid to members in cash, with the remainder held as retained patronage refunds. These refunds are accumulated until sufficient capital is available to finance facilities and operations. When that level is reached, the cooperative's board of directors may decide to redeem or repay a portion of equity capital to members.

Some cooperatives retain a portion of their income as unallocated reserves to serve as a cushion for allocated equity if there is an operating loss. Unallocated equity is paid to members

cushion for allocated equity if there is an operating loss. Unallocated equity is paid to members only in cases where the cooperative is being dissolved.

Per-unit capital retains are used primarily by marketing cooperatives. They are obtained through deductions from sales proceeds. Deductions are calculated on a physical unit basis or as a percentage of sales value. As with retained patronage dividends, when sufficient equity capital has been accumulated, the board may consider returning a portion of allocated equity capital to members.

Revolving fund financing is what the return of capital is called in a cooperative. The oldest equity capital is repaid first to ensure that current users provide the majority of needed equity financing. The cooperative's board of directors is responsible for approving any return of member capital. Its fiduciary responsibility requires that the cooperative be adequately capitalized before any equity is paid or "redeemed" to members.

A modification of the revolving fund is the base capital plan method of equity financing. Annually, members are required to invest capital in proportion to their use of the cooperative over a "base" period of years. This is the most equitable way for members to provide equity capital, and it always maintains the investment in proportion to use. Cooperatives may use retained patronage refunds, per-unit capital retains, or a combination of both to obtain the required amount of investment from their members. Members who are over-invested in relation to their level of patronage would receive a refund of a portion of their investment. The board of directors determines the needed level of equity capitalization for the cooperative and must approve any return of equity to over-invested members.

DEBT CAPITAL

Cooperatives use two types of debt capital to finance operations.

Short-term loans are obtained to finance day-to-day operating expenses. The lender expects that funds borrowed on a short-term loan will be repaid in less than a year. These funds supplement the cooperative's own working capital and may be used to pay for raw product delivered by members in a marketing cooperative, or to purchase goods for resale in a supply cooperative. These loans are usually repaid from sales proceeds.

Long-term debt is obtained to finance the purchase of fixed assets such as property, plant, and equipment. Long-term loans are scheduled for repayment in annual installments over the useful life of the asset being acquired. Long-term loans are repaid from net income.

Sources of Borrowed Funds

Cooperatives may borrow from traditional and nontraditional financing sources. Commercial banks are the traditional source for short-term loans. Banks and insurance companies are typical sources of long-term loans.

Cooperatives have the added advantage of obtaining loan funds from specialized banks and other lending institutions established to serve only cooperatives. These specialized or nontraditional sources include the banks for cooperatives, public and private agencies that lend to rural electric and telephone utilities, and the National Cooperative Bank.

Some large cooperatives may also use the services of brokerage firms to obtain borrowed capital through private debt placement or the sale of commercial paper and other financing instruments.

Leasing is another debt financing option available to cooperatives. This method allows a cooperative the use of an asset without tying up its own capital in the acquisition. In addition to leasing companies and commercial banks, cooperatives have access to companies and banks that provide leasing services to cooperatives. These include the Farm Credit Leasing Service Corporation and the National Cooperative Bank.

Business and Industry Loan Guaranteed Program

Business and Industry (B&I) guaranteed loans upgrade the economic environment making material contributions to the community.

material contributions to the community.

Assistance from RBS is provided in the form of a loan guarantee whereby the agency guarantees to reimburse the lender for principle and interest losses of up to 80 percent for guaranteed loans of \$5 million or less; up to 70 percent for loans of \$10 million or less; and up to 60 percent for loans over \$10 million. Priority is given to projects in areas of high unemployment, to projects which create or save jobs and which show a low amount of investment per job created or saved, and to projects that will employ members of displaced farm families.

How May Loan Funds Be Used?

The basic uses include developing or financing business or industry, increasing employment, and controlling or abating pollution. Within this framework, uses include, but are not limited to:

- Financing business and industrial construction, conversion, acquisition and modernization.
- Financing the purchase and development of land and easements, equipment, facilities, machinery, supplies or materials.
- Startup costs and working capital.
- Financing housing development sites.
- Financing processing and marketing facilities.
- Pollution control and abatement.
- Transportation services.
- Agricultural production when part of an integrated business also involved in the processing of agricultural products.
- Aquaculture and commercial fishing.
- Forestry and commercial nurseries.
- Tourist and recreation facilities including hotels, motels and bed and breakfast establishments.
- Education or training facilities.
- Constructing or equipping facilities for lease to private businesses engaged in commercial or industrial operations.
- Community antenna television services or facilities.
- Assistance to industries adjusting to terminated Federal agricultural programs or increased foreign competition.

What Purposes Are Not Eligible?

B&I funds may not be used for certain purposes, including:

- Any project likely to result in transfer of business or employment from one area to another.
- Any project likely to cause production that exceeds demand.
- Any project involving transfer of ownership unless this will keep the business from closing, prevent the loss of jobs in an area, or provide more jobs.
- Paying a creditor more than the value of collateral.
- Guarantee or lease payment.
- Payment of loan proceeds to owners, partners, shareholders, or others who retain any ownership in the business.
- Corporations and business that are not owned and controlled by US citizens.
- Charitable institutions.
- Churches or church-sponsored organizations.
- Fraternal organizations.
- Lines of credit.

CONCLUSION

Cooperatives finance themselves much like other businesses, through the use of equity and debt capital. The features of cooperative equity capital, however, make cooperative equity financing methods different from those used by non-cooperative. Cooperative users provide equity capital to finance the cooperative in proportion to their use of it. Most cooperatives also provide a way to return equity to members after a period of time.

These characteristics of cooperative equity capital make it more complex to understand by those not familiar with how cooperatives operate. These features, however, are what make

cooperatives the unique, self-help organizations they are, operating for the benefit of their member-owners.

Converting the Enemy: Budgeting During Planning

War and Peace: An Overview of Budgets

The Conflict

Common definitions of "budget" often include: 1) an albatross around the Board's neck; 2) the cause of the Manager's chronic insomnia; 3) The enemy.

Budgets are the enemy everyone loves to hate. As managers, we constantly try to outflank, outmaneuver, and ultimately overwhelm our budgets, reducing them (and us) to a quivering heap abandoned on the battlefield of Desire vs. Reality. Even if we manage to avoid outright war, our struggles often result in a budget that is not a useful tool, but rather:

- . A Wish List: Everything we would do if we had all the resources we want and/or need. Planning and budgeting are about assessing what realistic level of resources can be expected and making the hard choices about what to do with those resources: given that we can't do everything, what is most important to us? What activities, realistically, will we be able to support?
- . A Symptom of Organizational Delusion or Denial: Budgets that project 400% growth in one year, with no indication of where those increases will come from. This is an extreme (but not unrealistic) example of budgets that reflect a cooperative's inability or -- more frequently, unwillingness -- to deal with reality as it is currently constituted. If you are consistently creating annual budgets that bear little or no resemblance to the cooperative's actual activity for the year, chances are your cooperative suffers from the "budget as asymptomatic denial syndrome."
- . A Tutorial in Spreadsheet Software: Spending hours creating budgets on spreadsheet software and then never looking at them again. There are cheaper and more efficient ways to learn how to use computer software. While developing budgets can certainly improve our computer skills, ultimately we need to have some other goal (e.g., creating a useful tool) to make it worth the investment of time and energy.

A Lasting Peace?

We have met the enemy ... and it doesn't have to be our budget. Can we overcome our "us vs. it" approach to budgeting and regard budgets as useful tools that serve a greater purpose? Can we come to think of budgets as a means to the end of making art happen? Can we consider budgets as:

- Your plans for the future expressed in the language of numbers. Every activity you undertake has a dollar value associated with it, be that value in materials, time and expertise, or paying the bills for your office. A budget takes your planned activities and translates them into dollars.
- A plan that identifies your priorities. Where you spend your resources is where your priorities are, regardless of any rhetoric your cooperative may have to the contrary. A budget can help you identify where your ideals and your actual activities may be out of alignment.
- A guide to measure progress over time. The budget is a measuring stick to gauge how well you projected the future against what actually happened. By comparing the budget to your actual financial activity you will know if you are on track or losing sight of what you intended to accomplish during the year.

Deviating from your projections is not a bad thing in and of itself. In fact, a variance can have a positive effect if it helps you take advantage of previously unknown or /unavailable opportunities. However, it is helpful to know you are deviating from your plans so that changes

can happen in a deliberate and thoughtful way.

So how do we create this "budget as tool"? How do we develop a budget that reflects your true priorities and goals, a budget that is useful and used?

Getting Down to Business: Constructing the Budget

Merely adding 5% to all the costs you incurred the previous year and increasing "Income from Operations" to plug the gap between income and expense does not make for a very useful tool. Good budgets are based on estimates that have some (the more the better) basis in reality.

How do we create a budget that is realitybased? We do research. This is initially more time consuming than adding 5% to every expense, but it pays off. At some point you are going to have to figure out all this information anyway: doing the work now will save you time later in the year.

Gathering Information

- 1) What activities do you have planned for the next year? Obviously, this means you will have to have some idea of what your actual activities will be. That is, you will have to have made a plan.
- 2) Now the more tricky part (maybe): How much will each activity cost? This step will be a combination of research and best guesses.

Building Budget Assumptions

As you start to gather information and turn it into budget numbers, this information will be the basis of your budget "assumptions": the underlying explanation of the numbers that appear in your budget. For this reason it is CRITICAL that you keep track of the information, preferably in a way that is easily tied to your budget numbers. You should have assumptions for both income and expenses.

In constructing budgets, the tendency is to build up the expense assumptions first. What can happen with this approach, however, is that you may develop undue affection for those expenses and try to construct income projections that will "fit" your expenses. Thus, the income assumptions are built to generate enough income to cover projected expenses, rather than to reflect what is realistically possible. You can avoid this trap by starting with the income assumptions. This will help establish a realistic "scope" for your thinking about what activities are realistically feasible in the coming years.

Tip: With spreadsheet software you can link your budget sheet to your budget assumptions sheets, so that every time you change your assumptions, the corresponding budget number will automatically be recalculated. This is particularly useful when you are making budget revisions.

Interconnectedness of All Things Budgetary

You build your assumptions, you outline your priorities, you write it all down, you add it all up -- and the budget doesn't balance. Now what?

This is where the "give and take" of budgeting begins. "Give and take" does not mean add more unidentified foundation income to make the budget balance. "Give and take" does mean:

1. Review your plans. Are there activities that can be postponed until a time when there is adequate funding? Are there activities that can be scaled down? New staff positions that can be added more gradually? Savings to be gained on slightly less glossy marketing materials?
2. Make Adjustments. The tricky thing about this is to keep in mind that each adjustment may (and probably will) have ramifications elsewhere in your budget. If you delay hiring a new sales-person, you may need to scale back those ambitious sales goals.
3. Examine the Results. You make adjustments, you get the budget to balance, hooray! But wait, does it still reflect the priorities of the cooperative, your stated goals for the year? If yes, great. If no, then you need to revisit your goals in light of this financial information:

are the goals really possible, given your REALISTIC resources? Does the cooperative need to rethink HOW it achieves those goals? Over what time span will the cooperative achieve the goals?

Throughout all this selfexamination, the aim is to emerge with a plan that is doable, that reflects the priorities and goals of the cooperative, and that translates into a balanced budget.

Practical Considerations

1) Who is going to do all this work?

Depending on the size and structure of the organization, it could be one person (the Manager) or it could include several people. If your cooperative functions in departments or areas of activity, it may make the best sense to have the people responsible for each area of activity gather the initial budget information. This information is then integrated into a comprehensive budget by one person (preferably one person who is very comfortable with manipulating numbers).

Tip: If more than two people are providing information for the budget, make sure they are gathering it in the same format so it can be easily integrated. The easiest way to do this is to give them a worksheet to use that ties into your budget format.

2) Formatting

The budget format should correspond to your income statement format for ease of comparison. Following your chart of accounts for budget categories is usually the best way to make this happen (if the chart of accounts does not have the "right" categories, then you may need to revamp your chart of accounts). For the plan, include at least two years of actuals. This enables readers of your plan to compare the reasonableness of your projections to your historic activity.

3) Multiple Drafts

Don't kid yourself: you'll have multiple drafts of the budget before you're through. For this reason, and for general sanity, put a date on every single piece of paper that has numbers on it. This will help you identify which of the morass of papers around your desk is truly the most recent version of the budget.

Tip: Your spreadsheet software can create a footer that will always print the current date on the bottom of the page. If you're doing a marathon session of multiple drafts and generating more than one draft per day, you may want to include the time on the footer as well.

4) Confidentiality

Certain information in your budget may be confidential (salary levels, for example), so you may want to create a format that can consolidate or hide confidential information.

Getting on With Business: Using the Budget

Flexibility

The more flexible the format of your budget, the more it will be used, and the less often you will have to recreate the document in different formats.

Updating/Revising the Current Year Budget

As a rule, don't do this. Some people revise budgets every month. This is not very useful. Staying with your original budget through the year gives you a stable point for measuring progress (as opposed to the moving target in budgets that are revised monthly). It also gives you a way to measure your budgeting skills (i.e., your ability to accurately/realistically project into the future). Variances will occur, of course, but it is better to note those variances in the budgettoactual report with explanatory notes.

It may be appropriate to revise the budget if the circumstances of the cooperative change so drastically that the original budget is completely irrelevant. In this situation, you will want to repeat the budgeting process and create a budget that reflects the new circumstances. You would also want to be sure that this new budget is reviewed and approved by the Board as a replacement for the original budget.

Updating/Revising Multiple Year Budgets

Ideally, you will revisit your plan and accompanying budgets every year and update them for the coming year. If you're really ambitious, each year you will also add a year to your plan with a corresponding budget. Having the format and well-documented assumptions in place already will make this task much easier.

An End to the Conflict

While you may never think of a budget as your best friend, it is possible to forge a new relationship with your former enemy. You may even come to regard your budget as:

- 1) Helpful tool;
- 2) Measuring stick;
- 3) Respected colleague.

And the reward for working on this relationship? The reward for taking the time to construct a budget based in reality, to use the budget, to keep it current? For starters, you may have fewer crises to manage. You may have fewer sleepless nights. You may even have fewer ulcers. Most important, however, you may find that without the constant strain of fighting against your budget you have more time and more energy for what is, after all, the most significant thing you do: making the cooperative happen.

Basic Financial Statements

Accounting Methods

Cash flow projections are valuable--when used to predict timing of income and expenses.

They'll tell you and your lender when you'll need to borrow and when you expect to pay it back.

But cash flow doesn't mean profit--and profitability determines long-range success or failure of your cooperative.

There are three ways you might analyze income and expense figures: 1) *cash or checkbook*, 2) *tax math* and 3) *accrual accounting*. So you can see how two of those can lie to you, we've pulled figures from an actual record summary. We'll analyze the same record those three ways.

Checkbook accounting is pure cash flow. It's easy. You deposit all your cash receipts and write checks for all your cash expenses. As long as a check doesn't come bouncing back, your cash flow is positive.

Cash receipts	\$175,819
Other income	<u>13,401</u>
Total cash income	\$189,220

Cash business expenses	\$159,211
Other expenses	<u>18,511</u>
Total cash expenses	\$177,722

Net cash flow \$ 11,498

You might feel pretty good with those figures. You've paid all your bills -- both business and personal -- and have \$11,498 left to save, replace capital or to apply to the principal of loans.

Tax math looks at your IRS income and expense sheet from your tax return plus other income.

Cash receipts	\$175,819
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Cash business expenses	\$159,211
Depreciation	<u>23,349</u>

Total deductions \$182,560

Net business income -\$6,741

Other income \$13,401

Net income \$6,660

With tax math in this example, you'll realize the business hasn't done all that well. Bottom line on the IRS schedule shows a \$6,741 loss. But you might reason that \$23,349 of that is depreciation -- not a cash expense. So, from a cash standpoint you can reason that you really made \$16,608. Plus, there's \$13,401 of other income to boost that to \$30,009.

It's easy to reason that you "made" somewhere between \$6,660 and \$30,009.

That's about as accurate as you'll be with tax math.

The truth is, with either checkbook accounting or tax math, you're playing financial fantasy.

If you want a true picture of how you're doing, you have to sort out where you're getting the cash. That takes an *accrual profit statement*.

You may not understand accrual accounting. But, you'll be smart to learn it. What you do is figure all value of production and allocate all expenses on a one-year basis.

For a 1998 analysis, you only count 1998 income. If you sell a product in 1998 that was produced in 1997, you don't count that as 1998 income. But you do count the value of a product produced in 1988 that's in inventory at year-end. The same goes for supplies -- their cost is allocated to the year they're used, not the year they're bought. And depreciation has to be considered a real cost.

The benefit is you get a true picture of how you did that year.

Here's how our example figures look with accrual accounting.

Cash income \$175,819
Inventory change -17,218
Value of year's production \$158,601

Business expenses \$159,211
Depreciation 23,349
Year's real costs \$182,560

Net business income (accrual) -23,959
Other income \$13,401
Net business/other income -10,558
Other expenses \$18,511
Real net income/loss -\$29,069

Where's his cash flow coming from? He's dipping into equity. In other words, there's not as much product on the shelf or equipment on hand as he had a year ago -- and the money from those sales isn't in the bank or invested in other assets. Debt may be as high or higher than a year ago, too. The fact is, his cash flow was good, but he lost ground financially.

Accrual accounting doesn't lie.

There's a \$40,567 gap in this case between checkbook -- straight cash flow -- accounting and the actual loss on the accrual basis.

The biggest problem is checkbook and tax accounting can get you into trouble. They can give you a sense of security that can entice you to spend when, in fact, you're losing money. In our

you a sense of security that can entice you to spend when, in fact, you're losing money. In our example, the business person will actually be broke in about five years if he continues to lose money at that pace because he's leveraged at 55% and eating into his equity fast. But, he still has cash flow.

Accrual Accounting Statements

Three basic financial statements (or projected financial statements) tell you the cooperative's financial position or potential chances of success, project its performance, and its ability to meet its obligations.

They are called the Balance Sheet, Statement of Operations, and Statement of Cash Flows.

Other types of businesses may give them different names, but these are recognized by the National Society of Cooperative Accountants.

Often, supplemental statements, schedules, and footnotes accompany financial statements to provide more detailed information and greater meaning.

BALANCE SHEET

The balance sheet is a financial picture of the cooperative at a specific point in time. It is reported as if all activity were stopped and a complete inventory were taken of the entire business. It is usually prepared at the end of each month and at the end of the fiscal year.

The basic accounting equation for the balance sheet is:

Assets = Liabilities + Members' Equity

Assets are what the business owns; liabilities are what the business owes to others; and equity is what the cooperative business owes to its members. Members provide equity funds by purchasing capital stock, deferring patronage refunds and perunit retains.

Assets

Assets are usually classified by the amount of time it takes to convert into cash. **Current** assets can be turned into cash within 1 year. **Fixed** assets are used repeatedly in the business and are not intended for sale, they are the bricks and mortar of the association. **Other** assets are the cooperative's investments in other cooperatives and business organizations.

Current assets include cash on hand, accounts receivable, inventories, commodities in transit, notes receivable and short-term investments. Current assets are usually listed at their expected reasonable value. For example, accounts receivable are listed in total and then decreased by an amount estimated to be uncollectible. This results in net accounts receivable. Inventories are valued at original cost or replacement cost (market) whichever is lowest. Inventory value may be less than the original purchase cost because of deterioration or obsolescence.

Fixed assets are the bricks and mortar of the cooperative such as vehicles, processing equipment, office buildings, office equipment, machinery, and land. They are used continuously in the business and are not intended for sale. With the exception of land, all of a cooperative's fixed assets are subject to depreciation. Depreciation is a means of allocating the cost of fixed assets to current costs of operation. The length of time used to depreciate fixed assets is determined by their life expectancy and or current federal tax regulations. The net value of fixed assets on the balance sheet does not reflect market value or future replacement cost.

Other assets take more than 1 year to convert to cash, but are not land, buildings, or equipment. For a cooperative these included investments in other cooperatives or corporations and reserves in lending institutions such as a credit union or Bank for Cooperatives. These assets may also include electrical and or water meter deposits, prepaid rent and insurance premiums, and deferred organizational expense for a newly formed cooperative.

Adding current assets, fixed assets, and other assets produces the figure know as **total assets**. This represents the book value of all materials and investments owned by the cooperative as of

the balance sheet date. Total assets are financed by members equity plus total liabilities.

Liabilities and Member Equity

Like assets, liabilities are classified by time. Obligations due within 1 year are **current liabilities**. Those due after 1 year are called **term liabilities**. **Members' equity** is the report of their investment in the cooperative.

Current liabilities include accounts payable, seasonal notes payable, deferred commodities payable, accrued taxes, interest and insurance, payments on term notes due within the next 12 months, and cash patronage refunds due within the next 12 months. Current liabilities can be considered all debts the cooperative must pay during the next 12 months.

Term liabilities are debts or portions of debts due after 1 year. Bank term loans, member building notes, longterm payment contracts, and governmental assessments for street and road improvements are specific examples.

Member equity or the members' investment in the cooperative represent the difference between the assets and liabilities of the cooperative. Member equity records the portion of the cooperative's assets individual members own. Dollars represented by member equity are invested in the assets of the cooperative. It's not cash dollars or a checking account. It is **risk capital**.

Equity lists the dollars invested by members and the dollars members have earned through patronizing their cooperative and perunit retains.

The member investment coupled with current and term liabilities finances vehicles, equipment, inventories, accounts receivable, and all other assets the cooperative owns.

The equity section of the balance sheet usually lists the following capital classifications:

1. Capital Stock--common and preferred (issued in predetermined dollar amounts)
2. Stock Credit (partial units of common or preferred stock)
3. Membership Fees
4. Allocated Earnings
5. Perunit Retains
6. Unallocated Earnings

Capital stock is broken down into broad classifications, **common** and **preferred**.

Common stock in a cooperative is often classified into two different types, voting and nonvoting. Agricultural cooperatives issue voting common stock only to agricultural producers. Nonvoting stock is issued to non-producers.

Stock credits represent partial ownership of a share of common stock. Many cooperatives allow a member to earn a full share of common stock through patronizing the association. Until the full value of the common share is earned, these funds are classified as a stock credit.

Preferred stock is issued to secure additional investment in the cooperative if it has been provided for in the association Articles of Incorporation. The cooperative may pay interest on preferred stock. However, the rate of interest paid is regulated by statute in most States. Preferred stock is given preference over other classes of equity in the event of dissolution.

Membership fees paid by agricultural producers permits voting. If not state in the articles of incorporation or the bylaws, the fee is determined by the directors.

Allocated earnings is the portion of prior year's net margins allocated to members, but not yet paid in cash.

Unallocated earnings or **surplus** is the portion of prior year's earnings the cooperative retains. The cooperative must pay Federal income taxes on the unallocated earnings. A cooperative's financial losses may be assessed against this account.

Perunit retains are assessed on the volume of physical units a member does with the cooperative. Dollars deducted from sales proceeds or added to products purchased are used to finance fixed assets and provide operating capital.

SUMMARY

A balance sheet, composed of assets, liabilities, and members equity, can be prepared at any point in time. Most cooperatives prepare a balance sheet at the end of the month and their accounting or fiscal year. The balance sheet shows what the cooperative owns on the date the statement was prepared, what it owes to others, and the investment members hold in their cooperative.

STATEMENT OF OPERATIONS

The **Statement of Operations** is a record of the cooperative's business activities during the accounting period. The statement is important for management because it details income and expense information for use in reaching decisions about internal operations. It also serves as a guide in anticipating how the cooperative may perform in the future.

