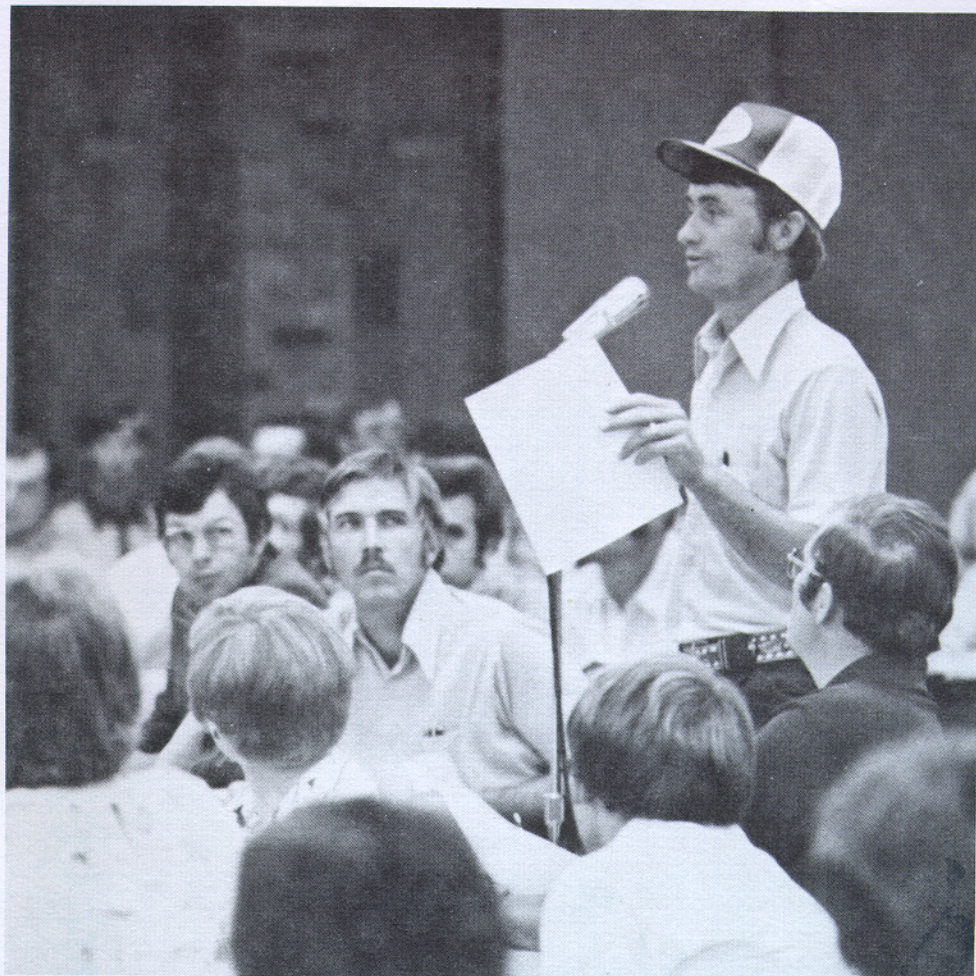


Cooperative Member Responsibilities and Control



FARMER COOPERATIVES IN THE UNITED STATES
COOPERATIVE INFORMATION REPORT 1
SECTION 7

UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL COOPERATIVE SERVICE



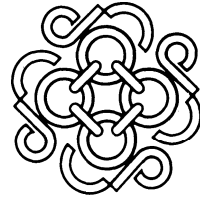
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The biggest merger in cooperative history took place this way in 1977 — by members of Farmland Industries, Inc., and Far-Mar-Co, Inc., voting overwhelmingly in favor of the action. The members, who owned both organizations, by their vote put together the Nation's largest farm supply, manufacturing, and food marketing cooperative with the Nation's largest grain marketing cooperatives.



Cooperative Member Responsibilities and Control



“A cooperative is a voluntary’ contractual organization of persons having a mutual ownership interest in providing themselves a needed service(s) on a nonprofit basis. It is usually organized as a legal entity to accomplish an economic objective through joint participation of its members. In a cooperative the investment and operational risks, benefits gained, or losses incurred are shared equitably by its members in proportion to their use of the cooperative’s services. A cooperative is democratically controlled by its members on the basis of their status as member-users and not as investors in the capital structure of the cooperative.”¹

Cooperative members are persons-individuals, partnerships, corporations, and associations-holding membership in a cooperative organized without capital stock or holding stock in a cooperative with capital stock. These persons are instrumental in starting or keeping the cooperative business going because they realize they can solve their economic problems and attain their goals only by working together. They voluntarily affiliate with the cooperative.

Any person marketing, purchasing, or obtaining a service through a cooperative is a patron. Members filling their obligation by patronizing their cooperative are called member-patrons.

Cooperative Criteria. Job K. Savage and David Volkin. FCS Service Report 71. 1965. 11 pp.

DISTINCTIVE FEATURES OF MEMBERSHIP

Historically, members organizing farmer cooperative businesses have developed self-help methods and techniques to solve their problems and increase their net farm income. As member-owners, they make capital investments to get the cooperative business started and keep it financially healthy. As member-owner-users, they hold membership, use the cooperative's services, and are interested in seeing that their cooperative effectively and efficiently serves them. Their objectives of service and improved net margins rather than returns on investment are the distinctive features of cooperative membership.

Members Are Owners and Patrons

The requirements for membership in local or centralized farmer cooperatives usually consist of the following:

1. Members must be producers of farm products. 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 shall be transferred to a non-voting status:

2. They must have a financial investment ranging from \$1 to \$100 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.

