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Cooperative Directors: Asking Necessary Questions



Abstract

This report provides questions that directors need to ask in carrying out their distinct roles and responsibilities. The questions pertain to a host of issues and circumstances confronting directors. They are intended to remind and educate directors about types of information they need to glean from cooperative management, staff, auditors, members, other directors, and from various outside contacts to effectively carry out their duties.

The questions presented pertain to important areas: cooperative character and principles, governance structure, policy and legal aspects, member relations and education, management, financial oversight, audits, consultants, and strategic planning. Some major strategic thinking issues for directors to contemplate are also presented. A listing of USDA information sources relevant to the posed questions is provided at the end of most sections that correlate to references at the end of the report. This report provides a broader set of questions than another director information report by authors at Cornell University. That report is referenced to provide another information source.

Key Words: directors, responsibilities, questions, issues, information.

Cooperative Directors: Asking Necessary Questions

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Preface

Cooperative directors, especially those with limited business experience, may find themselves in a quandary as to what to ask managers, staff, auditors, members, other directors, and other outside resources about the status of their cooperative. This report guides directors in asking the necessary questions to invoke informative responses. Answers are not provided because every cooperative situation will be different and general answers are not appropriate. However, the report does seek to point directors to various cooperative reference materials developed by USDA, and a couple outside sources, where applicable to particular sets of questions.

This report provides an educational resource for directors. It should be useful as a director self-help bulletin, for discussion and planning by full boards, in director training workshops, and in technical assistance endeavors by cooperative professionals.

The USDA publications listed at the end of each of the question sections give directors followup information sources on some topics. A similar report is referenced to provide the reader with additional information. Many other resources abound as well, but, due to brevity, are not listed in this report. Cooperative directors seeking greater information should also look to resources from cooperatives, universities, cooperative centers, State cooperative councils, and national or local cooperative organizations.

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Introduction

Cooperative directors must prepare in a number of ways to meet their responsibilities when they attend board and other important meetings or forums. Not only must they read materials and gather information ahead of time, but also be effective stewards of their cooperative. They must understand the types of questions to ask—and in some cases answer. Many experienced directors know the types of questions they need to ask themselves, members, other directors, management, auditors, legal council, and others in carrying out their duties and responsibilities. Less experienced directors need to learn and understand these types of questions.

This report is intended as a refresher and education piece for cooperative directors. It provides examples of the types of questions directors need to ask—as individuals, while serving on committees or as a full board. Questions are divided into 10 sections categorized into specific interest areas. They include character and principles, governance structure, policy and legal aspects, member relations and education, management, financial management, auditing, consultants strategic planning, and major strategic issues. Who the questions should be directed to should be evident—in some cases more than one source (e.g., to themselves, management, other directors, employees, etc.).

Questions listed under each category are not intended to be exhaustive. Various other questions may need to be asked depending upon the cooperative and issues involved. A recent report by Anderson and Henehan lists some questions directors should be asking of management in a number of different areas and also gives some insight into how and when to inquire.¹ This report adds to that body of questions by taking a broader approach in some instances. Questions may be aimed at a number of cooperative players, but most often are to directors themselves.

Cooperative research and information reports developed by USDA's RBS are referenced for all but one section to provide directors with sources of further information on a particular area of director responsibility. Directors may wish to seek other resources as well. Various articles from *Rural Cooperatives* magazine are often applicable to the circumstances outlined in this report and could be researched.² Numerous research reports, information publications, and educational articles are available from various other sources such as cooperatives, universities, cooperative centers, State cooperative councils, national and local cooperative/trade associations.

1. Character and Principles

Cooperative principles are operational and behavioral rules developed to govern cooperatives to further the economic and social goals of members. They are woven into the business fabric of cooperative operations and structure. As the operating environment changes and cooperatives respond, directors need to be cognizant of the impact on their cooperative's governing principles. Directors need to distinguish whether their cooperative is fulfilling its basic responsibility to operate under and be consistent with cooperative principles.

¹ The report by Anderson and Henehan, Cornell University agricultural economists, describes how directors should pose questions to management, provides an extensive list of questions, outlines a generic format for asking general questions, and assists in identifying important board issues and how to handle them.