The statement should be prepared each month. The cooperative's auditing firm selected and hired by the board of directors, should prepare a 12month statement. Some cooperatives prepare both a monthly and yeartodate statement of operations. The monthly statement shows the net margins for the preceding month. The yeartodate statement shows the cumulative net margins generated since the end of the past fiscal year.

A statement of operations is normally divided into three sections: **income**, **expense**, and **net margins**. The following accounting equations are used in the preparation of the statement:

Sales - Cost of Sales = Gross Margins + Other Income = Gross Income ***Expenses = Net Margins***

Beginning Inventory + Purchases - Ending Inventory = Cost of Sales

Income

The income portion of the statement of operations summarizes all revenues received by the cooperative during the accounting period (month, year).

The association's sales or total revenue are listed first. The cost of sales (what the cooperative paid for the goods it sold, or in some cooperatives advance payments made to growers) are subtracted from the sales. This results in gross margins, or the portion of the revenue dollars the cooperative keeps.

Other income, such as commissions, storage, processing, conditioning, finance charges, and other service income is added to gross margins resulting in **gross income**. This is the total revenue the association received from providing goods and services to patrons.

Expenses

These items the cooperative paid to do business. They are subtracted from the gross income to determine net margins. Expense items are divided into two classifications, **fixed** and **variable**.

Fixed expense are costs that management has relatively little control over. Fixed expenses are those costs incurred whether the cooperative does business or not, and include interest, depreciation, property taxes, and insurance.

Variable expense are costs that can be controlled, such as salaries, repairs, utilities, bad debts, advertising, brokerage fees, transportation, and packing supplies. Variable and fixed expenses are combined to produce total expense.

Net margins Subtracting total expenses from total gross income results in net margins for the

net margins. Subtracting total expenses from total gross income results in net margins for the period examined. It reflects the earnings or loss of the cooperative on the products and services provided for the patrons during the accounting period.

SUMMARY

The information presented in the statement of operations is usually considered the most important information provided by accounting because profitability is of primary concern to members, directors, management, and lenders.

STATEMENT OF CASH FLOW:

The third basic financial statement is the **Statement of Cash Flow**. The statement provides useful information about the cooperatives activities in generating cash through operations to repay debt, pay patronage refunds, revolve members equity, and capacity to reinvest to maintain or expand operating capacity; about its financing activities, both debt and equity; and about its investing or spending of cash. The statement should be prepared for each period a statement of operations is presented.

The statement of cash flow categorizes gross cash receipts and payments during a period into one of three categories -- cash flow from **Operations**, cash flow from **Investing**, cash flow from **Financing**.

Specifically included in the **Operations** category are:

- net income
- changes (decrease or increases) in current assets and liabilities:
 - ✓ accounts receivable
 - ✓ inventories
 - ✓ payables
 - ✓ accrued expenses
 - ✓ other current assets or liabilities
 - ✓ accrued taxes and expenses payable
 - ✓ deferred income

- changes in non-cash items included in the net earnings:
 - ✓ depreciation
 - ✓ deferred taxes
 - ✓ gain or loss on sale of property, plant and equipment
 - ✓ patronage received as equity in other organizations

- cash flows from **Investing** activities:
 - ✓ proceeds from the sale of plant, property, and equipment
 - ✓ purchase of plant, property and equipment
 - ✓ equity in other organization purchased
 - ✓ equity in other organizations redeemed

- cash flows from **Financing** activities
 - ✓ capital stock or membership fees issued
 - ✓ equity revolved/capital stock retired
 - ✓ patronage dividends paid
 - ✓ long-term money borrowed
 - ✓ long-term money repaid
 - ✓ short-term money borrowed
 - ✓ short-term money repaid
 - ✓ allocated patronage paid in cash
 - ✓ per unit retains

SUMMARY

A statement of cash flow explains the change during the period of cash and cash equivalents.

The statement uses descriptive terms such as cash or cash equivalents rather than ambiguous terms such as funds.

The statement is intended to help members, patrons and creditors assess:

- the cooperative's ability to generate positive future net cash flow.
- the cooperative's ability to meet its obligations, its ability to pay patronage, revolve equity, pay dividends, and its need for external financing.
- the reasons for differences between net income and cash flow.
- the effects on a cooperative's financial position of both its cash and non-cash investing and financing during the period.

Financial Management

Simply knowing the financial history is not enough to make informed decisions about how your cooperative is operating. The financial statements must be analyzed, interpreted, and evaluated before any real use can be made of them. Analysis includes examination and testing, interpretation means understanding what you see; and evaluation makes judgments and decisions about possible courses of action based on analysis and interpretation.

Financial statements change over time. Comparing the dollar amount of each account at one time with the same account at another time is of some value, but by itself provides limited information. Much more may be learned about the operations by analyzing relationships between various elements of the financial statements.

Financial analysis is not a precise process. Rather, it requires the judgment and evaluation of many different facets, relationships and trends, some obvious and others not so obvious. The objective is to discover the strengths, weaknesses and trends as they relate to the goals and obligations of individuals and of the cooperative.

By reducing the financial data to ratios which express relationships, systematic evaluation is possible. The key is to establish performance criteria for the analysis of the cooperative, and then to identify relevant performance measures for each criterion. Guidelines for acceptable variation within each performance measure can then be established. It is essential that no single measure or ratio be used alone; but rather a series of measures is necessary to portray the whole story.

Four major financial performance criteria can guide the analysis process: 1) Liquidity; 2) Solvency; 3) Profitability; and 4) Financial Efficiency and Activity. First, each of these criteria will be defined to show that in total they provide for overall and complete analysis of the cooperative. Next, we will establish performance measures suitable for evaluating each criteria. Lastly, we will illustrate how the data needed for the performance measures can come directly from the balance sheet and income statement.

Liquidity - This is a short run concept describing a cooperative's ability to meet short run obligations when due, without disrupting the normal operation of the business. Lenders often describe this phenomenon simply as repayment ability. A cooperative may be illiquid and bankrupt without being insolvent, simply because it cannot turn some of its assets into cash to meet payments, or at least cannot do so without drastically disrupting the business. For example, if a dairy operation has to sell off the dairy cows, the earning power may virtually be destroyed.

Solvency - This is a longer run concept relating to capital structure and a cooperative's ability to pay all obligations if assets were liquidated. The general safety of debt claims against the business is revealed. Some refer to solvency as a measure of the cooperative's ability to meet its longer range obligations. Solvency measures over time indicate the progress a cooperative is making, since both assets and liabilities - as well as member equity - are considered.

Profitability - A third performance criterion applicable to any profit oriented business, must relate directly to net income. It is from this amount that income taxes must be paid (if any), as well as principal payments on real estate. To the extent that new outlays for fixed assets and loan payments on machinery and other depreciable assets exceed depreciation allowances,

... payments on machinery and other depreciable assets exceed depreciation allowances, there must be a margin in the net income. Net income is a prerequisite for continued business success. Profitability ultimately has to be evaluated in relation to the amount of capital (revenue minus expenses) for a given accounting period, and then comparing this return to the amount of capital invested in the cooperative.

Financial efficiency and activity - This is the fourth criteria used to analyze the cooperative.

Efficiency is a broad concept that measures the relationship between inputs and outputs. Here it encompasses the production and marketing relationships and relates to the amount of net return to capital as a share of the gross income.

One who has 25¢ return to capital out of each \$1.00 of gross return is obviously more efficient than one who ends up with only 10¢ out of each gross dollar of revenue. But that is only half of the story - volume must also be present. An overall well being is enhanced with efficiency that creates net return per unit of production (for example, per pound processed) and more units of production.

Performance measures include both financial ratios and non-ratio measures. Each measure contributes to understanding one facet of the business, and thus no single measure should be considered alone as a measure of overall business performance. If financial analysis was that simple, anyone could do it. Analysts should determine which set of measures and guidelines best reflect the financial condition and performance for a given operation.

BASIC FINANCIAL RATIOS

Balance Sheet Analysis

Ratios (relationships between two similar things) are frequently used in analyzing a cooperative business. As with financial statements themselves, ratios are most valuable when they are compared over several accounting intervals or to a known standard. Trend analysis through ratios can help a management team chart a sound growth pattern, channel capital into proper areas of investment, and point out problem areas. Data from competing businesses may also be compared in order to determine the relative efficiency of your cooperative. However, consideration must be given to differences in accounting methods before concluding the merits of either business used in the comparison.

LIQUIDITY RATIOS

Key balance sheet ratios include working capital, current ratio, term debt to equity ratio, and the ratio of member equity to fixed assets and investments.

These ratios along with the balance sheet accounts themselves are best used when compared over time. The movement of ratios and individual accounts such as accounts receivable and inventories shows what direction the cooperative is heading. For example, has the current ratio increased or decreased over the past 3 years? Are year end inventories increasing or decreasing over a 3year period?

Current Ratio

Current Assets/Current Liabilities

This ratio reflects the effectiveness of current operations. Often called the current ratio, it is computed by dividing current assets by current liabilities. This comparison indicates the cooperative's ability to pay pending invoices, repay seasonal loans, and take advantage of cash discounts. A reduction in working capital ratio is often the first indicator of future problems. A low or declining ratio could mean that the cooperative is not meeting obligations on time and or losing cash discounts. The amount of working capital and the resulting current ratio needed for individual cooperatives vary.

Average Collection Period Ratio

$$\frac{\text{Annual Sales}/306 = \text{Average Daily Sales}}{\text{Then}} \\ \frac{\text{Accounts Receivable}/\text{Average Daily Sales}}$$

Another important liquidity ratio is the average day's sales in accounts receivable. This ratio

tests effectiveness in managing accounts receivables. It determines the length of time between a sale and collection of the dollars generated by the sale. In comparing this figure with selling terms, many consider a collection period excessive if it is more than 10 to 15 days longer than those stated in selling terms. This ratio also indicates a level of operating capital needed--the more day's sales in accounts receivables, the more dollars needed in operating capital. Forty days is a maximum number recommended by many sources.

This ratio is improved by tightening and enforcing existing credit policies, encouraging cash sales, aggressively collecting past due receivables, and writing off doubtful accounts. If days outstanding start to increase from normal levels, this is a signal to management to evaluate the situation and, if necessary, take corrective action. This ratio is most effective if computed on a monthly basis.

Working Capital

Current Assets - Current Liabilities

Working capital is the dollar difference between current assets and current liabilities. Available working capital is used to purchase inventory, finance accounts receivables, and meet the cooperative's many daily needs.

Cooperatives obtains working capital through continual conversion of current assets into cash through daily business operations while continuously paying off debts. Consideration must be given to the quality of the current asset components.

Reduced working capital is often the first indicator of future problems. A low or declining amount could mean the cooperative is not meeting current obligations on time and/or possibly losing cash discounts, creating additional demands on working capital needs.

An optimum level of working capital for a cooperative could be measured by the absence of short-term notes payables or a revolving line of credit. Comparing working capital with current liabilities is another useful benchmark to determine if working capital levels are adequate.

SOLVENCY RATIOS

Debt to Asset Ratio

Total Debt /Total Assets

The Debt to Asset ratio measures the extent to which all creditors are supplying resources used by the firm. When this ratio is greater than 50 percent, creditors have more invested in the business than owners. This can lead to operational decisions being made by creditors, rather than management or the board of directors. It is important to have the proper mix of debt and equity financing assets. But a ratio greater than 50 percent is a clear danger signal to the cooperative. It is recommended this ratio be no more than 35 percent to 40 percent (30 to 40 cents of debt per \$1 in assets).

Term Debt Ratio

Term Debt /Member Equity

The Term Debt Ratio looks at term-debt capital in relation to risk (member's equity) capital. Lenders look at the equity section of the balance sheet when considering a loan. Most lenders feel that a cooperative's patrons should provide the risk capital in an association. This risk capital, or member equity, should be adequate to protect a lender from possible future losses and provide the cooperative with a base for future expansion, usually equal to or greater than borrowers capital.

If this ratio is excessive, or a large debt level is being used, the cooperative could be in financial jeopardy in a business downturn and members could sustain a loss in equity. Members should provide at least as much equity as creditors provide debt (1:1, or a maximum \$1 of term debt for each \$1 in member equity) to maintain financial control and limit risk to their investment.

The Term Debt Ratio is improved by reducing long-term debt and improving equity, disposing of unproductive assets, using proceeds to reduce debt, and accelerating long-term debt payments. Member equity can be improved by higher levels of net margins, retaining more allocated

member equity can be improved by higher levels of net margins, retaining more allocated margins, and slowing down equity redemption programs.

PROFITABILITY

Return on Member Equity

Net Income/Member Equity

Return on member equity expresses net margins as a percentage of equity. It is the return to member investment in the cooperative or risk capital.

FINANCIAL EFFICIENCY AND ACTIVITY

Productivity Ratio

Total Expenses/Total Revenue

The Productivity Ratio measures the number of dollars of expenses required to generate \$1 of sales. A common guideline is .10:1 (not more than 10 cents of expenses for each \$1 of sales). This ratio is improved by reducing expenses or boosting the level of sales with little or no increased expenses.

Labor Expense Ratio

Labor Costs/Total Expenses

Labor expenses are largely controlled by management. The labor expense ratio measures the amount of labor in total expenses. The recommended maximum level is .5 to 1 (50 cents of personnel costs for each \$1 in total expenses).

SUMMARY

Ratios and other financial position and operating results are useful analytical devices. They are helpful in appraising the present performance of the business and forecasting its future. They are not, however, a substitute for sound judgment nor do they provide definite guides to action.

In selecting ratios, proper considerations should be given to any condition peculiar to the cooperative or to the industry of which the cooperative is a part. The possible influence of the general economic and business environment should also be weighed.

Equity Management Checklist

General

Cooperative principles--Adherence to cooperative principles is one of the keys to effective equity management. For example, the owner-user principle means that equity capital be supplied by the current users of the cooperative in proportion to use. If the owner-user rule is followed, with current users having the voting control. The "user-benefit" principle is described under the service at cost paragraph.

Proportionality--A member's investment in the cooperative should be proportional to use and benefits (i.e. patronage refunds) should be distributed in proportion to use.

Proportionality vs. equality--This is one of the most contentious cooperative issues and is of particular significance for equity management issues dealing with control. One member, one vote (equal representation) is at the core of most cooperatives' governance rules, but if a member is required to maintain an equity investment proportional to use and receives benefits in proportion to use, then why can't voting control be proportional within limits? See "equal vs. volume voting."

Equity in the hands of current users--This is closely associated with proportionality and means that ownership and control of the cooperative are held by current users, and particularly as it relates to ownership, in proportion to use

Board policies--The board of directors establishes policies under which management carries out the equity management function. These policies govern such affairs as the financial planning function, equity accumulation and redemption activities, capital expenditures, and

planning function, equity accumulation and redemption activities, capital expenditures, and asset disposition.

Equity program meets capital needs--Does the cooperative have adequate equity (coupled with existing borrowing capacity) to meet normal capital expenditures such as fixed asset purchases, equity redemption, etc., and still provide a sufficient capital base to operate efficiently and meet creditors' requirements?

Goals vs. realities--The implication with this issue is that financial projections should be prepared using realistic (think conservative) assumptions for sales forecasts, earnings estimates, capital sources, redemption capabilities, etc. The general tendency with projections is to make the assumptions overly optimistic.

Equity Management Checklist

Ownership vs. control--In evaluating a cooperative's equity position, it is important to determine that the majority, if not all, of the equity is held by current users. Likewise, the majority of equity should be carried as allocated and not unallocated. As a rule of thumb, unallocated equity should not exceed 25-30 percent of total equity. Ask the cooperative why if it does!

Equal vs. volume voting--Most cooperatives have equal voting, e.g., one member, one vote. Certain cooperatives, however, may permit volume voting. In this situation, the more business the member does with the cooperative, the more votes the member has. This should be scrutinized closely, however, to determine that no one member can control the affairs of the cooperative. Limitations are often contained in the association's bylaws to keep this from happening. For example, a member may be restricted to no more than 15 percent of total votes regardless of how much business is done with the cooperative.

Preferred capital stock dividends-- Preferred capital stock is an investment made in the cooperative, usually by nonmembers, that is generally not made on the basis of use. Dividends on preferred stock, if any, may be cumulative or non-cumulative. Dividend rates will normally range from 2 to 8 percent.

Dividends on allocated equity--Some cooperatives pay dividends on certain classes of allocated equity. The amount will usually range from 2 to 8 percent. This most often occurs when a cooperative does not have an active equity redemption program and much of the ownership is held by inactive members. The problem with this practice is that the funds to pay the dividends must come out of current year's earnings, thus reducing the net income to distribute to active members on the basis of use. This undermines the cooperative idea of "service at cost," or the "user-benefit" principle.

Service at cost--This is a common term associated with cooperatives. It is often incorrectly interpreted to mean that a cooperative isn't supposed to make a profit. A cooperative, just like any other business, needs to operate profitably if it is to survive and grow. Service at cost actually means that profits are allocated or distributed back to patrons on the basis of use. This is in keeping with the user-benefit principle.

Consideration of equity as debt--It is fairly common to encounter situations (particularly with lenders and others who do not fully understand how cooperatives operate) where equity is considered to have more characteristics of debt than equity. Most of this stems from the perceived temporary nature of cooperative equity in which it can be redeemed at any time. Lenders knowledge about cooperative operations will require a loan agreement covenant requiring prior approval for redeeming equity. Such a covenant serves as a check point to review the cooperative's financial condition and how it will be affected by the equity redemption. This type of covenant is particularly prevalent in a long-term loan agreement.

Immediate Benefits vs. Equity Redemption--The basis for this discussion is to identify some of the tradeoffs that occur in how cooperatives return benefits to members. Several comparisons should be made when analyzing a cooperative's financial performance. Does the cooperative pay out a high percentage of its allocated net income in cash? If so, how aggressive is its equity redemption program? A large cash patronage payment percentage combined with a lengthy revolving period usually means that current members are not providing their

longer serving period usually means that current members are not providing their proportional share of equity. Therefore, the majority of equity is being provided by longer term members who may or may not be long active users of the cooperative. As this practice continues, more and more disparities created between current and former users. A more beneficial approach would be for the cooperative to pay out the amount in cash (20 percent) to current users and use a portion of the retained patronage refund to redeem equities of older members. This will ultimately lead to current users financing the cooperative more in accordance with use.

Growth vs. Redemption--As part of this financial strategy a cooperative may consciously be attempting to "grow" the business. It takes capital to do this, so the cooperative may purposely delay redeeming equity to retain the necessary equity capital to fund the growth. This is a sound strategy if the planned growth is designed to enhance member returns. The most important thing for a cooperative to do under these circumstances is to clearly communicate this strategy to the membership so there are no misunderstandings as to why equity redemption is being delayed.

Lenders and Equity Management--A cooperative's lender(s) can have a direct impact on equity management decisions. The credit standing of the cooperative and/or the amount of debt outstanding usually determines the extent to which lenders require approval to be obtained before decisions affecting equity can be carried out. A common covenant in cooperative loan agreement requires the lender's prior approval before any equity can be paid to members. Other loan conditions lenders impose include setting minimum working capital levels, minimum debt to equity levels, prior approval for any fixed asset expenditures, and approval of fixed asset sales and how the proceeds will be applied.

Communicating the Equity Message--Member expectations about their investment in the cooperative and the cooperative's equity capital requirements may be at odds with each other. This makes it incumbent on the board of directors and management to continually and consistently communicate with members about the capital needs of the cooperative. This includes telling the members what the capital expenditure plans are and whether they are for expansion, modernization, or acquisition. The level of equity capital needed to fund the expenditures and how it will be accumulated must also be identified. If members expectations for equity redemption can't be met, this must be disclosed with credible reasons as soon as possible.

Commitment Follows Capital--This expression can apply in all types of business situations, but it particularly relevant in a cooperative. It becomes even more important in a cooperative is in its organizational stage and members are only asked to put up a token amount of capital (say, a \$25 membership fee), there may be some disappointments later on. When the cooperative begins actual operation, there may not be the participation or financial support needed because the small, initial investment didn't create that much interest or commitment to the new venture. In case of the new, value-added cooperatives, however, large up-front investments are required along with a formal contract to patronize the cooperative at prescribed levels. In this case there is strong interest, commitment, and loyalty.

Allocated vs. unallocated equities-- What is the composition of the equity section of the balance sheet vis a vis allocated vs. unallocated equity? Allocated equity should predominate or it could mean that the membership's control of the cooperative has been diluted or abdicated of management.

Equity Redemption is not Equity Management--Equity management is much more than just equity redemption, although redemption is the event on which most cooperative's equity performance is judged. What are the key elements of successful equity management? Good financial planning, both short-and long-term, is at the heart of the matter. This planning must involve the board of directors in setting strategic policies that protect the cooperative's financial strength and clearly identify management's responsibility in carrying out these policies. It is also important that the board monitor performance against the financial goals it has set. These policies should cover such financial events as how equity is accumulated, what the target equity levels as how equity levels are, capital expenditure amounts, capital asset disposition, earnings goals, equity redemption objectives, etc.

Distribution of Earnings

Cash patronage refunds-- What percentage of allocated net income is paid to members in cash? Is it at least the minimum 20 percent so the patronage income qualifies as a tax deduction for the cooperative? Is too much cash being paid to the detriment of the cooperative's equity capital needs? Are the refunds being paid on a basis proportional to use? Are different percentages being paid to members based on the level of their investment in the cooperative (higher cash payments to those over-invested and vice versa)?

Retained patronage refunds--This is the reciprocal to cash patronage payments. Is enough equity being retained by the cooperative from the patronage allocation to meet capital from the patronage allocation capital requirements? This is particularly important if retained patronage refunds are the only source of acquiring membership equity.

Qualified patronage allocations-- Has the cooperative allocated its patronage income in such a way as to qualify for a tax deduction on that amount? To qualify, a minimum of 20 percent must be paid in cash, member consent to pay tax on the entire allocation (cash and non-cash) was obtained, and cooperative provided a written notice of allocation to the member within 8 1/2 months of the fiscal year end.

Nonqualified Patronage Allocations--Nonqualified allocations are those where less than 20 percent (or no amount) is paid in cash and the cooperative pays the tax on the entire net income. Many cooperatives use nonqualified allocations as a tax planning strategy to take advantages of loss carry forwards. In other instances, it's because members do not want to pay tax on the allocation when it is made because the cash portion is too small to cover the tax liability. When the nonqualified allocation is redeemed, the member incurs the tax liability and the cooperative can file for a tax refund. The use of nonqualified is not widespread among cooperatives.

Recording losses--A cooperative has several ways to record an operating loss. The loss can be charged against allocated equity proportionally based on the amount of business each member does with the cooperative during the year in which the loss occurred. The loss can also be charged against unallocated equity, in which case the member's allocated ownership stake is not reduced. A third method, although not very popular, is to charge the member's account with a proportional share of the loss. This shows up as an account receivable on the balance sheet and the member is required to pay the amount in cash on the terms prescribed. A cooperative's bylaws will usually indicate how losses are to be handled.

Handling of Capital Gains (losses)--If a cooperative sells a fixed asset for an amount that results in a capital gain, the board of directors must decide how to handle that gain. As with an investor owned firm (IOF), the gain becomes an increase to equity and is a taxable event, but a cooperative has several options for handling the gain. The capital gain may be allocated to members proportionally, based on their use of the cooperative over the life on the asset of which the gain was realized. In this case, the members incur the tax liability whether the gain is allocated in cash or not. A second method is to record the gain on an unallocated basis, in which case the cooperative pays the tax. Likewise, the board of directors must determine how to handle a capital loss from the disposition of an asset. It can decide to allocate it to members who can offset the loss against any personal taxable long-term gain or classify the loss against any personal taxable long-term gain or classify the loss as unallocated and either offset it against any other gains or as a reduction in the unallocated reserve account. The tax consequences of capital gains and losses are numerous and a professional tax adviser should always be consulted.

