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WHAT ARE CO-OPERATIVES?

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Table of Contents

Introduction to the Co-operative Council.....	5
Our Business Development Team	6
What are Co-operatives?.....	7
<i>Three Basic Business Types.....</i>	<i>7</i>
Proprietorship	7
Partnership.....	7
Corporation	7
<i>The Uniqueness of Co-operatives.....</i>	<i>8</i>
<i>Challenge to Management</i>	<i>8</i>
<i>Types of Co-operatives.....</i>	<i>8</i>
<i>Objectives of a Co-operative</i>	<i>9</i>
How to Start a Co-operative.....	10
<i>Starting Point.....</i>	<i>10</i>
Using Outside Advisors	10
<i>Ten Steps to Organizing a Co-operative</i>	<i>10</i>
<i>Checklist of Start-up Operations.....</i>	<i>12</i>
Board of Directors Responsibilities.....	12
Manager Responsibilities.....	12
<i>Summary.....</i>	<i>12</i>
Members Make Co-operatives Work.....	13
<i>Ownership.....</i>	<i>13</i>
<i>Control.....</i>	<i>15</i>
<i>Finance.....</i>	<i>17</i>
Capital Investment.....	17
Deferred Patronage Refund	17
Per-unit Retain.....	18
Base Capital.....	18
<i>Patronage</i>	<i>19</i>
<i>Summary.....</i>	<i>20</i>
Co-operative Board of Directors.....	21
<i>Who Makes a Good Director?.....</i>	<i>22</i>
<i>How Directors are Selected.....</i>	<i>24</i>

<i>What Directors Do</i>	25
Responsibility Characteristics	25
Preserve Character	26
Safeguard Assets	27
Hire a Manager	27
Set Policies.....	27
Distribute Benefits	28
Plan for the Future	28
Evaluate	29
<i>Individual Board Member Evaluation</i>	29
The Manager Represents the Co-operative	32
<i>Community</i>	32
<i>Co-operatives</i>	32
<i>Industry</i>	32
<i>Government</i>	32
<i>Reporting to Members</i>	32
<i>What the Co-operative Manager Does (the Co-operative Difference)</i>	33
Purchasing Co-operatives	33
Marketing Co-operatives.....	33
Service Co-operatives	33
<i>Purpose & Objectives</i>	35
Responsibilities	36
Implements Board Policies	37
<i>Manager's Daily Operations</i>	38
Hiring Staff.....	39
Setting Goals	39
Reporting to the Board.....	40
Co-operative Employees	41
User Financed.....	41
User Controlled.....	41
User Benefits.....	41
<i>The Co-operative Business Structure</i>	41
Members.....	41
Directors	41
Manager	42
Employees.....	42
<i>Characteristics of the Quality Employee</i>	43
Develop a Positive Attitude	43
Understand & Support the Co-operative	43
Follow Policies & Rules	43
Respect & Treat Fairly All Customers	43

Be Well Trained	44
Be a Team Player	44
Participate in Community Activities	44
Keep Supervisors Informed	44
Maintain Personal Appearance	44
Maintain Facilities, Equipment & Inventory.....	45
<i>Summary</i>	45
Additional Information	46

Introduction to the Co-operative Council

The Nova Scotia Co-operative Council has represented some 400 co-operative and credit union businesses in Nova Scotia since its inception in 1956, when co-operatives and credit unions came together under the leadership of Father Moses Coady, to encourage and support community-owned enterprise.

The Council is governed by a volunteer board of directors who represent co-operative and credit union businesses from Sydney to Yarmouth. It is the membership of the Council that approves the strategic and business direction at the annual general meeting each year.

The Council's five priority areas are:

- 1) Bringing all types of co-operatives together to form a strong and vibrant co-operative movement in Nova Scotia
- 2) Encouraging the development of a 'co-operative identity' with the public of Nova Scotia
- 3) Acting as an advocate for co-operatives with the municipal, provincial, and federal governments
- 4) Encouraging, supporting, and promoting the development of co-operative enterprises
- 5) Positioning the Council as a financially sound and self-sufficient organization

The Council currently has offices in Cape Breton (902-564-8821), Southwestern Nova Scotia (902-245-8776), and Central Nova (902-893-8966).

In addition to co-operative partners, the Council enjoys a positive and fruitful relationship with the Province of Nova Scotia, particularly the Office of Economic and Rural Development, the Department of Community Services, and InNOVAcorp.

The Council has put a tremendous amount of time and resources into developing a series of co-operative publications, which offer current and reliable information on important co-operative issues.

Co-operatives are an integral part of the province's economic growth and diversification. Mature, stable, and sustainable businesses, yet also moving into new and growing areas of the economy, co-operatives constitute major players in the Nova Scotia economy. The Nova Scotia Co-operative Council is working to ensure that co-operatives remain in the forefront of development for years to come.

Together, let us grow our economy - one co-operative at a time!



Dianne Kelderman, M.CED, M.Ed
Chief Executive Officer

Our Business Development Team

The Nova Scotia Co-operative Council is dedicated to the development of co-operatives and credit unions in Nova Scotia. Our team of business development officers is focused on supporting the development of new and innovative co-operatives, while stimulating the effectiveness and growth of existing ones.

Most co-ops are established to fill common needs of individuals and communities. However many are not focused on management and business practices. Our experience shows that a lack of expertise and support specific to the co-operative model prevents co-ops from becoming more effective for their members and communities. To operate effectively, they must understand and practice good governance and business practices. Our development team is here to provide these much needed services to start and strengthen your co-op.

Members of the Council have access to a broad range of development services. Assessments and consultations are also available to non-members to determine the advantages of membership and development services. These services include:

- General consultation
- Feasibility assessments
- Incorporation assistance
- Governance and management information
- Business planning
- Co-operative law and regulation interpretation
- Financing options

Our business development officers have solid backgrounds in co-operative development, as well as valuable contacts within the co-operative, private business, and government sectors.

There is no cost for basic services. These include many of the consultation and start-up requirements for the creation of new co-operatives, as well as advisory services for established co-ops. Many of our more comprehensive professional services are provided on a cost recovery basis. For further information, please contact the business development officer in your area.

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What are Co-operatives?

There are many ways to conduct business in Nova Scotia. On Main Street, Nova Scotia, the businesses have different names, different products and different services. People can buy, sell, trade, borrow, insure and conduct many types of business transactions. However, each business may differ based on whom:

- Owns the business
- Controls the business
- Buys from the business
- Receives the profits from the business

Three Basic Business Types

Proprietorship

A proprietorship is owned by one person who operates, manages and received the profits. This is the simplest and oldest business type.

Partnership

A partnership is owned by two or more people who share proportionally in the risks, management and the profits.

Corporation

There are two types of corporations; company and co-operative. Both usually have multiple owners, offer goods and services to customers, and use sound financial practices. They operate under provincially granted articles of incorporation. Policy is set by a board of directors, while day-to-day business operations are the responsibility of a hired manager. Most corporations are companies such as Sobeys, Aliant, and Canadian Tire.

Co-operative corporations have familiar names too, such as Mountain Equipment, Just Us! Coffee, and Scotsburn Dairy. However, they are different than companies in their business purpose, ownership, control and distribution of benefits. Three principles distinguish co-operatives from companies:

- User-owner
- User-control
- User-benefits

The user-owner principle means the people who use the co-operative own and finance the business. Co operatives are financed by members purchasing stock, paying membership fees or accepting self-imposed assessments on products purchased and/or sold or fees for services. In some co-operatives, members reinvest their earnings (profits) to capitalize the business.

User-control stems from the majority of the customers being members, who are also responsible for selecting the members of the board of directors. Directors are representatives of the members

and are responsible for setting policy and providing oversight on all of the co-operative's business practices.

