

Cooperative Start

Legend suggests that the initial structured cooperative business in the United States was the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire, a mutual fire insurance company established in 1752. This association's reputation is likely based on two factors. First, Benjamin Franklin was the organizer. Second, the business has been conducted so efficiently over the years that it is still operating today.

Writers trace the origin of cooperatives from the Rochdale Equitable Pioneers' Society, an urban, consumer cooperative organized in England in 1844. It sold consumer goods such as food and clothing

This list became one of the first sets of cooperative principles, characteristics that distinguish cooperatives from noncooperative businesses.

- Open membership
- One member, one vote
- Cash trading
- Membership education
- Political and religious neutrality
- No unusual risk assumption
- Limitation on the number of shares owned
- Limited interest on stock
- Goods sold at regular retail prices
- Net margins distributed according to patronage

The User-Control Principle

As owners, a cooperative's members control its activities. This control is exercised through voting at annual and other membership meetings, and indirectly through those members elected to the board of directors. Members, in most instances, have one vote regardless of the amount of equity they own or how much they patronize the organization.

Only members can vote to elect directors and to approve proposed major legal and structural changes to the organization. The member-users select leaders and have the authority to make sure the cooperative provides the services they want. This keeps the cooperative focused on serving the members, rather than earning profits for outside investors or other objectives.

Limited Return on Equity Capital

Members form a cooperative to get a service— source of supplies, market for products or performance of specialized functions—not a monetary return on capital investment.

Limiting returns on equity supports the principle of distributing benefits proportional to use. It also discourages outsiders from trying to wrest control of a cooperative from its members and operate it as a profit-generating concern for the benefit of stockholders

It is estimated that the 9,471 housing cooperatives represent 1 million units of housing, with nearly 600,000 of the units in New York City. New units are being developed in many other areas, including senior citizen communities, manufactured housing courts, low-income housing complexes and student housing near college campuses.

Cooperative Business

A cooperative corporation is also a state-chartered business. Organized and operating under its laws. Attributes of cooperative corporations include:

Control.

Management is controlled by a board of directors who are elected by the members. One unique feature of a cooperative is that each member usually has only one vote in selecting directors, regardless of the amount of equity that member has in the cooperative. Another is that all or most of the directors must be members of the cooperative. Thus, the leaders are regular users of the firm's products or services.

Capital.

Equity comes from the members, rather than outside investors. It is obtained by direct contributions through membership fees or sale of stock, by monthly caring charges,

Life.

A cooperative usually has a perpetual existence. Members can routinely join or resign without disrupting ongoing operations.

Because a cooperative is owned and controlled by the people who use its services, the various persons affiliated with a cooperative must work even more closely together than in a noncooperative firm. Customer service and satisfaction are the driving forces behind a cooperative, not maximizing bottom-line return to investors. These take on a highly personal tone when the owners and directors, in their role as users, have regular contact with management and staff. Cooperatives depend on a coordinated team consisting of four elements — members-owners, board of directors, the manager and other responsible employees. Each part of the team has its own distinctive duties. Success is based on intelligent and active cooperation and each group carrying its load.

Members

Members are the foundation of the cooperative. They organized it. Their needs are the reason for its existence. Their support, through patronage and capital investment, keeps it economically healthy. And their changing requirements shape the cooperative's future. Statutory law and the basic legal documents of a cooperative — articles of incorporation, bylaws, and contracts between the cooperative and its members — give the members the tools to control the cooperative and the duty to use those tools for their mutual benefit. Legal rights and responsibilities of cooperative members normally include:

- To adopt and amend the articles of incorporation and bylaws.
- To elect and, if necessary, remove directors.
- To decide whether to dissolve, merge or consolidate the cooperative or form a joint venture with other cooperative or noncooperative firms.
- To make sure officers, directors and other agents comply with laws applicable to the cooperative and with its articles of incorporation, bylaws and membership contracts.

Be informed about the cooperative.

To carry out their other duties, members must know what the cooperative is about; what it can do for them; its purpose, objectives, policies; and the issues it faces. They can obtain information through annual meetings, reports and newsletters, and from talking to the manager, staff, directors and other members. To effectively exercise their right of ownership, a member needs a good understanding of the present situation and projected future operations.

Be conscientious when selecting and evaluating directors.

Although the cooperative is a user-owner, democratically controlled form of business, members can't make all the decisions directly. They select from among their peers individuals with the best judgment and business management skills to represent them in management affairs as the cooperative's board of directors. Loyalty, integrity, the ability to make wise business decisions and willingness to serve are necessary characteristics for board members.

Provide necessary capital.

Members must provide the equity financing their cooperative needs for acquiring inventory, facilities, services and working capital. This is done initially through the purchase of stock or a membership. It continues by paying their monthly caring charges,

Evaluate performance of the cooperative.

Members should examine the annual report and observe whether the cooperative is meeting their needs. If they are dissatisfied with cooperative performance, they should share their concerns with the directors. They should also express support for things the cooperative is doing well. Directors can't effectively represent the members if they don't know the members' true feelings.

Directors

Directors in a cooperative occupy a key position between members and hired management. They are both users of its services and representatives of other members who depend on those same services.