Per-unit capital retains--Does the cooperative take a per-unit capital retain? Is this its sole means of equity accumulation or is it used in combination with retained patronage refunds? Is the per-unit capital retain collected on the basis of physical volume or is a percentage of value? A per-unit capital retain is normally a more stable method for accumulating equity because it is not dependent on operating results like retained patronage refunds.

Direct investment--Does cooperative have the authority to assess members additional capital not related to proportional use? This would be over and above any equity obtained through the

not related to proportional use? This would be over and above any equity obtained through the initial purchase of membership shares. A direct investment might be required as a part of a building fund or to shore up a weakened financial position. Normally such amounts would be assessed on a proportional basis.

Equity Redemption

Types of redemption--Does the cooperative have an active equity redemption program? If so, on what basis does it redeem (revolving fund, percent-of-all-equities, base capital plan, special programs, or a combination)?

Revolving fund cycle--What is the redemption cycle in years? Is it comparable to other cooperatives in its commodity type? Is the revolving cycle so long as to make the equity, on a discounted basis, of little or no value to the member? What is the revolving cycle goal? Has the revolving cycle been extended recently? What are the amounts of equity in each of the years outstanding? Are there large amounts retained in certain years that will make it difficult for the cooperative to redeem the entire amount in one year and stay on its current revolving cycle? Are the amounts in other years small that might permit combining two or more years' worth of redemptions to shorten the revolving cycle.

Percent-of-all equities--What percent of each year's equity redeemed under the program? How does it equate to a revolving fund cycle? For example, a 5 percent redemption is roughly equivalent to a 20 year revolving fund cycle. This program has the advantage of returning some equity early, which has appeal particularly to younger members.

Types of special programs--Special redemption programs are those triggered by an event affecting the individual member. What types of special programs are used, alone or in combination with other special programs and/or one or more regular redemption programs? Estates, retirement from farming, moving out of the territory, and hardships are the more common types of special programs. What conditions apply to the redemption event? For instance, is there a specific annual dollar amount set aside by the board of directors for each special event? Is there a specific order in which redemption is made, i.e. estates first and if any funds remaining, then retirements, etc?

Estates--Are claims paid when presented or held to the end of the fiscal year. Are all claims paid that are made during the year or only on a first come, first serve basis up to the specific amount that has been set aside for estate redemption? What is the average age of the cooperative's members? The older the average member age, the more potential exposure there is to high levels of redemption that can put a strain on capital.

Retirement from farming--What are the conditions of payment? Common ones include that the member must sell the land or can no longer be involved in the farming operation to receive the redemption.

Age-of-patron--At what age is the redemption made? Is there a goal reduce the age to a certain level? Does the payment age bear any resemblance to normal retirement age, i.e. 65? Is the amount paid out in a lump sum or over a period of years? Normally, if a member is still an active user of the cooperative when the prescribed age is reached, future patronage refunds are made 100 percent in cash.

Moveaways--This is not a very prevalent practice. Equity redemption is paid to members who move out of the trade area. Usually, there is a waiting period of several years after the member has moved away before the redemption payment is made.

Hardships--Also not a very prevalent practice. Types of situations that cooperatives consider as hardship vary greatly. Payments are made for such situations as disabilities, bankruptcy, or divorce and usually handled by the board of directors on a case-by-case basis rather than as a set policy. Payments are quite often made on a discounted basis. The purpose of a hardship payment is to assist the member in settling an out-of-the ordinary situation.

Delayed payment, i.e. pooling co-ops--Marketing cooperatives, particularly those with pooling operations, often stagger product payments to members over the marketing year. Usually an

operations, often stagger product payments to members over the marketing year. Usually an initial advance payment is made shortly after the product is harvested and delivered to the cooperative. In intervals thereafter, progress payments are made as sales receipts warrant. When the entire crop has been sold the pool is closed and a final payment is made. With members having to wait for payment on their crop, they are providing short-term equity financing for the cooperative. This often means that a marketing cooperative can operate at a lower equity level than other types of cooperatives that pay members market price when the product is delivered.

Borrowing to Redeem--There are two different schools of thought on this subject. The conservative approach, which many cooperatives espouse, is to resist borrowing to redeem equity. They believe that any redemption should be made from equity capital accumulated in the business. While this may have some philosophical appeal, using debt capital to retire equity capital can make sense under certain circumstances. If the cooperative is in sound financial condition and does not reasonably expect to have to borrow for other purposes in the near term, borrowing to redeem capital has several benefits. First of all, it leverages the equity investment of current members and allows former members' equity to be repaid to bring the cooperative closer to being financed by current basis and keeps equity from getting more unbalanced in terms of proportionality.

Combining Equity Redemption Programs--This acknowledges that many cooperatives have more than one way of redeeming, and in many cases accumulating, equity capital. A few cooperatives may operate both with a regular revolving fund program and a base capital plan. Most often, this type of combination occurs when the capital program is in transition from one plan to the other. More common are combinations of regular and special redemption programs. The most typical is a regular revolving fund program combined with a special program that pays to estates. Combining equity programs is not a problem as long as sufficient equity exists to keep all programs current. An example would be if the payments to estates was so large, because of an aging membership, that revolving fund payments could not be kept current.

Redemption at a Discount--Although most equities are redeemed at book value, there are programs where the face amount is discounted to a present value. This occurs most often when equity is being redeemed out of cycle, or under out-of-ordinary circumstances. Examples are when a member moves out a cooperative's trade territory and can no longer use its services, or terminates the membership. In some instances, there may even be a delay of 1 to 3 years before the discounted value of the equity is redeemed. In calculating the discount, the interest rate used is usually a bank lending rate and the time period would equate to the cooperative's current revolving cycle.

Conversion of Equity to Debt or Other Classes of Equity--This is not a very common practice, but occasionally cooperatives, instead of the outright redemption of equity, will convert the amount to a note payable or a preferred class of stock. Although this delays the payment to the member, interest on the amount due is usually paid, so the member receives some compensation for the delay.

Equity Redemption as a Retirement Plan--Cooperatives that redeem only under special circumstances such as age of patron and upon retirement, sometimes describe their equity redemption programs as "retirement" programs. This is unfortunate because then the membership has no higher expectation. In reality, administering an equity program in this fashion is an injustice to the membership because the older members are subsidizing the investment of newer members by having to leave their equity in the cooperative for a long time. This results in growing disparities in the proportionality of members' investment.

Tax Issues

Tax considerations--Taxes can play an important role in equity management decisions. If a cooperative has a loss carry forward from a previous period, it can choose to issue nonqualified allocations and offset the loss against the current tax obligation. Gains on the sale of assets can also represent tax consequences that can be mitigated by careful tax planning, thus preserving equity that would otherwise be lost to taxes. The key to addressing tax issues from an equity management perspective is to consult regularly with a professional tax advisor who is well-acquainted with cooperative tax law.

Cooperative Taxation

Benjamin Franklin, who among his other accomplishments helped establish a successful insurance cooperative, wrote shortly before his own demise, "Our Constitution is in actual operation; everything appears to promise that it will last; but in this world nothing is certain but death and taxes."

Fortunately, the Constitution has endured, but so have taxes. Taxes are a factor in the planning of every individual and business. Like other businesses, cooperatives pay taxes. The information presented here is intended to help persons associated with cooperatives (1) understand cooperative income tax treatment, (2) avoid fundamental mistakes that cost money and may lead to an expensive and disruptive audit or assessment by the Internal Revenue Service, and (3) use tax planning options that may increase the benefits members receive from their cooperative.

Cooperatives Are Not Exempt from Taxation

Cooperatives usually pay all the special taxes levied on businesses. These include real and personal property taxes, sales taxes, employment taxes (to fund social security, unemployment compensation, and workers' compensation benefits), gasoline and diesel fuel taxes, license fees, motor vehicle registration fees, and excise taxes on telephone, power, and other utility services.

Also, no cooperative is exempt from Federal income taxation and filing Federal income tax forms. Most states with a corporate income tax generally follow the Federal rules.

The relationship of cooperative income tax treatment to that of other business forms is set out in table 1. Of the five common types of business structures in this country, only investorgeneral corporations pay income tax at both the business and owner levels. And only 12 percent of American businesses are investorgeneral corporations.

Most rules governing cooperative income tax treatment are found in subchapter T of the Internal Revenue Code, sections 1381-1388. Subchapter T recognizes that the objective of business conducted on a cooperative basis is not to generate earnings for the cooperative, but to increase the income of the members. Thus, net margins on business with or for patrons are subject to Federal income tax only once, at either the cooperative or the user level, but not both. Only this patronage-sourced income is eligible for single tax treatment. With certain exceptions, income from non-patronage sources is subject to tax at the cooperative level when earned and at the recipient level when paid out to members or others.

This single tax treatment is not limited to farmer cooperatives. With certain exceptions, any business that chooses to "operate on a cooperative basis" is eligible for tax treatment under Subchapter T (I.R.C. sections 1381-1388).

Patronage Refunds

Single tax treatment is accomplished by permitting a cooperative to deduct patronage refunds distributed according to rules in Subchapter T. A patronage refund is:

- an amount paid by a cooperative to a patron,
- under an obligation of a cooperative to pay such amount which obligation existed before the cooperative received the amount so paid,
- based on the quantity or value of business done with or for the patron, and
- derived from the cooperative's earnings from business done with or for all patrons, usually referred to as the cooperative's margins.

For example, if 10 percent of a cooperative's business is with or for Ms. Jones, and the cooperative has a total net margin for the year of \$1,000, then Ms. Jones receives a patronage refund of \$100 ($\$1,000 \times 10\%$).

Payment Options, Tax Treatment

A cooperative has three options when distributing patronage refunds--cash, qualified written notices of allocation, and nonqualified written notices of allocation. Tax treatment is one of the factors management considers in deciding which option(s) to use.

Table 1--Tax Treatment by Business Type

Business Type	Times Earnings Taxed	Level
Proprietorship	1	Owner
Partnership	1	Owner
Corporations:		
Investor-General	2	Corporation/Owner
S Corporation	1	Owner
Cooperative	1	Owner

Cash

A cooperative may pay out some or all of its margins to patrons in cash. The cash portion of a patronage refund is deductible by the cooperative in the year the margin being returned was earned. It is taxable income to the patron in the year received. In the example, if Ms. Jones received her entire patronage refund in cash, the cooperative would deduct the \$100 from taxable income for the tax year in which the business occurred that generated the \$100 in margins. Ms. Jones would include the \$100 in the taxable income of the year in which she received the \$100 refund.

Written Notices of Allocation

Members usually authorize their cooperative to retain at least a portion of their patronage refunds each year as additional equity capital for continuing operations. Although these margins are retained by the cooperative, they qualify for single tax treatment if both the cooperative and its patrons comply with specific requirements in Subchapter T.

To protect single tax status for retained margins, the cooperative must send each patron a written statement reporting the amount of that patron's patronage refund for the year. This statement is called a written notice of allocation. If these notices aren't sent to patrons within 8 1/2 months of the close of the cooperative's tax year, single tax treatment for the retained portion of patronage refunds is forfeited.

Qualified Notices

Two optional tax treatments are available for patronage refunds distributed as written notices of allocation. The type of written notice of allocation used determines which tax treatment applies.

If a cooperative meets the subchapter T requirements to "qualify" its written notices of allocation, the stated dollar amount appearing on the notice is treated just like a cash patronage refund for tax purposes. The cooperative deducts the amount allocated from its taxable income in the year earned, and the patron includes the entire amount in his or her income in the year the notice is received.

The requirements to "qualify" a written notice of allocation are:

- The written notice must be part of a patronage refund package of which 20 percent or more is paid in cash or by check, and

- is paid in cash or by check, and
- The patrons must have consented to include the face value of the notice in their taxable income.

The patron "consent" requirement is satisfied in one of three ways:

- By being a member of a cooperative with a bylaw that clearly states membership in the cooperative constitutes such consent. The member must receive a copy of the bylaw and a written statement of its purpose.
- By signing a written consent form before the end of the taxable year in which the patronage occurs. This consent is revocable. Unless it provides otherwise, a written consent form remains in effect until revoked.
- By endorsing and cashing a "qualified check." A qualified check is a specially prepared bank check which, if endorsed and cashed, establishes patron consent to include the entire refund in taxable income.

Most cooperatives have a bylaw making consent automatic with membership. Because bylaws only bind members, a separate written consent must be obtained from nonmember patrons for their consent to be effective. Qualified checks are rarely used because of the uncertainty over when and whether patrons will cash them.

Using the earlier example, if Ms. Jones received a qualified written notice of allocation reporting her patronage refund, the cooperative could deduct both the amount of cash refunded to Ms. Jones (must be at least 20 percent of the refund) and the non-cash portion of her patronage refund in the year the underlying margin was earned. Ms. Jones must report the entire refund (\$100) as income in the year received, even though the cooperative might retain up to 80 percent of the funds.

Nonqualified Notices

A cooperative may elect not to meet all the requirements to qualify a written notice of allocation. For example, it might pay less than 20 percent of the patronage refund in money or it might not have its patrons consent to include the face value of the notice in taxable income.

A written notice that for any reason does not meet the requisites for qualified status is called a "nonqualified written notice of allocation."

A cooperative that issues nonqualified written notices of allocation must include the face amount of such notices in its taxable income for the year the covered funds are earned and pay tax on these funds at regular corporate income tax rates. When the cooperative pays out the money represented by the nonqualified notices to the patrons (i.e., redeems them), the cooperative can recover the tax paid in the year issued, according to formulas established in Subchapter T.

The patron receiving a nonqualified notice pays no immediate tax on the funds it represents.

When the cooperative redeems a nonqualified notice, the money received by the patron is taxable income to the patron in the year received.

Again referring to the example, if the cooperative issued a nonqualified written notice of allocation as a patronage refund to Ms. Jones, the cooperative would report the \$100 face value of the nonqualified notice as income in the year it was earned. Ms. Jones has no immediate tax liability for the refund. When the cooperative pays Ms. Jones \$100 in money to redeem the nonqualified notice of allocation, the cooperative recovers the tax it paid at the time the notice was issued. Ms. Jones reports the \$100 as income for the tax year in which she received the funds.

The extent to which a cooperative pays its patronage refunds in cash, or in qualified or nonqualified written notices of allocation, is a matter within the discretion of the board of directors. Tax and financial advisers are often consulted before the decision is made.

Per-Unit Retains

Members of marketing cooperatives have an alternative method of providing patronagebased financing. They may authorize the cooperative to deduct a portion of the proceeds of sale, based on dollar value or physical volume of products marketed through the cooperative. This

based on dollar value or physical volume of products marketed through the cooperative. This method of financing is called "perunit retains."

Tax treatment of perunit retains generally parallels that of patronage refunds. To qualify for single tax treatment the cooperative must, within 8 1/2 months of the end of its tax year, either refund the per-unit retain in cash or provide the patron with a written notice that discloses to the recipient the dollar amount retained. That notice is called a per-unit retain certificate.

If patrons consent to include the face value of the certificates in current income, the retained funds are deductible by the cooperative in the year the funds were acquired and must be included in taxable income by the patrons in the year they received the required written notice, now referred to as a "qualified" per-unit retain certificate.

No cash distribution rule similar to the 20percent requirement to qualify a written notice of allocation applies to per-unit retain certificates. Any cash refunded is deductible by the cooperative in the year the funds were acquired and is taxable income to the patron in the year the refund is received.

If a per-unit retain does not meet the requirements for qualified status, the written notice is called a "nonqualified" per-unit retain certificate. The cooperative includes the face value of the certificate in current taxable income and recovers the tax paid at the time of redemption. The patron does not report the retained amount as income until the nonqualified certificate is redeemed by the cooperative.

Section 521 Cooperatives

Farmer cooperatives meeting certain tests set out in section 521 of the Internal Revenue Code may, in addition to patronage refunds and perunit retains, deduct dividends on stock and income from business with the United States and other non-patronage income distributed to patrons on a patronage basis.

Cooperatives using section 521 surrender some financial and tax planning flexibility. One of the most restrictive rules requires these cooperatives to treat all customers as "patrons," entitling them to patronage refunds, whether or not they are members of the cooperative. If there are many nonmembers doing small amounts of business with the cooperative, the bookkeeping costs of treating them all as patrons may exceed the additional tax benefits afforded under section 521.

Qualifying for section 521 status is beneficial only if a cooperative can take advantage of the two additional deductions. That is, the association either distributes a large portion of its margins as stock dividends rather than patronage refunds, or it has substantial income from non-patronage sources that the association wishes to distribute or allocate to patrons each year.

Filing and Forms

As mentioned earlier, all cooperatives must file annual Federal income tax returns, even if they have no taxable income.

- Farmer cooperatives file form 990C.
- Other cooperatives file form 1120.
- Other forms to be filed may include the various form 1099's to report distributions paid as interest, stock dividends, patronage refunds and perunit retains (both cash and non-cash).

Tax Planning Alternatives

The tax treatment available to businesses operated on a cooperative basis is a simple concept - a cooperative operates at cost, so it has no true income to tax. However, as the earlier sections of this paper indicate, when that concept is melded into our complex Federal income tax system, it also becomes quite complex.

Careful tax planning is as important for members and their cooperatives as it is for other individuals and businesses. This is especially true when patronage refunds are involved, because most decisions will have significant tax consequences for both the cooperative and its member patrons. Here is a brief summary of some of the choices available:

1. How to finance the cooperative -- Members may supply equity capital through outofpocket investments, patronage refunds, or perunit retains. Initial investments to start a cooperative usually come from the members. When the cooperative generates margins, retained patronage refunds generally become the principal source of capital. Marketing cooperatives may also use perunit retains. A combination of these methods is permissible. Cooperatives are encouraged to plan what role each of these approaches should play in capital formation.
2. Who is to receive patronage refunds -- A cooperative may pay patronage refunds to all users or only memberusers. If margins on nonmember business are not returned to nonmember users on a patronage basis, the cooperative must pay corporate income taxes on this money.
3. Whether to "qualify" its paper -- Most cooperatives "qualify" their written notices of allocation and perunit retain certificates because members find it to their advantage to accept immediate tax liability for their investment in their cooperative, and thereby give the cooperative the easiest possible access to needed financing. It is permissible to qualify part of an allocation and not the remainder. The extent to which nonqualified allocations are made generally depends on the cash needs and tax rates confronting both the members and the cooperative at the time of allocation.
4. How to "qualify" -- The vast majority of cooperatives use a bylaw provision to obtain the necessary consent to qualify their allocations to members. The required explanation can be provided at the time the producer applies for membership, and the preexisting legal obligation to conduct business on a patronage basis is established. Bylaws only bind members, so bylaw consent is not available for nonmember business. A separate written consent is usually obtained from nonmembers if their business is to be conducted on a patronage basis. Qualified checks can be issued only as part of a patronage refund, and are rarely used because of the uncertainty over whether patrons will cash them.
5. How to redeem old patronage paper -- If current patrons are to meet their duty to finance the cooperative, then written notices of allocation and perunit retain certificates that have been on the books of the cooperative for many years should be redeemed. The redemption schedule should not be so rigid that it becomes difficult to maintain adequate levels of capital. However, a formal redemption program is clearly compatible with cooperative principles.

The memberpatrons must collectively decide which alternatives best fit their needs and the operation of their cooperative.

Winners vs. Losers

WINNERS

LOSERS

- | | |
|--|--|
| <input type="checkbox"/> Winners say, <i>If it is to be, it is up to me.</i> | <input type="checkbox"/> Losers say, <i>I can't help it.</i> |
| <input type="checkbox"/> Winners translate dreams into reality. | <input type="checkbox"/> Losers translate reality into dreams. |
| <input type="checkbox"/> Winners empower. | <input type="checkbox"/> Losers control. |
| <input type="checkbox"/> Winners say, <i>Let's find out.</i> | <input type="checkbox"/> Losers say, <i>Nobody knows.</i> |
| <input type="checkbox"/> Winners are part of the solution. | <input type="checkbox"/> Losers are part of the problem. |
| <input type="checkbox"/> Winners are not afraid of losing. | <input type="checkbox"/> Losers are afraid of winning. |
| <input type="checkbox"/> Winners work harder than losers. | <input type="checkbox"/> Losers are always too busy. |

- | | |
|--|--|
| <input type="checkbox"/> Winners say, <i>I was wrong.</i> | <input type="checkbox"/> Losers say, <i>It was not my fault.</i> |
| <input type="checkbox"/> Winners <i>want to.</i> | <input type="checkbox"/> Losers <i>have to.</i> |
| <input type="checkbox"/> Winners always make time. | <input type="checkbox"/> Losers often waste time |
| <input type="checkbox"/> Winners make commitments. | <input type="checkbox"/> Losers make promises |
| <input type="checkbox"/> Winners say, <i>I'll <u>plan</u> to do that.</i> | <input type="checkbox"/> Losers say, <i>I'll <u>try</u> to do that.</i> |
| <input type="checkbox"/> Winners say, <i>I'm good but not as good as I can be.</i> | <input type="checkbox"/> Losers say, <i>I'm not as bad as a lot of other people.</i> |
| <input type="checkbox"/> Winners listen to what others say. | <input type="checkbox"/> Losers wait until it's their turn to talk. |
| <input type="checkbox"/> Winners catch others doing things <i>right.</i> | <input type="checkbox"/> Losers catch others doing things <i>wrong.</i> |
| <input type="checkbox"/> Winners learn from others. | <input type="checkbox"/> Losers resent their colleagues. |
| <input type="checkbox"/> Winners see opportunities. | <input type="checkbox"/> Losers see only the problems. |
| <input type="checkbox"/> Winners do it. | <input type="checkbox"/> Losers talk about it. |
| <input type="checkbox"/> Winners feel responsible for more than their jobs. | <input type="checkbox"/> Losers frequently state, <i>I only work here.</i> |
| <input type="checkbox"/> Winners say, <i>There ought to be a better way.</i> | <input type="checkbox"/> Losers say, <i>That's the way it's always been done.</i> |
| <input type="checkbox"/> Winners celebrate others. | <input type="checkbox"/> Losers complain about others. |
| <input type="checkbox"/> Winners are willing to <i>pay the price.</i> | <input type="checkbox"/> Losers expect it on a <i>silver platter.</i> |
| <input type="checkbox"/> Winners always expect success. | <input type="checkbox"/> Losers always expect failure. |

There is no time to lose but so much time to win, so begin right now to make it a winning life.

Lessons From the Geese

* As each goose flaps its wings, it creates an "uplift" for the bird following, by flying in a "V" formation, the whole flock adds 71% more flying range than if each bird flew alone.

LESSON: People who share a common direction and sense of community can get where they are going quicker and easier because they are traveling on the thrust of one another.

* Whenever a goose falls out of formation, it suddenly feels the drag and resistance of trying to fly alone and quickly gets back in formation to take advantage of the lifting power of the birds immediately in front.

LESSON: If we have as much sense as a goose, we will join in formation with those who are headed where we want to go.

needed where we want to go.

* When the lead goose gets tired, it rotates back into formation and another goose leads at the point position.

LESSON: It pays to take turns doing hard tasks and sharing leadership with people, as well as geese, interdependent with one another.

* The geese in formation honk from behind to encourage those up front to keep up their speed.

LESSON: We need to make sure our honking from behind is encouraging not something less helpful.