Federated cooperatives require that member cooperatives must be agricultural producer associations; they usually require a larger financial investment for membership, such as \$25 to \$1,000 or more.

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 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. A few cooperatives require in their bylaws or legally enforceable marketing contracts that members must do a specified percent of their business with the cooperative

annually. Such arrangements do not destroy the voluntary character of members' affiliation with their cooperatives.

A cooperative generally does most of its business with members. The percent of member business required ranges from 50 to 100 percent. Three Federal laws-the Capper-Volstead Act, the Cooperative Marketing Act of 1926, as amended, and the Internal Revenue Code, and many State cooperative statutes-specify that to qualify as a cooperative, at least 50 percent of the dollar volume of business must be done with member producers. The Internal Revenue Code further specifies that to qualify for exemption from Federal income taxes, no more than 15 percent of the nonmember business of a farm supply cooperative may be done with nonmembers who are *not* producers of agricultural products. Most agricultural cooperatives conform with the provisions of one or more of these acts. Generally, agricultural marketing cooperatives have no problem in maintaining a high volume (90 to 100 percent) of business with members.

Farm Credit system cooperatives-Banks for Cooperatives, Production Credit Associations, and Federal Land Bank Associations-require eligible persons seeking loans to purchase membership stock before completing the loan. Rural residents, nonfarmers as well as farmers, in areas served by rural electric or telephone cooperatives become members to receive service. Persons wanting to participate in rural housing, recreation, credit unions, or other cooperative programs must become members to receive these services.

Member Objectives

Farmer members form cooperatives to obtain needed services and improve their farm's earnings rather than to realize a high return on their investments.

Farmers establish cooperatives as extensions of their own farming operations-to function as the purchasing or marketing departments of their own farms. Marketing cooperatives provide farmers the tools they need in today's mass marketing of such products as fruits, vegetables, grain, livestock, poultry, milk, forestry, flowers, potted plants, and others. Members' products are assembled and graded or processed to meet buyer specifications as to size, color, and other quality terms.

Members use purchasing cooperatives to buy high quality production supplies in large volume. In the early years, cooperatives' pooling of feed and fertilizer orders was successful.

Later, cooperatives began to handle and warehouse other production supplies such as seed, spray materials, petroleum products, farm equipment, fencing, roofing, paint, and many more. In many cases, marketing and purchasing cooperative operations combine to meet the broader service demands of members.

Members also may obtain specialized services such as spreading fertilizer and lime, spraying, pesticides, harvesting crops, cutting timber, or irrigating crops and orchards. Members may provide a wide range of other services through their cooperative regardless of where they live-in rural areas or in the city:

1. Electric service through rural electric associations.
2. Credit service through Production Credit Associations, Federal Land Bank Associations, or credit unions.
3. Telephone service through telephone associations.
4. Craft marketing service through craft marketing associations.
5. Consumer purchasing such as food, drugs, furniture, or other merchandise through cooperative stores.
6. Health services through group health associations, community hospital groups, and others.
7. Many other special services, including housing, recreation, legal aid, and transportation through cooperatives.

So the purpose of a cooperative corporation is to serve the member-users. Usually its success is directly related to the amount of business it does for members or the services it provides them.

Members establish their cooperatives essentially as non-profit enterprises in the sense that they are not organized to make monetary gains for the cooperatives as legal entities or for members as investors. Where monetary gains do arise, they are allocated and distributed to patrons in proportion to their use of the services. Such distributions are called patronage refunds. Where net savings in purchasing cooperatives or net margins in marketing and service cooperatives are realized and distributed to producer-member-patrons, they become a portion of the net income of those patrons' farming operations. Where net savings arise in consumer cooperatives, they lower the patrons' cost of goods or services for family living purposes.

MEMBER RESPONSIBILITIES

Member responsibilities start with the conception of the cooperative and remain throughout its life to assure successful organization, sound management, and operation. Members' role in management differs from investor-oriented corporations because they both own and use the cooperative.

Specific responsibilities accompany members' right to make wishes known concerning needs and services desired from the business. In organizing cooperatives, potential members must obtain competent advisers, determine what is involved in cooperative organization and operation, and get facts and figures to present to other potential members. The "potential members' survey committee" must judge whether the proposed cooperative is likely to be successful and beneficial; and it details the organization pattern for the new business. The responsibilities of a "potential members' organizing committee" include signing the required number of members, obtaining subscribed member capital, arranging for capital loans, drafting the legal organization papers, filing the articles of incorporation to obtain a charter, and arranging the first meeting of original members.

Understand the Cooperative

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

They should read the articles of incorporation and bylaws to understand the purpose of their cooperative in serving its members.

Members must also understand that laws limit their rights or powers and those of their boards of directors. They must operate within the framework of statutes and codes in performing any function. Members also need to understand that bylaws or policies of their elected directors may further limit their operations by establishing member obligations, regulations, and quality controls exceeding those prescribed by legal statutes.

Members must understand the need for long-range planning for services, facilities, and capital. Cooperatives have had a part in bringing many technological changes to the business of agriculture; changes continue, however, indicating that

cooperatives need to update their long-range plans continually through research and study based on projected member needs. Members can accelerate this long-range planning by keeping directors and hired management informed of their farm and home plans.

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. They need to analyze proposed bylaw amendments and determine how they will affect the association before voting to approve them. Members are responsible for knowing the contents of legally enforceable marketing contracts or other legal papers before signing them so they can fulfill their obligation to the business.