User-benefits explain that the co-operative's primary purpose is to provide and distribute benefits to members. Distribution of these benefits is based on member's use of the co-operative, not on the amount of capital they have invested. Benefits also include providing market access, providing needed services or supplying 'best value' products.

A co-operative is thus a user owned and controlled business in which benefits are distributed according to a member's use of the association.

The Uniqueness of Co-operatives

One of the unique characteristics of a co-operative is the role of the users. Users include employees, individuals or companies offering goods and services to directors, customers, owners, patrons and members. The last four are the most unique, because they could be the same individual. Depending on the orientation and purpose of the co-operative, the same individual could view their particular role in the co-operative differently. Understanding each of these roles will help you understand these unique characteristics of co-operatives.

Customers buy and sell through the co-operative or use its services. They expect to receive the additional money they invested to capitalize the co-operative. These investments are called member's equity. Co-operative owners may also own and operate their own private businesses, which need capital. Capitalizing the co-operative becomes a secondary priority. Members maintain democratic control of the co-operative with their votes.

Patrons want adequate earnings (profits) so that the co-operative can pay a higher portion of the earnings back in cash, which are based on their purchases or volume marketed by the association. The earnings returned back to the members are called patronage refunds.

Challenge to Management

The needs of customers, members, patrons and owners challenge the co-operative's board of directors and managers to make good business decisions. Business earnings of the co-operative must be great enough to systematically rotate the investment of the members, pay patronages and offer goods and services at reasonable prices or pay fair market value for customer's products. The unique business structure dictates that the manager, board of directors and members understand the business and co-operative structure.

Types of Co-operatives

There are over 9,000 co-operatives in Canada. One in every three Nova Scotia citizens belongs to a co-operative. Co-operatives provide housing, health care, water, funeral and educational services. Members form purchasing co-operatives to buy food, consumer goods and business and production supplies. They provide transportation, credit, housing, recreational equipment and facilities. Co-operatives are responsible for marketing and processing member's products.

Objectives of a Co-operative

Members have a range of objectives for starting co-operatives. Some co-operatives provide multiple objectives for members, while others are more specialized.

Regardless of the type, size, geographical location or purpose, all co-operatives provide at least one of the following:

- Improved bargaining power when dealing with other businesses - combining the volume of several members leverages their position
- Reduced costs - volume purchasing reduces the purchase price of needed supplies; earnings of the co-operative are returned to individual members lower their net costs
- Products or services otherwise unobtainable - services or products that would not attract private business are often supplied by co-operatives
- Market access or broader market opportunities - value added to products by processing; offering larger quantities of an assured type and quality attracts more buyers
- Improved product or service quality - value added to their products, competition and improved facilities and equipment increase member satisfaction
- Increased income - distribution of the co-operative's earnings boosts the income of members

How to Start a Co-operative

Starting new co-operatives takes energy and resources. By following a planned step-by-step procedure, the process can be completed in an efficient and timely manner.

Co-operatives are people driven organizations. The first key to their success is to identify individuals with like needs, who want to explore the feasibility of forming a co-operative business. Without this important first step, the chance for a successful co-operative business is slight.

Starting Point

The original group of individuals are usually potential users of the co-operative. They often have leadership and organizational skills. They organize informational meetings for other potential users and discuss topics such as:

- How the proposed co-operative could meet identified needs
- Co-operative operational practices
- Advantages and disadvantages of the co-operative business structure
- Member investment and financial requirements
- Member commitment needed

Using Outside Advisors

Use of outside advisors experienced in co-operative development, legal, tax and finance issues as well as product experts may save from making expensive mistakes and losing valuable time.

Sources of competent outside advisors may be found by contacting the Nova Scotia Co-operative Council.

Ten Steps to Organizing a Co-operative

1. **Potential members meet to select a steering committee**

If sufficient interest is generated, a steering committee is selected from the group. Although these three to eight individuals have no legal authority, they will be responsible for bringing the interests and concerns of the group to outside parties and meeting with resource people. The steering committee meets regularly. Leadership skills, sound business judgment, and a desire to reach decisions are valuable qualities for committee members.

2. **Develop legal documents**

Under the guidance of professional advisors, such as Nova Scotia Co-operative Council staff, the steering committee should draft legal documents. These documents are:

- Articles of incorporation
- Borrowing resolution
- Other legal documents

3. **Approve documents and elect a board of directors**
Conduct a charter membership meeting to adopt legal documents and elect a board of directors. Forward the signed legal documents to the Inspector of Co-operatives for approval.
4. **Conduct survey**
Under the guidance of the board of directors and resource persons, potential co-operative members are surveyed. Topics include:
 - Need for services
 - Volumes to be purchased or marketed
 - Willingness to join and finances
 - Use of and familiarity with co-operatives
5. **Analyze the market**
When the analysis of markets and sources of supply and available services is completed, the findings are reported to the potential members. The potential members vote if they want to continue with the development. If a positive economic advantage is indicated, the committee's deliberations continue.
6. **Develop a business plan**
A business plan is developed that emphasizes financial analysis. The proposed co-operative must be a financially sound business venture. Components of the business plan include:
 - Capitalization supplied by members and loans
 - Description of facilities and equipment
 - Financial business projections, such as fixed and variable operating costs, sources of income and pro forma statements
7. **Reconfirm commitment**
Prospective members vote to reconfirm their commitment to continue development of a co-operative. Any changes in steering committee members may be made at this time.

Most co-operatives are incorporated in the province of their main business operations. The articles of incorporation declare the co-operative's purpose and provide instruction on how the co-operative will conduct its declared purpose. Other legal documents, such as membership applications and marketing agreements are necessary to meet a co-operative's special needs.
8. **Implement the business plan**
The board of directors is organized by electing officers and making committee appointments. A schedule is drawn for assigned committees and individuals to complete various tasks of the business plan. Arrangements are made to finance the business according to the business plan.
9. **Hire a manager**
One of the most important responsibilities of the board of directors is to hire a competent manager. The manager implements policy set by the board and oversees the day-to-day operations of the business.
10. **Acquire facilities and begin operations**

The directors must acquire the necessary facilities for business operations. Actual operations may begin after all facility transactions are completed and the manager has hired the needed employees.

Checklist of Start-up Operations

Board of Directors Responsibilities

- ☐ Install internal controls for handling money, merchandise and property
- ☐ Select a credit union and set up chequing accounts
- ☐ Establish a line of operating credit
- ☐ Authorize the manager or others to make credit union deposits and sign cheques
- ☐ Bond the officers and the manager
- ☐ Distribute articles of incorporation, by-laws, contracts and agreements to members

Manager Responsibilities

- ☐ Obtain and display local and provincial operating licenses and permits
- ☐ Install internal controls for handling money, merchandise and property
- ☐ Provide training for employees and information programs for members

Summary

A co-operative is a unique form of business used by people and businesses for their mutual benefit. Regardless of its purpose or membership, starting a co-operative requires considerable time, energy, commitment and technical resources. Recognition of a common need is fundamental to the formation and successful operation of a co-operative. Potential members must devote much time and energy to developing their new business. A co-operative requires member commitment to finance and use the business, and select knowledgeable directors, who hire a competent manager. A strategic business plan is important to harmonize all of the elements for the co-operative's success.

Members Make Co-operatives Work

A co-operative is a distinct form of business, recognized as part of our private enterprise system. A brief yet general definition is:

A co-operative is a user-owned and democratically controlled business from which benefits are received in proportion to use

Historically, users of a co-operative have been called members. Other terms include member-owner, member-patron or stockholder. However, the latter term can confuse their unique role with that of a stockholder of an investor-oriented stock company. The only definition common to both is that the holder of stock has evidence of a capital investment in the organization. The fundamental and major difference is that benefits in a co-operative are distributed on the basis of use of the co-operative's services rather than on the amount of stock held.

