



Mid America Cooperative Council

MACC VOICE

MARCH 2017 NEWSLETTER

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Executive Director

Rod Kelsay
Mid America Cooperative Council
Indianapolis, IN

Administrative Assistant

Alice Pickler
Mid America Cooperative Council
Indianapolis, IN

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Cooperative Business Board Challenges

Co-op Boards' Circle of Responsibility (excerpts from article by James Baarda, USDA/RBS Ag Economist)



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. Frequently, directors just have too little information about what they need to do as directors. Information that is available to help them become excellent directors is often not appropriate for cooperative directors. Often, advice is so general it isn't applicable and some is so specific that it cannot be applied easily. Advice and information may not focus on the real issues and sometimes the advice is conflicting.

Board Authority - 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. An added source of guidance is a cooperative's own bylaws. The bylaws are not the place to give detailed descriptions of what the board is supposed to do, and bylaws typically do not. However, in describing certain processes and actions of the cooperative, bylaws often identify decisions the board must make on specific issues.

Finally, the board will establish its own internal structure, rules and operations to supplement the broader statements in the statutes and the bylaws. These cannot remove or diminish the responsibilities imposed by statute, but can create a framework in which the overall responsibilities and authority are useful in the everyday work of the board.

Circle of Seven Responsibilities - Despite significant differences among cooperatives in the United States in size, function, complexity, organizational form, financing methods and membership makeup, it is possible to summarize a "circle" of seven responsibilities applicable to all cooperative boards of directors. Of course, each of the responsibilities will be carried out differently depending on the cooperative, but fundamentally the circle of seven responsibilities describes all cooperative boards of directors.

1. Board represents cooperative members - Cooperatives are created and operated to serve members' needs. Members invest in the cooperative, they patronize it and they exercise ultimate control of the cooperative. The board of directors is the means by which the needs and desires of individual cooperative members are incorporated into the cooperative.
2. Board establishes cooperative policies - Directors put their member representation role into effect by making policy. Indeed, many discussions about cooperative directors summarize the board's job as establishing cooperative policy. Policies may be broad and long-range or they may be specific and immediate. Both are necessary.
3. Board hires and supervises management - Directors do not run the cooperative, themselves. Employees are used to doing the work necessary, given policies the board has established about the purposes of the cooperative and specific policies guiding cooperative operations. The board hires and supervises management. Normally, direct involvement by board members is limited to only top management, but the board's responsibility does not end with the employment of a chief executive officer. Supervisory responsibilities vary according to structure and circumstances.

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5. Board is responsible for acquisition and preservation of cooperative assets - Cooperatives acquire and use assets to serve patrons in one way or another. An overall responsibility of the board is to establish policies with respect to acquisition and preservation of the cooperative's assets. Cooperatives are entrusted with other people's money and must account for it at all times.
6. Board assesses the cooperative's performance - Every organization evaluates its performance to assess the policies and actions taken during the year and to plan effectively for the future. For cooperatives, performance rules are not identical to those that generally apply to other types of businesses, although they are deceptively similar. A cooperative is indeed concerned with the "bottom line" and its success as measured by financial criteria, but it is not organized to simply benefit itself. The cooperative's performance is ultimately measured by the benefit it confers on those who use it.
7. Board informs members - Cooperative boards of directors inform members about the cooperative organization—the members' own business. This duty is rather unique among businesses in its importance and implications for member control.

Member information completes the directors' "Circle of Responsibility" leading to member representation.

IMPLEMENTING EXERCISE

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.

Rod's Thoughts



MACC has been busy moving our office location to the north side of Indianapolis. There is a boardroom and several training rooms in the building. We share the building with the Indiana Soybean Alliance, Indiana Corn Growers, Indiana Pork and the Indiana Beef Cattle Association. With the majority of MACC's membership dues coming from cooperatives involved in agriculture, I feel right at home.

Our focus in this issue is on cooperative director duties. I, personally, find that this is the most difficult challenge in our cooperative culture, because only co-op board members have the responsibility of balancing two goals at the same time. Each director is, also, a customer of their cooperative with their main focus on profitably managing their personal operation. As an elected director, they must focus on the greater need of the cooperative. As a member/owner of a cooperative, it is common to think that their needs are exactly the same as every other member's needs. Thus, if it is good for me and my operation, it must be good for my cooperative.

It is a common human instinct to personally take care of your family needs first, and by taking care of my family needs I am also serving my cooperative members. After all, "as a director, I am a member/owner like those I represent, so if it is good for me, it must be good for all of our co-op's member/owners." It is not hard to understand that logic. However, it is challenging to explain that every co-op director must look past their business operation and focus on the greater good of their cooperative, even if that decision is costly to their business operation.

To be successful, a cooperative director must focus on the benefits of the cooperative. They must, also, focus on the benefits of the cooperative when those very benefits don't help their operation. In the short run these are difficult decisions to make, however, over time those good decisions will benefit the cooperative, as whole, and will make the co-op stronger. A stronger cooperative will benefit all of the member/owners.

It has been said that a cooperative director must wear two hats. Their "customer" hat and their "co-op director" hat. A MACC member keeps each hat in their board room to fully explain decisions made by the board. They ask board members to put on their "customer" hat and speak to the benefits of the topic, as a customer. Another director puts on the "co-op director" hat and speaks to the benefits as a director of the co-op. This open discussion is a very effective way of getting all the issues and concerns on the table for discussion. After that discussion, each director has a greater understanding of the issues being considered. This discussion speaks only to one of our cooperative model's "structural faults" of self-dealing. As in building a strong structure, we must recognize each area where a structural fault exists and carefully strengthen the area around that fault. First we must be aware, then we must be willing to discuss, be trained, and understand how we can best serve our co-op. **We are stronger and wiser by being willing to discuss our co-ops' unique challenges.**

PLEASE NOTE: The Mid America Cooperative Council's Annual Meeting will be held on March 30, 2017; starting at 1:00 PM EST at Indiana Electrical Cooperatives, located at 720 N. High School Rd., Indianapolis, IN 46214. A lunch will be served prior to the meeting on March 30th at 12:00 PM. If you are interested in attending, please send us an email at: knowledge@macc.coop

There is no cost to attend the meeting, and we can send you hotel information and the meeting agenda at your request.