Select and Evaluate Directors

Members should be intimately familiar with the cooperative and as owners assume a positive, broad role in its management. Although the cooperative is a democratically controlled form of business, members cannot make all decisions directly. They elect directors from their membership to represent them in most affairs of management.

Members should understand and evaluate board actions. Directors not assuming responsibilities entrusted to them, including complying with laws governing cooperatives, should be removed. Members must exercise sound judgment and avoid unnecessary pressure on directors. Member control of any cooperative is, to a large degree, determined by directors' actions. Members must encourage and challenge directors and management to provide needed services and increase farm income.

Provide Necessary Capital

Basically, members must provide equity capital for the cooperative business. Most cooperatives have a small beginning and find it necessary to borrow much of the needed funds. Later, as they become established and business services expand, cooperatives generally find it neither necessary nor wise to rely

on member capital to meet all financial needs. The member or equity capital is used as a base to apply for a loan. Members' investment in their cooperative must increase this base before borrowing power can be increased.

Members finance their cooperatively owned business by using conventional business methods such as capital stock, debentures, reserves, bank loans, and a few practices distinctive to cooperatives, such as revolving capital funds. Cooperatives accumulate funds through retaining a portion of their patronage refunds, or deducting per-unit capital retains from sales proceeds. If the bylaws so stipulate, after the necessary capital is acquired, the oldest equity amounts are paid off from current retains. In some cases, retains are adjusted annually, based on use of services. Members must be prepared to make necessary changes in capital structure, including increases and decreases, when member investment requirements change. Members must understand these financing plans if they are to provide adequate equity capital.

Use and Support the Cooperative

Members must supply an adequate volume of business if the cooperative is to operate efficiently and successfully. Through membership or marketing agreements, they should commit most or all of their marketing or supply purchases to the cooperative each year.

The strength of the bond between members and their cooperative is a most important factor in cooperative success. Underlying this bond is interest that develops loyalty to the organization and its objectives.

The sense and pride of ownership responsibility means more than merely patronizing the business and reaping financial benefits. It involves more than building an organization with adequate volume to employ talented personnel to operate the business in the best interest of members. It is molding the cooperative into a force that influences the growth, development, and business climate of the members' farm and community and helps shape the destiny of agriculture.

Lack of member support is one weakness that can retard cooperative growth. Effective member involvement beyond just patronage gives the cooperative the necessary vitality to maintain its competitiveness as a business, and keep attuned to its member-owners' needs.

Cooperative leaders have suggested ways to strengthen member support: (1) Know how groups function and make them successful through providing opportunities to initiate ideas and discuss proposed actions; (2) accent member relations because most members have not experienced the 'inside' feeling of involvement of the founders-especially in today's larger cooperatives; (3) run the business efficiently; (4) provide up-to-date service; and (5) remember that little things count big in developing member loyalty.

Participate in Affairs

Members' participation in affairs of their association increases the feeling of ownership and responsibility for success. But encouraging this participation requires planning and considerable effort. Boards and managers must want members to participate and must understand the requirements to keep them active. Management's function in providing for the two-way flow of information can create member interest, enthusiasm, loyalty, and responsible participation.

Meetings-annual, educational, and special-offer a good means of member group participation, especially where member questioning is promoted. An important aspect of successful member participation is providing adequate time for explanation and discussion. While suggestions and complaints will surface, this gives management an opportunity to determine the underlying causes. Members want to question the decisionmakers directly, thus increasing the importance of this exchange with management.

Cooperatives increasingly are providing time at their annual meetings for member questions and suggestions. Others hold community meetings, or director-conducted meetings to solicit member inputs. Many marketing cooperatives continue to use a question on the back of their checks for payment of product to obtain member participation.

Members themselves must make an effort to participate. They need to attend all meetings for members, and encourage others to go. They should discuss the problems, express opinions, and generate ideas for better or new services. Members should vote on issues presented and accept the decision of the majority.

Members should accept special committee assignments when asked. This will help them realize the cooperative belongs

to them and that it should be treated as a business.

Members can be good business citizens of their association by learning about it and other cooperatives. They should plan, participate, and share costs in educational programs targeted at nonmembers and the general public. Public knowledge about cooperatives affects attitudes and influences legislation. Members and other cooperative-minded people should let legislators know their wishes.

Provide Information

Members are a cooperative's unique resource, and when properly informed, they make worthwhile contributions. Members must be provided both good and bad facts about their cooperative- what it is, how it functions, what are its problems, and options or choices they can help make.

Today's cooperatives are larger and require greater operating skills as they assume more of producer-members' work and services. The entire team operating the cooperative- members, directors, manager, and employees- must know the limitations and capabilities of the cooperative for it to appeal to members as a way of improving their net income and welfare. Top management- including directors- can most effectively develop this member resource. Management must initiate member education to achieve two-way communication and member participation.

Education and member relations personnel must establish a relationship with other cooperative personnel at all levels to ensure that each understands the importance of appealing to all members- leading farmers, long-time members, women, young farm couples, and others. Members must not only be informed, but also they must have opportunities to convey their questions, their needs, and their opinions to the association leaders.

Members must keep an open mind and be alert for new services needed and new ways to make the cooperative more effective. They have a responsibility to provide this information to their directors and hired management.

Members place great responsibility on directors they elect. They must share this responsibility by supplying directors with information on needed purchasing, marketing, or other farm-related services. Informed directors can better serve members by establishing board policy, planning for needs with hired management, and voting when decisions need to be made.

Help Obtain New Members

A cooperative must continually replace members who move away, quit farming, or die. In some cases, additional members may be needed to financially strengthen the association or increase its volume. Present members can help by encouraging their neighbors to patronize the cooperative and become members.

