

Becoming a (Cooperative) Board Influencer

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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*



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DRIVER OF CO-OP MODEL IN IOWA: NEED

The Problem

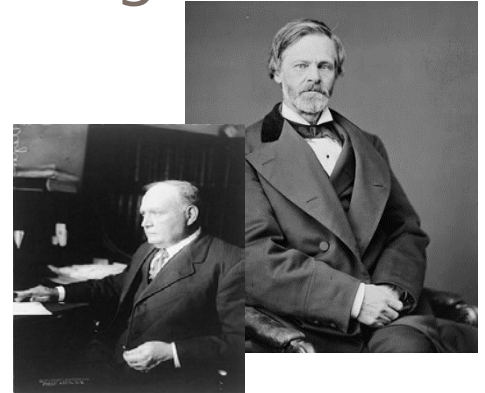
- Railroad movement (1840s – 1870s) led to rapid expansion and fueled the industrial revolution
- Farmers were largely left behind
 - little representation in Washington D.C.
 - no mechanism for formal organizations

Producers were not on even footing with their trade partners, and no options.

The Solutions

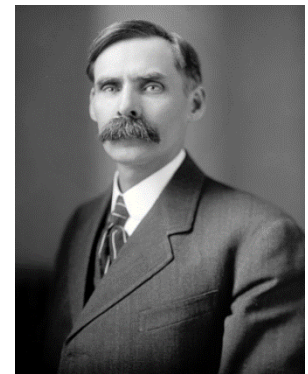
Beginning in 1850s, farmer associations began to form, but these came under attack.

- Sherman Antitrust Legislation, 1890
- Clayton Act, 1914



It wasn't until 1922 that producers could form organizations to act collectively, legally.

- Capper-Volstead Act



Capper-Volstead Requirements

- One member one vote or limit dividends on non-farmer equity to 8%
- Member business must be greater than non-member business
- All voting members must be agricultural producers
- Association must operate for the benefits of its members

Allows producers to organize voluntarily to produce, handle, and market farm products to improve their terms of trade.

Iowa Cooperative Statutes

Chapter 499 – established in 1935

- Gives producer organizations authority to engage in “any lawful purpose” and to exercise any power “suitable or necessary, or incident to, accomplishing any of its powers”
- One member one vote, can have non-voting members

Chapter 501 – “New Generation” or “Closed” cooperative

- Members buy rights to delivery obligations – these are their equity shares (addresses undercapitalization problem)

Chapter 501A – 2005

- Allows capital contribution by non-patron members with voting rights
- Considered the “best of both worlds” of 499 co-ops and LLCs.

Rochdale Principles (1844) of Cooperation

- ✓ 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
- ✓ Cash trading
- ✓ Political & religious neutrality
- ✓ No undue assumption of risk



WHAT DOES IT MEAN TO BE A CO-OP MEMBER?

ECONOMIC PARTICIPATION

Economic justification, even today

“Competitive Yardstick” role

- Measure against which competing businesses can be compared
- Evidence of ‘normal’ returns to activities when savings are distributed to members

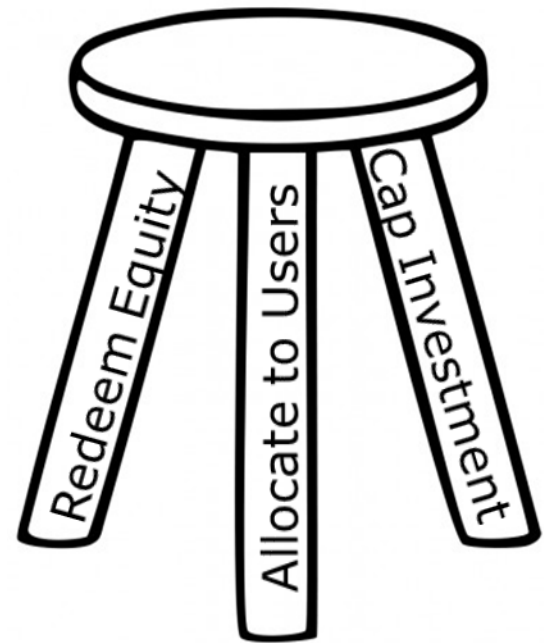
Establish markets to provide:

- Missing services
- Economies of size
- Efficiencies in transactions
- Capture market power
- Pool risks

Cooperatives MUST be profitable

Profitability is necessary for...