* When a goose gets sick or wounded or shot down, two geese drop out of formation and follow their fellow member down to help and provide protection. They stay with this member of the flock until he or she is either able to fly again or dies. Then they launch out on their own, with another formation, or they catch up with their own flock.

LESSON: If we have as much sense as the geese, we'll stand by one another.

Creating Boards That Lead

This article describes the meaningful and critical role the board must play in cooperative affairs. Hopefully it will help clarify what the board should be doing, how the board can organize its work and what unique products the board contributes to your cooperative's success. This information is derived from the work of John Carver. If it interests you, I suggest you read Carver's book on policy governance, *Boards That Make a Difference*, Jossey Bass, 1990.

Listen Up! We've Got a Problem Here

Recently a prominent cooperative manager called to talk about her board. "Our boards are destroying our cooperatives, she said. "They are keeping us from being competitive." How could this be? I've worked with and trained hundreds of directors. Overall, they are capable, wellintentioned, welleducated men and women.

On the other hand, listen to directors: "We don't seem to be getting anything done at our meetings." "Our manager is doing a great job; there isn't much left for us to do anymore." "I'm on the board. Does that mean I have to know everything about the coop?" "I get the feeling I haven't mastered the financials as well as I should."

These comments and hundreds of others like them have convinced me that many cooperative directors and managers are uneasy with the role of directors as it is being played in many cooperatives.

This problem of "poor" board performance is not unique to cooperatives. Few Americans would rush forward to defend the Congress, state legislators, or even school boards as models of "good governance." It is equally difficult to find good governance in the corporate world.

In fact, only when prodded by large stockholders and shareholder legal action have boards of many investorowned corporations questioned the quality of their performance.

What does this mean for cooperative boards? Are they a tedious and anachronistic holdover from the past? Or do they play a unique role in the organization; a role played by no one else?

Begin at the Beginning

It is not possible to understand the role of a board without clearly understanding the concept of governance. To govern is to make decisions on behalf of others which provide benefits for the group as a whole. By law and through members' expectations the board is given responsibility to generate four specific products. When the board produces these products it will successfully

achieve its sole purpose: to use and protect the resources members have entrusted to it in order to improve their lives. The job of a cooperative director is to make decisions which benefit the coop members. If the job is done well, the most benefits will be provided to the largest number of members at the least cost.

Members recognize it is impractical for everyone to participate in all the decisions necessary to run their business, so they elect a board of directors and confer upon them the authority to make decisions. Because the board needs money, people, equipment and other resources to carry out decisions, members entrust these resources to the directors, assuming resources will be used effectively and efficiently.

In return for authority granted, the board is accountable for all cooperative activities. Board members must be able to describe what decisions have been made, how member resources have been used and what results were achieved. This is different than being responsible for the activities. Governors are not expected to perform activities that meet the needs of the members, they are expected to be accountable for them.

In the context of decision making, the board becomes a single unit: it exercises authority and it decides. Although the board is composed of individuals, they must be able to come to sufficient agreement to make a single decision that is the board's statement on an issue. Board members hold authority only when they are acting as a board. Outside of the board room, board members have no more authority than any other memberowner of the cooperative. As a result, even though the board is often composed of very strong individual members with strong, and possibly differing, opinions, the board's decisions are made in board meetings and expressed with a single voice.

What Results Should Members Expect?

There are four unique results or products of the board's work. The board's first product is providing ties or linkage to the member owners. A board cannot carry out its responsibilities without determining who is the ownership and how they can best be heard. This means deciding who the cooperative serves and might serve in the future, finding out what they want or need from the cooperative, and setting up ways for the board to report to the members on its success at meeting their needs.

Earlier we said the board's decisions must be expressed with a single voice. Through practice, we have come to identify decisions that the board has reached and is willing to express with a single voice as the board's policies. The second product of the board's work is its policies, the decisions it makes that give direction to cooperative activities.

Unfortunately, decisions, however wise and well crafted, do not assure that action will follow. Often policies are buried in board minutes, directors and staff have difficulty remembering exactly what they are, and, can't say for sure if the policy is being followed. This leads to the third responsibility of the board: to make sure decisions are being carried out, or assurance of performance. This means setting up a monitoring system that establishes a regular schedule and procedure for reviewing each decision/policy. Only by enacting effective monitoring procedures can the board be accountable to the membership.

Directors are responsible for the security of the members' resources. Carrying out this responsibility is the fourth result of the board's work: assurance of perpetuity or continuing life of the cooperative. This includes the board's responsibility for the security of financial resources, for the continuity of competent management, and for its own continuity (i.e., assuring that good board candidates are available and comprehensive policies are in place).

To review, the results members have a right to expect from directors and that directors have a responsibility to produce for members are:

- linkage to the member owners;
- comprehensive policies;
- assurance of performance; and
- perpetuation of the cooperative.

Boards that produce these products are functioning well. Other boards have some work to do

Boards that produce these products are functioning well. Other boards have some work to do. They can look forward to becoming a board that contributes real and important results to the overall success of the cooperative, a board that clearly understands what it intends to accomplish.

Debate, Decide and Direct: Making Board Policy

A policy is a written statement of the values and expectations which guide current and future decisions. In general, the board uses policies to describe what it wants done or what it does not want to happen rather than describing how something will be done or how it will be prevented. If the board understands how to make policies and what kinds of policies should be in place, it will have made major progress toward achieving the results members expect.

The key to developing policies is to start with the largest issue in each category before considering smaller issues. For example, when the board is developing the boundaries of acceptable activity, it might say management "will not conduct any activity which is illegal, unethical or imprudent." This clearly states the board's values about acceptable activity. However, most boards want to give additional and more specific guidance to management. The idea is to work in sequence, one policy level at a time, with each policy being a more specific statement than the policy that preceded it. The board stops making policies when it can accept any possible interpretation of the most specific policy. At that point, all further decisions are delegated to management. Ultimately it should be impossible for an issue not to be covered by board policy at some level. The board's goal is to produce a fabric of policies that effectively blankets all possibilities. (This is the essence of the image of nested bowls of policy.)

Boards are critically dependent on two people for leadership: the manager and the board chair. When all is said and done, all board decisions are directions for one or the other and, through them, to the board and staff.

Policies directed to the manager cover two broad policy areas: those that describe results the board expects and those that describe activities which are not acceptable to the board. The board says to management, "Here's what we want you to accomplish and here's what we don't want you to do unless you check with us first." Policies that give guidance to the board chair include those that describe the relationship between the board and the general manager and those that describe how the board will do its work. Virtually all of the board's decisions are made in one of these four areas:

- results (ends),
- boundaries (means),
- board management relations and
- board process.

What We Want: Results Policies

The board is responsible for determining and refining why the cooperative exists, what it does that is worthwhile. Before considering what is worthwhile, the board must consider whose needs will be met. Who are the members and potential members the cooperative serves? Then the board determines which member needs will be met. For example, cooperatives can exist to increase the income of their members, to make goods available at a fair price, or to build an economically selfsufficient community. The board must also determine what constitutes satisfaction. How will we know when we are successful? These questions relating to "why are we here" should be the board's primary business. It is the board's obligation to provide management with a very clear message regarding what ends should be achieved and what results are expected.

Results policies clearly define specific results that are expected. They clarify what impact the cooperative will have on its community or what difference it makes that the cooperative exists.

It is in establishing these policies that the board determines the long term direction of the cooperative, determines the cooperative's mission and provides visionary leadership. Clearly, the board will rely heavily on management to provide information and insight on which to base their decisions regarding desired results, but the responsibility to debate the issues, make a decision and direct the manager is the board's and is solely the board's.

Not Until You Ask Us First: Setting Boundaries

Not Only For What is Done, Setting Boundaries

The board is not only concerned about what should be accomplished. It is also concerned with how results are achieved. Since the board is responsible and accountable for all of the activities of the cooperative it must have control over the complexity and the details of operations without being consumed by them.

The challenge to the board is to be reasonably sure that nothing goes wrong, while giving management as much room as possible to get the job done.

The concept of boundary policies goes to the heart of board members' legal and fiduciary responsibilities. Because there are significant penalties to the board as a whole and to individual board members in some cases, board members are entirely justified in their desire that all activities of the cooperative be legal and prudent.

By setting limits on activities, the board makes clear statements about what is unacceptable activity, what activities are "out of bounds." Management should not do these things even if they meet the board determined ends without prior board approval. The most important concern for any board should be that all activities are legal, ethical and prudent. The board may, however, want to be more precise and define more specific boundaries in major areas of concern. These might include treatment and compensation of employees, protection of assets, financial condition, financial planning and management succession. By defining and monitoring the boundaries of its own decision making, the board can be reasonably assured that it will approve of all activities within the boundaries without having to specifically and laboriously review each and every action.

For example, I sit on a board that has a significant investment portfolio. For some time, we were dissatisfied with the performance of the portfolio. Someone would say, "With an portfolio like this, we should be getting better returns." Or, "I'm getting much better returns than we're getting here." Various board members had their favorite "good stock" or "bad stock." Then we had a bad year on the market. The board was forced to rethink its investment policy. It took us a year to develop a series of policies, but we now are focused on the issues that concern us most: investment security within reasonable risk levels, generation of sufficient income to maintain organizational activities and provision for long term growth in the underlying portfolio.

While many board members are still vitally interested in performance of individual securities, we no longer spend valuable board time discussing the relative merits of each one. Instead, we receive a clear and concise report that addresses our three areas of concern. As long as performance is within the goals and boundaries we have set, there is no need to prolong the discussion. We have clearly moved out of our wellintentioned, but misguided attempts to micromanage the portfolio, something that none of us had the time or the professional skills to do well. We pay professionals to manage the investments within the guidelines of very specific policy statements. Because we have clearly defined what results we want (earnings and growth targets) and what we don't want to happen (concentration in a single type of security, investment in poorly rated companies) and we receive regular reports specifically directed to the policies, we can be assured that everything is under control.

Boundary policies are statements about what the cooperative will not do. They are explicit statements about what practices, methods or activities are either unacceptable or need board approval prior to taking action.

Working Together: Board Management Relationships

The most successful cooperatives have both strong boards and strong management. Managers and boards operate in a unique working environment. Most of us "work for a boss" who is a specific individual who has the authority to delegate responsibilities to us. The relationship is one to one. The relationship of many to one between a board and a manager is quite different.

It is the board's responsibility to establish methods by which it can speak with a single voice to establish its expectations of management. The most effective way for the board to do this is to enact specific policies that clearly define the relationship it wants with management. These policies direct the board's behavior and give guidance to the board chair. Policies in this category define how the board delegates its authority to management, how management will be accountable to the board, what the manager's role is in the cooperative, how management will

be compensated, and how the board will measure organizational and managerial performance.

In the board management area, the most general policy (the largest mixing bowl) usually conveys that the board wants management to achieve the results it has defined without violating any of its stated limits on results.

Conduction Board Business

The final group of policies gives direction to the board itself. They identify how the board gets its work done and assures that these methods will continue even though individual members will rotate on and off the board over time. These are the board's statements which describe its governance process, that is, how the board operates in order to act on behalf of the members. Board process policies include: how the board identifies member needs, represents the members and protects the interests of all stakeholders; how the board conducts its own business, its structure, the number of meetings, the use of policies, use of committees and board compensation; and how the board ensures its own continuity through direction selection procedures, board selfevaluation and board training and development.

Assuring Performance

One of the most difficult tasks of any board member is deciding how and when he or she should be satisfied that "things are OK in the business." Boards can get completely caught up in the murky morass of micromanagement solely out of concern that something might be going wrong. Conscientious board members soon learn the impossibility of outmanaging management. Managers are hired precisely because directors are not able to work at managing the cooperative full time.

When policies are complete, they should be address everything that might bring concern to the board. However, the policy has little meaning unless it is also absolutely clear how and when the board will determine whether the policy is being followed. Suppose the board has a policy that "management will provide for a fair and thorough review of any grievance by means of a known, unbiased procedure with decision authority clearly designated." Although the board has made a decision and declared its values regarding grievance policies, to determine whether the policy is being followed, the board might want a report from management quarterly or semiannually. That report should state the policy and summarize how many grievances had been filed, their disposition and the person who had ultimate decision authority. The policy is complete when the board has defined what kind of a report it wants on the policy, from whom and what specific information should be provided. Information the board uses to evaluate performance is, obviously, retrospective; it reports on what has been accomplished. It is judgmental; it is clearly designed to determine the adequacy of performance. It should also be targeted; that is it should answer specific questions regarding specific performance criteria as determined by the policies. It should also be predictable for management. If the board has unstated expectations for performance, it should not try to judge the adequacy of performance after the fact. Or, "if you haven't said how it ought to be, don't ask how it is."

The board should decide how important and how potentially damaging the violation of a policy might be and determine the frequency of monitoring that policy accordingly. For example, if a cooperative is in a turnaround situation where cash flow and use of credit might have severe financial consequences, it may want to monitor its financial condition policies monthly. If the finances of an organization are both stable and predictable, such monitoring might only be quarterly.

In general, the board has three sources of monitoring information: internal reports from management or staff; external reports generated by people from outside the cooperative; and direct inspection reports generated by the board or members of the board who look into a matter themselves.

Internal reports carry no additional expense to the board and are the most common source of information. However, they may be open to internal manipulation. External reports are usually conducted by paid professionals and viewed as "objectively prepared by disinterested parties." The most common external report is the annual audit prepared by a certified accountant. In some cases, the board must collect information by an onsite examination. In these cases, the inspection should be directly tied to the policy being evaluated and its monitoring procedure

inspection should be directly tied to the policy being evaluated and its monitoring procedure.

The board members involved in direct inspection must limit themselves to an evaluation of whether the policy under evaluation has been successfully implemented. Most boards routinely use a combination of all three sources of information to monitor organizational activities.

We Can Take Charge

Boards may be putting our cooperatives at risk if they are so concerned that things went wrong in the past or might go wrong in the present that they are unable to focus. Out of the best intentions, board members may lose track of their unique job while struggling to become supermanagers. To stay organized and focused, the board needs to work on the future direction of the cooperative, providing the absolutely essential leadership member owners expect.

What can be done to get our boards back on track? Managers and directors need to realize there is a problem and that behavior on both sides of the cooperative has to change if it is to be solved.

Boards need to dedicate themselves to achieving their sole purpose: to use and protect the resources members have entrusted to them in order to improve the overall quality of life for all members.

Boards need to understand governance and the flow of authority and accountability between them, the members and management.

Boards need to focus on producing results in the four activities that are theirs alone: linkage to the members; creation of policies that are logically consistent and encompass the values and perspectives of the cooperative; assurance of performance; and perpetuation of the cooperative.

At the minimum, policies should be in place which define the results desired; set the boundaries for acceptable organization activities, establish the boardmanagement relationship and articulate the board's process.

In this way, the board becomes a strong partner with management in assuring success of the cooperative. This happens because the board is conducting itself in a way that emphasizes strategic leadership that prepares for the future, assures board accountability and is more proactive than reactive. Having been on such a board, individual board members can take honest satisfaction in having provided important and distinguished service to their neighbors and their community.

Leadership Myths

Leadership is probably one of the most talked about business concepts, but the least understood. Leadership is about getting things done and helping people reach their potential. My experience has shown me that most places fail to unleash the potential of those working within their cooperative. The reason is they practice oldfashioned and outdated leadership concepts--they practice leadership mythology.

A myth is something that is false, but believed to be true. As in many things in life, there are several myths surrounding the concept and practice of leadership. Unfortunately, these myths prevent the most qualified people from rising to the top. By listing these leadership myths, it is my hope to dispel many of the false beliefs.

Myth 1 Leadership is a rare ability only given to a few. Many people still think leaders are born not made. This can't be further from the truth. Most people have the potential to become good leaders. Leadership is not like a diet pill. Like most learned skills, it takes time, training, and lots of trial by error. The key ingredient making people good leaders is the ability to care about others. The second ingredient is a sense of purpose, vision or mission. A good leader charts a course and provides direction to those they lead.

Myth 2 Leaders are charismatic Many leaders are charismatic, but closer scrutiny shows that most leaders are not. Some of the world's most famous leaders had warts--some sort of shortcoming or personality defect. In a leadership role, people skills are very important more important than technical skills. However, the best leaders are those who work toward a goal. Your cause, your purpose and your mission in life will make you charismatic, not the other way around.

Myth 3 The person with the title, most rank or the highest position is the leader. Ideally, the senior person in the business should be a good leader. However, authentic leadership is not based on position or rank. It is based on action, performance, ability and effectiveness. We all can relate to working for those people who were placed in leadership roles who did more to demoralize and destroy the business than anything else.

The best companies strive to develop and create as many leaders as possible. W.L. Gore & Associates, makers of GoreTex and other products, have a unique approach to leadership. The practice natural leadership "leadership by fellowship." They don't appoint any of their leaders --they let the true leaders surface to the top. People naturally gravitate to those they want to follow and work with. There are no limiting job descriptions, job titles and few rules and regulations. If a person comes up with a new product idea, he or she puts a team together of people who have the desire and knowledge to make it work.

Myth 4 Effective leadership is based on control, coercion and manipulation. Leadership is about the future, not the past. Joel Barker's has the best quote about leadership, "A leader is someone you would follow to a place you would not go to by yourself." Good leaders gain followers out of respect and their ability to cause people to work toward a particular goal or achieve a destination. People follow because they can relate to the vision or goal personalized by the leader. A good leader helps people become better than they are. A good leader creates a work environment that attracts, keeps and motivates its workforce.

Myth 5 Good leaders have more education than other people. Educational degrees may mean you have a good education, but it doesn't necessarily mean you are a good leader. When it comes to leadership, experience is the best teacher. The U.S. military has the best leadership development program in the world. In the military, you start out at the bottom. You are placed in leadership positions and closely evaluated by superiors. As your experience broadens, so does your responsibility. This practical experience is reinforced with weeks and months of formal training throughout the individual's career.

The secret of success is those years of experience on the frontline. This is where a person learns to manage those interactions, experiences and conflicts. You learn how to balance the needs of the mission versus the needs of the individual. Those officers and noncommissioned officers who fail to advance must exit the military. The military model of leadership development may not be perfect, but remains unequalled by any other organization.

Critical Thinking

Critical Thinking: Is It Reflected in Your Leadership?

In settings for which you provide leadership, do you create an environment in which you teach people how to think or what to think? Authors writing in the arena of critical thinking emphasize the vital role of the facilitator in assuring that a critical thinking climate is established. As leaders we must encourage people around us to take risks to challenge assumptions to question to consider alternative actions to capture the "critical thinking spirit."

Critical thinking is reflective and reasonable thinking focused on deciding what to believe or do. Critical thinking is the mind talking to itself-dialoguing, answering its own questions.

Critical Thinking is:

- Engaging in an internal dialogue, asking questions such as:
 - ✓ Why do I agree or disagree with what is being said?
 - ✓ Based on what I know, is the statement true?
 - ✓ How do I personally feel about what is being said?
 - ✓ What implications does this decision have for me? For the people in our cooperative? For our clientele?
- The ability to see that problems have multiple solutions.

- An alternative to making decisions by impulse or whim, tradition or habit.
- A process not an outcome.
- Exploring and imagining alternatives.
- Necessary, if we are to make sense of what we hear and read.
- Insight into information and claims that bombard us.
- A process to develop and evaluate our own positions on issues.
- An essential element of problem solving, decision making and creativity.
- Careful examination of our thinking and the thinking of others.

Perhaps you are asking yourself "Am I a critical thinker?" To help you answer this question, characteristics of critical thinkers are summarized in the following profile:

Profile of a Leader Who is a Critical Thinker

- Appreciates creativity;
- Is innovative;
- Believes life is full of possibilities;
- Sees the future as flexible, not fixed;
- Asks questions and challenges answers;
- Relies less on the authority of a power figure and more on joint inquiry;
- Uses problem solving skills to cope with a changing world;
- Takes risks and is not threatened by failure;
- Accepts others' viewpoints;
- Is open-minded;
- Generates and evaluates alternative choices;
- Encourages and challenges others to be critical thinkers.

As we reflect on approaches to "next age leadership" we see similarities with "critical thinking." Many of the characteristics of a "next age leader" are also characteristics of a "critical thinker." Next age leaders challenge ideas and assumptions; they reflect on activities; take risks; encourage artistry and embrace ambiguity. Our effectiveness as leaders will increase as we create environments that foster critical thinking and reflect next age leadership. The following principles can be used as a guide to help you determine whether or not the environments that you help create will promote critical thinking actions.

Principles of Critical Thinking for Leaders

1. To foster critical thinking, a leader must provide the opportunity for people to consider the strengths and weaknesses of opposing points of view.
2. Opportunities-to reflect on, discuss and evaluate one's beliefs and actions facilitates critical thinking.
3. In leadership situations, evaluating a wide range of alternatives when making decisions fosters critical thinking.
4. To foster critical thinking, a leader must encourage adults to raise ethical questions about consequences of actions and decisions of themselves and others.
5. To promote critical thinking, the atmosphere of the learning environment should be one of collaborative inquiry by the leader and other members of the group.
6. To facilitate critical thinking, leaders must ask probing questions.
7. Critical thinking is facilitated when group members engage in exploratory dialogue with themselves or others, proposing ideas and translating subject matter insights and evidence into reflective thought.
8. Discussing contradictions in thoughts/words/actions facilitates critical thinking.
9. Critical thinking is fostered when leaders encourage the discussion of implications of actions being considered.

Think back to some of the leadership situations of which you have been a part. Were principles of critical thinking evident? Did you, as the leader, display characteristics of a critical thinker? Did you allow time for critical thinking to take place?

Reflections from the author: Critical thinking is not always reflected in leadership situations or decision making. I believe part of the reason is that we do not take time for dialogue ... for reflection ... for debating. We try to cram" too much into our agendas. Critical thinking can become a part of our very being but it does take time. We must build "thinking time" into our lives ... into our organizations. "Thinking time" can be the most important agenda item for leadership activities for which we are responsible. As Oliver Wendell Holmes once said "The human mind once stretched to a new idea never goes back to its original dimensions." I challenge you, in your leadership roles to stretch your thinking.

Introduction to Creative Thinking

20 Questions to Encourage Ideas

1. What if ... ?
we improve... ?
2. How can
3. How will the customer benefit?
anything?
4. Are we forgetting
5. What's the next step?
do better?
6. What can we
7. What do you think about... ?
quality?
8. How can we improve
9. How can we streamline... ?
10. What should we modify?
11. What should we replace?
add?
12. What should we
13. What should we eliminate?
assumptions?
14. Can we make any new
15. What will make it work... ?
have?
16. What other ideas do you
17. What issues should we explore?
see?
18. What patterns can you
19. How can we simplify?
20. Why?