Members of a co-operative can be individuals, businesses or other organizations. The basic requirement necessary to draw them together is a mutual interest that can be fulfilled by joining in a co-operative enterprise. In some co-operatives, a member must meet the legal requirements for membership as described in the co-operative's by-laws, provincial statutes and certain federal laws. For example, a member of an agricultural co-operative must be a producer, and in some cases the producer of a specific commodity such as milk, blueberries, apples or chicken.

A co-operative's basic purpose is to fulfill the needs of its members. They are the owners. They must tell the co-operative what needs must be fulfilled and tell the co-operative when those needs change. They must provide enough financing so the co-operative can meet their needs. They make certain, through elected and hired representatives, that the co-operative has the right management, personnel, facilities and equipment. And finally, members must do the most important thing for the co-operative to achieve its purpose - they must use it. Summed up, members make co-ops work by exercising their responsibilities of ownership, control, financing and patronage.

Ownership

Members use a co-operative just as they do other businesses, so they recognize their user relationship to their co-operative. However, many lack an understanding of their owner relationship and their responsibilities associated with ownership. These responsibilities are far greater than owning shares of stock in an investor-oriented business to earn a return on investment.

Co-operatives are created by and for members to serve their needs. As owners of a business, they have certain legal responsibilities. These include:

- Incorporating the co-operative initially as charter members
- Approving (and changing) articles of incorporation, by-laws and major policies
- Signing marketing agreements and other binding contracts
- Electing directors who oversee management and give direction to their co-operative

- Voting on significant actions affecting their co-operative, such as major facility additions, mergers or other asset changes; and if necessary, dissolution
- Ensuring that their co-operative adheres to general business laws and those unique to co-operatives, such as taxation

Most co-operatives are incorporated and give members limited liability protection. Even though this protection means their maximum loss from co-operative failure is only the capital they've invested in the co-operative, inattention to their ownership responsibilities can often adversely affect the value of the co-operative.

A member may have many partners in co-operative ownership, but each member should recognize the importance of associated legal responsibilities as though they were the sole owner.

A co-operative's existence and its degree of success depend largely on how well members understand what it is and how it operates. Understanding the co-operative as an owner enables the member to make business decisions, either directly or through elected representatives that produce benefits to the member as a user.

People who spend money for many products, particularly expensive ones, expect them to come with an owner's manual so they can understand how the product works and how they can best use it. Similarly, members should expect their co-operative to give them an ownership manual. Content should include:

- Definition of a co-operative and an explanation of its unique principles and practices
- History of when and how the co-operative was started
- Mission statement
- Articles of incorporation and by-laws
- Organization and staffing
- Products handled, services offered and operating policies
- Rights and responsibilities of membership

Members who understand their co-operative likely will have fewer questions or complaints. When they do, they will know better how to go about getting their concerns resolved. Good understanding of their co-operative also enables members to offer constructive criticism and suggestions and to make enlightened decisions affecting the co-operative's future.

Just by joining a co-operative, a member gains something that is always present, like it or not. That something is becoming one of the creators and shapers, and always a carrier, of the co-operative's image in the community and the business environment in which the co-operative operates. It is a large responsibility.

Image is a composite of many things; what the co-operative's facilities look like, the ability and friendliness of employees, the quality of products and services, and who the members are and how they are regarded in the community. Image is shaped constantly, on and off duty. Image is shaped both by the co-operative and actions of individual members.

Though some co-operatives hire employees who are professionally trained in communications, public and member relations and government affairs, members themselves are often the most effective representatives of their co-operative.

Members have a responsibility to promote the co-operative to other potential members, explain the co-operative to others, defend it when unjustly criticized, and correct justified criticism. Members make certain their co-operative is a good citizen; contributing funds, providing leadership and participating in other ways in community activities.

Historical experience has proven the wisdom of co-operatives pursuing political neutrality rather than political affiliation. However, that experience does not bar members and their co-operatives from participating in political action. Members may set conditions in the co-operative's by-laws on the participation of the manager, directors and employees in supporting political candidates or holding public office. Otherwise, member involvement in political action at the local, provincial and federal levels can be important in maintaining or enhancing the co-operative's business environment.

Control

Owning a co-operative does not necessarily mean that members control the co-operative. They have several ways to exercise control. Some control measures are set in stone in the form of legal documents that cannot be changed without their approval. Others can be delegated, while some can be lost through apathy or failure to exercise their financial responsibilities.

Members shape the legal framework for the co-operative in the articles of incorporation and by-laws. The board of directors and management must legally abide by the provisions of these documents. Only the membership can change the documents.

Articles of incorporation describe in broad terms the type and purpose of the co-operative and the scope of business. The articles include the co-operative's name, place of business, capital structure, names of incorporators and other general information.

By-laws describe how the co-operative is organized and how it will operate. Major provisions include qualifications for membership, duties of officers and directors, meeting and voting procedures, raising and paying back member capital, and procedures and rights in case of dissolution.

Two other basic control documents are the membership application and marketing agreement.

The most numerous and specific control measures are contained in the co-operative's policies. These policies reflect the co-operative's operating philosophy and serve as a guide for actions it will take to fulfill its mission. Members delegate the responsibility for development, review and change of policies largely to the board of directors. Policies cover topics such as employee conduct and work rules, office hours, board/manager functions, member credit, safety, risk management, public relations and any other topic deemed important for successful conduct of the co-operative's business.

With the legal document framework and policies in place, members control the continuing operations of their co-operative through a board of directors. Electing this leadership group from

among themselves is the member's most important responsibility. The board, typically five to seven individuals, provides overall policy direction, monitors and evaluates co-operative performance and plans for the future.

In selecting board candidates, members look for individuals who are active in co-operative affairs, exhibit good business judgment and character, are able to communicate and are willing to take the time to be an effective board member. Directors are elected democratically, usually with each member having one vote. Occasionally, proportional voting based on volume of business is used, but with a vote maximum specified in the by-laws to preserve governance by majority.

Members delegate critical control responsibility to the board of directors. This governing body is charged with the following:

- Preserving the co-operative's character as set forth in legal documents and provincial and federal statutes and regulations
- Hiring a manager to direct day-to-day operations
- Safeguarding member's assets with prudent oversight and decision-making
- Developing and maintaining relevant policies
- Determining equitable distribution of benefits produced by co-operative operations
- Planning for the future so that the co-operative can continue to fulfill member needs

People who make the decisions control an organization. It's that simple. They may not even be the owners. Members control their co-operative by making decisions themselves, or delegating decision-making to others while holding them accountable.

However, decision-making is more than just casting a vote. That is only the end result. Decision-making involves the entire process of collecting information and opinions, analyzing alternatives and courses of action, and then selecting and implementing the best alternative. Whether the process is formal or informal, members are exercising a form of control by participating. If they do not, someone else will decide for them.

Formal decision-making usually takes place at the annual meeting and is illustrated by nominating and electing directors, amending the by-laws, accepting the audit report, voting on major actions or policies proposed by the co-operative's board and operating management, and voting on resolutions and motions.

Participating in decision-making informally includes serving on various advisory committees, taking on special assignments, expressing opinions in discussions with other members or directors, or providing feedback to employees and management. Taking the time to respond to surveys seeking attitudes and assessments, product and service evaluations, buying and marketing intentions, and other information on how needs are changing is critical and helps the board and operating management keep the co-operative focused on serving member needs.

Member's continual involvement in this decision-making process is how they maintain control of their co-operative's scope, direction and orientation.

Finance

A co-operative idea doesn't have a chance of becoming a co-operative business until it passes the pocket book test. That means prospective members are willing to risk their own money in the business venture. Their financial commitment needs to be large enough so they have a continuing concern about how their invested money is being managed and will be motivated to carry out the responsibilities of ownership.

The amount of start-up capital needed is determined as part of the organization process based on economic feasibility studies and financial cost analyses. In other words, organizers have determined the size of the co-operative business that could fulfill prospective member's needs and they have determined the cost to open for business. Start-up costs include legal fees, facilities and equipment, inventory, salaries of manager and staff, insurance, office furniture and various administrative supplies.