² A few articles are referenced in this report and others may be found online at: <http://www.rurdev.usda.gov/rbs/pub/openmag.htm>

Questions for directors to consider in regard to character and principles:

- Is our cooperative adhering to the contemporary cooperative principles of user-owned, user-controlled, and user-benefits?
- Do we adhere to the seven International Co-operative Alliance (ICA) principles? (See endnote for listing of ICA principles.)
- Is our cooperative owned and controlled by current members who use its services?
- Do our cooperative's services benefit the members? How do members benefit?
- Do members appreciate the importance of a patronage refund?
- Why should cooperatives follow traditional principles?
- What are these principles and how did they originate?
- How can we better meet cooperative principles and assure we are operating in that regard?
- Do any of our operations conflict with the cooperative principles?
- Do our members fully understand cooperative principles and how they distinguish us from non-cooperative businesses? If not, how can we improve the situation?
- Will any contemplated changes to operations or structure threaten our adherence to the principles?
- Are we effectively communicating to members and the public that our governing cooperative principles and practices make us unique?
- Do members have an accurate understanding of the cooperative's benefit?
- Do members understand their unique responsibilities as user-owners of the cooperative?
- Are we advising members about their responsibilities and issues that affect the cooperative?
- Are we communicating our cooperative image and character to our membership and the general public?
- Where is the cooperative positioned between strict adherence to and non-compliance with cooperative principles? Is it acting and operating like a true cooperative? If not, where is it failing?

Answers to these questions do not end the inquiry. If cooperative character and principles appear intact, directors must ask how the business will grow and adapt to changing conditions. If challenged or infringed upon, directors must ask hard questions about what that means and what can be done to avoid anything that could be detrimental to the owners.

For more information, consult the following USDA publications.

Reports on Character and Principles ³

CIR 1, Section 1—Cooperative Principles and Legal Foundations

CIR 1, Section 3—Cooperative Benefits and Limitations

CIR 5—Cooperatives in Agribusiness

CIR 11—Cooperatives: What They Are and the Role of Members,
Directors, Management and Employees

CIR 55—Co-ops 101: An Introduction to Cooperatives

CIR 59—Antitrust Status of Farmer Cooperatives: The Story of
the Capper-Volstead Act

CIR 60—Agricultural Cooperatives in the 21st Century

2. Governance Structure

As cooperatives grow and change in an increasingly dynamic environment, governance structure becomes a critical area of member concern. While the subject should be reviewed by all directors, it becomes especially important for cooperatives that have seen significant member growth and expansion. Here are some questions directors should ask to ensure an effective member governance system that sufficiently meets member needs and a democratic cooperative process.

- Is our governance structure suited to effective member control? Are members equitably represented?

³ Reports in boxes at end of sections are available from USDA:
<http://www.rurdev.usda.gov/rbs/pub/newpub.htm>

- Do members control our cooperative?
- Do members feel adequately represented?
- Are significant numbers of members active in our governance process?
- Is our board the right size for effective governance?
- Is our redistricting committee performing well?
- What major issues are confronting our governance structure? What are the strengths and weaknesses of it?
- Is our governance structure suitable for future decision-making and challenges?
- Does the structure effectively permit communication from the membership to the board and back?
- Is effective communications in place with the general manager from all local and regional governance levels?
- Do we have ample divisions and departments in our governance structure to stay in contact with a diverse membership?
- How coordinated are our divisions and departments?
- Do we have the right type and number of well-functioning committees?
- Do all members understand all aspects of our governance structure?

For more information, consult the following USDA publications.

Cooperative Governance Reports

CIR 1, Section 6—Cooperative Organization and Structure

CIR 1, Section 7—Cooperative Member Responsibilities and Control

CIR 37—Keeping Cooperative Membership Rolls Current

RR 72—Structuring for MemberControl in Large Cooperatives:
A Case Study in Dairy

RR 131—Membership Structural Design: A Pilot Test on DHI Cooperatives

RR 156—Voting and Representation Systems in Agricultural Cooperatives

3. Policy and Legal Aspects

The primary responsibility of directors is to originate and approve policies. They provide the direction and specific guidance for effective management of a cooperative's operations. Policies need to reflect the cooperative's basic philosophy. They are a major ingredient for reaching cooperative goals.

Whether establishing new policy or assessing existing policy, directors should ask and answer some basic questions to determine precisely how policy should be written. Directors need to make, understand, assess, and enforce fair and strong cooperative policy. Policy questions directors should consider:

Existing Policy

- Does it reflect the cooperative's basic business philosophy?
- Does it provide equitable benefits to members?
- Does its language explicitly define the policy? Is it easy to read?
- Does the entire board agree with the policy?
- Are any policies redundant?
- Does the policy create a conflict of interest for any member, director, or the manager?
- Is the policy in line with the clear delegation of duty between the board and management?
- Does management have enough policies to follow to effectively operate the cooperative?
- Are there too many policies?
- Do all the policies work in concert with each other? If not, which ones need to be modified/changed/removed?
- Do members know and understand the cooperative's policies?