The business operation of a cooperative and the statutes under which it is organized influence its membership policies and requirements. These policies have a bearing on member responsibilities to increase or maintain membership.

People joining a cooperative should understand what a cooperative is, how it operates, its possible benefits, and its limitations. Contrary to some beliefs, few people join cooperatives because of social objectives but rather for economic benefits—services and increased income. Most people want to be shown the advantages arising from cooperative membership, and unless there are real advantages, few prospective members will join; or if they do, they will not patronize it.

Members may join a cooperative by purchasing membership stock, paying a membership fee, or earning a membership via patronage refunds.

If the association is a capital stock organization, members receive stock certificates as evidence of their ownership interest. Most stock cooperatives issue one share of common stock per member to show membership and voting rights. Other classes of common stock and preferred stock, generally nonvoting, reflect additional capital contributions.

If the association is a noncapital stock organization, it issues some kind of membership certificate. Revolving fund certificates or other documents will show capital contributions of members.

Cooperatives that provide supplies and certain services normally have open membership. They are interested in sales to both members and nonmembers. Members usually benefit from increased volume and therefore should feel some responsibility for increasing membership and volume.

Many cooperatives that process and market or bargain for products have a selective membership policy. They are seeking dependable volume and high quality products. Members of these cooperatives should feel responsible for recommending to their manager or membership committee farm operators whom they

believe are quality producers of the products their cooperative processes and markets.

Some service cooperatives, such as rural electric or telephone associations, require membership of all persons served in their service area. Members are responsible for recommending persons who move to the area and obtain the service.

Farm credit associations require membership of those producers borrowing capital from them. Members have the responsibility to explain services they receive and encourage producers needing capital to explore membership.

MEMBER CONTROL

One of the three distinctive characteristics of cooperatives is democratic member control. Democratic control means authority to control the cooperative's affairs; it rests with the members using it. Members exercise this authority by voting at annual meetings and other meetings called when decisions are needed. The democratic characteristic is steadfastly maintained by relating voting power to use of the cooperative's services.

Voting Methods

Most cooperatives limit each member to one vote. In some, however, the basic member vote is supplemented by permitting additional votes based on the previous year's volume of patronage in dollars or tonnage, or the number of shares held up to a stated limit, or some other restricted basis.

In those cases where voting is permitted on other than a one-member, one-vote basis, State and Federal statutory limitations are placed on the rate of dividends cooperatives may pay on capital shares.

Legal statutes permit cooperatives considerable latitude concerning voting procedures. Quorum requirements vary from those members present to a specific number or percent of the total membership. Bylaw requirements may vary from no specification, where laws of parliamentary procedure apply, to a simple majority or to three-fourths either of those voting or of the total membership.

Some cooperative bylaws, usually in regional cooperatives, provide for proxy and mail voting. Written proxy designation executed by the member, or his duly designated representative, and filed with the cooperative secretary is provided by some asso-

ciation bylaws. Cooperatives using mail voting generally think they get a better expression of member opinion. Federated or mixed cooperatives may specify delegate voting procedures for member associations.

Ward² and others found that in 92.6 percent of the cooperatives responding to their survey, members vote on the basis of one-member, one-vote; 3.7 percent vote on the basis of the amount of business with the cooperative (proportional based on patronage); 2.6 percent vote according to share of ownership (proportional based on equity capital) in the cooperative; and 1.1 percent vote under some modification or combination of the three previous methods.

In 99.3 percent of these cooperatives' members vote for directors rather than for delegates. Members vote at-large for directors in 85.1 percent of the respondent cooperatives.

Nominating and Electing Directors

Democratic election of directors is vital to democratic member control. This involves three steps: Legal framework, informed member electorate, and the election process.

Articles of incorporation and bylaws usually define who may serve, number of directors and length of term, method of selection, who may vote, and the duties and responsibilities of those elected.

Members must have a background of general information on the cooperative before they can make an intelligent evaluation of the qualifications of candidates for directors.

The next step is nominating qualified members to serve on the board of directors and voting in the election process.

Members choose a few of the leading persons from the membership to serve as directors. These directors represent members in certain phases of management until their successors are elected.

Bylaws of smaller cooperatives may provide for smaller numbers like 5, 7, 9, or 11 directors. As cooperatives grow, merge, become regional in scope, or federated in structure, bylaws often provide for an increased number of directors to represent districts or regions, affiliated local associations, volume of business, or varying commodity or product interests within such associations.

²Voting Systems in Agricultural Cooperatives. Clement E. Ward, Vernon E. Schneider, and Ramon Lopez. ESCS Cooperative Research Report 2. 1979. 27 pp.

Early cooperatives tended to reelect directors as long as they would serve or lived. In more recent years, many cooperatives have adopted policies or bylaws that limit the number of successive terms or establish maximum age limits, such as 65 or 70 years.

According to Biggs³, when members of a farmer cooperative elect a director, they most frequently turn to a fellow member who is 35 or older, who has farmed for 25 years, who has been in the cooperative more than 10 years, and who does 81 percent or more of his business with the cooperative.

Nominating Procedures

Most cooperatives apparently believe nominating committees are effective in assuring democratic selection of directors because surveys show 80 to 90 percent use them.

Suggested guidelines for selecting a nominating committee are:

1. Form it well in advance of the annual business meeting.
2. Limit it to members-no directors, manager, or staff.
3. Include former directors.
4. Select a minimum of three or maximum of five members, unless otherwise provided in bylaws.
5. Select members familiar with the cooperative's bylaws and State statutes.

