

IOWA STATE UNIVERSITY

Extension and Outreach / Department of Economics

Cooperative Leadership and Governance: Who Is Responsible?

IAEC Iowa Directors' Update

February 2, 2017

West Des Moines, Iowa

Keri L. Jacobs, Asst. Professor, Extension Economist

Iowa Institute for Cooperatives Economics Endowed
Professor

A cooperative is...

"...a business owned and **democratically controlled** by the people who use its services and whose benefits are derived and distributed equitably on the basis of use."

USDA, 1997

"...a user-owned and **user-controlled** business that distributes benefits on the basis of use."

Barton, D., 1968 in Cooperatives in Agriculture, p. 1

Rochdale Principles (1844)

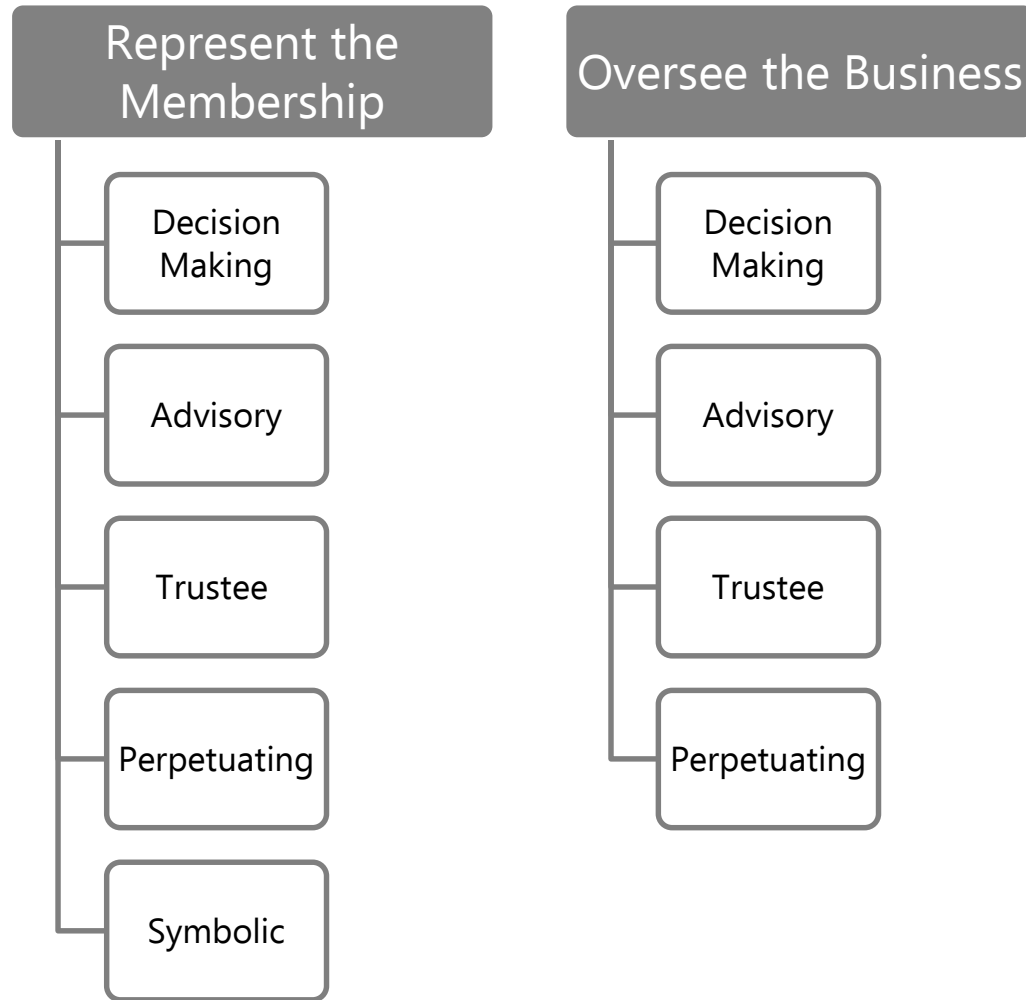
- ✓ Open and voluntary membership (equality of sexes)
- ✓ Democratic control
- ✓ Economic participation by members
- ✓ Net savings distributed according to patronage
- ✓ Goods sold at regular retail price (market pricing)
- ✓ Member education
- ✓ Political & religious neutrality
- ✓ No undue assumption of risk
- ✓ Concern for community
- ✓ Cooperation with other co-ops



YOU are the control function

1. Represent the membership
2. Oversee the business

Board member functions



What does controlling mean?

1. Make **decisions**

- Establish objectives
- Formulate policies
- Approve programs and plans
- Select general manager

2. Serve in an **advisory capacity**

- Go to membership with changes that require their approval
- Consult with general manager

What does controlling mean?

3. Serve as **trustee**

- To members, creditors, and public
- Stewards of assets
- Seek experts for audits, legal

4. Ensure **perpetuation** of the business

- Recruit and retain successful managers
- Develop new directors
- Review the co-ops products and services (planning)

5. Serve as a **symbol** of the co-op

- Represent the co-op to the members and community
- Communicate with management and members

Board Responsibilities

- ✓ Know the co-op's articles of incorporation and by-laws
- ✓ Employ a manager
- ✓ Maintain policies
- ✓ Attend board meetings
- ✓ Act in good faith
- ✓ Hire an attorney and auditor
- ✓ Review budgets & financial statements

Board Responsibilities

- ✓ Understand contracts the co-op enters into
- ✓ Review insurance coverage
- ✓ Engage in due diligence
- ✓ Plan annual meetings
- ✓ Seek continual education of board
- ✓ Educate the members and community
- ✓ Manage member relations
- ✓ Be a united board to the members, patrons, & public

Common Board Mistakes

- Failing to establish business objectives & strategic plans that are informed and meaningful
- Neglecting the non-financial aspects of your job
- Making decisions too slow or too fast
- Conducting inefficient and ineffective board meetings
- Sabotaging cohesiveness and trust
- Not respecting the best-practice boundary between boards and managers – micromanaging

Where IS "the line"?

All decisions boil down to two questions:



As a board, ask yourself

Does knowing the information or getting involved help us in fulfilling our responsibility to...

- **represent** the membership?
- **protect** the health of the company?

Example: Company vehicles

1. What 'size' of fleet do we need?
2. What type of trucks are being bought?
3. What features/capabilities do they have?
4. Who gets the newest vehicles?
5. What insurance coverage do we have?

Example: Employees

1. How much do they earn?
2. What is their compensation package worth?
3. Why did s/he get fired?
4. Why did s/he get promoted?
5. How is s/he performing?
6. How did s/he get hurt?

What are the dangers of crossing “the line”?

- Manager perceives s/he is not trusted or valued
- Board is ‘in the weeds’ and is unable to perform at higher level
- Inefficiency
- Ineffectiveness
- And more...



How Do You Avoid This?

- Careful orchestration of planning and evaluation
 - Have a conversation and be honest
- Ask your manager
 - Adopt policies



What Keeps Boards Up At Night?

- Expanding demographics – where did the average customer go?
- Gap in generational understanding
- Counterparty risks
- Getting the message out





Keri L. Jacobs

e: kljacobs@iastate.edu

www.econ.iastate.edu/people/keri-jacobs