New Policy

- What exactly do we want the policy to do or not do?
- What action words will make the policy more explicit?
- Should the policy be indefinite or have a time limit?
- Will the policy fit with current operations and the strategic plan (i.e., mission, goals, and strategies)?
- Will the policy be redundant or conflict with other policies?

- Will the membership agree with the policy? Does it represent their interests?
- Do we have all the information we need to assess a new policy?

Public Policy

Cooperatives should develop a written set of policy resolutions and institute a regular procedure for revising them. The policy program should include a plan to implement the resolutions through personal contacts with policymakers and coordinated efforts with other cooperatives and interest groups through coalitions and trade associations. Here are some areas for directors to consider:

- What types of policy resolutions are needed to most accurately reflect our cooperative's interests?
- Does our membership agree with the policy resolutions we are devising? Are they in the membership's best interests?
- Are members providing policy resolution suggestions?
- How often are we reviewing/changing our resolutions? Is it often enough?
- What types and amounts of cooperative resources are available to devote to public policy? How active can the cooperative be?
- Are members on our resolution committee and is it effective?
- What other cooperatives or cooperative associations can we work with on developing policy?
- Are we making the right contacts at local, State, and national levels? Are we being heard?
- Are we supporting the organizations that carry out public policy on our behalf?
- Are we using the resources that our public policy efforts seek to augment?

Sensitive Policies

One sensitive area has to do with how much a cooperative should become involved in political matters. If a cooperative board wants to become active, questions arise that may help them determine how involved to become or if any involvement is desired. This is a sticky area. Cooperative members, like the gen-

eral public, often have a wide range of opinions on political matters. Issues may become especially sensitive when it comes to political party differences and ideology. Here are questions to consider:

- Should our cooperative be involved in political matters? If so, to what degree?
- Should our cooperative actively engage in the political process beyond specific issue declarations?
- How open and wide should that activity be? How will diverse member interests be protected?
- What activities should be restricted or limited, and how?
- If our board decides to take a side on an issue, should members be polled?

Legal Aspects

Directors should understand and periodically review their cooperative's legal documents and implement change where and when needed. Legal counsel should be hired to help draft needed changes. Still, directors need to understand what the documents contain and be versed in various areas to effectively make policy decisions. They must ensure that the cooperative is legally structured and that legal procedures are followed. Some questions to consider:

- Does our cooperative have all the needed legal documentation in place?
- Do our articles of incorporation accurately spell out all needed provisions (e.g., heading, name, principal place(s) of business, purpose, powers, duration, directors, capital structure, amendment, signatures, etc.)?
- Do the bylaws accurately describe membership, meetings of members, directors and officers, directors duties, officer duties, equity capital and redemption, consent, nonmember business, nonpatronage income, handling losses, dissolution, indemnification, and amendment, etc?
- Does our cooperative's marketing agreement contain necessary clauses and outline its functions? Does it need review and amendment?
- Do we have a director's handbook? Does it contain all the necessary information directors need?

- Do we understand what directors' liabilities are for the cooperative?
- Do we have a legal compliance program in place to monitor danger areas of antitrust, taxation, environmental laws, discrimination practices, and work safety?
- Does our cooperative need a legal audit to measure exposure to legal issues/concerns?

Directors need to explain, review, critically assess, and amend cooperative policies and legal documents periodically so they clearly understand what those documents contain.

For more information, consult the following USDA publications.

Cooperative Policy Publications

CIR 34—Director Liability in Agricultural Cooperatives

CIR 39—Sample Policies for Cooperatives

CIR 40—Sample Legal Documents for Cooperatives

CIR 42—Co-op Involvement in Public Policy

RR 106—Cooperative Marketing Agreements: Legal Considerations

RR 153—Response of Cooperative Elevators to Changes in Government Policies

4. Member Relations and Education

Directors need to periodically review their member relations program and question if it meets member needs. A strong program is critical to sustaining member ownership and control in a cooperative. It must be predicated on communication and education. Directors need to understand various facets associated with their roles and responsibilities. The objective is effective cooperative communications leading to a stronger and more loyal cooperative culture.