- Financial sustainability of the cooperative
- Ability to reinvest in assets and productive resources
- Ability to revolve equity
- Funds for growth



Profits Contribute to Member Value

Patronage (cash or allocated equity)

- ...a distribution of co-op profits (aka “savings”) to those who did business with the cooperative.
- ...a cooperatives adherence to the “service at cost” principle, and

Unallocated Equity – permanent capital, provision of investment in assets that generate returns at the co-op level and member-level.

...but profits are NOT the only value

- Community
- Price
- Service
- Existence Value
- **Governance** – perhaps the least appreciated and most over-looked component of value.

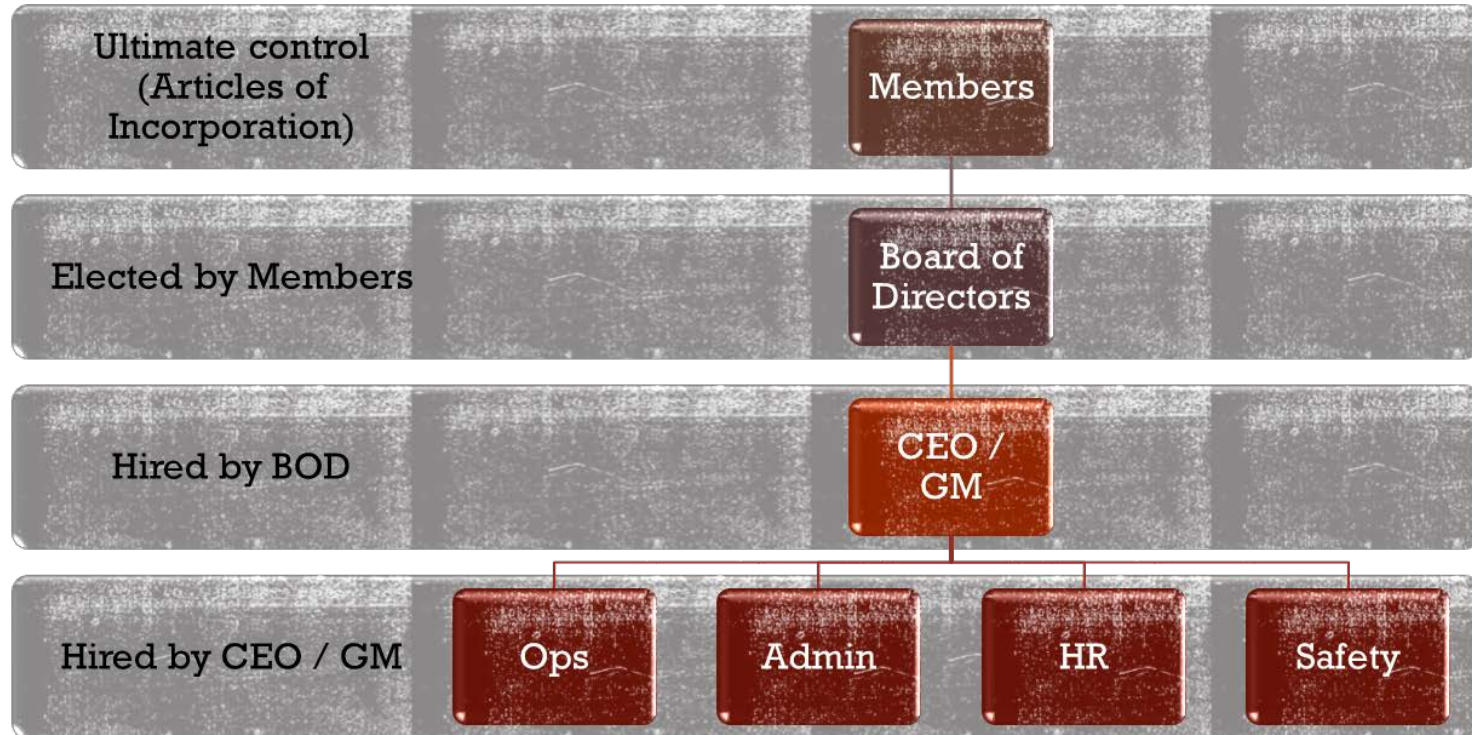
A Fundamental Difference

“By construction, cooperatives put the economic interests of a particular class of patron in front of all other stakeholders and look to patron owners for risk capital and leadership...”