While many nominating committees are appointed by the board or the chairman, it is more democratic for members to elect them. Bylaws of some large federated and centralized cooperatives provide that chairmen of local boards serve on district nominating committees.

Democratically selected boards should have balance-be representative of geographic areas, age groups, and varied interests, commodities, and services. When bylaws limit age or terms of directors, this must be considered.

Each prospective director nominee should be considered on an individual basis-i.e., training for job of director, personal qualifications including character, talents to offer the board, and adequate time to devote to the job. Biggs³ found that most cooperatives require 2 days or less a month of a director's time for planning and controlling operations, providing input to board

³Farmer Cooperative Directors, Characteristics, Attitudes. Gilbert W. Biggs. FCS Research Report 44. 1978. 58 pp.

decisions, and preparing for decisionmaking.

Where they exist, members of advisory boards or committees and associate or junior members such as young farmers may be top prospective director nominees.

Nominating committees should submit more nominees for directors than positions to be filled.

After nominees are selected and before the election, cooperatives must acquaint members with the candidates. Members must know the qualifications of each nominee to vote intelligently.

Responsibility for informing members may be assigned to the nominating committee, member relations committee or department, present board of directors, or management. Cooperative leaders generally agree a biographical sketch of each nominee should be mailed to members before the election. Cooperative newsletters, newspapers, or magazines provide excellent channels for providing data on nominees to members.

Election Procedures

Most cooperatives elect directors at their annual meeting. This is a democratic practice if a high percent of members attend and exercise their right to vote. Careful planning, good publicity, and a strong member relations program are effective.

A hazard to democracy is the temptation for some member to propose that the present board be reinstated, or that the nominations be closed as soon as the minimum number are nominated to avoid an election. These situations occur more often if director election is the last item on the annual meeting agenda. Mail voting or secret ballot voting at the annual meeting helps avoid such situations.

Public and Associate or Junior Directors

Public directors to look after the so-called public interest are often required by State cooperative statutes. These directors are usually appointed by a designated State or land grant university official. They meet, function, and vote as all other directors.

Some cooperatives have established an associate or junior director system designed to train potential directors. Each director may select one cooperative member—preferably a young farmer—to serve with him for 1 year, attend all board and member meetings, and serve on committees. During the year, associate or junior directors participate in discussions at board meetings and

speak at special member meetings. They do not vote in director meetings.

Member Decisions

In cooperatives, members as owners make a number of broad management decisions. Some of these are required by State statutes; others by the cooperative's bylaws. Still others are subject to the general policy of the cooperative and the judgment of its current board of directors.

Statutes pertaining to cooperatives only and those pertaining to all businesses impose limitations and specify actions that members can and must take to comply with the law. For example, the Capper-Volstead Act of 1922, a Federal law, recognizes the rights of producers to act together in associations without being in restraint of trade. Several other Federal statutes provide rights for cooperatives to conduct business on Main Street. The Farm Credit Act of 1971 defines the cooperatives eligible to borrow from district Banks for Cooperatives and the terms for loans to cooperatives. The Internal Revenue Act of 1962, as amended in 1966 and 1969, provides tax treatment for farmer cooperatives and their member-patrons.

Every State has laws authorizing the formation of cooperative corporations. These Federal and State laws plus local regulations determine many decisions members must make. Many decisions require the advice of experts in a specialized field such as law, accounting, engineering, and other technical subjects.

Differences of opinion or philosophy sometimes exist among cooperative leaders as to the types of problems or propositions that should be brought before the membership for decision. Certainly they should be limited to major ones because members delegate to their boards most of the decisions dealing with policy. As a rule, greater member understanding and support will result if major items are brought before members for discussion and decision rather than explaining to them after the fact why decisions were made by the board.

Members usually do not automatically assume their responsibilities. Cooperative executives and boards of directors are morally accountable for helping members understand their role in management as owner-users. They provide the methods and opportunities for members to express needs and desires relevant to managing their cooperative.

Members' input to major decisions is through discussions at meetings and by voting. When organizing, members vote on the bylaws prepared by the organizing committee with the help of an attorney. They decide how their cooperative will operate. After organization, members or their delegates may approve or reject proposed bylaws, policies, and resolutions. Directors, other cooperative leaders, or management may present previously written resolutions for member consideration. Members may also present proposals.

Examples of major decisions members must consider to comply with most State statutes are:

1. Changes in articles of incorporation, including changes in capital structure, name, and number of directors.
2. Merger, consolidation, or sale of all assets.

Examples of other major policy decisions members often consider are:

1. Amendment of bylaws;
2. Long-range objectives and plans;
3. Major expansion of facilities and capital expenditures;
4. Addition of major supplies or services, or expansion into new markets;
5. Purchase of major assets of another firm or cooperative;
6. Major operating policies such as those pertaining to credit, pricing, or subsidizing a department or service;
7. Retirement plan for member equities;
8. Sharing of net margins and risks among departments;
9. Handling nonmember business; and
10. Approval of major policies.

DEVELOPMENTS AND CHALLENGES

Internal growth, mergers, and acquisitions have rapidly expanded many agricultural cooperatives. New multi-State and national cooperatives have been created to help existing cooperatives gain economic efficiencies and increase market power nationally and internationally.

Cooperative corporations are making efforts to retain member-producer control and influence as they become larger and more complex organizations. Through local and commu-

nity efforts, cooperative business organizations are and must continue relating to members and potential members through their involvement, participation, and patronage. Through developing programs to provide better understanding of cooperative characteristics and practices, associations plan to retain and improve member and public attitude.