- Is our cooperative's overall communication strategy effective and sufficient?
- So members ask questions of directors and management?
- Are they satisfied with the answers?
- Do members hear and know the cooperative's mission?
- Does the cooperative have a newsletter? Do members read it? Does it provide for feedback?
- How well attended are district/regional meetings of the cooperative?
- Are members engaged with the cooperative's operations and services?
- Are members satisfied with the level of communication they receive?
- Do members fulfill their responsibilities as members? What could be improved? How can improvement be promoted?
- Does an effective mechanism (i.e., method or system) exist to enlist member views or respond to member concerns? How could this area be improved?
- Does our cooperative conduct enough cooperative education? Does it fulfill the educational needs of members, employees, and directors?
- Does our education program take advantage of local, regional, and national cooperative education efforts?
- Where do education gaps exist and how can they be filled?
- How can our education system be improved?
- Are director education needs properly assessed?
- Does our cooperative take education seriously enough?
- Are directors committed to education and self-improvement?
- What educational programs are most cost effective and worthwhile?
- If our cooperative has a young cooperators' program, how well does it work?

Director Assessment

Cooperative directors must assess the effectiveness of their ability and performance as a board to improve areas where needed. Assessment should include the individual cooperative, the board, and board meeting productivity. The objective is to help directors assess their abilities so that corrective actions can be taken if needed to improve their performance. Major questions involve:

- Do my director skills need improvement?
- What areas need most improvement?
- Would further training improve my ability as a director?
- Do we understand our weaknesses and strengths as a board of directors working together?
- Do we work together effectively and efficiently?
- Do we need further training to do a better job as a board?
- Do we complete our work within the allotted time?
- Are our meetings effective and efficient?
- Could we improve our meetings? Where and in what areas?
- Do we need an outsider to more accurately assess our performance and education needs?

Directors should carry out assessments from time to time. A reference publication takes directors through exercises of self-assessment, working together as a board, and effectiveness of board meetings (CIR 58, "Assessing Performance and Needs of Cooperative Boards of Directors").

For more information, consult the following USDA publications.

Member Relations and Education Reports & Articles

CIR 36—Recruiting and Training Co-op Employees

CIR 58—Assessing Performance and Needs of Cooperative
Boards of Directors

CIR 61—The Circle of Responsibilities of Co-op Boards

RR 151—Strengthening Ethics Within Agricultural Cooperatives

RR 155—Decision-Making in Cooperatives with Diverse Mem-
ber Interests

RR 165—Member Participation in Agricultural Cooperatives

5. Management

In board meetings, management must be asked questions related to the concerns and issues facing the cooperative. Most will likely originate from the manager's report or from immediate issues raised by the manager during the meeting. Other questions may arise from a director's contact with members, their own involvement and use of the cooperative, or from contact with community businesses or residents. Directors need to be cognizant of questions to ask management to ensure that the cooperative is well run and that necessary information is made available to them and members. The objective is to ensure that important information flows from management to directors.

Operations

- What concerns you most about current operations?
- What concerns you most about future positioning?
- What are your plans for the _____ market/branch/service?
- What policies are working well; which ones need review/change?
- Do we need any new policies to enable you to better carry out your management responsibilities and meet goals?
- What major operational weaknesses need to be immediately addressed?
- What are members saying/asking in their direct communications with you?
- Do we fully understand the distinct responsibilities of the board?
- Is our strategic plan working well in regard to operations?

Hiring a Manager

In hiring a manager, the board needs answers to a number of questions that will reflect how well the prospective applicant will fit with the cooperative. The objective is to gain enough information that will help in selecting a new manager. Here are some questions to consider:

- What is the applicant's educational background?

- What is the applicant's cooperative experience, such as with other cooperatives? How well versed is the applicant in a cooperative's governing principles?
- Has the applicant shown leadership ability in previous endeavors (work and private life)?
- Is the applicant flexible and open-minded?
- Does the applicant clearly understand the role and responsibilities of a manager in a cooperative and the importance of respect in the relationship between the board and manager?
- Is the applicant a good communicator who can connect with the member-owners?
- What is the applicant's pre-cooperative related experience? How will that experience help or hurt the cooperative?
- Do we have a detailed position description for its general manager?
- How well has the board chosen managers in the past? Are there lessons learned that could help the process/choice this time?