Depending on the type of co-operative, initial capital contributions may take the form of a flat membership fee, or more appropriately, an amount based on their estimated use of the co-operative. A member's upfront investment becomes part of their equity (ownership) capital account. Though members do not need to finance the entire start-up cost, their investment must be significant enough for other lending sources, such as credit unions or local commercial banks, to also risk investing money in the venture.

Members invest in a co-operative to fulfill a need, rather than just to earn a monetary return on their investment. That need may be providing services, purchasing goods or supplies, or marketing products. Consequently, members often elect not to receive interest or perhaps only a nominal amount, while their money is being used in the co-operative. Their payment for the use of their equity capital comes from the marketing, purchasing and service benefits the co-operative provides.

The age-old business axiom is that it takes money to make money. After having provided capital to get the co-operative started, members have a continuing responsibility to provide funds to keep the business operating. These funds are called operating capital.

Many of the start-up costs continue on a frequent basis, such as salaries, utilities and inventory. Other costs are long term and need to be considered in advance, such as replacing vehicles and equipment, remodeling plants or expanding with new facilities. It is sound business management to set aside a reserve fund for bad debts or other unexpected events that could adversely affect the co-operative.

Operating capital is provided in several ways, voluntarily or as a condition of membership.

Capital Investment

Some members, either at start-up or later, may be willing to provide capital above their fair share. Though they do not gain additional voting rights, they may receive a certificate as evidence of their investment and are paid interest for the use of their money, usually in the form of member loan capital, which is a pseudo share.

Deferred Patronage Refund

At the end of the year, when members receive a patronage refund based on their share of the co-operative's net income, they reinvest a certain percent of their refund as determined by the board

of directors. However, federal tax law requires that at least 15 percent of the refund must be paid on behalf of the producer-member to Revenue Canada to help them meet the tax liability they incur on the total refund. Consumer-member's dividends are usually tax exempt. Deferred patronage is revolved back to members over a period of years, usually based on a percent of total investment each year.

Per-unit Retain

Members use this method to invest each time they do business. The co-operative retains a specified amount per physical unit (pounds, bushels, cartons, etc) involved in the transaction or a specified amount per week (e.g. two dollars). Retains are also revolved back to members over time, similar to a deferred patronage dividend.

Base Capital

Members contribute capital according to their use of facilities and service, with adjustments made from time-to-time. The level of obligated financing is set by the board of directors each year, with any excess returned to members.

Control follows finance. Those three words explain the importance of member's responsibility to finance their co-operative. Further, they should provide financing in proportion to their use of the co-operative.

A desirable goal is to have members contributing equity capital amounting to at least a third of total capital requirements. Then, with a good business plan, they can usually attract others to lend the co-operative additional money, called debt capital. Providers of debt capital include members, credit unions and commercial banks.

Debt capital helps members pay for high cost items such as land, buildings and equipment. Other uses are to supplement operating capital when a co-operative experiences seasonal highs in labour costs, purchasing supplies or paying members for products at harvest time.

Members may hold the right to mark a ballot that elects leadership or approves major actions in a co-operative, but providers of financing have veto power with their decision of whether to lend money or they may heavily influence how their money is to be used. At the extreme, if lenders have justified doubts as to whether loans will be repaid, they can force the co-operative into liquidation or bankruptcy.

Conflicts of interest can occur within the co-operative unless financing is largely provided by active member-users. Otherwise, former and long term members may pressure the board to allocate funds to redeem old equity, while current members want more money invested in new facilities and better services; other members may be push for higher cash patronage refunds. Though the board of directors must resolve these divergent interests democratically, the principal decision factor will be that control follows finance.

Financing provided by active member-users results in a membership more likely to have common interests and objectives.

Patronage

Using the co-operative is the member's easiest responsibility to carry out and is critically important. Their patronage makes the co-operative work as a business. Using the co-operative is also essential toward fulfilling their responsibilities of ownership, financing and control.

By using the co-operative as much as they can, members help the co-operative directly to succeed as a business in the following several ways:

- A certain amount of business is needed just to cover the cost of opening the doors each day, such as costs for maintaining buildings and equipment, utilities and salaries. Greater volume reduces these costs per unit of sale. Plants can operate closer to capacity. Equipment and employees can be more productive. All together, the co-operative is able to generate more income above costs and return patronage refunds to members at the end of the co-operative's business year.
- Using the co-operative helps provide the financing to keep it operating and growing as needed. Regardless of the method of member financing, the financing is provided on the basis of the member's use of the co-operative.
- Using the co-operative is how members gain the benefits they sought when they formed the co-operative in the first place. The more they use the co-operative, the more they benefit from it.

Maximum use helps the co-operative, and ultimately members, indirectly as well. The stronger the co-operative is, the more competitive it can be in the marketplace. The co-operative may be able to influence suppliers to provide products or services specialized to member's needs. The co-operative may be able to reach markets unavailable to members acting individually. A prosperous co-operative with the solid support of its members often results in the co-operative being recognized as a business leader in its community or industry. Summed up, a co-operative can accomplish something members cannot achieve acting individually, but what it can accomplish depends directly on how much members use it.

Economic benefits members gain from owning a co-operative can be as obvious as cash in hand, or so difficult to measure that their value could be realized only after the co-operative ceased to exist.

The range and importance of benefits will be determined by the type of co-operative and its purpose. A co-operative providing service, to members as individuals, such as a daycare, nursery or credit union would have benefits somewhat different from the following benefits of a co-operative owned by members to support their farm or other business:

- Greater bargaining power than acting alone when dealing with buyers and sellers
- Extended control through ownership of the co-operative over factors affecting the farm or other business, such as supplies purchased and products marketed
- More dependable sources of quality production supplies and services through influence with suppliers or negotiated specifications with manufacturers
- Lower costs through volume buying and selling
- Broader access to markets through volume selling or meeting needs of specialized markets
- Higher returns from lowering operating costs, adding value through further processing, and improving market access

- Accumulation of assets as represented by investments in the co-operative over time and paid back according to provisions in the co-operative's by-laws

While members should expect their co-operative to achieve respectable net income each year, they should realize that the bottom line on the statement of operations may be only the tip of the iceberg in terms of the co-operative's total value to them.

Summary

The co-operative form of business is available to any group of individuals who have mutual interests and who could gain mutual benefits by uniting their efforts. As a business, the co-operative needs an effective operating management, a visionary board of directors, and supportive members who recognize their responsibilities as owners.

Members carry out their responsibilities to finance, control and use their co-operative to gain the economic benefits they sought in organizing the co-operative. In taking an active ownership role by expressing their views and needs, participating in decision-making and evaluating how well the co-operative is performing, they gain other benefits as well.

They get a well-rounded business education. They learn what is necessary for a business to be successful. They learn what benefits can be gained by working together.

Members gain valuable leadership training. Expressing their views in various meetings, participating on committees, serving on the board of directors, speaking on behalf of the co-operative; these experiences are transferable to other personal and business pursuits.

Participation in co-operative business affairs can add to a member's personal stature in the community, in the industry in which the co-operative operates and in governmental affairs affecting the co-operative's business climate. All in all, sharing in the ownership of a co-operative business can give a member a well earned sense of achievement.