Tips to Boost Your Creative Thinking Skills

1. Be optimistic in your approach. Remember that for most things somehow, somewhere, there is a better way.
2. Search for breadth as well as depth. Specialize when necessary, but continue to read widely. Follow your curiosity. Often a new idea, a new connection will emerge from "different worlds".
3. Thinking generates ideas. Consider yourself a thinker, as well as a learner and a doer.
4. Let your mind move freely from one idea or source to another. Be open to a variety of

4. ... let your mind move freely from one level or source to another. Be open to a variety of experiences and stimuli--both from within your mind and in the world around you.
5. Develop an attitude of constructive discontent. Be curious about things that seem wrong or inadequate. Listen to the comments of others. Jot down your own dissatisfactions with things and situations. Welcome problems as opportunities not only to accomplish something but to sharpen your thinking abilities.
6. Play with ideas. At times you must "regress" from the problem and try to think about it with the naivete and freshness of a child. Even Einstein believed it was useful to take a few steps backward in order to leap forward.
7. Look for the "elegant" answer--don't be satisfied with just any solution to a problem.
8. Be alert to welcome "hunches". When you get them, do something about them. Keep track of how your hunches work out.
9. Be courageous and independent in your thinking and persistent in the face of frustration and difficulty--but remember to try new approaches. Incubation invites insight.
10. Continue to acquire a growing body of knowledge about your field--and the courage to challenge long-standing but possibly outdated or erroneous concepts.
11. Be alert for the unexpected. Serendipity, or the "happy discovery", happens only when you are actually seeking something. As Pasteur said "Inspiration is the impact of a fact on a prepared mind."
12. State your problem clearly, being careful that the statement does not suggest the answer.
13. Practice. Conduct your own private thinking session each day. Come up with ideas--good, bad mediocre. Write them all down. Unless you practice producing ideas, you haven't really "decided" to be creative.
14. Keep an idea band--a file of clippings, notes, pamphlets, etc. Your idea museum is your reference library. Keep scanning for ideas. Store them up to solve future as well as present problems.
15. Keep a pad and pencil with you all the time. Why? Because ideas are elusive. They will drift out of grasp as readily as they drift in. Trap them on paper as soon as you have them.
16. Relax your mind. Free associate while you walk or drive to and from work. Try a hot bath or shower, or restful music. After a good night's sleep, get up early to take a long walk or meditate.
17. Use the two-day formula on a particular problem. Set a problem aside for a day, then hit it hard after a day's rest. Or plan to work on two projects alternately. Often when you are actually working on one, a new idea for the other will pop into your conscience mind. In a sense, this is planned incubation.
18. Be enthusiastic, confident. Your imagination is affected by your emotions. So build faith in yourself by scoring successes on little problems before you tackle big ones.
19. Find the right time of day--the time of day when you're in full drive. That's the time to build up a stock pile of ideas.
20. Strive for a set number of workable ideas for every problem. Force yourself to do a little better each time.
21. Reduce vague ideas to specific propositions. Firm up the problems your mind must solve.
22. Sharpen all of your senses. Schedule frequent practice sessions to see how vividly you can recall interesting faces, images, sounds, smells, factual experiences, tastes, etc.

recall interesting faces, images, sounds, smells, factual experiences, tastes, etc.

23. Exercise your imagination. Fantasy is not only for children, it is highly important in helping adults to "break out of the box" and "think beyond the edges of the familiar."
24. Find new ways to change your point of view. Use creative questions and manipulative verbs, synectics excursions through use of word imagery, analogies, and "upside-down" thinking--anything you can to help you see your perplexing situation from a different perspective.
25. See dissimilar responses. Avoid the "signal" or obvious response.
26. When evaluated ask "What's good about it?" Often with a little work a strange idea can become a great idea. Use your evaluative criteria as a creative catalyst for modifying your strange ideas.
27. Start! The best method is not to wait for a proper mood, but to pick up a pencil and start writing down the different parts of your problem and the different approaches you might use.

Critical and Creative Thinking

Much of the thinking done in formal education emphasizes the skills of analysis--teaching students how to understand claims, follow or create a logical argument, figure out the answer, eliminate the incorrect paths and focus on the correct one. However, there is another kind of thinking, one that focuses on exploring ideas, generating possibilities, looking for many right answers rather than just one. Both of these kinds of thinking are vital to a successful working life, yet the latter one tends to be ignored until after college. We might differentiate these two kinds of thinking like this:

<u>Critical Thinking</u>	<u>Creative Thinking</u>
analytic	generative
convergent	divergent
vertical	lateral
probability	possibility
judgment	suspended judgment
focused	diffuse
objective	subjective
answer	an answer
left brain	right brain
verbal	visual
linear	associative
reasoning	richness, novelty
yes but	yes and

In an activity like problem solving, both kinds of thinking are important to us. First, we must analyze the problem; then we must generate possible solutions; next we must choose and implement the best solution; and finally, we must evaluate the effectiveness of the solution. As you can see, this process reveals an alternation between the two kinds of thinking, critical and creative. In practice, both kinds of thinking operate together much of the time and are not really independent of each other.

What is Creativity?

An Ability.

A simple definition is that creativity is the ability to imagine or invent something new. As we will see below, creativity is not the ability to create out of nothing (only God can do that), but the ability to generate new ideas by combining, changing, or reapplying existing ideas. Some creative ideas are astonishing and brilliant, while others are just simple, good, practical ideas that no one seems to have thought of yet.

Believe it or not, everyone has substantial creative ability. Just look at how creative children are. In adults, creativity has too often been suppressed through education, but it is still there and can be reawakened. Often all that's needed to be creative is to make a commitment to creativity and to take the time for it.

An Attitude.

Creativity is also an attitude: the ability to accept change and newness, a willingness to play with ideas and possibilities, a flexibility of outlook, the habit of enjoying the good, while looking for ways to improve it. We are socialized into accepting only a small number of permitted or normal things, like chocolatecovered strawberries, for example. The creative person realizes that there are other possibilities, like peanut butter and banana sandwiches, or chocolatecovered prunes.

A Process.

Creative people work hard and continually to improve ideas and solutions, by making gradual alterations and refinements to their works. Contrary to the mythology surrounding creativity, very, very few works of creative excellence are produced with a single stroke of brilliance or in a frenzy of rapid activity. Much closer to the real truth are the stories of companies who had to take the invention away from the inventor in order to market it because the inventor would have kept on tweaking it and fiddling with it, always trying to make it a little better.

The creative person knows that there is always room for improvement.

Creative Methods

Several methods have been identified for producing creative results. Here are the five classic ones:

Evolution.

This is the method of incremental improvement. New ideas stem from other ideas, new solutions from previous ones, the new ones slightly improved over the old ones. Many of the very sophisticated things we enjoy today developed through a long period of constant incrementation. Making something a little better here, a little better there gradually makes it something a lot better--even entirely different from the original.

For example, look at the history of the automobile or any product of technological progress.

With each new model, improvements are made. Each new model builds upon the collective creativity of previous models, so that over time, improvements in economy, comfort, and durability take place. Here the creativity lies in the refinement, the stepbystep improvement, rather than in something completely new. Another example would be the improvement of the common wood screw by what are now commonly called drywall screws. They have sharper threads which are angled more steeply for faster penetration and better holding. The points are self tapping. The shanks are now threaded all the way up on lengths up to two inches. The screws are so much better that they can often be driven in without pilot holes, using a power drill.

The evolutionary method of creativity also reminds us of that critical principle: ***Every problem that has been solved can be solved again in a better way.*** Creative thinkers do not subscribe to the idea that once a problem has been solved, it can be forgotten, or to the notion that "if it ain't broke, don't fix it." A creative thinker's philosophy is that "there is no such thing as an insignificant improvement."

Synthesis.

With this method, two or more existing ideas are combined into a third, new idea. Combining the ideas of a magazine and an audio tape gives the idea of a magazine you can listen to, one useful for blind people or freeway commuters.

For example, someone noticed that a lot of people on dates went first to dinner and then to the theater. Why not combine these two events into one? Thus, the dinner theater, where people go first to eat and then to see a play or other entertainment.

Revolution.

Revolution.

Sometimes the best new idea is a completely different one, an marked change from the previous ones. While an evolutionary improvement philosophy might cause a professor to ask, "How can I make my lectures better and better?" a revolutionary idea might be, "Why not stop lecturing and have the students teach each other, working as teams or presenting reports?"

For example, the evolutionary technology in fighting termites eating away at houses has been to develop safer and faster pesticides and gasses to kill them. A somewhat revolutionary change has been to abandon gasses altogether in favor of liquid nitrogen, which freezes them to death or microwaves, which bake them. A truly revolutionary creative idea would be to ask, "How can we prevent them from eating houses in the first place?" A new termite bait that is placed in the ground in a perimeter around a house provides one answer to this question.

Reapplication.

Look at something old in a new way. Go beyond labels. Unfixate, remove prejudices, expectations and assumptions and discover how something can be reapplied. One creative person might go to the junkyard and see art in an old model T transmission. He paints it up and puts it in his living room. Another creative person might see in the same transmission the necessary gears for a multispeed hot walker for his horse. He hooks it to some poles and a motor and puts it in his corral. The key is to see beyond the previous or stated applications for some idea, solution, or thing and to see what other application is possible.

For example, a paperclip can be used as a tiny screwdriver if filed down; paint can be used as a kind of glue to prevent screws from loosening in machinery; dishwashing detergents can be used to remove the DNA from bacteria in a lab; general purpose spray cleaners can be used to kill ants.

Changing Direction.

Many creative breakthroughs occur when attention is shifted from one angle of a problem to another. This is sometimes called creative insight.

A classic example is that of the highway department trying to keep kids from skateboarding in a concretelined drainage ditch. The highway department put up a fence to keep the kids out; the kids went around it. The department then put up a longer fence; the kids cut a hole in it. The department then put up a stronger fence; it, too, was cut. The department then put a threatening sign on the fence; it was ignored. Finally, someone decided to change direction, and asked, "What really is the problem here? It's not that the kids keep getting through the barrier, but that they want to skateboard in the ditch. So how can we keep them from skateboarding in the ditch?" The solution was to remove their desire by pouring some concrete in the bottom of the ditch to remove the smooth curve. The sharp angle created by the concrete made skateboarding impossible and the activity stopped. No more skateboarding problems, no more fence problems.

This example reveals a critical truth in problem solving: **the goal is to solve the problem, not to implement a particular solution.** When one solution path is not working, shift to another.

There is no commitment to a particular path, only to a particular goal. Path fixation can sometimes be a problem for those who do not understand this; they become over-committed to a path that does not work and only frustration results.

Negative Attitudes That Block Creativity

1. *Oh no, a problem!*

The reaction to a problem is often a bigger problem than the problem itself. Many people avoid or deny problems until it's too late, largely because these people have never learned the appropriate emotional, psychological, and practical responses. A problem is an opportunity. The happiest people welcome and even seek out problems, meeting them as challenges and opportunities to improve things. Definition: a problem is (1) seeing the difference between what you have and what you want or (2) recognizing or believing that there is something better than the current situation or (3) an opportunity for a positive act.

Seeking problems aggressively will build confidence, increase happiness, and give you a better sense of control over your life.

2. *It can't be done.*

This attitude is, in effect, surrendering before the battle. By assuming that something cannot be done or a problem cannot be solved, a person gives the problem a power or strength it didn't have before. And giving up before starting is, of course, self fulfilling. But look at the history of solutions and the accompanying skeptics: man will never fly, diseases will never be conquered, rockets will never leave the atmosphere. Again, the appropriate attitude is summed up by the statement, "The difficult we do immediately; the impossible takes a little longer."

3. *I can't do it. Or There's nothing I can do.*

Some people think, well maybe the problem can be solved by some expert, but not by me because I'm not (a) smart enough, (b) an engineer, or (c) a blank (whether educated, expert, etc.) Again, though, look at the history of problem solving.

Who were the Wright brothers that they could invent an airplane? Aviation engineers? No, they were bicycle mechanics. The ball point pen was invented by a printer's proofreader, Ladislao Biro, not a mechanical engineer. Major advances in submarine design were made by English clergyman G. W. Garrett and by Irish schoolmaster John P. Holland. The cotton gin was invented by that well known attorney and tutor, Eli Whitney. The fire extinguisher was invented by a captain of militia, George Manby.

And so on. In fact, a major point made by recent writers about corporate excellence is that innovations in industry almost always come from individuals (not research groups) outside of the area of the invention. General Motors invented Freon, the refrigeration chemical, and tetraethyl lead, the gasoline additive. Kodachrome was invented by two musicians. The continuous steel casting process was invented by a watchmaker (fooling around with brass casting). Soap making chemists turned down the problem of inventing synthetic detergents: those detergents were invented by dye making chemists.

In a nutshell, a good mind with a positive attitude and some good problem solving skills will go far in solving any problem. Interest in and commitment to the problem are the keys.

Motivation--a willingness to expend the effort--is more important than laboratory apparatus.

And remember that you can always do something. Even if you cannot totally eradicate the problem from the face of the earth, you can always do something to make the situation better.

4. *But I'm not creative.*

Everyone is creative to some extent. Most people are capable of very high levels of creativity; just look at young children when they play and imagine. The problem is that this creativity has been suppressed by education. All you need to do is let it come back to the surface. You will soon discover that you are surprisingly creative.

5. *That's childish.*

In our effort to appear always mature and sophisticated, we often ridicule the creative, playful attitudes that marked our younger years. But if you solve a problem that saves your marriage or gets you promoted or keeps your friend from suicide, do you care whether other people describe your route to the solution as "childish?" Besides, isn't play a lot of fun? Remember that sometimes people laugh when something is actually funny, but often they laugh when they lack the imagination to understand the situation.

6. *What will people think?*

There is strong social pressure to conform and to be ordinary and not creative. The constant emphasis we see in society is toward the ruthlessly practical and conformist. Even the wild fashions, from those in Vogue to punk rock, are narrowly defined, and to deviate from them is considered wrong or ridiculous. Some peoples' herd instinct is so strong that they make sheep look like radical individualists.

So, what will people think? Well, they're already talking about you, saying that your nose is too big or your shoes are funny or you date weird people. So, since others are going to talk about you in unflattering ways anyway, you might as well relax and let your creativity and

individualism flow.

Almost every famous contributor to the betterment of civilization was ridiculed and sometimes even jailed. Think about Galileo. And look what happened to Jesus. Quotation: *"Progress is made only by those who are strong enough to endure being laughed at."* Solutions are often new ideas, and new ideas, being strange, are usually greeted with laughter, contempt, or both. That's just a fact of life, so make up your mind not to let it bother you. Ridicule should be viewed as a badge of real innovative thinking.

7. *I might fail.*

Thomas Edison, in his search for the perfect filament for the incandescent lamp, tried anything he could think of, including whiskers from a friend's beard. In all, he tried about 1800 things. After about 1000 attempts, someone asked him if he was frustrated at his lack of success. He said something like, "I've gained a lot of knowledge--I now know a thousand things that won't work."

Fear of failure is one of the major obstacles to creativity and problem solving. The cure is to change your attitude about failure. Failures along the way should be expected and accepted; they are simply learning tools that help focus the way toward success. Not only is there nothing wrong with failing, but failing is a sign of action and struggle and attempt--much better than inaction. The go-with-the-flow types may never fail, but they are essentially useless to humanity, nor can they ever enjoy the feeling of accomplishment that comes after a long struggle.

Suppose you let your fear of failure guide your risk taking and your attempts. You try only three things in a year because you are sure of succeeding. At the end of the year the score is: Successes 3, Failures 0. Now suppose the next year you don't worry about failing, so you try a hundred things. You fail at 70 of them. At the end of the year the score is Successes 30, Failures 70. Which would you rather have--three successes or 30--ten times as many? And imagine what 70 failures will have taught you. **Proverb: Mistakes aren't fun, but they sure are educational.**

Myths about Creative Thinking and Problem Solving

1. *Every problem has only one solution (or one right answer).*

The goal of problem solving is to solve the problem, and most problems can be solved in any number of ways. If you discover a solution that works, it is a good solution. There may be other solutions thought of by other people, but that doesn't make your solution wrong.

What is THE solution to putting words on paper? Fountain pen, ball point, pencil, marker, typewriter, printer, Xerox machine, printing press?

2. *The best answer/solution/method has already been found.*

Look at the history of any solution set and you'll see that improvements, new solutions, new right answers, are always being found. What is the solution to human transportation? The ox or horse, the cart, the wagon, the train, the car, the airplane, the jet, the SST? Is that the best and last? What about pneumatic tubes, hovercraft, even Star Trek type beams?

What is the best way to put words on paper? The word processor? Is that the last invention? How about voice recognition, or thought wave input?

On a more everyday level, many solutions now seen as best or at least entrenched were put in place hastily and without much thought--such as the use of drivers' licenses for ID cards or social security numbers for taxpayer ID numbers. Other solutions are entrenched simply for historical reasons: they've always been done that way. Why do shoe laces still exist, when technology has produced several other, better ways to attach shoes to feet (like velcro, elastic, snap buttons, and so on)?

3. *Creative answers are complex technologically.*

Only a few problems require complex technological solutions. Most problems you'll meet with require only a thoughtful solution requiring personal action and perhaps a few simple tools. Even many problems that seem to require a technological solution can be addressed

in other ways.

For example, what is the solution to the large percentage of packages ruined by the Post Office? Look at the Post Office package handling method. Packages are tossed in bins when you send them. For the solution, look at United Parcel. When you send a package, it is put on a shelf. The change from bin to shelf is not a complex or technological solution; it's just a good idea, using commonly available materials.

As another example, when hot dogs were first invented, they were served to customers with gloves to hold them. Unfortunately, the customers kept walking off with the gloves. The solution was not at all complex: serve the hot dog on a roll so that the customer's fingers were still insulated from the heat. The roll could be eaten along with the dog. No more worries about disappearing gloves. (Note by the way what a good example of changing direction this is. Instead of asking, "How can I keep the gloves from being taken?" the hot dog server stopped thinking about gloves altogether.)

4. *Ideas either come or they don't. Nothing will help.*

There are many successful techniques for stimulating idea generation. We will be discussing and applying them.

Mental Blocks to Creative Thinking and Problem Solving

1. *Prejudice.*

The older we get, the more preconceived ideas we have about things. These preconceptions often prevent us from seeing beyond what we already know or believe to be possible. They inhibit us from accepting change and progress.

Example problem: How to connect sections of airplanes with more ease and strength than using rivets. A modern solution is to use glue--glue the sections together. We probably wouldn't think of this solution because of our prejudice about the word and idea of glue. But there are many kinds of glue, and the kind used to stick plane parts together makes a bond stronger than the metal of the parts themselves.

Another problem: How can we make lighter weight bullet proof windows? Thicker glass is too heavy. Answer: Use plastic. Again, we are prejudiced against plastic. But some plastics are not flimsy at all and are used in place of steel and in bullet proof windows.

Another problem: Make a ship's hull that won't rust or rot like steel or wood. Solution: Use concrete. Our prejudice is that concrete is too heavy. Why not make lightweight concrete? That's what's done.

Final example: How to divide a piece of cake equally between two kids so they won't complain that one kid is preferred over the other: "You gave him the bigger piece; you like him better! Waaaah!" Solution: Put the kids in charge of dividing the cake. Our prejudice is that immature, selfish kids can't do the job. But the solution, one cuts the cake, the other has first choice of pieces, works very well.

2. *Functional fixation.*

Sometimes we begin to see an object only in terms of its name rather in terms of what it can do. Thus, we see a mop only as a device for cleaning a floor, and do not think that it might be useful for clearing cobwebs from the ceiling, washing the car, doing aerobic exercise, propping a door open or closed, and so on. (Later on in the semester, we will be doing "uses for" to break out of this fixation.)

There is also a functional fixation of businesses. In the late nineteenth and early twentieth centuries the railroads saw themselves as railroads. When automobiles and later airplanes began to come in, the railroads didn't adapt. "That's not our business," they said. But if they had seen themselves as in the people transportation business rather than in the railroad business, they could have capitalized on a great opportunity.

Similarly, when the telephone began its rise, some of the telegraph companies said, "That's

not our business; we're telegraph companies." But if they had said, "Hey, we're in the communication business, and here's a new way to communicate," they would have grown rather than died. Compare Western Union to AT&T. And have you heard of those big calculator companies Dietzgen or Pickett? No? Well, they were among the biggest makers of slide rules. But when electronic calculators began to rise, they didn't know what business they were in. They thought they were in the slide rule business, when they were really in the calculator business. They didn't adapt, they didn't accept the challenge of change and opportunity, and they fell.

And there's a functional fixation of people, too. Think a minute how you react when you see your pastor mowing his lawn, or your auto mechanic on a television show promoting a book.

Stereotyping can even be a form of functional fixation--how many people would laugh at a blonde quoting Aristotle? Too often we permit only a narrow range of attitudes and behaviors in other people, based on bias, prejudice, hasty generalization, or limited past experience.

Think of those statements like, "I can't believe he said that," or "Imagine her doing that," and so on. But recall the proverb, "The goal of my life is not to live down to your expectations."

3. *Learned helplessness.*

This is the feeling that you don't have the tools, knowledge, materials, ability, to do anything, so you might as well not try. We are trained to rely on other people for almost everything. We think small and limit ourselves. But the world can be interacted with.

If you are in need of information, there are libraries, bookstores, friends, professors, and, of course, the Internet. And there are also city, county, and state government agencies with addresses and phone numbers and web sites. There are thousands of government agencies that really exist and that will talk to you. Contact the EPA if you're working on air pollution or pesticides. Get some government publications. Call your state senator or federal congressman for help on bills, information, problems. Contact the manufacturer of a product to find out what you want to know about it.

If you are technologically poor, you can learn. Learn how to cook, use tools, make clothes, use a computer. You can learn to do anything you really want to do. All you need is the motivation and commitment. You can learn to fly an airplane, drive a truck, scuba dive, fix a car--name it.

4. *Psychological blocks.*

Some solutions are not considered or are rejected simply because our reaction to them is "Yuck." But icky solutions themselves may be useful or good if they solve a problem well or save your life. Eating lizards and grasshoppers doesn't sound great, but if it keeps you alive in the wilderness, it's a good solution.

Perhaps more importantly, what at first seem to be icky ideas may lead to better solutions--deified analogues of the original. When doctors noted that some unsophisticated natives were using giant ant heads to suture wounds, they imitated this pincerclosing technique by inventing the surgical staple.

Psychological blocks prevent you from doing something just because it doesn't sound good or right, which is a pretty ridiculous thing. Overcoming such blocks can be really beneficial.

Navy commandos in Vietnam overcame their blocks and put on women's panty hose when they marched through the swamps and jungle. The pantyhose cut down on the friction and rubbing from the plants and aided in removing the dozens of leeches after a mission.

Overcoming the block to using your own blood to write a help note could save your life someday if you got kidnapped.

Positive Attitudes for Creativity

1. *Curiosity.*

Creative people want to know things--all kinds of things-- just to know them. Knowledge does not require a reason. The question, "Why do you want to know that?" seems strange to the creative person, who is likely to respond, "Because I don't know the answer."

to the creative person, who is likely to respond, "Because I don't know the answer." Knowledge is enjoyable and often useful in strange and unexpected ways.

For example, I was once attempting to repair something, without apparent success, when an onlooker asked testily, "Do you know what you're doing?" I replied calmly, "No, that's why I'm doing it."

Next, knowledge, and especially wide ranging knowledge, is necessary for creativity to flourish to its fullest. Much creativity arises from variations of a known or combinations of two knowns. The best ideas flow from a well equipped mind. Nothing can come from nothing.

In addition to knowing, creative people want to know why. What are the reasons behind decisions, problems, solutions, events, facts, and so forth? Why this way and not another? And why not try this or that?

The curious person's questioning attitude toward life is a positive one, not a destructive one reflecting skepticism or negativism. It often seems threatening because too often there is no good reason behind many of the things that are taken for granted--there is no "why" behind the status quo.

So ask questions of everyone. Ask the same question of different people just to be able to compare the answers. Look into areas of knowledge you've never before explored, whether cloth dying, weather forecasting, food additives, ship building, the U.S. budget, or the toxicity of laundry detergents.

2. *Challenge.*

Curious people like to identify and challenge the assumptions behind ideas, proposals, problems, beliefs, and statements. Many assumptions, of course, turn out to be quite necessary and solid, but many others have been assumed unnecessarily, and in breaking out of those assumptions often comes a new idea, a new path, a new solution.

For example, when we think of a college, we traditionally think of a physical campus with classrooms, a library, and some nice trees. But why must college be a place (with congregated students and faculty) at all? Thus, the electronic college now exists, where students "go" to college right at home, online. Correspondence courses have existed for years, too, beginning with the challenging of the school-as-centralized-place idea.