Manager Appraisal

One area where many cooperative boards struggle is in appraising the general manager. Directors must use some type of appraisal to objectively assess how well the manager is operating the cooperative. The objective is to routinely conduct a fair and forthright management appraisal. Here are some questions directors need to ask:

- Are we adequately appraising the general manager? Do we follow a sound procedure?
- Does the manager appraisal depend on the cooperative's goals and strategy? Do we objectively measure the manager's performance against some clear and distinct standards?
- Does the manager understand and adhere to his/her responsibilities as distinct and separate from the board's?
- Is the manager a good leader and have human relations skills?
- Has the manager made good employee hiring choices?
- Is the management team cohesive? Is the manager leading them adequately?
- How well does the manager track the cooperative's industry? Does he/she know the industry well?

- Does the manager finish projects in an efficient and timely manner?
- Does the manager communicate well to the board and members?
- Does the manager adhere to cooperative policies?

For more information, consult the following USDA publications.

Management and Manager Appraisal Reports

CIR 1, Section 8—Cooperative Management

CIR 136—Appraising Manager Performance

6. Financial Management

Financial management and capital issues are major concerns in agricultural cooperatives. Increasingly, directors need to be more attentive and educated on financial matters. Directors' fiduciary duties dictate that they ask tough and information-seeking questions about the cooperative's financial situation and management. The objective is for directors to fully understand the cooperative's financial and equity position and make appropriate decisions.

- Is our cooperative financially strong?
- Are its financial indicators (ratios) strong? Have they improved? What should they be?
- What is our debt situation?
- Are we too highly leveraged?
- What is our equity situation?
- How much equity is allocated and unallocated?
- Do we have enough capital or access to capital to grow?
- What options do we have for obtaining necessary capital?
- What is our relationship with our credit provider(s)?
- Has our net worth been increasing?
- What State and/or Federal financial programs might benefit the cooperative?

- How well do we analyze investment decisions? Has our analysis been accurate?
- Are we making financial progress?
- How well does our financial management coincide with strategic plans?

Understanding a cooperative's financial circumstances, condition, and future needs has become one of the greatest challenges confronting cooperative directors. Given the dynamic agricultural environment and vast structural changes taking place in agribusiness, understanding a cooperative's financial position and capacity for new initiatives, opportunities, or change is critically important. Director education in general and advanced cooperative finance is a must.

Equity Management

- Are members satisfied with the cooperative's equity program?
- Do members prefer the present way the cooperative accumulates equity or might a different system be more beneficial?
- Are we redeeming equity effectively and consistent with our bylaws?
- Are members adequately financing the cooperative?
- Is the financing coming from active and current members?
- Is the cooperative's equity-to-assets ratio in a good range?
- Is our cooperative obtaining enough member equity for sufficient financial strength and future growth opportunities?
- How well is our equity revolvment/retirement system working?
- How can our equity management be improved?
- How well are we communicating with members about our equity management situation?

Managing a cooperative's equity is a critically important aspect of effective control and a duty that directors must take seriously and studiously. Dependent on the cooperative's distinct equity accumulation and redemption scheme, various questions will arise that directors must consider. Significant knowledge about cooperative equity management is necessary.

For more information, consult the following USDA publications.

Financial Management Reports

CIR 23—Tax Treatment of Cooperatives

CIR 44, Parts 1-5—Income Tax Treatment of Cooperatives (see references for section titles)

CIR 43—Working with Financial Statements

CIR 57—Understanding Cooperative Bookkeeping and Financial Statements

RR 163—Cost of Capital for Agricultural Cooperatives

RR 175—Financial Management and Ratio Analysis for Cooperative Enterprises

Equity Management Reports

CIR 51—Base Capital Financing of Cooperatives

CIR 56—Managing Your Cooperative's Equity

RR 23—Equity Redemption: Issues and Alternatives for Farmer Cooperatives

RR 80—Nonqualified Notices: An Alternative for Distributing Cooperative Earnings

RR 124—Equity Redemption and Member Equity Allocation Practices of Agricultural Cooperatives

RR 139—Consolidation of Balance Sheet Components During Cooperative Mergers

(Directors should also keep abreast of cooperative financial trends RBS publishes a number of annual statistical reports.)

7. Auditing

An extremely important function of a board of directors is to secure an accurate audit of the cooperative's finances. The entire board or the audit committee must meet with the cooperative's auditor after the audit has been performed. Directors must gather information from the auditor to ensure that the audit was correctly conducted and accurate. They also need to obtain important information that may not have been formally included in the audit.