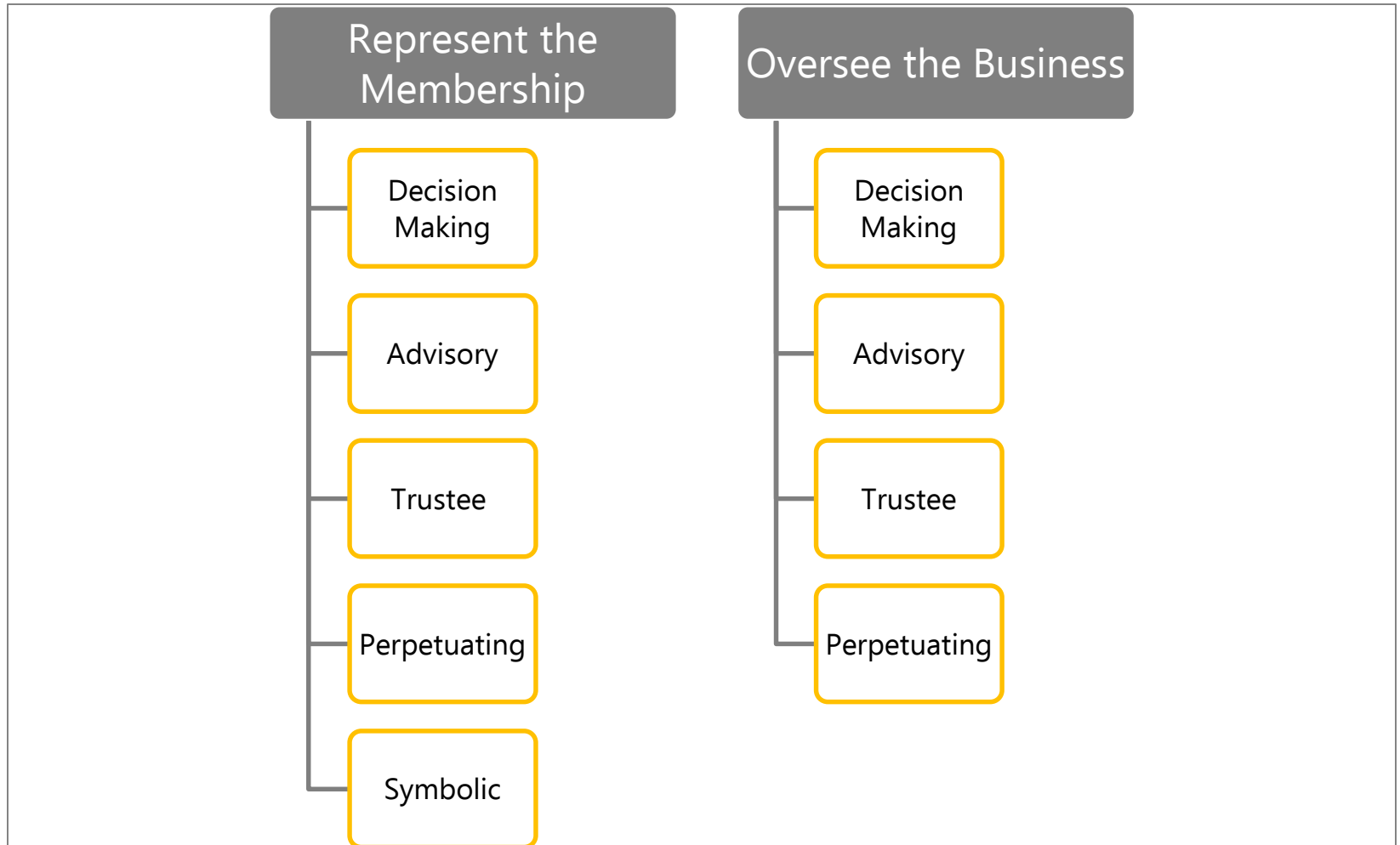
WHO BEARS THE RESPONSIBILITY FOR THE FUNCTIONS OF YOUR
COOPERATIVE?

GOVERNANCE

Chain of Command



Board 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
 - Plan

5. Serve as a **symbol** of the co-op
 - Represent the co-op to the members and community
 - Be a respected leader

Board duties & responsibilities

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

Board duties and responsibilities

- Understand contracts the co-op enters into
- Review insurance coverage
- Due diligence
- Plan annual meetings
- Education
- Member relations
- Be a united board to the members and public

In Iowa, there are only THREE things a co-op board alone cannot do...