When we think of an electric motor, we automatically think of a rotating shaft machine. But why assume that? Why can't an electric motor have a linear output, moving in a straight line rather than a circle? With such a challenged assumption came the linear motor, able to power trains, elevators, slide locks, and so on.

Problem: We make brandy, and for this special edition of our finest kind, we want a fully grown pear in one piece inside each bottle. The bottle is narrow necked. How can we do it? As you think, watch for the assumptions you are making. Possible solutions (assuming fully grown pear): close the neck or bottom after insertion, use a plastic bottle like heatshrink tubing, change to a wide mouth bottle. If we do not assume a fully grown pear: grow the pear from a bud inside the bottle.

3. *Constructive discontent.*

This is not a whining, griping kind of discontent, but the ability to see a need for improvement and to propose a method of making that improvement. Constructive discontent is a positive, enthusiastic discontent, reflecting the thought, "Hey, I know a way to make that better."

Constructive discontent is necessary for a creative problem solver, for if you are happy with everything the way it is, you won't want to change anything. Only when you become discontent with something, when you see a problem, will you want to solve the problem and improve the situation.

One of the hallmarks of the constructively discontented person is that of a problem seeking outlook. The more problems you find, the more solutions and therefore improvements you can make. Even previously solved problems can often be solved again, in a better way. A constructively discontent person might think, "This is an excellent solution, but I wonder if there isn't another solution that works even better (or costs less, etc)."

Another mark of constructive discontent is the enjoyment of challenge. Creative people are eager to test their own limits and the limits of problems, willing to work hard, to persevere and not give up easily. Sometimes the discontent is almost artificial--they aren't really unhappy with the status quo of some area, but they want to find something better just for the challenge of it and the opportunity to improve their own lives and those of others.

4. *A belief that most problems can be solved.*

By faith at first and by experience later on, the creative thinker believes that something can always be done to eliminate or help alleviate almost every problem. Problems are solved by a commitment of time and energy, and where this commitment is present, few things are impossible.

The belief in the solvability of problems is especially useful early on in attacking any problem, because many problems at first seem utterly impossible and scare off the fainter hearted. Those who take on the problem with confidence will be the ones most likely to think through or around the impossibility of the problem.

5. *The ability to suspend judgment and criticism.*

Many new ideas, because they are new and unfamiliar, seem strange, odd, bizarre, even repulsive. Only later do they become "obviously" great. Other ideas, in their original incarnations, are indeed weird, but they lead to practical, beautiful, elegant things. Thus, it is important for the creative thinker to be able to suspend judgment when new ideas are arriving, to have an optimistic attitude toward ideas in general, and to avoid condemning them with the typical kinds of negative responses like, "That will never work; that's no good; what an idiotic idea; that's impossible," and so forth. Hospital sterilization and antiseptic procedures, television, radio, the Xerox machine, and stainless steel all met with hohums and even hostile rejection before their persevering inventors finally sold someone on the ideas.

Some of our everyday tools that we now love and use daily, were opposed when they were originally presented: Aluminum cookware? No one wants that. Teflon pans? They'll never sell. Erasers on pencils? That would only encourage carelessness. Computers? There's no market for more than a few, so why build them?

Remember then that (1) an idea may begin to look good only after it becomes a bit more familiar or is seen in a slightly different context or clothing or circumstance and (2) even a very wild idea can serve as a stepping stone to a practical, efficient idea. By too quickly bringing your judgment into play, these fragile early ideas and their source can be destroyed.

The first rule of brainstorming is to suspend judgment so that your ideagenerating powers will be free to create without the restraint of fear or criticism. You can always go back later and examine--as critically as you want--what you have thought of. **Proverb: "A crank is a genius whose idea hasn't yet caught on."**

6. *Seeing the good in the bad.*

Creative thinkers, when faced with poor solutions, don't cast them away. Instead, they ask, "What's good about it?" because there may be something useful even in the worst ideas. And however little that good may be, it might be turned to good effect or made greater.

Example problem: How can we get college students to learn grammar better? Solution: Spank their bottoms with a hickory stick. This isn't a good solution, partly because it's probably illegal. But should we just toss it out? Why not ask what's good about it? (1) it gives individual attention to the poor performers, (2) it gives them public attention, (3) it motivates other students as well as the student being spanked, (4) it's easy and costs nothing. The next question is. Can we adapt or incorporate some of these good things into

nothing. The next question is, can we adapt or incorporate some of these good things into a more acceptable solution, whether derivative of the original or not?

We easily fall into either/or thinking and believe that a bad solution is bad through and through, in every aspect, when in fact, it may have some good parts we can borrow and use on a good solution, or it may do inappropriately something that's worth doing appropriately.

And often, the bad solution has just one really glaring bad part, that when remedied, leaves quite a good solution. In the above example, changing the physical spanking to a verbal spanking changes the entire aspect of the solution while keeping all the good points we identified.

7. *Problems lead to improvements.*

The attitude of constructive discontent searches for problems and possible areas of improvement, but many times problems arrive on their own. But such unexpected and perhaps unwanted problems are not necessarily bad, because they often permit solutions that leave the world better than before the problem arose.

For example, the first margarine was made from beef fat, milk, water, and chopped cow udder. It wasn't extremely tasty or healthy. Then about the turn of the century a shortage of beef fat created a problem. What to use? The margarine makers turned to vegetable fats from various plants and the soybean, corn, and sunflower oils they used are still used today. The margarine is healthier and tastes better.

Or think about exams or papers. When you don't do as well as you want, you think, "Oh no!" But actually, you have a good insight into what you don't know and still need to learn. You are aware of the geography of your knowledge in a much more detailed form than before the errors showed up.

8. *A problem can also be a solution.*

A fact that one person describes as a problem can sometimes be a solution for someone else. Above we noted that creative thinkers can find good ideas in bad solutions. Creative thinkers also look at problems and ask, "Is there something good about this problem?"

For example, soon after the advent of cyanoacrylate adhesives (super glue), it was noted that if you weren't careful, you could glue your fingers together with it. This problem--a permanent skin bond--was soon seen as a solution, also. Surgeons in Vietnam began to use super glue to glue wounds together.

Another example, also involving glue: 3M chemists were experimenting with adhesives and accidentally came up with one that was so weak you could peel it right back off. Hold strength, shear strength, all were way below the minimum standards for any self-respecting adhesive. A glue that won't hold? Quite a problem. But this problem was also a solution, as you now see in PostIt Notes.

9. *Problems are interesting and emotionally acceptable.*

Many people confront every problem with a shudder and a turn of the head. They don't even want to admit that a problem exists--with their car, their spouse, their child, their job, their house, whatever. As a result, often the problem persists and drives them crazy or rises to a crisis and drives them crazy.

Creative people see problems as interesting challenges worth tackling. Problems are not fearful beasts to be feared or loathed; they are worthy opponents to be jostled with and unhorsed. Problem solving is fun, educational, rewarding, ego building, helpful to society.

Miscellaneous Good Attitudes

1. *Perseverance.*

Most people fail because they spend only nine minutes on a problem that requires ten minutes to solve. Creativity and problem solving are hard work and require fierce application of time and energy. There is no quick and easy secret. You need knowledge gained by study and research and you must put your knowledge to work by hard thinking

gained by study and research and you must put your knowledge to work by hard thinking and protracted experimentation. You've surely read of the difficulties and setbacks faced by most of the famous inventors--how many filaments Edison tried before he found a working one, how many aircraft designs failed in the attempt to break the sound barrier. But planning to persevere is planning to succeed.

2. *A flexible imagination.*

Creative people are comfortable with imagination and with thinking so-called weird, wild, or unthinkable thoughts, just for the sake of stimulation. During brainstorming or just mental playfulness, all kinds of strange thoughts and ideas can be entertained. And the mind, pragmatist that it is, will probably find something useful in it all. We will look at several examples of this later on.

3. *A belief that mistakes are welcome.*

Modern society has for some reason conceived the idea that the only unforgivable thing is to fail or make a mistake. Actually failure is an opportunity; mistakes show that something is being done. So creative people have come to realize and accept emotionally that making mistakes is no negative biggie. One chief executive of a big American corporation warns all his newly hired managers, "Make sure you make a reasonable number of mistakes." Mistakes are educational and can lead to success--because they mean you are doing something.

Sir Francis Pettit Smith, one of the early developers of the screw propeller, tried one design in 1836. During the test, half of it broke off--what a failure--but then the boat increased in speed substantially, revealing the efficiency of a new design, formed from a mistake.

In sum, as Vergil once said, "They can who think they can." Having the proper positive attitude about generating new and useful ideas and solving problems is really a large part of the whole process.

A few years ago, the pipes in my mom's house had finally rusted through and I was faced with the task of finding a plumber to get a bid. Knowing how much they charge for small repairs, I knew that doing a whole house would cost a fortune. I thought, "You know, I'd really like to do this job myself, but I wonder if I can." My neighbor happened to be around once when I said this, and he said, "Oh, you can do it." Just that simple expression gave me the positive attitude I needed to do it. So I did.

Characteristics of the Creative Person

- curious
- seeks problems
- enjoys challenge
- able to suspend judgment
- sees problems as opportunities
- problems as interesting
- problems are emotionally acceptable
- assumptions
- doesn't give up easily: perseveres, works hard
- sees
- optimistic
- comfortable with imagination
- sees
- challenges

On Being a Leader

Or, the 10 basic elements of effective leadership that apply to virtually any situation.
"*...when things aren't working right, the obvious reaction is to blame a lack of leadership.*"

"...the most important factor is the individual's determination to succeed in becoming a stronger leader."

Whether it's a large, multinational corporation or a small, familyheld business; a public school system; or a grass roots community organization: when things aren't working right, the obvious reaction is to blame a lack of leadership. That's undoubtedly been the case for centuries. It costs several NFL coaches their jobs each year, and generates profits for publishing companies as it brings on each new wave of best sellers. There have probably been several hundred popular books written about leadership in the past few years alone.

On the more scholarly side of the coin, if you go back to the beginning of the 1900's, more research has been conducted on leadership than virtually any other social science topic. And this consistent craving for "more leadership" has certainly spurred the creation of a plethora of consulting and educational organizations that attempt to teach it. Think of the time, effort, and money that has gone into the study and practice of this one "simple" topic.

So why can't we get it right? Why do we still have such difficulty understanding, developing, and (more importantly) demonstrating leadership?

When you think about it, this apparent lack of understanding shouldn't really be so surprising. After all, leadership deals with the complex dynamics of human behavior within the context of constantly changing, complex situations. What seems simple, then, really isn't! Consider General George Patton, for example. Most people would attribute strong leadership qualities to him. Yet, his brand of leadership and personality traits created some performance problems for him in his own time. And if you add in the dramatic changes in our society since the 1940's, Patton would likely have great difficulties being viewed as an effective leader in the 1990's.

I would argue that, despite what seems a lack of progress on better understanding leadership (as evidenced by the never ending stream of new, yet clearly rehashed, leadership, we have come a long way over the past few decades. Our thinking has evolved well past the rather crude "great man" theory of earlier generations to a more comprehensive view of leadership that identifies the relationship of three critical factors:

- (1) personal characteristics,
- (2) the unique demands of varying situations, and
- (3) actual human behavior.

I don't consider myself an expert on leadership (if there is such a thing), but having studied it, taught it, and practiced it as a "formal" leader for over 15 years, I have come to appreciate the power of the interaction of these three components. Each of them brings a level of complexity to the leadership equation, and the cumulative effect seems more exponential than additive.

No One Way

In my mind, therefore, there is no one right way of being an effective leader. No matter how hard we try, or how hard someone tries to convince us they know the way, there is no one model of leadership everyone can follow. We have a hard enough time just trying to agree on a common definition. If we can't even come up with a clear definition of leadership, how are we supposed to teach it, nurture it, do it?

We continuously wrestle with this dilemma at the Daniel Management Center in the University of South Carolina College of Business Administration. Many of our clients are looking for help developing more leadership in their organizations. Rather than whine about all that is not known about leadership, we have focused on what is known, and how that can be developed in people at all levels of an organization. From our perspective, we have identified 10 basic, common ingredients for effective leadership that apply to virtually any situation and should never be taken for granted. They are:

1. An understanding of self and a sense of selfconfidence.
2. The ability to trust others and to be trustworthy oneself.
3. Credibility and steadiness.
4. The ability to foster teamwork and collaboration.
5. Strong interpersonal communication skills.
6. Openness to new ideas and innovation.
7. Decisiveness tempered by solid analysis and problem solving

7. Decisiveness tempered by solid analysis and problem solving.
8. An awareness of the environmental and situational factors affecting the organization.
9. An understanding of human behavior in an organizational context.
10. A desire to coach and teach so that others may develop and grow.

This list can be challenged. It is also not exhaustive. But it would be hard to argue that these elements are not relevant to leadership. They combine personal qualities with skills and knowledge.

Missing from the list is the "vision thing." I'd love to have a dollar for every time I've heard someone say leaders must have vision above all else. Personally, I like "vision" as my instincts lead me to look at the future and big picture first and then eventually get down to details. Vision is very intangible: how do you know if someone has vision? What behaviors demonstrate vision? How do you help people develop vision? I believe you can apply the same thinking to the concept of "inspiration." People want their leaders to be inspire them. What does that mean, and how do you know if you're doing it?

These are the kinds of questions that continue to confuse us. To me, what it all boils down to is focusing on the above 10 elements rather than plans, values, statements, or intentions. If a leader is trusting and trustworthy, understands human behavior within the organizational context, and has a desire to coach and teach others, then he or she will be inspiring. If a leader is aware of the environmental and situational factors affecting their company, is open to new ideas and innovation, and has strong communication skills, then that leader will be able to create and articulate a vision.

Through this experience and other leadership development initiatives, we have learned there are five keys to helping develop leadership in the business world.

1. Develop the necessary skills to analyze your company's organizational and competitive environments.
2. Appreciate the importance of leadership at all levels of the organization.
3. Understand how your leadership behaviors are perceived by others.
4. Identify the positive leadership behaviors you wish to emulate.
5. Develop strategies and mechanisms to change unwanted behaviors.

What we've learned from the programs' participants is that while the content is on target, behavioral change is hard and elusive. The most challenging part of the program is putting into practice back on the job the desired leadership behavioral changes. We have developed some mechanisms to assist with that process, which have been helpful, but the most important factor is the individual's determination to succeed in becoming a stronger leader.

No Magic Potion

There is no magic potion or pixie dust to transform yourself into a better leader. First and foremost, you have to commit yourself to doing it. This requires selfdiscipline and candid introspection so you can identify areas you need to improve. Review our list of the 10 common elements, then focus on credibility by demonstrating leadership through your actions. If you say you want the organization to be more collaborative and team oriented, then you had better act like a team player yourself. If you want people to trust you more, then you need to trust others more and behave in ways that inspire trust. You don't have to have all the answers, be the most knowledgeable about your business, have the greatest technical skills, or be eloquent and charismatic. But you do need to act in ways that will demonstrate:

- (1) your integrity,
- (2) your ability to communicate and collaborate with people,
- (3) your ability to improve the business, and
- (4) your capacity for coaching, teaching, and caring for your associates.

Keys to an Effective Leader

Leaders have to get involved in the life of the organization. It's not enough to loosen your tie, roll up your sleeves, walk the floors and say hello. You've got to stop, listen, exchange information

up your sleeves, walk the floors and say hello. You've got to stop, listen, exchange information, negotiate and advise.

Here's a question that every boss, foreman, supervisor, manager, senior VP, and CEO has asked themselves more than once: "How do I get them (employees/coworkers) to do what I want them to do, the way I want them to do it?" Yep, I'm talking about the ageold issue of leadership.

Like it or not, the days of absolute dictatorial power in the workplace are over. You can't threaten employees anymore. You can't hit them. You can't even yell or scream at them anymore, unless, of course, you're Mike Ditka. The management styles of George Patton, Henry Ford, J.D. Rockefeller or Ebenezer Scrooge are now pass and discarded relics of our "business past".

Leader is the most written about topic in business literature today. In the last ten years over 100 books have been written on leadership, many of them achieving best seller status with sales in the millions. (Stephen R. Covey seems to be the guru of the moment with his Seven Habits of Highly Effective People).

All of these various texts agree on a handful of fundamental propositions:

- Effective leaders create meaning as well as money;
- Leaders set an agenda;
- Leaders have a vision of the future;
- Leaders seek change;
- Leaders are communicators and teachers;
- Leaders recognize the need for committed followers;
- Leaders respect the rights and wellbeing of followers; and
- Leaders are committed to the belief that their success is directly connected to the success of their followers.

Let me try to distill all of this into a more manageable format. I think there are four essential keys to effective leadership: **TELL, EXPLAIN, CONVINCe, and DO.**

Tell.

Successful leaders offer a vision of what they want to do and where they want to go. They are able to communicate a picture of what they want to achieve. They set the tone, establish an agenda, offer guidance, hope and a map of the future.

Explain.

Effective leadership in the words of Warren Bennis, another popular guru, must possess "business literacy." That is, leaders must have both vertical and horizontal knowledge of how to get the job done. Then they must be able to teach others how to do it either directly or through training programs. To use the medical triad model, leaders must be able to learn, do and teach in order to be effective. Micro-management from above is time consuming, expensive and rarely effective. Long term success requires that workers must learn both what to do and how to manage themselves. But first, quality must be demonstrated before it can be expected in any job.

Convince.

Perhaps the hardest job of leadership is to persuade workers that their commitment to a task, is not just in the leader's or owner's best interest, but in their best interest as well. The Hewlett Packard motto says it all: "The achievements of an organization are the results of the combined efforts of each individual." Leaders must make workers coresponsible collaborators. Rank and file must recognize and embrace their joint co-dependency. As Abraham Zaleznik, yet another guru, has said, "Leadership is based on a compact that binds those that lead with those that follow into the same moral, intellectual and emotional commitment."

Do.

To use the standard cliché, effective leaders can't just "talk the talk" they must also "walk the walk". That is, leaders cannot isolate themselves in their offices and fax bulletins and edicts down to the shop floor. Leaders have to get involved in the life of the organization. It's not enough to loosen your tie, roll up your sleeves, walk the floors and say hello. You've got to stop,

through to receive your best, run up your sleeves, train the horse and say never, never give up, listen, exchange information, negotiate and advise. Effective leaders exemplify what they expect from their coworkers: cooperation, effectiveness and adaptability.

I am convinced that the central goal of leadership in any organization, large or small, is a simple one: Effective leaders orchestrate or facilitate or engender (which buzz term do you prefer?) people to perform at their highest capacities on a regular basis. Successful companies rarely achieve their exalted status because of a single superstar. Nor do faltering companies perpetuate their mediocrity because of a handful of dullards. Companies thrive or fail on the efforts of their most ordinary employees. And successful companies get all or most of their employees to perform at their best.

What an elegant equation: "Effective leaders produce effective employees which result in successful organizations." Seems simple, doesn't it? Well, it's not! But given the fact that edicts, fiat, and autocratic commands don't work anymore, if they ever did, perhaps it's time to try another tack.

TELL, EXPLAIN, CONVINCe, DO. Try it! What could it hurt?

Excellence In Governance

When the Rochdale weavers determined what would be the basis for their small, struggling group of cooperators, one of the criteria stipulated was democratic control. I believe they envisioned that in the workings of the cooperative the principles of an equal voice by all members and decisions by the majority would determine the course of their business.

This simplistic statement by the Rochdale weavers was their governance plan. In the 150+ years since this statement was written down, several things have changed markedly, while others have been altered only slightly. The major change is that cooperative business is much more complex, and the number and diversity of people involved in the governance has increased significantly in almost every case I can think of.

As the number of participants in cooperatives increased, the need arose to have the shareholders decide who among them they would commission to make decisions on their behalf and become directors for the corporation or cooperative. This board of directors is given the responsibility and authority to act on behalf of the stockholders to direct the affairs of the organization – corporation or cooperative.

I begin with this short review of the elementary components of Governance 101 because it is easy for cooperative and corporate directors to forget the place of trust and responsibility we hold today when we serve on a board of directors. Share-holders entrust to us the stewardship of money, material, and people to carry out the stated and agreed-upon mission of the cooperative.

Governance 101

Equal voice by all members

Democratic control

Directors are stewards

Share-holders have a right to expect that the resources entrusted to us are not squandered or abused. And even though we employ professional management to operate the cooperative, and rightly we should, we are the ones ultimately accountable to the shareholder.

A revolution has occurred in corporate governance in the past 20 to 30 years. Remember the Penn Central case in the 1970s? Penn Central was a publicly-traded company, the nation's largest railroad company, and the sixth largest industrial corporation at that time. The company became bankrupt, and investors lost money.

Ira Millstein, a noted authority on corporate governance, spoke to the world economic forum in Davos, Switzerland, in February of last year about this incident and the subsequent

Enron, Switzerland, in February of last year about this incident and the subsequent investigation by the SEC

Their findings set in motion a dramatic change in the model of corporate governance. Among the findings, as described by Mr. Millstein, were:

1. The outside (non-management) directors did not have the acumen or mental quickness to deal with financial crisis;
2. The outside directors were passive about the information they received from management; and
3. Board meetings were formalistic, with little discussion and practically no opportunity for outside directors to discuss affairs among themselves.

I highlighted these three findings because they underlie the fundamentals of what is important for boards of directors to grasp and how cooperatives must address these implications today.

It is a basic strength of cooperative governance that the boards of directors of cooperatives are independent of management and are positioned to make objective decisions and judgments when monitoring the performance of the cooperative. One of the major changes in corporate governance is the change from fewer or no inside management directors to more qualified, well-informed, independent directors. This is the cooperative model.

Cooperative boards are composed of member-owner patrons. Some are entirely composed of individuals who meet this description. In federated cooperatives, some of these individuals are General Managers of the member cooperatives.

However, in most cases the majority control is in the hands of farmer/rancher-patrons.

Cooperatives Should Be User-owner and User-controlled

Reasons to seat outside directors

- *Maintain relationships with ag colleges*
- *Access specific business skills or disciplines*
- *Required by statute*
- *Operating vs. policy boards*
- *Culture of having both types of directors*

Ultimate Goal:

To nominate and elect qualified, eager, and dedicated directors

Today, the question is being asked, "Is there merit to diluting owner-user control by having directors who come from business disciplines other than the cooperative." In cooperatives, these are referred to as outside directors.

I serve, today, on a corporate board that has made significant change toward the cooperative model of board composition, director involvement, and accountability to shareholders.

I also serve on several boards in the Farm Credit System that have at least one member of the board who has no connection with the Farm Credit Banks or associations.

And I chair a federated regional cooperative board that has never had either a member manager or an outside director on its board. As boards of directors, all of these boards function effectively and are judicious in preserving and/or enhancing shareholder/stake-holder value.

I currently serve with several outside directors, and without exception each one is a professional, qualified director— not better qualified than those elected who are also shareholders—but qualified in different and perhaps more specialized areas.

I am strongly biased that our cooperatives should be user-owned and user-controlled.

These following are reasons that I am aware of that cooperatives seat outside directors:

1. Maintain a close relationship with the agricultural colleges in the territory served by the cooperatives.
2. To have access to a specific business skill or discipline that is not found in the management

2. To have access to a specific business skill or discipline that is not found in the management structure of the organization.
3. Required by Statute – Farm Credit Act of 1987.
4. The board functions more as an operating board than a policy board and benefits from the specialized skills of the outside director.
5. The culture of the organization is to have both stockholders as well as non-stockholders on the board.