Cooperative boards in the midst of hiring an auditor must also ask some important questions. While the manager may have done some of the groundwork in finding qualified applicants, the board is ultimately responsible for hiring the auditor. The board needs to understand what to ask so it can select the right one. Here are some questions to ask the auditor:

Auditor/Audit Firm

- Were correct procedures followed in conducting the audit? Explain?
- Did management cooperate fully? Could dealings with management have been improved?
- Did you encounter any problems with the way the cooperative handles its financial reporting and accounting procedures?
- What were the audit's general findings?
- Were there any new specific findings?
- Was anything different from the previous year's audit?
- What did you find that should most concern us?
- What financial areas should we concentrate on improving?
- What should we know that doesn't appear in your report?
- What haven't you told us?
- Is there anything else we should ask you?
- Did you create enough notes to accurately describe conditions to members?
- Are the interest rates on our loans in line with market rates?
- Should we seek any accounting policy changes?

Hiring an Auditor

Directors need to ask questions to ensure that the best auditor is hired given the cooperative's unique structure and operations.

- Has the auditor worked with cooperatives before?
- Does the auditor have other cooperative clients?
- Does the auditor have sufficient knowledge of cooperative accounting and finances?
- Is the auditor current with cooperative accounting practices and law?
- Does the auditor have any personal ties to the membership, the board, or operations of the cooperative?
- Does the auditor have a personal relationship with the manager or any other cooperative employees?
- Does the auditor have professional references that can be checked?
- After checking, are the references positive?
- Are the auditor's charges reasonable and competitive with those of other area auditors with similar credentials?

For more information, consult the following USDA publications.

Auditing Report

CIR 41—Annual Audits—Board Responsibilities

8. Consultants

Cooperatives often hire consultants to study issues and to carry out special projects. Whether the consultants are paid professionals or are free services from outside sources, such as non-profit centers or government, questions must be asked regarding the task at hand. Once a cooperative decides to use and hire a consultant, analysis questions need to follow the consultant's work. Directors need to make sure they obtain as much important information as possible.

While questions may differ depending on the specific project or task, directors should seek to gain the most information possible from the outside consultant(s). Here are some general questions to ask:

- What did you find that was not obvious?
- Who in our industry did you talk to in your research?
- How do we compare with other similar cooperatives?
- How are we better or worse than other cooperatives?
- How are we better or worse than other like businesses?
- How well does our current structure fit for potential future changes in the marketplace?
- What outside industry forces will impact our current business methods?
- Is our cooperative well positioned in its industry?
- What constraints (e.g., capital, operational) will affect our future positioning?
- What would you recommend for overall improvement/positioning of our cooperative?
- What goals/strategies should our cooperative pursue in the short and long run?
- What are the major industry-related and competitive threats to our cooperative?
- Are there any opportunities you feel our cooperative could/should consider?
- What should be our first step in implementing your recommendations? What steps should come next?

9. Strategic Planning

Strategic planning is an important component of any director training program. A study by Hughes and Potter found that strategic planning was a priority for future training and educational needs in Midwest cooperatives. Many cooperative leaders make this same point. In strategic planning, directors must be able to ask questions and seek answers in completing steps. Directors must fully understand how strategic planning applies to their cooperative, how they should best implement planning, and what types of information are needed to make the process effective. Here are questions related to various aspects of cooperative strategic planning:

General

- Do we need a facilitator?
- What type of facilitator would fit best for us? Who should it be?
- Do we understand strategic planning and the steps and process involved?
- Are we committed to going forward with the process?
- Are our plans written in a clear, easily readable format?
- Does our cooperative management regularly refer to the plans?
- Is our strategic plan in line with our budget/cash flow projections/plans?

Mission/Vision Statements

In developing or reviewing these statements, directors need to ask if the mission statement provides a concise and clearly written description of what the cooperative is and what it does. Does the vision statement indicate where the cooperative is heading and what it wants to be? These questions should be answered to ensure that the mission and vision statements are well written and defined:

- Who are the cooperative's patrons/members?
- What does the cooperative do?
- How does the cooperative do what it does?
- What is the cooperative's major business?
- What should it be?
- How is the cooperative unique?
- What is its primary emphasis?
- What values define the cooperative?
- What is the cooperative not?
- What will the cooperative be in the future?

Assessing the Environment

For assessing the environment, directors need to answer questions on an external and internal basis.

External

- What forces (e.g., market, governmental, environmental, global, etc.) are helping the cooperative?
- What trends will have the greatest potential impact on the cooperative?