Co-operative Board of Directors

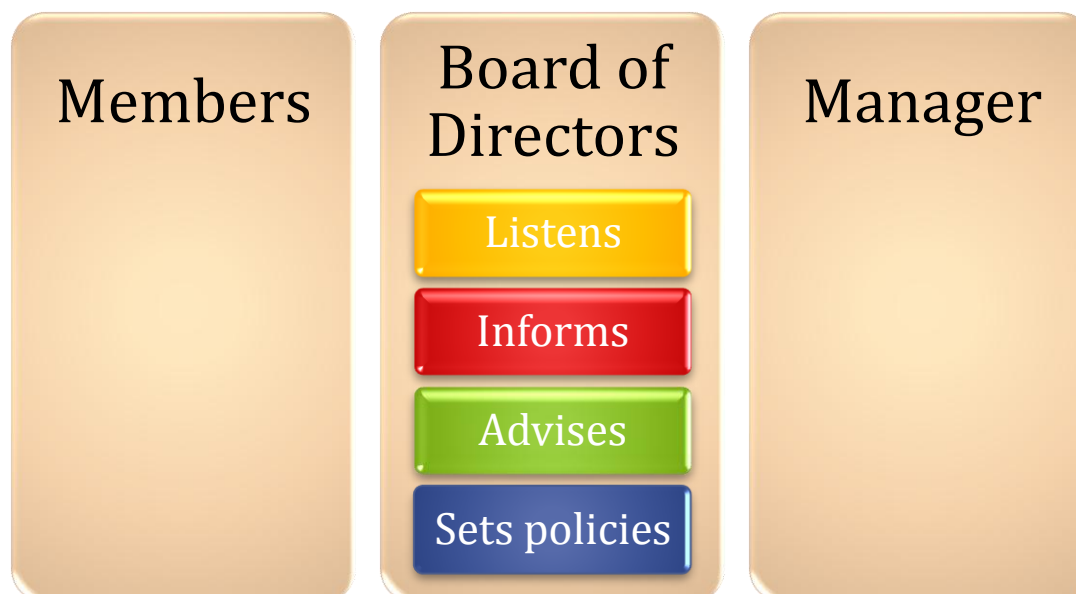
Co-operatives usually have too many owners for all of them to participate in assisting with business decisions. So the owners elect a few people who they feel can best make decisions for them. This leadership group is called the board of directors.

The board of directors functions to direct the business affairs of the co-operative. It is the co-operative's central decision centre. In carrying out this responsibility, the board performs several important supporting roles. It is a listening post, hearing from management and membership. It is a communications hub, imparting information between members and management. It is an advisory body to members and management, providing recommendations and guidance. But in every role and action, the board is accountable to members.

The co-operative's by-laws determine the nature and composition of the board through written provisions describing director eligibility, method of selection, term of office and board organization. A typical board will have three to nine members. To function in an organized manner, directors elect from among themselves a chair, secretary and treasurer. Board committees may be formed to oversee particularly important aspects of the co-operative, such as policy or member and public relations.

Meetings are held on a set frequency, often monthly, with pre-determined dates. An agenda is developed and minutes are kept. A nominal amount of compensation may be provided, usually to cover director's expenses to attend board meetings. The following pages present additional information on:

- Who makes a good director
- How directors are selected
- What directors do



Who Makes a Good Director?

Selecting good directors is perhaps the co-operative member's most important ownership responsibility. Their decision may determine how effectively the co-operative contributes to the member's interest or their personal business.

When considering an individual for the co-operative's board, a member might consider the answers to several questions. Would I be comfortable having this individual make personal business decisions for me? Does the individual demonstrate the ability to think through a problem independent of others? Would this person put the best interests of the co-operative above personal interests or special interest groups? Does this person demonstrate leadership qualities? Would this person, as director, enhance the co-operative's image? Is the person respected in the community?

Does the potential director appear to keep up with current events, particularly in sectors in which the co-operative is involved? Would this person be a vigorous and effective promoter of the co-operative? Would this potential director be vigilant in keeping the co-operative oriented to serving member's best interests?

While a 'yes' answer to these questions shapes the underlying characteristics of a good director, other more tangible and specific qualities need to be present. A good director should be able to:

- Make good business decisions
- Enhance the co-operative's image
- Think independently
- Place the co-operative's interests first
- Show leadership
- Promote the co-operative
- Ensure the co-operative serves its members

A good potential director uses the co-operative's products and services fully. Just doing so makes a visible statement of belief in the value of co-operative effort. Further, maximum use gives the member first-hand, cutting-edge knowledge about the co-operative's services, which provides a sound basis for directing change. Maximum personal support also enables the member to be an effective director in seeking new members and encouraging present members to increase their patronage.

Members demonstrating a genuine interest in the co-operative's performance have a quality needed to be a good director. Instead of just complaining to others, or voting with their feet by trading somewhere else, they seek answers to their concerns from their director or the manager. They realize that, ultimately, the co-operative's performance is their responsibility.

Members who participate regularly in decision-making exhibit a key director quality. They attend meetings and express their views. They volunteer or accept requests to serve on committees, or to represent the co-operative. They vote regularly on issues presented to them. They encourage others to help the co-operative better serve member's needs.

Serving on the board of directors can take a lot of time. So persons being considered for the board must have the time to serve, or express a willingness to make time to carry out the formal and informal duties of a director.

Typically, documented time for official co-operative business (travel to and from meetings, meeting time and committee work) may be only one or two days per month, but it is unaccounted time that can add up. Directors may spend time writing letters, or writing and giving talks. They read materials to prepare for meetings, or just to become better informed. Self-directed or formal training to be a better director takes time. Directors get phone calls from members or questions whenever or wherever they meet. With every visit to the co-operative, the director is vulnerable to take a minute or two to consider an issue or some aspect of the co-operative's activities.

Directors are often asked to represent the co-operative at community events, and perhaps to take leadership roles in community organizations on behalf of the co-operative. Particularly in larger co-operatives, they are periodically asked to visit provincial and federal legislators. Often, co-operative related time will be at the expense of the director's business or personal time.

Some people seem to have a knack for picking up information, piecing facts together, being right on target with their views and well known for having something worthwhile to say. Chances are they are good conversationalists, but with a keen ability to listen. They demonstrate a talent for expressing their views in a clear and well organized fashion. Look for these attributes in selecting a director. A key requirement for a good director is to establish two-way communications with the manager, other directors and members.

Needed actions to maintain the vitality and growth of the co-operative are not always readily apparent at the time decisions must be made. And some decisions may be unpopular to a sizeable segment of the membership. Directors with good communications skills are needed to clearly present the rationale for board and management actions to the membership.

As a good communicator, a director can be a powerful force for strengthening member support, promoting the co-operative in the community, and in other ways influencing the business environment in which the co-operative operates.

A unique business judgment is needed by directors of a co-operative. As members, they run a profit-oriented business as a sole proprietorship, a family partnership; or in a few cases, a family corporation. As directors of a co-operative, they may be responsible for a service-oriented business owned by hundreds of members.

Fundamental business principles, such as adequate capitalization, sufficient cash flow, operating efficiency and quality control still apply; however, the new application of business judgment comes from the special relationship between member and co-operative. Decisions must be sound and beneficial from the standpoint of both, rather than at the expense of one. Instead of gaining approval by discussion at the family dinner table, the directors must have the support of a majority of many owners. Thus, decisions must attempt to strike a balance in addressing needs of members, whether they own large or small, general or specialized operations.

Whether or not a member has sound business judgment may be difficult to determine. Farms or other business sizes alone may not be a valid indication; neither will new equipment or freshly painted buildings. A better barometer is the member who seems to be making the most of available

resources and is known to be a solid thinker. Members with relevant college degrees or other business experience could bring a special expertise to the board.

Pointing out the need for honesty and trustworthiness in directors should not even have to be mentioned; but it is important to point out news media reports to the contrary in the business world. At the extreme are examples of dishonest or illegal acts that have caused businesses to fail. Short of that extreme are instances in which actions of officers of a company cost the owners a great deal of money, either from business transactions or subsequent legal actions.

A director should have good personal traits and exhibit even temperament. Nothing is more disruptive than an emotional outburst in a board meeting. Thin skins and quick tempers do not make good directors. Rather, the member who demonstrates an ability to get along with other people has a quality needed in a director. In assessing all the qualifications a member exhibits, an important final question to resolve is 'will this member's personality mesh with those of other directors and the manager'?