In summary, I am not critical of cooperatives that utilize the services of an outside director for whatever the rationale used by that cooperative. It may be tradition, public relations, or seeking specialized expertise not found in stock-holder directors.

The goal of all of us must be to nominate and elect qualified, eager to serve, dedicated directors. The benefits of having directors who have a financial stake in the success of the organization can be an important discipline in determining how the organization should be directed.

Leading Organizational Learning at the Board Level: Agway's Experience

The very existence of many farmer cooperatives is threatened by the changes that are occurring in agriculture and the global economy. The role of the Board of Directors of farmer cooperatives must be dramatically altered to assure healthy futures for their organizations. In a world where knowledge has become the major competitive advantage, Board Directors must become leaders of learning for their cooperatives. They must use their positions at the center of cooperative governance to assure their cooperatives are learning at a rate that exceeds the changes in their environment.

This chapter will examine the experience of Agway's Board of Directors as they have worked over the last few years to establish a learning environment aimed at improving the Board's performance. Specifically, this chapter will identify:

- Changing expectations for Boards of cooperatives and other corporations.
- Guidelines for Board members on sharing their knowledge throughout the organization.
- Functions of Agway's Board Standing Committee on Director Education.
- The strategic learning model used by the Agway Board of Directors.

Changing Expectations for Boards

The roles, responsibilities and expectations of Boards of Directors have changed considerably over the last several years. A report 1 by the National Association of Corporate Directors (NACD) challenges the accepted governance paradigm that "management is accountable to the Board, and the Board is accountable to shareholders." The report suggested that "the Board does more than mechanically link those who manage the corporation and those who own it; rather ... the Board is at the very center of corporate governance itself, ever changing, and improving."

Today, Boards are increasingly being asked to authorize complex transactions, often over a very short time period, as companies fight to stay ahead in a very competitive business environment.

Boards are also being held more accountable for their decisions — as evidenced by a number of recent judicial decisions — as well as the overall performance of the organization. Further, Boards are being evaluated for the added value they bring to the organization in terms of ensuring that the company remains focused on its vision, purpose, core values and performance.

Today's competitive business environment is increasing the activity of Boards of Directors. Trends identified through the work of the Syracuse University author with Agway's Board and the Boards of several public corporations, include:

- Independence and empowerment are increasing among Board members to make

- independence and empowerment are increasing among Board members to make organizations quicker and more flexible.
- Board members are expected to become familiar with the competitive environment of their organizations.
 - The time commitment required of Directors outside of meetings is increasing.
 - Meeting time is decreasing.
 - The number of Board members is decreasing.
 - Boards are increasingly composed of individuals with diverse sets of skills and backgrounds.
 - An increasing number of organizations are basing Board compensation on organizational performance.
 - Boards are being held more accountable for their decisions and actions.

In short, the Syracuse University author's analysis, as well as today's literature on corporate governance, suggest there is a growing view that not only is there a link between a Board's performance and the organization's overall performance, but that improving the Board's performance — *through learning both inside and outside of the Board room* — can enhance the organization's results.

Leadership's Role in Learning

One of the most important leadership roles an organization can perform is seeing that all senior managers and Board Directors are involved on a personal basis in learning. Learning is important because there is a direct correlation between an organization's ability to learn and an organization's competitiveness 2

An example of this would be the efforts Agway, a centralized cooperative owned by 71,000 Northeast farmers, has made to instill the learning process through its fifteen farmer Directors. In 1995, newly appointed Agway CEO Don Cardarelli and the Chairman of the Board of Directors, Ralph Heffner, made a commitment to foster learning throughout the cooperative. They saw learning as a way to encourage change within the organization. And they saw change as important to improving the organization's competitiveness.

To begin developing a learning environment for the Agway Board and senior management team, the CEO and Board Chairman sought to create an environment in which these two groups could engage in frank and open dialogue on all issues facing the cooperative. To facilitate this dialogue, the CEO brought in a faculty member from the Syracuse University School of Management (Gillen) who has background and expertise with many other companies in organizational learning.

Over the course of nearly two years, the Board and senior management team dedicated parts of each Board meeting to discuss the cooperative's purpose, core values and future direction. Throughout this period, models and practices for individual and organizational learning, discussed later in this chapter, were introduced.

Out of this process, the Board and senior management team agreed to a common purpose, core values and vision for the cooperative. In addition, both groups developed a closer relationship built on trust, full disclosure, open communications, and an understanding of the different roles for Board members and management within the organization.

This leadership at the top that embraced change and encouraged learning proved to be critical in creating a learning environment throughout the cooperative. Today, the Agway Board itself is at the center of learning in the organization.

Guidelines for Board Learning and Knowledge Sharing

According to the NACD report, "Directors have an obligation to develop broad, current knowledge of all of the company's major businesses, including, specifically, the relevant technology, markets, and economics, as well as the strengths and weaknesses of the company vis-a-vis its major competitors."

An important aspect of learning is the ability to communicate and act on new knowledge. In his work with the Agway Board, the Syracuse University author developed guidelines to help Board members expand their knowledge as well as share that knowledge (convergence) back through

the organization. The guidelines are:

Generate Knowledge

1. Seek out knowledge that will increase competitiveness of the organization.
2. Read and study management reports and industry journals.
3. Establish and maintain a learning culture that values all stakeholders' ideas.
4. Emphasize innovativeness and out-of-the-box thinking.

Communicate Knowledge

1. Communicate the organizational vision to all stakeholders.
2. Communicate organizational strategies to all stakeholders.
3. Validate the organizational purpose and identity through action and communication.
4. Share value-added knowledge with senior management.

Initiate Action

1. Make decisions about strategic issues in a decisive and timely manner.
2. Be aware of the opportunity costs involved in the decision making process.
3. Empower management to take decisive actions.
4. Stress accountability.
5. Establish and maintain an environment that emphasizes entrepreneurship and winning.

Director Education – A Board Committee

The Board of Directors plays an extremely important role for the cooperative. The vision, purpose and core values become guidelines for business decision making. As such, the Board's role is to immerse itself in discussions about business strategy and monitor business performance to insure that the vision, purpose and core values are alive within the organization.

To fulfill this role, the Agway Board officers (CEO Cardarelli, then Chairman Heffner, and then Vice Chairman Gary Van Slyke) took a fresh look at how Board meetings were being conducted and what was expected of Directors.

Agway Board meetings, up until 1998, were typical of many businesses. The meetings would include reports from the CEO and CFO, Board Committee reports, reports from each of the business unit leaders and an occasional outside speaker. Most of the business unit reports emphasized what had happened since the previous Board meeting. Time was a constraint on engaging the Board in strategy discussions. As such, once a year the Agway Board would hold a meeting to plan for the future of all of its businesses.

In discussing its new role, the Board officers adopted a planning model that placed responsibility for business strategy discussion with the entire Board. The composition of the cooperative's portfolio of businesses would be the responsibility of the Executive & Compensation Committee while operating and capital budgets would go to the Board Budget & Audit Committee.

The Board officers also decided to establish a new standing committee of the Board that would focus on the educational needs of the full Board and individual Directors. The Director Education Committee would be chaired by the Vice Chairman of the Board to convey its importance both to the Board and throughout the organization. In addition, each Director would be provided with a computer and Internet service to access Agway's Board website, send and receive email, and share other information.

The purpose of the Director Education Committee is to facilitate the Board's role in overseeing business strategy and monitoring company performance. It does this by overseeing the ongoing education of the Board and ensuring that each Director, over a period of time, receives the training, education and information necessary for each Director to fulfill their responsibilities as an Agway Director. The goal is to provide the organization with a competitive advantage; that is, a Board fully knowledgeable about business strategies and performance thereby enabling decisions about strategic issues to be made in a decisive and timely manner.

The functions and responsibilities of Agway's Board Standing Committee on Director Education are as follows:

1. Establish a mechanism for each Director to self-evaluate his performance and to identify individual educational needs.
2. Identify and recommend programs, activities and information that will further increase Director's knowledge of Agway businesses. Specific objectives shall be established for each program or activity.
3. Identify and recommend programs, activities and information that will further increase Director's knowledge of the external environments in which Agway businesses operate. Specific objectives shall be established for each program or activity.
4. Identify, evaluate and recommend external programs that foster increased understanding and knowledge of the roles and responsibilities of Agway Directors.
5. Develop an annual schedule of external Director education programs and suggested participation by Agway Directors.
6. Identify and recommend actions that provide for the sharing of knowledge back through the membership.
7. Obtain feedback from Directors on outside Director training programs and Agway's new Director orientation program.

A Strategic Learning Model for Agway Directors

In an article 3 by former Hewlett-Packard CEO Lewis Platt, he observed "there is an erroneous assumption that Board members ... come fully prepared to serve you." Directors have a responsibility for understanding the company's businesses as well as the environments in which those businesses operate.

Directors bring value to a company by ensuring that the organization remains focused on its vision, purpose, core values and performance. Directors achieve this by immersing themselves in a continuous learning environment and by asking relevant and strategic questions, both inside the Board room and in other settings.

As the new learning culture evolved at Agway, the authors together with the members of the Agway Board Standing Committee on Director Education (Board Chairman Van Slyke, Board Vice Chairman and Committee Chairman Andy Gilbert, former Board Chairman Heffner and Director Bill Young) developed a learning model and metrics for assisting Directors in carrying out their responsibilities and adding value to the organization.

The Strategic Learning Model for Agway Directors views Agway's Directors as continuously engaged in learning while focused on four critical areas: vision, strategy, understanding risk and keeping score.

Agway Directors apply this model both inside and outside the Board room. The metrics includes a set of questions for each component of the model. The questions serve as a guide to ensure that both the Board and management are discussing relevant and strategic issues.

Examples of the metrics applied in each of the four critical areas are:

VISION (Where Are We Going?)

1. How does this strategy/plan/ expenditure help us achieve our Vision?
2. How does this strategy/ plan/expenditure help improve the profitability of our farmer-members?
3. How does this strategy/ plan/expenditure support our core value of entrepreneurship?
4. How does this strategy/plan/ expenditure help create a winning environment?
5. What plans exist for dealing with organizational anxiety or resistance?
6. What is the plan for communicating with stakeholder groups?

STRATEGY (How Can We Get There?)

1. Which customers do we serve today? Which customers will we serve in the future?
2. What are the current needs of our customers? What are their future needs?
3. What are the trends in the customer segments we serve? What will they be in the future?
4. Does our organization support the creativity and innovation necessary to serve our customers?

5. Is our organization's learning rate faster than the rate of change in our business?

5. Is our organization's learning rate faster than the rate of change in our business environment?
6. Who are our competitors today? Who will be our competitors in the future?
7. What is our competitive advantage today? What will be our competitive advantage in the future?
8. How do competitors view our organization's ability to compete?
9. How can we stay a step ahead of our customers and competitors?

UNDERSTANDING RISK (What Might Happen?)

1. What assumptions are being made about the future?
2. What alternatives have we considered?
3. Does our organization embrace change?
4. What are the key business trends? How do these trends support our strategies and financial objectives?
5. What contingency plans do we have?
6. What are the opportunity costs?
7. What happens when things go wrong?
8. If this project fails, how much of an impact will it have on the organization?
9. How much financial risk can we prudently take on now? In the future?
10. What are the threats to our organization?

KEEPING SCORE (How Are We Doing?)

1. What are our financial objectives? What assumptions are being made?
2. What is the return on capital (or return on assets)? What will it be in the future?
3. What are the sales growth and operating income? What will they be in the future?
4. Is the operating income fully loaded with all expenses?
5. What is our market share? What will it be in the future?
6. What is our profitability? How does that compare to our competitors?
7. How healthy is our cash flow?
8. Where will our margins come from in the future?
9. Do we have financial discipline and accountability?
10. What level of financial return do we need to survive? To ensure that we can operate the business from a point of strength? To be a leader in the industry?

By using this set of questions it is hoped that both Agway's Board and management team will bring a focus and a discipline to their organizational learning that will increase performance and ensure that Agway's purpose, to improve the profitability of its members, is achieved.

Conclusion

The Agway Board's experience with developing a learning approach to governance has been both rewarding and successful. In a time when change is accelerating, the most valuable resource cooperative members share is knowledge and the most meaningful relationships are learning ones.

Encountering Cooperative Extremists: Proposed Solutions to an Oxymoronic Problem

Do the following statements or situations sound familiar in our cooperatives?

- "The coop shouldn't carry (X), because these products are not natural."
- "This is a coop, so all the members should have a voice in operational decisions otherwise I may as well shop down the block."
- "This decision is too controversial, so we should put it to a member vote."
- "Coops are supposed to be a better way, so we shouldn't go in for (marketing, promotional pricing, better displays, etc.)."
- "We believe (x), and since members have power within this coop, we want to make sure the coop does it our way."
- "We, staff members of the coop, appeal to the board of directors to deal with our issues working through the manager is a waste of time, because the board has ultimate authority."

This article is a summary of a project by CGANE (Cooperative Grocers' Association Northeast) using case studies to analyze the problem and identify solutions. It addresses what we are

using case studies to analyze the problem and identify solutions. It addresses what we are calling "coop extremists" people who care strongly about a particular issue and agitate for the coop to comply with their view regardless of differing opinions and strategies. They tend to see their issue or method as bound up with the coop's purpose or identity.

The genesis of "new wave" consumer cooperatives was the counterculture of the 1960's: small groups of individuals who rejected the status quo and (re)created systems based on equality and "true democracy." Everyone wanted a voice, and one's core values were the basis for all action. Great energy went into discussions and debate before any actions occurred, and differences of opinion over "the common good" were a staple.

Cooperatively owned businesses, long preceding this period, have been based on many of the same core values. In order to succeed, they must tread a path encompassing both business efficiency and inclusive cooperative values, giving a broad spectrum of members a true sense of ownership while avoiding operational disruption.

This article's introductory quotations are all examples of challenges to a coop's process based on misunderstandings of the democratic aspects of cooperatives. An individual or group feels strongly about what is right and challenges the board or management to change. In order to avoid disruption, the cooperative needs to have a well thought out and commonly understood process through which to hear these opinions, address them, make a decision, and move on.

Unfortunately, many cooperatives get into trouble because of confusions around democracy within the organization, such as the following:

- Uncertainty, confusion and conflict about how the coop's governing priorities are set.
- Differences as to what "coop" means to individuals within the cooperative.
- Confusion about how democracy is carried through who has input at what points in decision making.
- Confusion about the separation between operations and governance.
- Lack of acceptance of the coop as a democratic organization where the wishes of the majority prevail, sometimes at the expense of an individual.
- Lack of clarity about the basic rule set and roles.

Given a cooperative's democratic foundation, it would be unusual for there not to be some level of disagreement among its members. This is a healthy process necessary for an ever more responsive coop, and such disagreement is not something we would wish to squelch. However, extreme cases of conflict, managed poorly can cripple a coop, disrupt operations, undermine management and the board. and split the membership through destructive factions and personalized attacks.

In many of these situations, a vocal individual or group will wave the flag" and call for change in the coop. These are usually well intentioned individuals acting on their strongly held beliefs, and should be respected as such. However, a clear process needs to be established and understood by all in order to avoid a breakdown of communications.

How can we more effectively deal with these situations? First rule: Don't panic! It is very easy to become defensive and to personalize conflicts, but a primary goal has to be to look at the issues and not merely the people presenting them or the way they are being presented. Most of these extreme and difficult situations are focused very narrowly, and the problem is arising because the process of democracy within the cooperative is not adequately understood.

Four primary assumptions

If four primary assumptions can be commonly agreed upon at the start and mandated throughout debate, there is much higher likelihood for a successful resolution:

- All parties sincerely want to make the coop better.
- Everyone wants the coop to succeed as a business.
- More than a business, the coop must adhere to other values or "bottom lines" as well.
- The point is not to avoid conflict over tough issues but to avoid disruption of operations and the breakdown of constructive communication.

Start by getting agreement on these assumptions and agreement that if they are broken you will

... by getting agreement on these assumptions and agreement that they are broken, you must take a timeout until they can be reestablished. If all cannot agree on these four principles, then you have a serious problem which will require more drastic measures not addressed in this article.

Rather than jumping right into an argument about what is "right" in the particular situation, all should be given respect for their opinions. All involved should repeat the others' argument until clarity of all positions is achieved.

Use the situation as an opportunity to clarify the existing policies and decision making process in a broader context. By looking more broadly at related scenarios and not attacking/making defensive the antagonist, the big picture needs and rules can be better defined, reducing the threat of a repeat performance. If we simply reject the arguments, we lose one of the strengths of cooperatives a business designed to meet the needs of its members. We need to invite those with strong opinions and listen to them there is always room to improve. However, we will not be able to benefit from new perspectives without full understanding of an appropriate decision making process.

Whenever a radical argument is raised, the board and management first need to have a discussion clarifying where the decision making responsibility lies and what coop values and priorities would impact the decision, based on existing policies. If policy does not lead to clarity, you need better policies! (You can be grateful for someone pushing you into creating them.) Again, the focus is not on confrontation on specific issues, but on broadbased policies.

If the process degrades into spitting matches between two or more strongly opinionated individuals, then to a large degree you have lost. Bring the discussion to a higher level: instead of an issue over sugar, a broad product policy; instead of an issue such as the Gardenburger boycott, a broad boycott policy.

If this is impossible, someone with this broader perspective needs to be found to act as a mediator. In the end, if the coop can adopt broad policies that it can stick with and apply to these situations, it will have a much sounder footing. Arguments will provide an opportunity to retest the policy to see if it is sound.

If the best answer for the cooperative as a whole does not satisfy those raising the argument, you will have a member or two quit the coop. Since no organization can be all things to all people, this is probably an acceptable conclusion. Through these situations, clearly articulate that the coop does not strive to represent the priorities of a small group of activists, but is responsive to the broad needs of the membership as a whole.

Finally, when all is said and done, don't sweep disagreement under the rug! If there is a lack of understanding or lack of a clear policy, now is the time to clarify it to the members. The coop's newsletter or general meeting is a perfect opportunity to continue educating the membership, as well as board and staff, so that the next challenge will be handled better.

Preventive measures

Most extremist blowups occur when there is a lack of understanding about decision making process and authority or a lack of clearly articulated and understood policies. Therefore, prevention entails constantly recreating the basics:

- Board of directors training.
- Full understanding and use of board policies.
- Values clarification.
- Clear statements by the board on organizational structure and decision making process.
- Bylaws review and periodic update to clarify how members can participate, to define appropriate quorum numbers for bylaw changes, etc.; this is especially important as the coop grows.
- Clarified vision and mission; use these to communicate choices and decisions to staff, directors, and members.

'Full spectrum' education

These activities promote education towards a "full spectrum" cooperative:

- Train toward governance by policy goals and outcomes.
- Refer all decision back to the coop's statements of vision, mission and values.
- Define "coop" through the cooperative principles, ownership, and one member/one vote. Don't allow individual members to overrule with their own definitions.
- Clearly define how your store practices democracy.
- Clearly define which issues are hierarchical/operational and which are member decided issues.
- Provide training in corporate prudence and legal responsibilities for board members.
- Include opposing opinion in all discussions and articles. Do not allow the feeling that opposing opinions are not invited to the table.

Cooperatives must walk a fine line between being efficient organizations and fully living our values of inclusiveness and democracy. This delicate balance is maintained by having clarity on values, policies and appropriate and accessible avenues for input in decision making.

Conditions Facilitating Change

People and organizations tend to change when:

1. they have to participate in the decision to change.
2. the rewards for change exceed the pain/cost of change.
3. they see others changing, particularly when the change direction is supported by valued persons.
4. they are in an environment free from judgment.
5. they have the competencies, knowledge or skills required by the change.
6. they can maintain the changes in a series of small steps or as a total change in their way of life.
7. the change is supported by their environment.
8. there is a public commitment to the change. (policy, etc.)
9. the motives of the person or persons attempting to induce change are trusted.
10. they are able to influence reciprocally the person or persons who are attempting to influence them.
11. if they see the change has been successful, especially if they are able to gather data for themselves.
12. People and organizations tend to resist change to the degree that they feel it is imposed upon them.

Key Points in Successful Change

- The hardest thing to change is a hardening of attitudes; nothing kills change faster than attitudes that resist it.
- Failure stems from two sets of works: "I can't" and "Yes, but"
- Those adept at change don't reject good advice just to prove they aren't being controlled by those who give it.
- Complaining is good if it isn't a substitute for action -- but often it is.

- High self-esteem results from making small positive changes in spite of fear. Confidence comes from conquering fear of change.
- Unexpected pain can result from either huge setbacks or successes.
- Change artists analyze how fear of success can stop them from changing. They also know success does not magically bestow happiness.
- Fear of commitment to goals can make one stop short of setting appropriate goals.
- Choices and options are all open. One can make new choices anytime.
- Giving positive strokes to oneself is as important as giving them to others. But self-criticism is easier than self-stroking.
- Balancing pleasing oneself with pleasing others is often difficult.

Five Fundamentals of Dealing with Change

What's the real difference between those who thrive on change and those who fall apart, clawing and scrabbling their way down a slippery slope?

Is it just luck? Could be, if it happened once. But look carefully: people and organizations seem to have a pattern over their lifetimes. We all know some people that seem to shoot themselves in the foot every chance they get. Study companies that know how to survive, and you'll find corporations as much as 700 years old that have survived under monarchies, dictatorships, and revolutionary councils, through war and depression, plague and natural disaster. That takes far more than luck.

People and organizations that thrive on change share some fundamental attributes. And change is fractal: its basic nature looks the same at different scales. So the attributes that make an organization powerfully adaptive also make a relationship flexible and fruitful, a community livable, and an individual creative, adaptive, and secure in the midst of turbulence.

Five fundamentals

Organisms that thrive in a changing environment share these five necessary attributes:

Husbanded Resources:

Like an army that does not get too far ahead of its supply train, like a family that stays out of short-term debt and builds up savings, like a man who reaches his seventies with a body he has never abused, an organism that does not waste its capital has more options when it is threatened.

This can mean an array of things, depending on the context. In individuals, families and corporations, it means financial conservatism. It means not overextending yourself. Search as you might among the oldest corporations, and you won't find any that practice creative financing. They tend to the fundamentals.

It doesn't mean you have to be rich. A little observation will show that rich people and organizations overextend themselves as easily as anyone else. In many ways, in fact, they have more opportunity, since it is easier for people and organizations with assets to borrow money. It means, at whatever financial level you currently exist, keeping debt down and savings up, so that you have resources on which to draw when you need them.

In individuals, this means staying in good mental and physical health. In couples and families, it means working to keep the relationships vital and strong long before any crisis comes.

Abundant Relationships:

In an organization, we typically constrain relationships. We form our bonds with our immediate superiors and subordinates, and peers with whom we work closely. We don't form strong bonds with people in the next work unit over, or several levels above or below us in the hierarchy. Yet

organizations in which people have multiple bonds and a lot of history together do better in times of difficulty.

In the early 1980's, John Kotter, in his groundbreaking study *The General Manager*, looked intensely at the management styles of CEO's and division directors who were generally acknowledged as excellent organizational leaders. One of the attributes these leaders had in common was that they seemed to know everyone -- not only their peers, subordinates, and superiors, but people in other divisions, clergy in the town, the union leaders, their counterparts at other organizations, the janitor who vacuumed their offices. And when the time came, each of these relationships was useful, often in unpredictable ways.

One of the many difficulties of the Vietnam War was organizational: officers and fighting units were not trained and deployed together, as in most earlier wars. Rather, individual soldiers and officers were rotated in and out of units. The official rationale was that it was not good for fighting men to get "too attached" to their comrades and leaders. In practice, it meant less trust, with veteran fighters trying to survive their last weeks "in country" often going out into the jungle led by newlyarrived greenhorns that they barely knew.