- How will these forces affect the cooperative in the future?
- What is the cooperative's territory?
- Who is the competition and how will it change?
- How does and will competition affect cooperative operations?
- What are the cooperative's short- and long-term opportunities and threats?
- How adaptable is the cooperative to changing market conditions?
- What market conditions are most likely to change and which will stay the same?
- Is the cooperative operating in a mature or an emerging agricultural environment?
- How is the cooperative positioned in its industry/environment? Is it progressing, declining, or in a status quo state?
- What are the implications of its position for future operations and viability?

Internal

- What are the marketing/sales/service methods?
- Are they working well? What needs to be improved?
- What is the cooperative's membership (members vs. non-members) situation?
- What business units or operational areas are working well/not well?
- What services are needed or should be changed? What new services are needed?
- What are the cooperative's internal strengths and weaknesses?
- Is the internal structure efficient? If it could be improved, how?
- How does the cooperative's internal structure correspond with its external environment?
- Is the business correctly structured for the services it provides and will be providing?

Goals

- What are the cooperative's goals? Can they be clearly described?
- Are they well defined and detailed?
- Are they realistic?
- Are they being achieved?

- Are they in an accurate short- or long-term context?
 - Are they within the resource (e.g., financial, human, service) limitations of our cooperative?
 - Are they in line with the cooperative's mission and vision?
 - Does the cooperative have the correct resource (human and financial) mix to achieve all of them?
 - What goals have been met, and which ones need to be updated or modified?
-
- Are the goals ambitious enough, but not too ambitious given the environmental assessment?
 - What new goals are needed?

Strategies

- Are they consistent with the cooperative's goals?
- Are they realistic and feasible?
- Have they been well analyzed?
- Do we have the resources to fully implement them without harming current operations and our competitive position?
- How risky are they? Does the risk coincide with our risk aversion level?
- Are they specific and measurable?
- Are strategy action plans in place?
- Will they take advantage of our strengths while not exposing our weaknesses?
- What strategies are needed given our mission and goals and current condition and position in our industry and environment?
- How well are we monitoring the strategies we have in place? Should more be done?
- How have we adjusted our strategies and has it improved things?
- Are our strategies consistent with operating on a cooperative basis?
- How and when will the strategies be implemented?

New Strategic Direction

- Is our cooperative structure appropriate for where we intend to go?
- Do we need to consider other directions (i.e., consolidation, joint venture, strategic alliance, partnership, etc.)? What direction will allow for the highest level of goal attainment?
- Have we been doing a good job in improving our current operations and service under our current strategic direction?
- If we pursue a new direction that will create significant change, how will it affect our adherence to cooperative principles?
- How receptive will the membership be to a significant change in strategic direction? Are we prepared and able to effectively communicate such a change?
- Have other cooperatives pursued the change we are contemplating? How has it worked for them?
- How will the change in direction affect how our competition views us and reacts to us?

Feedback

- Are we monitoring our strategies and revisiting our goals on a regular basis?
- Are we adjusting our strategic plan if things aren't going as intended?
- Is management following the strategic plan and adjusting operations accordingly?
- Has management fully implemented chosen strategies in a timely manner?
- How well is the plan benefiting members?
- How well have we communicated the plan to members and have we received sufficient member feedback?
- What positive/negative implications have arisen from implementation of the plan?
- When do we need to have another strategic planning session to update and modify our plans?

Cooperative directors need to consider these and other questions for effective strategic planning. Many questions arise as directors become ingrained and experienced in strategic planning and their cooperative makes planned changes. Directors should

use various resources to develop a strategic planning process that fits well with their cooperative's internal organization and structure.

For more information, consult the following USDA publications.

Strategic Planning/Structural Issue Reports

CIR 48—Strategic Planning Handbook for Cooperatives

CIR 52—Cooperative Merger/Consolidation Negotiations-The
Important Role of Facilitation

RR 103—Strategic Planning Systems of Large Farmer Cooperatives

RR 112—Strategic Planning: A Conceptual Model for Small and
Midsize Farmer Cooperatives

RR 127—Cooperative Marketing Agencies in Common

RR 148—Cooperatives and New Uses for Agricultural Products:
An Assessment of the Fuel Ethanol Industry

RR 150—A Strategic Planning Study of the Dairy Herd Improvement System

RR 158—Strategies for Survival by Cooperative Country Elevators – Revisited

RR 162—Local Cooperatives Role in the Emerging Dairy Industry

RR 174—Cooperative Unification: Highlights from 1989 to Early
1999

RR 177—The Impact of New Generation Cooperatives on Their
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RR 180—Grain Cooperative Mergers and Acquisitions, 1993-
1997