Cooperatives may be asking members the same basic questions as in previous years to obtain ideas. But the member-patrons and general public attitudes have changed. The “feedback” has changed; cooperatives are hearing plenty. The members want involvement; they want to talk to decisionmakers. To obtain member participation and recruit new members, the followup must focus on what members are thinking.

To gain member participation, priorities must be established. The priorities may be based on urgency, importance, or merit. A program then must be added to the priorities. The program can be considered a plan of procedure and execution.

However, priorities plus program must result in member participation, or sharing in common with other members to make the difference.

Historically, cooperative members have participated as established in Section 2 of the series of publications making up Cooperative Information Report 1. Members accomplished many jobs through actively working together-participating. Member participation, and it must be on a program priority basis, is even more important today. Recent events that underline this importance include: (1) Continued escalating production, supply, marketing and service costs; (2) shifts of national agriculture policies toward market orientation; (3) questions about the public trust afforded cooperatives in tax and antitrust laws; (4) increasing pressures on levels and sources of supply; (5) increasing demands for environmental regulations; (6) more interest in involving women; (7) signing the first generation of life-long television viewers as members; and (8) increasingly larger capital commitment needs, especially on the part of young farm couples. These and others increase the importance of member commitment and participation at an accelerating rate in an industrialized agriculture.

The major adjustments cooperatives make in program priorities of member participation in this transition period could well determine the future of cooperatives and the member as a family farmer in the next decade.

Farmer members need to continue working together and participating in their cooperatives to achieve the adjustments needed as supply and marketing aspects become more closely associated. Management can and should provide the facts, but members must participate with their vote in making decisions. Member participation makes the difference in the priorities they establish and the program they want.

In comparison to earlier members, today's farmer cooperative members are probably better educated, have more sophisticated entertainment tastes, guard their time more jealously, and are more appreciative of an efficient organization. They want a board and a chairman who accomplish things briskly and in a business manner. No matter what the operating statement reads, the cooperative must readjust communication channels, including conduct of annual meetings, to preferences, habits, and expectations if it is to foster member participation.

Attention to Member Concerns

As cooperatives grow in scope and operation, members often feel excluded from the decisionmaking processes. In more recent years, extended efforts have been made to determine member concerns and to communicate with them.

Many older members who started today's cooperatives are gone. The present generation has learned about the system from them. The new generation must be told about their cooperative, and leaders must be prepared to listen to feedback.

Cooperatives that want to learn of member concerns are taking the cooperative to the members. Examples are Farmers Union Oil Co. meeting members face to face, Southern States Cooperative's directors holding community meetings, and Indiana Farm Bureau Cooperative Association. co-op couple dinners.

South Dakota⁴ researchers noted that farm supply and marketing firms cannot hope to satisfy all the farmers of their area. Special concerns found included the personality and integrity of managers and employees, quality of products and services, and competitive prices. The handling of deferred

⁴Factors that Determine Where Farmers Buy and Sell. Arthur B. Sogn and Karla Jean Wilson Kraner. South Dakota State University Agricultural Experiment Station B662. 1978. 81pp.

refunds is important. Most of the respondents understood the need to defer refunds to purchase equipment and facilities or to add new services, but seemed to say “defer the refunds but tell us **when** they will be paid.” Respondents wanted good information and many indicated they would be willing to pay for it.

Cooperatives have learned they must stay close to members to survive. They must obtain members’ ideas and react by presenting the facts straightforwardly, keeping their houses in order, and acknowledging member concerns with actions.

Advisory Members

Cooperatives both small and large effectively use advisory members (also called advisory councils, advisory committees, community directors, consulting committees, or other titles) for contact and communication between management and members.

These advisory groups are usually without legal status and serve terms of 1 to 3 years. Cooperative bylaws may or may not provide for their appointment or election. They may serve a national, regional, or local association. Advisory committees of five to seven members are most frequently used by branches of large centralized organizations. Some cooperative bylaws stipulate that the chairman, or chairman and a few other advisory members, serve on the nominating committee for directors.

Advisory members usually meet two to four times annually. The agenda at a local center affiliated with a regional includes reports of sales or marketing at the local installation and for the entire cooperative, discussion of new or expanded services members need, and production and marketing programs affecting producers.

From its early days, Central Carolina Farmers Exchange, Inc., Durham, N.C., has effectively used “community directors,” consisting of about 235 members from the areas served by its eight stores. Agway has found advisory members most helpful in organizing and keeping in touch with members in its diverse operations. FCX Inc., Raleigh, N.C. has recently renewed training efforts for local service store advisory members.

Other advisory groups, such as AIC consulting committees, are appointed by management and serve at its pleasure for a year or for a specific program or purpose.

Some objectives of advisory members are to:

1. Be well informed and keep up to date on operations, products, and major service or program changes in the cooperative.
2. Promote the cooperative, its products or services, and programs.
3. Help members become better informed and motivated to participate in cooperative affairs.
4. Consider and evaluate member ideas, opinions, and concerns-relaying them to cooperative management for action.
5. Communicate with nonmembers, both rural and urban, to help them become knowledgeable about cooperatives.
6. Strive to keep State and Federal legislators aware of cooperatives and of member concerns about cooperative legislation.

Cooperatives using advisory member programs rely on them to keep management informed and stimulated with member ideas and concerns, and motivate management action not previously obtained. This program also provides a framework for quick contact with members when needed as in the Dairylea Member Family Program.