Members should choose a director with the kind of personal character they are comfortable with as the representative of the co-operative; and in some respects, with each of them personally on any occasion or in any situation.

Members who are involved in community activities are potentially good directors. They may belong to civic, church and school organizations; participate in fund raisers or community booster projects, or are involved in another business, even perhaps a co-operative. They may be active in organizations extending outside of the community, such as trade associations, farm organizations and academic and professional clubs. Their suitability and capability to be a director would be even stronger if they are serving, or had served, in a leadership role in these activities.

Such involvement gives the director a wealth of information sources and personal contacts that could be valuable in many situations. Further, the director would have a broader understanding of the personal and institutional relationships that make up a community. Such a background gives the director a perspective to help direct the co-operative's operations within the larger context of its community and business environment.

How Directors are Selected

Director selection methods can vary according to the co-operative's size, structure and function. A method that works well for a small local area co-operative may not be suitable for a large federation of local or regional co-operatives disbursed regionally or nationally.

Larger organizations must be more attentive to equal or equitable representation when deciding on selection methods and voting rights. Co-operative's democratic control principle has been interpreted most commonly to mean equal voting rights, yet the principle does not preclude using proportional voting to achieve equability in serving members.

Selection methods under normal circumstances are presented here. Not covered are situations requiring the filling of an unexpired term or when mergers and consolidations occur.

Usually, but not always, the co-operative's by-laws provide guidance on how directors are to be selected. Provincial statutes may contain provisions related to director selection.

The nominating committee is presented as the preferred method, although valid rationales exist for alternatives. Selection methods to consider are:

- Equal or equitable
- Democratic or proportional

Many co-operatives elect directors 'at large', meaning the entire membership can vote directly to fill each director position and each director represents the entire membership. As a co-operative grows, the composition of its membership changes or it combines with other co-operatives, the 'at large' method may become impractical.

A co-operative then must develop a different system to produce equitable representation of the membership. One method is to divide the co-operative's territory into geographical districts with nearly equal membership numbers. Another is to establish roughly equal territories based on volume of member business. Some co-operatives may establish districts along major commodity lines or other interests. A few large co-operatives have provisions for a public 'at large' director who can contribute a special expertise, such as an economist, lawyer, or financial or governmental affairs specialist.

The making of an effective board of directors begins with the proper use of a nominating committee. This small committee, typically two to three persons, can exert significant influence on director selection even though most co-operative's by-laws provide for nominations from the floor.

How the nominating committee is selected can vary. By-laws may determine the procedure. Additionally, a handbook describing the duties of the nominating committee would be helpful. The committee may be appointed by the board chairperson, or elected by the membership.

Regardless of method, the members need to be familiar with director qualifications, the articles and by-laws, and leading candidates among the membership. Directors, hired management or staff should not serve on the committee. However, former directors have the experience to be good committee members.

Through personal contact, nominating committee members ask potential candidates whether they are interested in serving on the board and also determine if they meet the qualifications specified in the by-laws. A biographical sketch of each candidate should be developed and made available to the membership before the election. An ideal slate offers at least two candidates for each position, thus giving members a choice.

Some co-operatives may have such a large membership or be so widely scattered that district member caucuses may be needed to nominate candidates. In some cases, members nominate candidates through mail balloting, with the two candidates receiving the highest number of nominations becoming part of the official slate.

What Directors Do

Responsibility Characteristics

Understanding the difference between manager and director roles is a key requirement for board effectiveness and harmony, and the roles in a co-operative are unique among businesses. That

uniqueness centers on the employee-only status of the manager in a co-operative, compared to the manager in other businesses typically sharing in ownership. In a co-operative, the manager is seldom a member of the board. A more decisive difference exists between the director and manager roles and responsibilities.

Directors maintain a longer term and more strategic perspective. They are concerned with how the co-operative can better serve member's needs and what general changes may be necessary in organizational and operating policies. The manager is action and tactic oriented in running the day-to-day operations in response to the goals and objectives set by the board. Members delegate direct control of the co-operative to the board of directors, who in turn delegate daily operational control to the manager.



Preserve Character

Preserving the co-operative character would seem to be an easy responsibility for directors. Each province has at least one statute that describes the principles and practices a business must follow to be regarded as a co-operative. Federal laws also have requirements specific to co-operatives related to government programs, antitrust and taxation. Additionally, the co-operative's articles of incorporation and by-laws set out what the co-operative is and how it must operate. Directors can be held legally liable as individuals for violating these laws and regulations.

However, a subtle but very real threat to the co-operative character can develop over time. Management and board philosophy can drift from the co-operative's formerly adopted mission or by losing touch with member's changing needs. Without continual education of the key participants (manager and staff, directors and members) the co-operative character, except that defined by law, can slip away with perhaps not even a whimper of protest and become regarded the same as any other business.

Safeguard Assets

Members invest money in a co-operative with expectations of some kind of beneficial return, whether it is in the form of fulfilling a need, increasing income or otherwise contributing to an enhanced quality of life.

They entrust the board of directors to make sound business decisions that not only protect their investments, but also increase the value in terms of producing benefits. Directors are held accountable for both their actions and those of hired management. The board is responsible for equitably distributing benefits, often among a diverse membership. In doing so, directors must judiciously weigh the needs of the co-operative as a business and the requirement to return benefits to member owners.

Such critical financial decisions demand independent review. Therefore, the board is responsible for recommending to members an outside and independent individual or firm to audit the co-operative's financial decisions and records each year. The annual report to members documents the results of that audit.

Hire a Manager

The single most important decision the board of directors makes that can determine the success or failure of the co-operative is hiring the manager; and, among the more difficult board decisions is deciding to fire the manager for unacceptable performance. Finding the right manager takes a diligent search and objective appraisal of candidate's qualifications. Beyond business education and experience, the board looks for characteristics of leadership, compatibility of attitudes and goals, and knowledge of the uniqueness of the co-operative.

The board delegates control of the co-operative's day-to-day operations to the manager, including the freedom to hire and fire staff, develop business plans, make financial decisions, sign contracts and represent the co-operative in business and community activities. The board provides direction, guidance and control of the manager through by-law provisions, written policies, budgeting, strategic planning, reporting requirements and performance accountability.

A written job description, personal performance criteria and clearly stated and achievable business objectives provide the basis for the board to conduct an annual review of the manager's performance. The performance review process provides the board an opportunity to discuss the manager's strengths and weaknesses. A successful session produces ways to improve performance, including an agreement on what is expected of the manager during the coming year.

Set Policies

A policy is a statement that provides guidelines for actions to attain the objectives of the co-operative and reflects the co-operative's basic philosophy. It is the duty and responsibility of the board to originate and approve general policies that relate to functions the co-operative performs and how it conducts business. These policies cover all aspects of the co-operative's activities, internally and externally. They provide a basis for making consistent decisions that can minimize conflict and maximize equitability.

Policies may be broad in content, such as describing the desired role for the co-operative in the community; or quite specific, such as setting hours of operation and observed holidays. Policy-making is the central role of the board. Policies answer the questions 'what should be the results?'

and 'how will our being in business affect our world?' Boards should follow categories of policies for debate and pronouncements based on the need for governance about:

- End results - what members need, for who and at what costs
- Executive limitations - principles of prudence and ethics that limit staff means
- Board/executive relationship - how is power passed to the executive and how is the power assessed
- Board processes - how the board represents ownership and provides strategic leadership

Policies should be written, approved with a board official's signature and reviewed periodically, some at least once a year, to determine if they are still applicable or need to be updated.

Distribute Benefits

At the end of the business year, the co-operative's performance is recorded on a year-end statement of operations and balance sheet. The board of directors must then determine how the net income (or loss) will be distributed.