Acting as a group, directors set the objectives for the cooperative and make decisions that set the course the cooperative will follow in achieving those objectives. These broad managerial decisions include:

- Hire a competent manager, determine the salary, outline the duties and authority of the position and formally review his/ her performance at least annually.
- Adopt broad, general policies to guide the manager. Topics covered might include credit limits to patrons, expenditures that need prior board approval and general personnel regulations.
- Develop and adopt long-range business strategies.
- Require written monthly financial reports and operating statements for board meetings to be informed of adverse as well as favorable operations.
- Direct the manager to prepare, before the close of each year, an operating budget for the next fiscal year for board approval. This budget should estimate the volume of sales and gross income of various items to be handled, the expenses by account classifications and the net income expected. This constitutes necessary forward planning by the board and management. The budget should be reviewed at intervals throughout the year to determine the trends of the business.
- Employ a qualified auditor to make an independent audit at least once each year to determine the accuracy of the financial records. An audit is the primary method the board uses to verify the financial condition of the cooperative. Many successful cooperatives also use the audit report to evaluate the effectiveness of the policies and budget, performance of the manager and gain insight into the effect of past decisions and the need for new ones.
- With the aid of the manager, plan and conduct the annual meeting to keep the membership informed about the status of their business, including operations, finances and policies.
- Determine the patronage refund allocation and per-unit retain level. Factors to consider include legal requirements, member needs and desires for cash refunds, the desirability of retiring old equities, and current and future capital needs.
- Assure competent legal counsel is available.
- Keep a complete record of the board's actions.
- A cooperative director should not expect to receive special favors from the manager or employees, and a director does not:
 - Act independently on matters that should be decided by the entire board. Individual directors have no authority outside of board meetings.
 - Represent special interests, factions or political entities. Directors are elected to oversee the business activities of the cooperative, not serve as an agent of these groups.

In carrying out their responsibilities, directors serve much like trustees, charged with a legal obligation to protect the assets of the members. Directors who act outside the parameters of the law or don't

exercise due care in their decision making can be personally liable for the harm they cause the members, the cooperative or third parties.

Officers

The board usually elects the cooperative's officers shortly after the annual membership meeting. Each officer has specific duties as detailed in the cooperative's bylaws.

- The president presides at all meetings and watches over the association's affairs, serving as the main communication link between hired management and the other directors and members.
- The vice president, in the absence or disability of the president, performs the duties of the president.
- The secretary keeps a complete record of all meetings of the board of directors and general membership and also is the official custodian of the cooperative's seal, bylaws, and membership records.
- The treasurer oversees the bookkeeping and accounts to ensure accuracy and proper handling and also is responsible for presenting periodic financial reports.

Board Committees

The board's work may be divided among special or permanent committees, each dealing with a phase of the association's operations, such as finance, purchasing, merchandising, and others.

Each committee studies the problems in its particular field and makes recommendations to the board of directors. In some instances, committees may be given certain powers to act for the board, subject to review by the entire board.

Large associations may select an executive committee to perform general management and oversight duties as authorized by the board.

Managers

Success of a cooperative largely depends on good board/ manager relationships. The working relationship between board and general manager requires respect and an understanding of each other's responsibilities.

The board of directors decides what the cooperative will do; the general manager and immediate staff decide how it can best be done—subject to board review—so as to achieve the basic objective of serving members effectively.

The manager is selected by the board and accountable to it for his/her actions. The manager should therefore not be a part of the board. The manager should, however, attend all board meetings and be an active, nonvoting participant. The manager controls the ongoing activity of the cooperative.

Responsibilities of the general manager include:

- Supervise and coordinate, under board direction, the business activities of the co-op by managing the people, capital, and physical resources.
- Hire, train, supervise, and set compensation for employees. The manager also needs to review their performance and train, reassign, or replace those employees not meeting acceptable performance levels.
- Oversee the detailed operations of the cooperative, within policies established by the board of directors, such as purchasing inventory and selling commodities, maintaining the general appearance of the co-op, and making sure employees respond to member needs.
- Maintain, and revise as necessary, an adequate bookkeeping and accounting system; develop for board approval a financial budget annually; prepare proper financial reports regularly for board review; and present a report of the cooperative's operational highlights to the membership at the annual meeting.
- Furnish information needed for long-range planning. This will bring matters, such as fixed asset additions or revisions, to the board's attention for review.
- Represent the cooperative and portray a positive image to members and others in the community.
- Encourage membership and active patronage.
- Communicate developments at the cooperative to members.
- Keep current on local, State, and Federal legislative and regulatory developments affecting cooperatives.

Employees

In many ways, working for a cooperative is similar to doing the same job at a noncooperative firm. But special features of a cooperative— the role of the member-owner as user and the emphasis on service over bottom-line numbers—place unique obligations on the employees.

1. Understand the purpose and objectives of the cooperative. Employees need to know how cooperatives are different from other methods of doing business. By understanding cooperative purposes, objectives, operations and their role as employees, they can help improve member relations, the cooperative's image and the general public's understanding of cooperatives.
2. Fully perform duties. In many cooperatives, like other business firms, the largest operating expense is for personnel. While the cooperative has responsibility for recruiting and providing training, the employee is responsible for using these opportunities to provide the best possible service to members.
3. Understand the relationship to member-owners. All employees have a responsibility to maintain a high level of customer satisfaction and good relations between the cooperative organization and its member-users. Immediate feedback from members should be encouraged to keep the manager informed of problems, needs and customer satisfaction. The employee role is particularly important in larger cooperatives. The only cooperative employees that members may encounter regularly, from annual meeting to annual meeting, may be the individual person answering the phone. To the average member, they are the voice of the cooperative.
4. Favorably represent the cooperative. Employees help build the cooperative's image as they serve members and the community— both on and off the cooperative's premises. Employees should keep the premises clean and attractive; make sure equipment and service tools are operating; serve members pleasantly, promptly, and in the order promised and take an extra step to give members satisfactory service.

Employees, like their manager, can be community boosters by taking part in religious, school or community affairs. Their efforts can positively affect the cooperative image held by members, the general public and other businesses.