Member Attitudes

Member attitudes about cooperative service, prices, quality, control, and other related matters become increasingly important as cooperatives grow larger and come under attack by some Federal agencies who misunderstand the basic role, function, and purpose of cooperatives in our economy. This means that cooperatives have a tremendous educational job in developing an understanding of the basic dynamics of cooperatives and communicating this understanding to the various publics, including members, employees, various levels of Government, and the public at large.

Member attitude studies and opinion polls have been conducted in Missouri, Kansas, California, Indiana, Virginia, Nebraska, and other States. A Missouri⁵ study's findings of members' knowledge about cooperatives showed that 7 percent do not understand cooperatives; 20 percent know the objective of cooperatives is to help members; and 73 percent both know

⁵Farmers' Attitudes Toward Cooperatives. Carl Eric Utterstrom, William Hefferman, and Randall E. Torgerson. University of Missouri - Columbia. Special Report 181. 1976. 14 pp.

this objective and understand who owns cooperatives. Only 16 percent of the farmers interviewed added to their answers something about cooperative practices and principles. The factor analysis of member attitudes suggested that, in general, a farmer is either positive or negative toward all aspects of cooperatives.

About 20 attitudes were categorized. For example, when asked about what a cooperative should do in the future, 93 percent agreed it should build membership locally to achieve more volume and efficiency. About 92 percent answered they would do more business with the cooperative if it could bring more income to them. But 50 percent did not know if their cooperative planned any expansion.

A Kansas study⁶ compared 1977 farmer attitudes and understanding of cooperatives with those found in a 1964 study among farmers in the same area. Attitudes toward the nature and role of cooperatives were more favorable in 1977 than in 1964. However, attitudes toward cooperatives were considerably less favorable in 1977 than in 1964. In 1977, farmers were much more opinionated.

The greatest positive influence on Kansas farmers' attitudes toward cooperation was their attitude toward the local cooperative. A correlating factor—the strong positive relationship between good understanding and favorable attitudes toward cooperatives—emphasized the importance of an effective member relations program. This strongly suggests that farmer attitudes toward cooperatives can be improved by increasing their understanding of cooperatives. Local level member relations programs appear to have the greatest potential for improving farmers' attitudes because attitudes toward cooperatives in general are developed mainly through experiences with local cooperatives. Anything the local cooperative does to increase satisfaction for owner-patrons appears to improve attitudes about cooperatives in general.

Information sources over which cooperatives have the greatest control were found to be highly associated with favorable attitudes. In contrast, information sources that were associated with negative attitudes or had no real bearing on attitudes were subject to little or no control by cooperatives.

⁶Attitudes of Kansas Farmers Toward Cooperatives. Milton L. Manuel, Allen L. Hurley, and Richard Phillips. Kansas Agricultural Experiment Station manuscript. 1978. 38 pp.

These and other member attitude studies reveal effective communication is essential for building and maintaining esprit de corps within the organization. The task of informing members is greater in larger associations than in small ones, but it is not insurmountable. And it is vital.

Large vs. Medium and Small Farmer-Members

Cooperatives are characterized as being organized by large numbers of small farmers to deal with firms few in number and relatively large in size. As cooperatives have come of age in the past decade to efficiently serve farmers' and ranchers' needs for farm supplies, credit, marketing, and related services, so have their farmer-members become more diverse in size. Cooperatives are not capable of meeting a wide range of needs until they become strongly financed, of sufficient size to achieve economies, and capable of hiring professional management.

Some cooperative leaders feel that a conflict of interest between members with large or small farm operations can be a serious problem. Some farmer-members want a full range of service—the feed, ground or mixed, delivered, and placed in the feeders, or the fertilizer spread on the land with a highly competent co-op staff to provide technical information. Others want only the product discounted for volume and cash payment.

Many cooperatives have responded with flexible service and differential pricing that recognizes the difference in cost of providing the service needed to adapt to member needs. This includes direct service to larger users with product pricing on a cost-of-service basis. Regional cooperatives—Agway, Gold Kist, Landmark, FS Services, Farmland, CENEX, and others—aim to be leaders by providing complete programs through local cooperatives by innovative planning.

There is danger in concentrating on large producers to the exclusion of medium and small size farmers. Efficient smaller dairy farmers, poultry raisers, produce growers, and part-time farmers in many areas of production will continue to represent a sizable share of cooperative business in supply and marketing.

The Missouri study however, does not support any feeling of conflict among sizes of farm operations in cooperatives. A majority (76 percent) of the respondents agreed that small farmer-members really help the large cooperative more than

they hurt it. A larger majority (82 percent) agreed that small farmer-members benefit the large cooperative. Two-thirds also agreed that cooperatives are beneficial to both small and large farm operations.

A former official of Sunkist Growers, Inc., Sherman Oaks, Calif., summed up the feeling that large and small members can benefit from working together in the same cooperative. He says this cooperative offers producers opportunity to market their crops along with fellow growers regardless of size in an organized way to organized buyers.

Whatever the members' size, cooperatives must be ready to meet their needs. The challenge is to obtain member feedback, to anticipated need signals, and keep all members informed so they have the choice of available services to fill their needs.

Member Understanding of Capital Programs

Members want a better understanding of the principle of cooperative financing. They continue to challenge cooperatives for better explanations of why members must provide funds in proportion to their use of the business. Members must realize this is consistent with the theory that cooperatives are owned and controlled by those using their services.

This ownership and control of cooperatives can continue only when current members actually own a majority of the organization capital. It is imperative that new and younger farm operators understand this method of cooperative financing developed by their forefathers. Members and cooperative management alike have the responsibility to help these younger producers understand their obligation even though they may be hard pressed for on-the-farm capital.

