TODAY'S DAIRY SITUATION is putting financial stress on cooperatives as well as farmers. Keep an eye on the stability of the organizations you belong to.

Questions

members should ask co-op directors and managers

by Bruce L. Anderson and Brian Henehan

COOPERATIVES are democratic organizations. This means that you, as a co-op member, have two basic rights . . . to vote on selected issues and to express your voice in co-op affairs.

But, let's face it. Co-op members have very few opportunities to vote on issues. And this probably is as it should be. Voting is a poor way to make decisions about issues that require a great deal of information.

Probably the most important and least understood way to hold co-op directors and management accountable is by asking questions . . . the right questions. Whenever possible, these should be asked in private. But, if all else fails, members should use local, delegate and annual meetings to voice their questions. More importantly, they should be answered to your satisfaction, even if it requires a follow-up.

Here are some important questions members can ask directors and management. We also include a brief explanation of the reply members should expect.

Is the co-op making every attempt to pay a competitive price for milk and earn a specific return on the equity that I invested by paying a patronage refund?

Co-ops should pay the same price as the noncooperative competition. But, since you can earn about 6 percent on money you deposit in a bank, you also should expect to earn at least that on equity invested in your co-op. Of course, every co-op will have a different goal for return on equity. Some co-ops have earned returns much higher than 6 percent consistently.

Does the co-op have a sound equity program that assures me all my equity will be redeemed in a reasonable time?

Co-ops have a moral, if not legal, obligation to return equity to their members. It is the responsibility of directors and management to develop and adopt a workable equity program that continually generates new equity, maintains a solid equity base and regularly returns equity to members. Revolving fund plans should return equity after six to ten years, and other types of plans should assure members they receive their equity when they retire or leave the co-op.

Do the board and management consider our current level of equity optimal?

To ride out periodic ups and downs in dairy product markets, the co-op must have enough equity. Dairy co-ops probably should strive for having at least 50 percent of their assets financed by member equity. Currently, borrowed capital costs about 12 percent. Consequently, every dollar of debt that is replaced with equity will provide a 12 percent return.

In co-ops that are having trouble, members should ask . . . Is everything being done to eliminate losses immediately, and can the board of directors assure me that all losses will be eliminated within the next three months?

Not all losses can be eliminated that soon. But, within three months the board should know if the losses are due to a poor decision or if the problem is due to temporary market conditions. Directors and management must be called on the carpet to explain what they are doing to eliminate losses that continue beyond three to six months. All too often co-op directors and managers blame "market conditions," are slow to take corrective actions and to deal with the source of the losses effectively.

Has management presented and the board approved a written, long-term plan that includes realistic, measurable and challenging annual goals? Is management being evaluated with respect to these goals?

Every member should be assured there are written, annual and long-term goals. For competitive reasons, members should not expect access to these documents. But, there are certain goals the leadership should communicate, such as projected sales and earnings for the year, retirement of member equity and expected patronage refunds.

Members should know the type of co-op performance to expect. Having leadership spell out their goals is the best way to hold them accountable. Some dairy co-op officials have said they never expected "to make any money" in a certain market. That's not acceptable.

Co-ops must make every effort to improve their members' financial situation. If the co-op leadership does not think it should or can make money in a market, then it probably will not make any money for you either.

Is the co-op making every effort to provide directors and management necessary training?

There are many training programs available. Even the most experienced directors and managers should be updating their decision-making skills continually. What proportion of your board and management have participated in formal training in the past three years?

Does the co-op hire the best management available and pay them competitive salaries?

With all the demands of membership meetings and the lack of stock-option incentives, cooperatives probably should be paying their managers more than other corporations. Members must emphasize that they want their co-ops to identify and hire the best talent available.

Are directors involved in management?

The role of the board is to hire a general manager and make policy decisions. It is management's responsibility to determine how to carry out the policy. When directors start having discussions with customers, lenders, suppliers, employees and middle managers, they are too involved in management.

Has the manager presented and the board approved a solid marketing strategy?

All cooperatives should have a written, long-term marketing plan. It should be based on the wants and needs of customers, not the concerns of members. A sound marketing program consists of identifying target markets, product strategy, pricing strategy, distribution strategy and an advertising and promotion plan. There should be measurable goals in each area.

Is the cooperative among the lowest-cost handlers in the market?

Every good marketing firm should have as a goal being among the lowest-cost participants in the market. This requires low-cost, modern facilities that are operated at or near capacity. If this is the case, the co-op will be a formidable competitor and more likely to survive ups and downs in the market.

Is the cooperative trying to satisfy its customers?

Successful marketing means giving customers the products and services they want. This implies strict quality control and having products available when and in the form customers want them. It also may imply the co-op must exert greater control over production. As distasteful as this may sound, the result should be a higher return for your milk.

Do all products and services pay their way?

The only way to have a successful co-op is to have products and services cover their costs. Management should have an accurate estimate of the cost and returns generated from each.

Sometimes it may be necessary to include a few products that do not pay their way. This should be done only to provide customers a full range of products and services.

Do all members share proportionally the burden of costs they impose on the co-op?

Co-ops should treat members equitably, not necessarily equally. *(Continued on page 1285)*

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Questions members should ask co-op directors and managers

(Continued from page 1282)

Small, out-of-the-way dairy farmers should expect to pay a higher cost for handling their milk than large dairymen who impose a lower per hundredweight cost.

How then is a co-op different from a noncooperative firm? Non-co-ops typically give only "take-it-or-leave-it" alternatives. A good co-op will create a structure of incentives and disincentives available to all members and let the member decide whether or not to participate.

What is the co-op doing to assure that all members are well informed?

Members deserve to know what actually is happening within their co-op regarding policy decisions, financial status, operations and marketing activities. In their monthly publication, a few dairy co-ops provide a summary of issues discussed at the last board meeting. Some organizations show their members co-op advertising that will be appearing in the near future.

> **Surely the wreckage of the civilizations that have preceded our own should convince us that we cannot feed every public clamour out of the public purse.**
> **—Miles E. Godwin Jr.**

Perhaps some cooperatives spend too much time discussing dairy policy, which also is important, and too little time on the vitally important workings of their organizations.

What does the co-op do to assure that directors, management, members and employees are familiar with the special characteristics of co-ops?

Cooperatives are unique. All too often, members do not realize they are providing the risk capital and that they have ultimate control over their co-op until it is too late. The only way a co-op will be responsive is for all concerned to understand their roles.

Do directors and members realize that democratic control means there must be compromise on some issues?

Just because co-ops are democratic organizations does not mean members and directors always will get their way. In the long run, the benefits of democratic decisions should outweigh their costs. But, in the meantime, members and directors should expect to win a few policy decisions and lose a few. And when they lose, they should support the will of the majority gracefully.

How would you characterize member satisfaction and loyalty?

The ultimate negative vote in a co-op is to leave the organization. To guard against defections requires general member satisfaction with the co-op's accomplishments and goals. For those organizations that confront temporary difficulties, member loyalty requires evidence of the desire and ability to be successful in the long haul. This comes only with the complete understanding of members.

The purpose of these questions is to indicate the general nature of what members should be asking their directors and management. Questions are the primary means members have to hold co-op officials accountable. It is your organization. Exercise your responsibility as a member.

"I brought you pictures of the toys I want so there's no mistake this year!"