In normal times, the depth and multiplicity of relationships within an organization seems merely pleasant, and preferable to a culture that is deeply divided between labor and management, the "suits" and the technicians, operations and marketing, along the thousand fissures that develop in the everyday world of work. In times of turbulence, abundant relationships become critical to the life of the organization.

In families, this means a richness and depth of relationships, not only within the nuclear family, but beyond the family walls into the extended family, and the surrounding community.

In an individual, this translates to full participation of all parts of the personality. Researchers into cases of "multiple personalities" tell us that these cases are only extreme versions of ourselves. In "multiples" the relationships between the parts of the personality have broken down, but we all have multiple parts. Often one part -- a controlling aspect, say, or a victimized aspect -- comes to dominate the personality, while other parts are ignored. This kind of personality is brittle and inflexible. Strong and flexible personalities bring all parts to the table, from the "inner child," full of wonder, delight, and sadness, to the controller, arbiter of order and purpose.

Abundant Information:

In our families, we keep secrets. We keep secrets even within ourselves: "Just call me Cleopatra, I'm the Queen of Denial." In organizations, we restrict information, holding onto it as a source of power.

In each of these situations, the individual parts of the organism have enough information to do their ordinary jobs, but not enough to help the organization through a crisis. If you have been through a natural disaster, you have seen how the need for information widens dramatically: suddenly you may need to know where the gas shutoff valve is, how to do CPR, or the best way to set sandbags.

In an organization, the difference between an open environment and a secretive one can be dramatic. I have seen an organization reorganize and downsize itself, eliminating half of all midlevel positions, in a single fourhour meeting, with almost all of those who left taking the decision voluntarily -- when they were given adequate information, and plenty of time before the meeting to think it over.

Certain types of information that organizations have, such as personnel information and some securities information, are legally restricted. Others, such as Coke's secret formula and the design of Intel's next chip, are truly trade secrets, and must be guarded. But typically we restrict information far beyond those narrow boundaries. The ideal to which we should aspire, for the good of the organization, is a free flow of information.

For instance, many organizations have improved their labor relations by cleanly opening their books to the union. The power lies in the power to manipulate and obstruct. The union

books to the union. The power lost is the power to manipulate and obfuscate. The power gained is the power to find common ground.

Sometimes revealing facts about yourself or your organization leaves you truly more vulnerable -- if, for instance, your strategy was based on tricking or manipulating the competition, your own workers, your spouse, or yourself. But such strategies are themselves questionable, since they damage the very relationships on which your survival depends

Distributed Power:

Each decision made as far from the center as possible -- that's a mark of an adaptable organism. In an individual, this looks like "trusting your gut," rather than ignoring your gut to follow a rigid plan. In a family, it means considerable autonomy for each individual, within the broad sense of the family's spirit and purpose. In an organization, it means that each decision is taken as low down in the organization as possible. The CEO deciding what kind of postage meter to buy is a sign of a flawed, brittle organization.

The reason is simple: a centralized, hierarchical organization fully uses only one brain: Mr. Big's. Every other brain is only used to execute his orders, with all the creative, inventive, entrepreneurial parts shut off, all the excitement and energy put on hold.

In order to harness all the brain power in your organization, you must give them tasks to work out -- which means giving them the decisionmaking power they need to try different solutions. They must have the ability to fail.

To many people, this seems an inversion of the norm in the powerful organizations they see around them. Yet some of the largest, most successful organizations on the planet are extreme examples of distributed power. The global headquarters of Royal Dutch Shell has little power over its various national companies, who work together through an internal commodities exchange. Visa International is designed on just such a model. It is owned by its member banks, all decisions are reached by consensus, and members are free to market the Visa products any way they like -- yet decisions are made rapidly, and consistency is enforced across the system, by mutual agreement.

A Common Story:

Healthy, flexible individuals have a clear sense of purpose, and all parts of the personality are lined up behind that purpose. In healthy, flexible families, communities, and organizations, everyone has a sense of what their common endeavor is. The history of the organism is held in common, and its future vision is developed in common.

I have traveled many thousands of miles on Amtrak, and I have overheard many conversations among its employees. Not one concerned passenger comfort, safety, or efficiency -- what the employees might be giving to the life of the organism. Every single one concerned grievances, vacations, and pay negotiations -- what the employees are getting. At Budweiser, in contrast, any janitor or electrician will happily talk about the flavor and consistency of the beer, how it is attained, and how their job relates to it. At Sony's TV plants, the people on the manufacturing lines will gladly talk about the flatness of their tubes, the consistency of the image, and the brightness of the screen, and show off the new bracket they devised to decrease vibration in shipping.

It is this common story that allows an organization to function as a unit despite its distributed decisionmaking power. When Sony's TV unit in San Diego decided to design and market a cheap teleconferencing monitortop box, they knew what made a product a Sony, they knew Sony's product line, market position, and vision of the future. They didn't ask anyone's permission, but the venture fit right in. It was a true Sony product.

Test yourself

How well are you organization prepared to survive increasing turbulence? Look over these five attributes

- o husbanded resources
- o abundant relationships
- abundant information

- o abundant information
- o distributed power
- o a common story

How well do they describe you or your organization? What could you do differently to put yourself or your organization on a firmer, more conservative financial footing? To strengthen and multiply relationships? To increase the free flow of information? To distribute decisionmaking power? To nurture a common sense of the past, of your present daily purpose, and your vision of the future?

Change Leadership

Organizations are in a constant state of flux as they anticipate and react to new market pressures, rethink what customers really want, consider the latest organizational trends, respond to new public policies or realize they must find new ways of relating to employees.

Managing organizational change is often very difficult and complex and, most importantly, doesn't always turn out the way it was intended. Part of the reason for this lies in the nature of change and the capabilities of an organization's leadership. Some organizations change incrementally while others truly transform themselves.

Let's take an example. Company A, interested in improving conditions for its frontline employees so they'll be more productive. After some research, Company A decides to offer fourday work weeks to all employees. Company B, with similar motivations, begins by conducting focus groups. After much deliberation within and between leadership, middle management and employees, Company B decides on a much different course from Company A, instituting a series of changes that includes a) providing genuine opportunities for employee input on corporate policies and procedures, b) employee participation in decisionmaking, c) inclusion of employee feedback in managers' performance appraisal processes, and d) employee involvement in design and implementation of business processes. The two companies have chosen very different paths. Company A has made a change; Company B has begun to transform itself.

Change or Transformation?

Transformation is a fundamental shift in the beliefs, values and assumptions held by the people within an organization. Company A operates on the assumption that employees have a certain place in the hierarchy and that power and control are the domain of the leadership. Company B once held such assumptions but has adopted a different set of assumptions about employees: they can be partners with the leaders; they may have ideas as good as or better than the leaders; leadership can exist at any level in the organization; power does not have to be exercised as control.

Leadership Capabilities

It's widely accepted in theory and practice that the capacity for an organization to transform itself is directly related to the capabilities of the organization's leadership.

Communication

During times of change organizations can adopt the 5 by 3 rule of communication. Say it five times, three different ways. Since a natural part of the change process is confusion and chaos, it is reasonable to assume that things must be said more than once or twice in order for people to "hear" it. If you have an important message, present that message five times using three different modes of communication. Since people assimilate things differently, engage as many of the employee's senses as possible.

Change Readiness Assessment

The success of the change effort hinges on the consensus and buyin of the organization. An ideal time to actively begin participating in an effort is during a "Readiness Assessment." Much like a new hire's probationary period, the Readiness Assessment is a brief period at the beginning of a change effort where:

1. the core issue or problem to be addressed, and
2. the internal capacity of the organization to make and sustain the necessary changes.

Determining the Core Issue

Determining the Core Issue

The symptoms of a core issue are usually what motivated the potential change in the first place: a problem, underperformance, or unmet goals. The core issue itself is often only revealed through additional research, without which an organization may spend time working on a problem that is only a symptom of a larger or deeper issue. When this happens, the visible symptom may be rectified, but other related problems will remain or worsen. Significant time, effort, and money can be expended without the desired results, causing resentment on the part of management and staff.

Assessing the Organization's Internal Capacity

During the assessment, two questions should be asked regarding internal capacity: "Is the organization willing to make the change?" and "Is the organization able to make and sustain the change?" If the organization is not appropriately willing or able to handle the demands of the change effort, it can do more harm than good. The fundamental conditions for being willing and able follow.

Willing: Conditions for Success

1. **Willingness of Leaders:** Are leaders willing to institute necessary changes? Sometimes leaders "buy in" to the idea of change and improvement but have difficulty with the actual implementation. Are leaders entrenched in current structures and processes, or are they willing to take actions that will move the organization in a new direction?
2. **Collaborative Culture:** Is the organization receptive to collaboration? Is there room for vulnerability in discussing mistakes, short falls, or things that could go better? Are people willing to work together to generate ideas and solve problems?

Able: Capacity for Making Change

1. **Time:** People must be able to devote sufficient time and energy to the effort. If they feel overwhelmed by their current workload, a change effort may push them beyond their limits. Any significant effort could hurt staff morale, lower productivity and, in the end, fail.
2. **Change Resilience:** An organization that is overwhelmed by major recent changes in personnel or business processes may not have the resilience to undertake another change. The project could lack the creativity and enthusiasm to make it a true success.

What to Expect During the Readiness Assessment

The common steps in a Readiness Assessment are outlined below.

Data Gathering

Gather data about the change effort and its chances for success. This involves one or several of the following methods:

- o **Meetings with Leader(s):** Discussing the need to change and gathering relevant background information.
- o **Interviews with Key Personnel:** Asking openended questions, such as "What works well and what would you change?" "How do you know if things are going well here?"
- o **Focus Groups:** Conducting group interviews to explore openended questions and gather pertinent information.

Synthesis of Collected Data

Review and organize the data and prepare a report summarizing the data, the issues, and the recommendations.

How the Readiness Assessment Benefits the Organization

The Readiness Assessment helps ensure the success of a change or improvement effort. With participation, it will strengthen relationships, open lines of communication, and build a strong foundation for the change. Even if the result is the postponement of the change effort the process is always valuable.

The identification of core issues, communication about the issues, the sharing of perceptions about "how it is around here," and the exploration of possible next steps all will move the

organization toward change and improvement. As the project goes forward, these will contribute significantly to its success.

Next Steps:

What to Do When the Organization is Not Ready

- o Increase focus on business imperatives and shore up where necessary.
- o Increase efforts to stabilize leadership and/or staffing.
- Offer education or training to increase capacity where needed.

Organizational Change "Failure Indicators"

At the recent research conference of the Association for Public Policy Analysis and Management, University of Maine Professor Steven Ballard summarized several "failure indicators" that characterize an organizational change process that "is either not serious or not likely to work":

Implementation from the topdown.

While leadership must be involved, change must develop from within, not be imposed. Broad participation is mandatory.

Unwillingness to put governance issues on the table for discussion.

This is the most difficult aspect of changing to a high performance organization. If leaders don't accept a much more participatory approach to governance, the major challenge becomes redefining the role of the manager.

Expectations for quick fixes or uniformity.

Participants must tolerate frustration and ambiguity.

Linear approaches to implementation.

Effective change strategies are about values and people. There are no surefire "ten steps to success."

Specification of a rigid time period in which results are expected.

Longterm commitment of the organization and its leadership is required.

Overreliance on consultants or outside experts to implement the process.

Consultants can be used to get started or to troubleshoot, but not to steer the reform effort.

An inability to identify the customers or willingness to accept ambiguity about primary customers.

Lack of commitment to a holistic approach.

Successful change strategies must reflect five factors critical to get holistic change:

- 4 commitment to customer satisfaction,
- 4 a shared vision,
- 4 transformational leadership that facilitates change rather than imposing control,
- 4 participatory decision making, and
- 4 commitment to expanding individual and organizational expertise and core competencies.

Spotting the Dysfunctional Organization

Some people consider troubled organizations an interesting challenge. But most others, particularly those who are new to community work, would just as soon avoid them. There are numerous ways organizations can be dysfunctional. Here, say experts, are four of the most common:

Lack of vision.

"If the organization isn't clear about what it's doing, you may not want to get involved," says Eve Hoffman, a consultant on education issues. "You'll find the energies of the people involved are fragmented, and it has the potential to be a frustrating experience."

Lack of candor.

Some organizations never make it clear to new board members why they've been selected -- or what they're expected to do. The result, says David Tucker, a nonprofit consultant, is that the old and new board members quickly grow disenchanted with each other.

Lack of discussion.

As Peter D. Bell, a foundation executive, explained in a speech, "If staff members believe that they will be penalized for bringing bad news to the board, they will pull their punches. So, too, will board members who perceive that the expression of differing views on important issues may provoke embarrassment or consternation among colleagues." Result: An organization likely to fail, and a miserable experience for you.

Lack of accountability.

This typically happens when the board doesn't challenge the paid staff from time to time -- what Bell calls "constructive tension." At Atlanta's Woodruff Foundation, Vice President Russ Hardin says board involvement is one of the ways his foundation judges nonprofits. "When the board delegates completely to the professional staff and is not in touch with what's going on, then that's a concern," Hardin says. It also creates the conditions for public embarrassment or scandal.

There's no foolproof way of spotting a dysfunctional organization, experts say. But there are some techniques that can help. Melba G. Cooper, director of the Fanning Leadership Center at the University of Georgia, suggests three approaches:

Get as much as you can in writing.

"Ask for the written roles and responsibilities of a board member," she says. Then ask the staff and other board members if those guidelines are followed.

Ask for several annual reports, not just one.

What you're looking for, says Cooper, are goals that are announced but not met, or goals that change dramatically from year to year. Either is an indication the organization doesn't know where it's headed. "If you pick up just one annual report," she says, "you don't see these trends."

Talk to recipients, not just providers.

If the organization runs a homeless shelter, visit the shelter and talk to the people there. If it provides disaster relief, call people in the community the organization has served. "What you want," Cooper adds, "is a program that is doing things for people rather than to people."

Board Performance Evaluation Form

Performance appraisal is used to tune up human resources in a way that enhances the success of a business. And a cooperative, among its objectives, must first succeed as a business.

Performance of human resources, in this case members of the board, determines the results achieved by the cooperative. Boards decide, plan, organize, and control the resources of money and materials.

Evaluating an individual or group performance is a management leadership activity--an integral part of planning, organizing, and controlling. The appraisal takes the form of a periodic review of the full board's job.

Evaluation should answer some basic questions, such as: What is the board's present status? How are we doing? What should we do to improve? How can we be more successful? What is our future direction?

Effective performance evaluation begins with a clear understanding of what is to be accomplished. The board's goals and objectives should be defined so each board member can use the same criteria for evaluating and appraising.

This plan is designed for use by the board members and the general manager (CEO). The management staff, if actively involved in board meeting discussions, also could provide objective evaluations. Key performance areas to be evaluated are planning, operations, finance, members, director development, general manager, and public relations.

Rate each item in the appraisal form using these guidelines:

A—The board fulfills this responsibility well and needs no improvement.

B—The board fulfills this responsibility moderately well, but performance could be improved.

C—The board's performance is unsatisfactory and improvement is needed.

The completed appraisal form should be summarized by a committee of the directors and staff (if the staff participates in the appraisal) and presented to the full board. If some items need improvement, the board should develop a plan for correction or adjustment. A yearly review permits the board to evaluate its success in selected improvement items and particular new items.

PART 1--Performance Rating

A—The board fulfills this responsibility well and needs no improvement.

B—The board fulfills this responsibility moderately well, but performance could be improved.

C—The board's performance is unsatisfactory and improvement is needed.

PLANNING

A B C

- ___ 1. Statements of mission and objectives have been updated within the last 5 years.
- ___ 2. Statements of mission and objectives have been reviewed within the past fiscal year.
- ___ 3. Board policies have been updated within the past 3 years.
- ___ 4. Board policies have been reviewed within the past fiscal year.
- ___ 5. A 3year operating and financial plan is reviewed, updated, and approved annually.

OPERATIONS

- ___ 6. An organization chart has been established for the board and the cooperative.
- ___ 7. Both organization charts have been reviewed within the past year.
- ___ 8. Position descriptions have been prepared for each board officer and standing committees.
- ___ 9. Position descriptions have been reviewed during the past year and revised as necessary.

10. Board reorganization meetings are held immediately after the annual meeting

- ___ 10. Board reorganization meetings are held immediately after the annual meeting.
- ___ 11. Standing committee appointments are made within 30 days after the annual meeting.
- ___ 12. A meeting agenda is prepared before each board meeting by the manager and board president.
- ___ 13. The agenda identifies priority items and proposed timing. It is mailed to each director 7 days prior to the meeting.
- ___ 14. Management and committee reports of appropriate content are mailed to each director 7 days prior to the board meeting.
- ___ 15. Directors study the information prior to the board meeting.
- ___ 16. Every director attends at least 90 percent of scheduled board meetings.
- ___ 17. President is informed in advance when directors plan to be the absent from a regularly scheduled meeting.
- ___ 18. Each director participates and contributes to discussion in every board meeting.

A—The board fulfills this responsibility well and needs no improvement.

B—The board fulfills this responsibility moderately well, but performance could be improved.

C—The board's performance is unsatisfactory and improvement is needed.

A B C

- ___ 19. Decisions are made as needed and proper parliamentary procedure is followed.
- ___ 20. Meetings are of proper length and adjourned as scheduled.
- ___ 21. Calendar of board activities is prepared and a copy is given to each director.
- ___ 22. Every director and the manager have a copy of the current board handbook.
- ___ 23. All personnel, operating policies, and bylaws, are reviewed annually and revised if necessary.
- ___ 24. Statements indicating "No Conflict of Interest" have been signed by all directors.

FINANCE

- ___ 25. Credit, borrowing, and other financial policies are reviewed annually.
- ___ 26. Capital and operating budgets are approved annually.
- ___ 27. Selected financial ratio goals are established and reviewed monthly.
- ___ 28. Reports comparing "actual" to "budget" are reviewed each month. Exceptions are defined and explained.
- ___ 29. Insurance and bonding programs are reviewed and updated annually.

___ 30. Audit report is received and reviewed in detail.

MEMBERS

___ 31. Membership applications are reviewed, approved, and properly filed.

___ 32. Member orientation sessions are conducted.

___ 33. Content of membership meetings have good balance between past and future operations.

___ 34. Discussion and participation encouraged at membership meetings.

___ 35. A nominating committee solicits new director candidates.

___ 36. The board is representative of the membership.

___ 37. Board is informed of the needs of all members.

___ 38. An aggressive member relations and education program is approved and budgeted.

___ 39. A membership newsletter is regularly published.

A—The board fulfills this responsibility well and needs no improvement.

B—The board fulfills this responsibility moderately well, but performance could be improved.

C—The board's performance is unsatisfactory and improvement is needed.

A B C

___ 40. Membership surveys are conducted as needed.

___ 41. Each member has a copy of the bylaws including current revisions.

___ 42. Each member receives a financial annual report.

DIRECTOR DEVELOPMENT

___ 43. Available director training programs are reviewed.

___ 44. Each director assessed his or her training needs.

___ 45. An annual plan for director training is established and budgeted.

___ 46. Every director participates in at least one annual training program.

___ 47. All new directors participate in an annual orientation program.

GENERAL MANAGER

___ 48. A written job description detailing goals, objectives, and expected duties is approved by the board.

___ 49. The board each year evaluates the performance of the manager in a formal session based on the agreed goals.

___ 50. A manager's compensation package has been reviewed and approved annually.

___ 51. A training plan for professional improvement of the staff is developed by the manager and approved by the board.

PUBLIC RELATIONS

___ 52. Lines of communication and coordination are established with other cooperatives.

___ 53. Contacts with community agencies, businesses, and associations are maintained.

___ 54. Board is aware of economic and legislative activities of local, State and Federal Governments.

PART 2--Performance Review Action Plans

The first part of this evaluation focuses on specific parts of your board operations. An appointed committee should summarize all of the completed evaluations and prepare a report for the board. The board needs to place a priority on items needing the most attention and the type of action required.

For items given a C or B rating, pick three or four from each area that are most pressing. Use this form to indicate each pressing item and follow up corrective action taken.

Item #

Action for correction

Corrected on ___/___/20___. Responsibility

XXXXXXXXXXXX

Item #

Action for correction

Corrected on ___/___/20___. Responsibility

How Productive are Your Board Meetings?

A cooperative board to effectively perform it's duties must meet on a regular basis and conduct

orderly meetings. Directors spend many hours in meetings. At these meetings directors carry out the important function of decision making.

Board meetings must be planned and conducted to make the most efficient use of the director's time and with a feeling of accomplishment. Directors themselves must evaluate the effectiveness of their board meetings. This evaluation should be an annual event, with results summarized by a committee appointed by the board and presented by the committee chairman or the board president.

Here is a rating system for use with a set of questions that will help evaluate the board meetings.

Use these ratings when responding to the following statements:

A Always—no improvement needed.

B Sometimes—could do better.

C Never—improvement is a must.

Part 1

A B C

- ___ 1. The meeting agenda and review materials including recommendations and comparisons are sent to directors prior to the meeting with ample time for review.
- ___ 2. Items for discussion, proposed timing, and major topics are identified on the agenda.
- ___ 3. Clear and easily read support material for major topics are included with agenda.
- ___ 4. All directors regularly review prepared materials prior to the board.
- ___ 5. Seating and room temperature is comfortable, lighting adequate, and all directors have eye contact with each other.
- ___ 6. The board chairman opens and adjourns the meeting promptly at the scheduled times.
- ___ 7. The board chairman keeps the meeting moving according to the agenda and in accordance with correct parliamentary procedure.
- ___ 8. Any changes made in the agenda, are discussed and approved by the directors.
- ___ 9. Satisfactory time allow for each agenda item.
- ___ 10. Important issues and business decisions are discussed thoroughly.
- ___ 11. The chairman guides the discussion, encourages comment from all directors and keeps the discussion directed to the present topic.
- ___ 12. Just before adjournment, a summary of the business conducted is reviewed.
- ___ 13. Clear and concise board meeting minutes of each meeting are prepared and presented in accordance with board policy.

A Always—no improvement needed.

B Sometimes—could do better.

C Never—improvement is a must

C never—improvement is a must.

A B C

- ___ 14. Bylaws and other policies are reviewed yearly in a scheduled board meeting.
- ___ 15. Long range plans (financial, trends, objectives) are reviewed annually at a regular meeting.
- ___ 16. In one meeting each year the board reviews it's own performance and discussed areas of needed improvement.
- ___ 17. Quality and adequacy of services and products to members are given as much time as financial considerations.
- ___ 18. The general manager clearly explains financial and technical reports at each meeting.
- ___ 19. Cooperative employees and staff occasionally are invited by the general manager to provide technical support.
- ___ 20. Board committees are used to study, plan, and carry out specific responsibilities.
- ___ 21. Standing committee responsibilities are rotated among all directors.
- ___ 22. All board committees clearly understand their specific responsibilities.
- ___ 23. The board has an "open door" policy for regular meetings may attend.
- ___ 24. Directors understand when the discussion of an issue is completed. They are responsible to support the majority's decision.
- ___ 25. The board as a unit with commitment toward a common goal.

Part 2

In the first section of this appraisal you evaluated specific areas or items. A summarized appraisal of all the directors will guide the board to the areas that need improvement. The most apparent problems are the areas or items that were given a C rating. However, the items receiving a B rating also need improvement.

List these areas (B's & C's), select three you want to concentrate on, and offer a possible way to improve each.

Items receiving a C rating are:

Items receiving a B rating are:

The following items are presently of greatest concern, and they can be improved by:

Item

Item

Item

Item

Item