Several demands on net income must be considered. It is prudent business management to set aside a portion of the net income in a reserve fund, in case an unexpected event with adverse financial impact should occur. Co-operative principles require that benefits be returned to members on the basis of their patronage use, but also that members must finance their co-operative on the basis of use. So the board must decide the percentage of the patronage refund to be paid to members in cash and how much they should reinvest to operate the co-operative. Federal tax law requires that at least 15 percent of the refund must be issued as a tax credit to members who are producers or purchase for business purposes, when the refund is over one hundred dollars.

Reinvested patronage refunds become the member's equity (ownership) in the co-operative. As new equity is accumulated, old equity is revolved back to the member. This is called equity redemption, and it is the board's responsibility to assess the financial strength of the co-operative and decide how much of the old equities can be paid back to the members.

Plan for the Future

Directors are the ideal planners of the co-operative's future and what results (ends) are desired. As members, they know what needs the co-operative should strive to fulfill. As directors, they can provide leadership in developing the plans to meet those needs and see they are carried out.

The planning process begins with an assessment of the general business climate, both for the co-operative and for members, and how that climate may change over the planning time period. Long range planning considers organizational growth, either internally or through merger, in terms of business volume, membership and territory served. Plans are developed for replacing or adding new facilities and equipment. Changes in products and services are considered. Financial and personnel requirements are estimated. Strategies are developed, timetables established and progress review and evaluation points are set.

Although planning for the co-operative's future is the responsibility of the board of directors, the actual planning process is carried out jointly with operating management. Larger co-operatives may even have a planning unit and involve substantial contributions to the plan itself from key staff members.

Evaluate

Self-evaluation can lead to self-improvement, even when it occurs subconsciously without form or direction; persons (or groups) in positions of leadership need to make a conscious effort to evaluate their performance in an organized manner. A board of directors needs to go through a formal process each year to determine how well it fulfilled the co-operative's objectives.

Regardless of the format or system, the evaluation goal is to determine the individual strengths and weaknesses of directors in carrying out their duties and responsibilities, and their effectiveness as a board. Performance elements range from those specific and measurable to those general and judgmental.

Performance that is specific and measurable can be determined simply with 'yes' or 'no' answers, dollar amounts, percentage attained, or by other concrete evidence. Was an annual audit conducted? Did the board meet as planned? Was the manager evaluated? How well was the business plan carried out? Were policies reviewed? Was the long-term plan updated?

General and judgmental elements may be assessed only through the composite opinions of individual directors. How well did the board work with the manager? Were board meetings conducted harmoniously? Was the board dominated by the manager or the board chairperson? Did directors place member interest above their own? Did the board focus on member needs?

In addition to looking at director and board performance related to the co-operative's business operations, performance needs to be assessed in terms of carrying out responsibilities to members and personal and business relationships in the community or territory in which the co-operative operates. Annually, directors do a self-evaluation which is:

- Specific and measurable
- General and judgmental

Individual Board Member Evaluation

Please review and answer each question. This evaluation is for your own benefit and your answers are for your own knowledge and information. The purpose of this exercise is to help you review your activities and contributions as a board member, as well as to help you identify specific objectives for strengthening your future performance.

Board Organization & Procedure Orientation

1. Have you reviewed and are you familiar with the following:

The organization's current mission, goals and objectives	Yes <input type="checkbox"/>	No <input type="checkbox"/>
The Act, Regulations and by-laws	Yes <input type="checkbox"/>	No <input type="checkbox"/>
The corporate organizational structure	Yes <input type="checkbox"/>	No <input type="checkbox"/>
The organization of the board	Yes <input type="checkbox"/>	No <input type="checkbox"/>
The list of policies of the board and management	Yes <input type="checkbox"/>	No <input type="checkbox"/>

2. Do you prepare for each board meeting by reading and analyzing all materials sent in advance of the meeting? Yes ☐ No ☐

3. How would you rate your attendance and participation in the following?
- | | | | |
|--|------------------------------------|-------------------------------|-------------------------------|
| Board meetings and discussions | Very Good <input type="checkbox"/> | Good <input type="checkbox"/> | Poor <input type="checkbox"/> |
| Committee meetings and discussions | Very Good <input type="checkbox"/> | Good <input type="checkbox"/> | Poor <input type="checkbox"/> |
| Concerns regarding proposals and/or voting | Very Good <input type="checkbox"/> | Good <input type="checkbox"/> | Poor <input type="checkbox"/> |
4. Once a vote is taken by the board, do you always support the position, even if you did not vote in the majority? Yes ☐ No ☐
5. Have you recommended new or beneficial ideas in the past year for improving the performance of the board? Yes ☐ No ☐
6. Have you contributed directly to the achievement of one or more of the board's annual objectives? Yes ☐ No ☐
7. What steps will you take in the coming year to increase your knowledge of and participation in the board's operations and committee structures?
- a. _____
- b. _____
- c. _____

External Representation

1. In what ways have you been an effective representative of the organization to the public or specific groups outside the organization? _____
- _____
- _____
2. How have you helped the community to become more aware of the organization and its role in the community? _____
- _____
- _____
3. How have you helped management to become more involved and better known in the area? _____
- _____
- _____
4. What steps will you take in the coming year to increase your effectiveness as a representative of your organization? _____
- _____
- _____

Personal Development

1. How well do you feel you understand the current issues in your industry/sector and their potential impact on your organization and its people?

Very Good ☐ Good ☐ Poor ☐

2. How familiar are you with the services and programs of your organization?

Very Good ☐ Good ☐ Poor ☐

3. What steps will you take in the coming year to increase your knowledge of critical issues facing your organization & their impact on the services & programs of the organization? _____

Relationships

1. How would you characterize your working relationship with the other board members and the senior management staff?

Very Good ☐ Good ☐ Poor ☐

2. What steps will you take in the coming year to strengthen these relationships? _____

Tenure on the Board

1. Do you feel you are an effective board member and still the best person to fill your position as a board member? _____

2. Are you comfortable with the amount of time you devote to being a board member of the organization? Yes ☐ No ☐

3. What steps in addition to the ones above can you take to further improve your performance as a board member? _____

Review your responses to this questionnaire in six months in order to track your progress toward the objectives you have set for yourself as a member of the board of directors.

The Manager Represents the Co-operative

As the person in charge on a daily basis, the manager is called upon to represent the co-operative in many ways. How that function is carried out is guided by the co-operative's policies and specific directives from the board. The manager's own interests may also influence the type and extent of representation on behalf of the co-operative. The manager represents the co-operative in at least four areas; community, co-operatives, industry and government.

Community

As a business leader, the manager is called upon to participate in a variety of community activities, such as helping to raise funds for charities, speaking at business and social events and becoming a member of the Chamber of Commerce or other community service organizations.

Co-operatives

The board of directors may select the manager to be the co-operative's voting delegate or official representative to other co-operatives or co-operative organizations. At the discretion of the board, the manager may serve on the board of directors for other co-operatives.

Industry

Most industries have professional or trade associations to protect or enhance their business interests. The manager may be involved in one or more of the key organizations closely related to the co-operative's functions.

Government

Managers who are particularly convincing speakers are often called upon to speak to regulatory officials and policy-makers on issues affecting the co-operative or its members.

Even in personal actions and activities, many people see the manager as representing the co-operative. It is a responsibility that requires constant and careful attention.

Reporting to Members

In co-operatives where the manager has daily contact with members as they transact business, informal reporting often takes place just in conversation. This is a natural time for members to comment on the quality of products and services, or on needs unfilled or to raise questions about policies. Likewise, it is a time when the manager is likely to talk about new products and services, or other changes around the co-operative.

The manager may use special events for more organized reporting, such as meeting with member committees, holding an open house or appreciation day or conducting product demonstrations.