RR 181—Local Cooperatives Role in the Identity-Preserved
Grain Industry

RR 184—Strategic Planning in Farmer Cooperatives

RR 187—Structural Change in the Dairy Cooperative Sector,
1992-2000

RR 190—The Changing Federated Relationship Between Local
and Regional Cooperatives

SR 57—Cooperative Restructuring, 1989-1998

Rural Cooperatives Magazine

"Ask the Right Questions" May/June 2002

"Adapting to Change: Educating Members Helps Smooth Transi-
tions" May/June 2002

10. Major Strategic Thinking Issues

As part of the strategic planning process and for future contemplation, cooperative directors, management, and members need to face and examine the big issues confronting cooperatives. Issues confronting and likely to impact cooperatives' unique organization warrant assessment by directors and management as cooperatives work to position themselves in advantageous ways. They must work to establish meaningful connections between the issues and forces that will lead to successful cooperative responses. Most of these questions are taken from an article in **Rural Cooperatives** magazine by James Baarda, "Major Changes in Agriculture Raise Big Questions."

- Can our cooperative continue to play a unique role, either individually or collectively with others, in maintaining the strength of the agricultural industry by effectively supporting our farmer members? How will our cooperative heed the course? What do we have to do for this to continue?

- Is our cooperative's decision-making process adequate? Does our board act fast enough in the contemporary (and changing) environment? Is our board capable of making the kinds of decisions needed, when they must be made, and with the needed decisiveness? How is our board in this regard? What changes are needed?
- Is our cooperative business limited to service to members? Does it lack flexibility to expand businesses? What does serving members cost the cooperative?
- Do our members' demands and behavior weaken our cooperative? If members demand good prices, high returns, and quick equity revolvment, does that place too much strain on our cooperative? If so, what can we do to alleviate this situation?
- Is there a maximum size to which cooperatives can grow and still maintain their true relationship to members? Where is our cooperative in the size spectrum?
- Does our cooperative have a fatal limit on capital resources? What is that limit? What can be done to alter that problem?
- What is our cooperative's impact on the communities we serve? Can we measure these impacts? Can we communicate what they are?
- If U.S. agriculture's existence is challenged by global changes, is our cooperative and others also doomed? Does our cooperative have a special role to play in helping farmers and the U.S. economy avoid the "death" of agriculture as we know it?

While answers to these big-issue questions are difficult, it is important that directors think about how they might affect their cooperative and its operations and membership in the future. Preparation for and study of issues is important for effective governance and overall cooperative positioning.

For more information, consult the following USDA publications.

Major Issues/Structure Reports and Articles

CIR 60—Agricultural Cooperatives in the 21st Century

RR 157—Cooperatives in a Changing Global Food System

RR 192—Problems and Issues Facing Farmer Cooperatives

RR 177—The Impact of New Generation Cooperatives on
Their Communities

Rural Cooperatives Magazine

"Major Changes in Agriculture Raise Big Questions for Nation's
Cooperatives," November/December 2002.

"Meeting the Challenge: Co-ops in the 21st Century,"
January/February 2003.

"Negotiating the Crossroads of a New Century," January/February
2003.

Conclusion

This report provides numerous questions that directors should consider asking in fulfilling their roles. The questions are intended to remind directors of some of the questions they should pursue as well as provide a starting point for further director education and information gathering. Directors will commonly confront various important topics, problems, and issues and gaining more knowledge about such matters is important to ensure member control. Being able to fully understand a situation by asking necessary questions is critically important to being an effective director.

The USDA publications listed at the end of the question sections show directors further sources for information and education. Other resources are available from universities, cooperative centers, State cooperative councils, and national and local

cooperative organizations. USDA's *Rural Cooperatives* magazine and other periodicals often have articles containing important information related to cooperative director duties.

Cooperative director education is imperative to the successful future of cooperatives. It must be continual and consistent and provided at both basic and in-depth levels. Directors must attain advanced knowledge about their unique organizations and their various facets so they can ask the right questions to fulfill their important responsibilities. This report is intended as a tool that directors can use to more effectively carry out their board duties.

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Endnote

The International Co-operative Alliance (ICA) Principles

1st Principle: Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6th Principle: Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

U.S. Department of Agriculture
Rural Development
Rural Business—Cooperative Service

Stop 3255
Washington, D.C. 20250-3255

Rural Business—Cooperative Service (RBS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The cooperative segment of RBS (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs. RBS also publishes research and educational materials and issues *Rural Cooperatives* magazine.

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