1. Elect / remove directors
2. Change/amend the Articles of Incorporation
3. Lose control, sell, or lease more than 50% of the co-op's assets

Challenges Co-ops face

- Free riding
- Capital constraints
- How best to “grow”
- Protection of members’ interests
- Cooperation may not come easily to the group

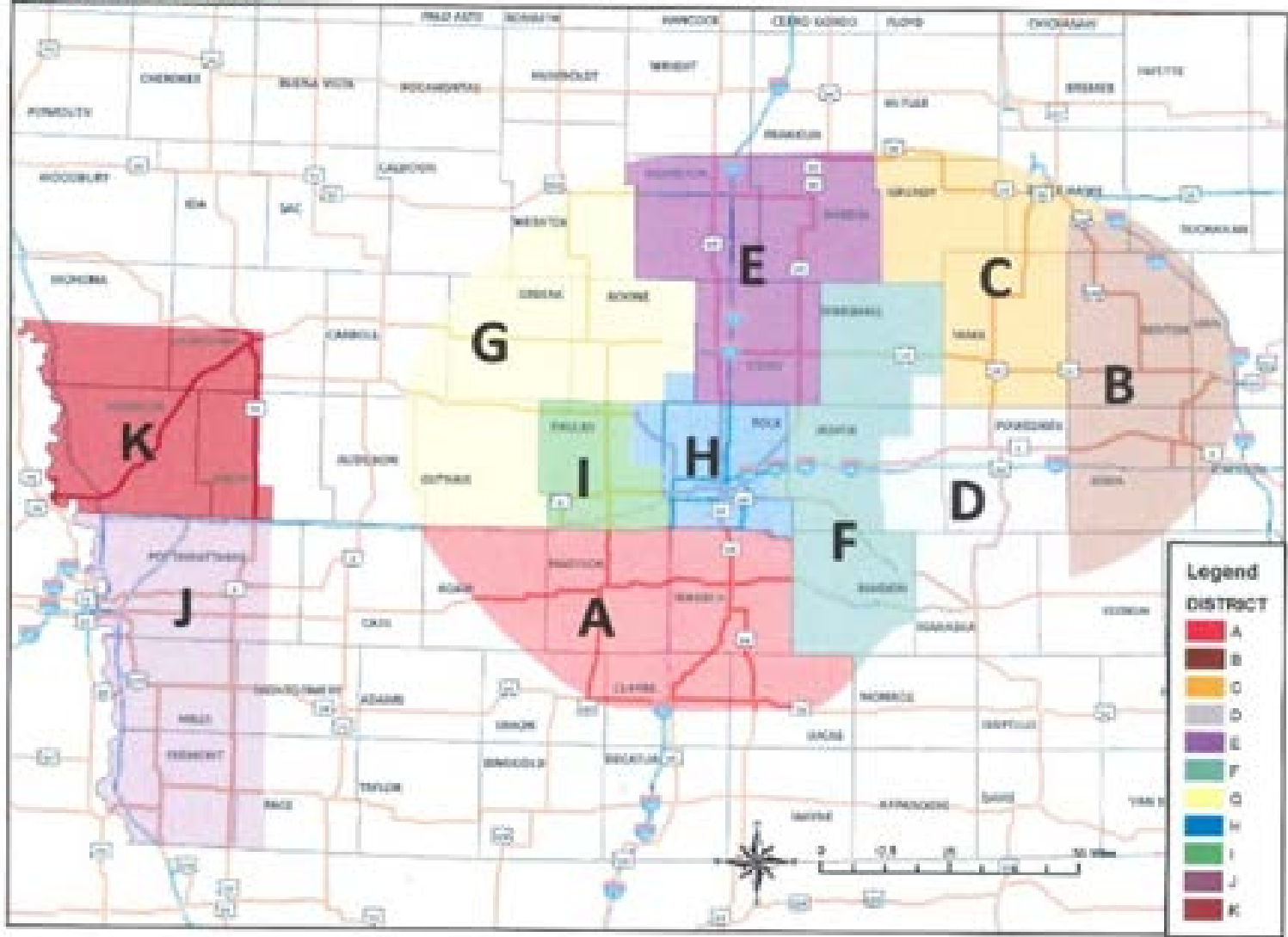
BOARD STRUCTURE AND BECOMING A BOARD MEMBER

Board Structure

- Common board size is 7 – 15, refer to articles of incorporation
- Eligibility typically follows Class A membership eligibility
- Terms are typically 3 – 4 years
- Some co-ops have term and age limits
- Some board have At-Large as well as District-Based board seats.
- Executives are elected by the board.

[Iowa Secretary of State Website – search database](#)

District Map



Nominations to the Board

If you want to serve on the board, how can you be identified?

- Volunteer
- Board nomination committee
- Participate in the co-op's "associate board member" program if available

If you are not the sole operator/member, check with your co-op about whose name is on the membership certificate or stock.



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