

MACC VOICE

August 2015 Newsletter

Mid America Cooperative Council
6302 Rucker Road, Suite H Indianapolis, IN 46220
Phone: (317) 726-6910 Fax: (317) 726-2630
E-mail: knowledge@macc.coop Web: <http://www.macc.coop>



Mid America Cooperative Council

Cooperative Governance

Dennis Bolling, President/CEO - United Producers, Inc.



First and foremost, **governance in cooperatives has a different connotation than in traditional, corporate America.** Cooperatives have the extra dimension of member relations beyond governance to consider when establishing a system of governance that preserves member control. As cooperatives in general have become larger and more complex businesses, they have evolved with a more diversified membership. This diversity, while typically positive, adds another level of challenge in governance. Some solutions have been weighted voting or sector voting which may lead to board representation by business sector.

A primary thrust for cooperative governance is the Board of Directors. A challenge seen by various governance practitioners, is too often Boards have not been adequately trained on the elements of good governance. They may have been fully trained on various business activities of the cooperative but not necessarily the skills needed for excellent governance.

Similarly, governance and the function of a board give rise to various relationship challenges, sometimes in the board room itself and often with the membership. This is especially true in coops with diverse membership. More times than not, cooperatives are competing with non-cooperatives so that the cost and perception of governance presents a unique business issue that must be factored in as a system of governance is developed.

Good governance is also a strategic issue. As cooperatives grow their businesses, the governance system must also grow to adequately represent the new business. **Similarly, as cooperatives look to further engage young farmers, governance considerations may take on a very different level of interest and understanding by the coops' future leaders.**

STRATEGIC GUIDANCE

Simply stated, the main purpose of a cooperative board of directors is to set grand strategic goals and develop an overarching vision for the organization. The board comes together to set organizational objectives for upper-level managers, who translate grand strategic goals into more measurable and specific objectives. The board of directors bears the responsibility for moving the organization in a productive direction, as defined by the cooperative's strategic goals.

Director Code of Conduct

Todd Beckwith, Regional Manager - CHS Business Solutions



As the market continues to change and margins are compressed, there is more business realignment within cooperatives. Whether this is through merger, acquisition or sale, co-op directors are analyzing larger more complex transactions. This places more pressure on the board of directors and the decisions they are tasked to make. Many organizations develop a Code of Conduct (sometimes referred to as a Code of Ethics) to guide how a board operates and makes decisions within itself. A Code of Conduct can include statements on confidentiality, conflict of interest, director participation and knowledge, etc.

Confidentiality

As a General Manager shares the needed information with the board that enables them to make sound decisions, confidentiality becomes more critical. The cooperative will have signed a confidentiality agreement and could be held liable if the discussions leak. I have dealt with boards where the Manager withheld information because of confidentiality concerns on the board. This is bad for all. The directors are not getting the level of detail in a timely manner, for fear of information leaking in the community. The directors are not getting adequate time to review the project because of this lack of confidentiality. A good rule of thumb is that when in doubt, all conversations inside the boardroom are confidential and should not be shared with family members, neighbors or other industry leaders.

Conflict of Interest

Conflict of interest is also an issue on many boards. As a board member grows the size of their operation, he or she may purchase their own sprayer equipment and do custom work for neighbors. When a director serves on a cooperative board that is in the custom application business, this can cause a conflict of interest. The neighbor must decide to hire the director or the cooperative to apply product to his/her field. What message does this send to the agronomy department and general manager when the cooperative is bidding against a director for that customer?

Participation and Knowledge

It is essential that a board gets input from all directors, who were all elected to represent the membership. This is an issue in two ways, there are directors who will dominate the conversation, and there are directors who won't say anything. Many times the two are interconnected. Some directors remain quiet due to other directors controlling the discussions. The board chair must manage the discussion and call on directors that do not speak up. The goal

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is not to have uniformity on the board but good input from all elected leaders. **The board needs to be united when they leave the board room, but inside the boardroom, all points of view must be heard.**

Due to the rapid pace of change in the nation and the cooperative industry, the ability for a director to stay up to date on market changes is difficult. There are mergers, joint ventures and realignments announced daily. The staff and outside consultants can help keep the board, abreast of these changes. The internet is a great source of data, but narrowing it down to useful information is key.

As the markets continue to change at an ever faster pace, the duties of a director also changes. The need to stay abreast of the changes as a duty of the director is more critical. This can be from outside training, whether from MACC, state and national associations, regional cooperatives or training brought into the board room or all of the above. **Due to all these changes the code of conduct and responsibilities of the direct are more critical today than in the past.**

2015 MAC-ED PROGRAM CALENDAR

Co-ops101 Classes

September 1	Pigeon, MI	Scheurer Prof. Building
September 17	Louisville, KY	Farm Credit Mid-America
November 5	Louisville, KY	Farm Credit Mid-America

Co-op Credit Conference

October 8-9	Indianapolis, IN	Holiday Inn Carmel/Indy
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Co-op Development Center Roundtable

October 19-20	Indianapolis, IN	Indiana Farm Bureau
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CFO Essentials Conference

November 4-5	Indianapolis, IN	Marriott East/Indianapolis
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CFO/Controller Conference

November 5-6	Indianapolis, IN	Marriott East/Indianapolis
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Board Chair Roundtable

December 17	Bloomington, IN	Hoosier Energy
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Co-op Boards' Circle of Responsibilities

(*excerpts from Co-op Boards' Circle of Responsibilities - Rural Cooperative Magazine, April 2014*)

Being a director of a cooperative isn't easy. In fact, it is harder to be a good cooperative director than a director of almost any other organization, including the largest corporations in the country. **Cooperative directors make decisions that aren't required in a non-cooperative corporation, and bad decisions can hurt the cooperative and all of its' members.**

What gives a board of directors its' authority? The basic authority, and the ultimate statement of responsibility, is imposed by law. Statutes under which cooperatives are incorporated identify the board of directors as the key institution responsible for the direction and management of the cooperative. A typical cooperative statute says: "The affairs of the association shall be managed by a board of not less than five directors, elected by the members or stockholders from among their own number." Variations exist, of course, among statutes and states, but the theme is always the same: the law places a cooperative's management and guidance in the hands of its' board of directors.

Circle of Seven Responsibilities

1. Board represents cooperative members
2. Board establishes cooperative policies
3. Board hires and supervises management
4. Board is responsible for acquisition and preservation of cooperative assets
5. Board preserves the cooperative character of the organization
6. Board assesses the cooperative's performance
7. Board informs members

At your next board meeting, consider conducting a complete assessment of sources of the board's authority, including statutory requirements, bylaw provisions, policies, board structures or another source of board authority.

- What is the source of the authority?
- What does it mean for the everyday operation of the board?
- Does the board fully appreciate its' authority - and its' limits?
- How can the board respond better to the authority it is assigned?

At each of the subsequent seven board meetings, thoroughly consider one of the responsibilities listed:

- What specifically does the board currently do to meet the responsibility?
- What are the weaknesses in the board regarding its' responsibility?
- Does each director have the skill, interest, and time to consider and respond to the responsibility?
- Does the board have the knowledge and information necessary to meet each responsibility?
- What specific steps can be taken to make the board meet every responsibility?
- Is there a consensus on the board's performance?
- Would members agree with the board's self-assessment?

The most effective way to make the responsibilities "up close and personal" is to have each director individually address the issue and propose his or her own solution to problems perceived about the responsibility under discussion. Board meetings or ancillary sessions to board meetings can then provide the forum for discussion within the board. These sessions may be more effective if management is not present.

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