Members often have problems understanding why cooperatives have tended to price at the going market rate for services or products when a distinguishing cooperative characteristic is "operating at cost." Cooperative management and employees need to understand and explain to members that cooperative net margins at the end of the fiscal year are distributed as patronage refunds to member patrons in proportion to their use of the business, thus reducing operations to a cost basis. Cooperatives could attempt to charge the exact cost of production supplies plus operating expenses each day

that would result in zero margins, but this involves a pricing policy that most cooperatives cannot predict.

The Internal Revenue Act of 1962 as amended requires cooperatives to pay a minimum of 20 percent of their patronage refund in cash at the end of the fiscal year. Cooperative management must keep members informed and help them understand that the directors they elect can decide to retain any portion of the remaining 80 percent to finance capital growth, provide operating capital currently needed in the business, or redeem earlier retained refunds. Usually these retains are placed in a revolving fund for which certificates, notifications, or allocated equities are issued as evidence of member equity capital or investment. The board of directors determines when these distributions will be paid to members in order of age. They are usually rotated out in 5 to 15 years.

The cooperative must help members understand that they are obligated to pay an income tax on the total amount of the patronage refund in the year it is declared to them. The 20 percent cash payment aids producer-members who are responsible for reporting the full amount of cash and **noncash** refunds on their annual income tax returns. Some cooperatives declare more than 20 percent of the refund in cash to help members in higher income tax brackets pay the current income tax due.

The revolving of member capital or equity is a unique cooperative method of financing that has proved historically satisfactory and beneficial. Some cooperatives make annual adjustments of the revolving fund based on the patronage of members over a recent period rather than revolving the full amounts in the fund. Both plans offer management the opportunity to impress annually the importance of producers leaving some of their money in the cooperative to provide sound financing and liquidity to its operations.

Educating members to financing policies established by the board of directors improves members' understanding of the cooperative and is vital to good member and public relations. Members who understand these practices can help set the record straight with their neighbors and the public.

Member Equity Retirement

Grave concern sometimes arises regarding: (1) New members getting unfair advantage of old members' capital in financing the cooperative's fixed and operating needs; (2) how

to retire revolving funds in order of age; and (3) in cooperatives in financial difficulty the fact that members' capital often is frozen for many years. The problem of how to retire the equity without jeopardizing the association's financial structure has confronted some cooperatives since their conception. However, in today's economy and climate, they must face the problem of members' equity retirement or transferability. There is increasing concern that unless all cooperatives try to solve this problem, laws contrary to sound business practices and not imposed on other firms may be enacted.

Members may cease to patronize their cooperative because of death, retirement, disability, change of occupation or type of production, moving from the trade area, or for many other reasons. Adoption of definite policies for establishing reserves and retiring member equity or transferring it to active members can improve the cooperative's image in the business world, establish a sounder member-patron financial support base, and improve the member relations program.

Of the cooperatives studied by Brown and Volkin⁷, 71 percent had a program for redeeming patron equities. On the average, cooperatives were redeeming equities at a rate equivalent to 8 percent of their net margins.

Most prevalent is the "first in, first out revolving program," in which the older equities are redeemed first. Of cooperatives having a systematic redemption program, 90 percent used this "first in..." plan.

The most cogent factor influencing the presence or absence of an equity redemption program was sheer size of total assets. The larger the cooperative the greater the probability of its carrying out a redemption program.

The authors conclude that some sort of program can be adopted by practically all cooperatives if they decide to plan and budget for equity redemption. They urge that cooperatives, through voluntary initiatives, should be able to demonstrate that they have taken steps to implement a basic cooperative philosophy—namely, those who patronize their cooperatives should bear the primary financing responsibility and those who effectively terminate their patronage should be relieved of their financing responsibilities.

⁷Equity Redemption Practices of Agricultural Cooperatives. Phillip F. Brown and David Volkin. Farmer Cooperative Service, U.S. Department of Agriculture. FCS Research Report 41. 1977. 30 pp.

A Colorado⁸ study showed that in 1975 82 percent of the cooperatives in that State retired equity held by estates of deceased members, but most did not have written equity retirement policies.

Some cooperatives have updated their methods of capital financing and retirement. For example, members of Sunkist Growers are required to make payments into a capital fund based on their volume of fruit shipped fresh and delivered to product plants during a moving 6-year period. Capital financing; requirements of the cooperative are determined by the board on an annual basis. Members' shares of this requirement are calculated and then compared with their current capital contribution. Each member is either assessed for an additional amount or receives a payout.

Farmland Industries, CENEX, and other regionals have adopted affirmative equity retirement programs to assist their member locals. Their programs are presented to affiliates with procedures and the extent of the regional cooperative's participation. An area of concern is the inability of some local cooperatives to handle equity capital retirements. CENEX will consider special assistance by providing guaranteed loans for local cooperatives in financial difficulty but still showing promising futures. Farmland is offering a participating formula program to its locals.

Financial planning is an integral part of these programs as member equity capital retirement and transfer to active members is an important consideration in the cooperatives' cash flow. Cooperatives must take affirmative action, survey member equity capital that needs retiring, and make plans with approval of lenders so as to maintain cash flow. Once all plans are made and adopted by the board, extensive educational efforts among members individually, in meetings, and through news media should be made to inform them of the retirement plan.

*A Handbook on Retirement of Member/Stockholder Equity Capital in Marketing and Purchasing Cooperatives. Alton L. Scofield, Forest E. Walters, J. Hugh Winn, and William P. Spencer. Department of Economics, Colorado State University Extension Service. Miscellaneous #11. 1975. 20 pp.

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