Some managers write letters to members periodically, while others visit with members on an individual basis at their business or in their home. More typically, the co-operative will publish a member newsletter, newspaper or magazine to cover a wide range of information about co-operative operations and information related to the industries in which the co-operative operates. Often, the member publication will contain a manager's column as a regular feature.

The official report to members, required by the by-laws, takes place at the annual meeting. Although it is not as detailed, the manager's report contains the same type of financial information as presented to the board of directors throughout the year. Additionally, the manager will discuss operational highlights, problems encountered and the outlook for the coming year.

Frequent and varied reporting to members often generates important feedback to the manager. Encouraging member feedback, whatever the reporting format, may provide the manager with some better ideas or advice for improving the co-operative's service to members. Member's ideas and suggestions are important, after all, they are the owners!

What the Co-operative Manager Does (the Co-operative Difference)

A co-operative (like any business) is managed to benefit its owners. Unlike other businesses, most, if not all, of the co-operative's business is conducted with or for its members who are also the owners. When the customers are also the owners, managing a business is different.

Management technique may be similar, but the co-operative's purpose and operating principles are factors of decision-making that may produce vastly different conclusions and courses of action.

Purchasing Co-operatives

Farm supplies or groceries, for example, focus on obtaining quality products that consumers need rather than on searching for products that maximize the co-operative's net income. The manager knows that the member invested money in the co-operative to get certain supplies rather than a monetary return on the investment.

Marketing Co-operatives

Fish, agricultural and worker (labour), for example, are obligated often by a pre existing agreement, to receive and market products of its members. The manager cannot pick and choose among member producers to the advantage of the co-operative and disadvantage of some members. The marketing manager has the delicate role of fulfilling member's needs as producers and meeting the desires of customers buying the co-operative's products.

Service Co-operatives

Water, marina, management services and health care, for example, by management objective may make little or no net income because the user-owners formed the co-operative to get that certain service at the least possible cost.

People form co-operatives as a supportive business to get a product or service that benefits them individually or contributes to the profitability of their primary business. That fundamentally different business objective carries a unique set of decision factors that makes managing a co-operative different from managing a profit-oriented business.

The manager of an investor-owned company needs to satisfy stockholders with the yield they are getting on the money they have invested. The manager of a co-operative needs to satisfy its members but needs a lot more from them, such as information, participation and decision-making help.

Members are encouraged to attend annual meetings, discuss co-operative operations and direction, express their changing needs, serve on committees and elect their representatives on the board of directors. A formidable communications task is needed (and is essential) if members are to carry out their duties intelligently. That is what makes managing a co-operative different.

The experienced manager and board of directors know that a co-operative will be only as progressive as the membership will allow it to be. The co-operative will change with the times only if at least the majority of the membership is aware of the need to change.

In the user owned and democratically controlled co-operative, the management communications challenge is more complex, not just because of the greater number of owners needing to be kept informed, but also because of the reasons the owners invested in the business. Investors are primarily concerned with financial performance. Members of a co-operative are also concerned about its financial performance, but they are far more concerned about its products and services, these have a much greater impact on their lives and/or businesses. A marketing co-operative's greatest value to its members is providing the market for the member's original product. Added value comes when the co-operative processes and packages the member's product into a desirable consumer product.

The manager must cultivate the involvement of the members to formulate a co-operative business operation and strategy that are always focused on providing the products and services members need.

A co-operative's manager has a far closer and more personal relationship with the owners than the manager of other kinds of businesses. This is because the owners of a co-operative constitute the majority, if not all, of the co-operative's customers. This daily contact with many of the owners makes managing a co-operative different.

In addition to questions and opinions about products and services, the manager may get the same queries about employees, facilities and equipment, how the business is doing, and even about how the co-operative is being managed. Regardless of whether the questions are appropriate or the opinions accurate, the co-operative manager knows that answers to customers who are also owners need to be thought out and worded carefully. 'Managing in a fishbowl' is how the job has been described.

In small co-operatives, the manager may be among the employees who fill orders and ring in sales on the cash register. In large co-operatives, a typical practice is to sponsor member tours of the co-operative facilities. Open houses, appreciation days and other activities aimed at generating member involvement in the co-operative's affairs place the manager in frequent personal contact with members.

Most co-operatives produce various types of written communications for their members, such as a manager's newsletter or a manager's column as part of the newsletter or magazine.

Frequent contact with the owners of the business may be a problem at times, but it is always an opportunity for the manager to communicate what the co-operative is doing for members and to learn how members believe the co-operative can better serve their needs.

Managing a co-operative can be similar to managing other businesses in terms of functions performed, compensation received and personal satisfaction gained. But an important difference is that the manager of a co-operative is always a hired employee and may never acquire ownership rights.

Co-operatives, as user owned, focused and controlled businesses, make a sharp separation between operating management and ownership in contrast to the involvement of management in the ownership of other types of businesses. Even if the manager uses the co-operative's services and could otherwise qualify as a member, the separation is maintained to avoid the possibility of conflict of interest. The manager is hired to manage the business, focusing energies and efforts on serving members.

Managers can be motivated by factors such as pay, power, prestige and gaining a 'place in history', and these motivations are available to managers of co-operatives as well. But stock options, leveraged buyouts or other power plays to gain control are out of the question. A board of directors interviewing management candidates makes the ownership issue clear and further stresses that the manager is totally accountable to the board. Candidates then weigh those conditions against their desired management style and personal ambitions.

Co-operatives attempt to match their competition in getting the best managers, offering comparable wages and benefits, performance incentives and retirement programs. Except to emphasize the need to involve members in ways unique to a user-owned and democratically controlled business, the wise board will leave the managing of the co-operative to the manager.

Purpose & Objectives

Ideally, all of the key participants in a co-operative (members, directors, employees and the manager) should be familiar with the purpose and objectives of a co-operative. However, the person who really needs to know the 'nuts and bolts' that hold a co-operative together and make it work is the manager. That is why a board hires a professional, someone who is a skilled technician, not only in business management, not only in a certain industry such as marketing or manufacturing, but also in the particular business form known as the co-operative.

Members and directors of some co-operatives own profit-oriented businesses, such as farming or fish operations, while others may be individuals just looking for lower cost housing or a service such as childcare. These people are drawn together by a common need and they have learned enough to believe a co-operative will fulfill that need. They may not have a thorough knowledge of exactly what a co-operative is and how it works. It is the professional manager who needs to know co-operative organizations, operation and how it can fulfill their special needs.

It is not uncommon for the manager to be the 'teacher' of co-operative principles and practices for the membership, board and employees; including explaining their roles and responsibilities. The manager is fortunate if the board includes directors with present or prior experience and involvement in other kinds of co-operatives. However, it is usually the manager conducting planning, suggesting policies and policy changes, presenting facility proposals, developing the

formulas for distribution of benefits and submitting the results of work to the board and membership for approval.

Members and directors do know what they want from the co-operative. It is up to the manager to determine how the co-operative can respond.



Responsibilities

Understanding the difference between manager and director roles is a key requirement for an effective and harmonious relationship. For most companies these roles are generally the same. There is one important distinction in a co-operative. That distinction revolves around the employee-only status of the manager. In a co-operative, the manager does not share in ownership and is seldom an official member of the board. This decisive difference from other corporations produces a cleaner separation between manager and director responsibilities.

Directors maintain a longer term and more strategic perspective. They are concerned with how the co-operative can better serve member needs and what general changes may be necessary in organizational and operating policies. The board hires the manager to handle details.

The manager is action and tactics oriented in running the day-to-day operations in response to objectives set by the board. Members delegate direct control of the co-operative to the board of directors, which in turn delegates operational control to the manager.

Personalities often influence, and sometimes even dominate, the manager/board relationship, but the ability of directors and managers to know when they are stepping on each other's turf is the key to a harmonious working relationship.

Implements Board Policies

Policies set by the board of directors guide the manager's actions and decisions. These policies are discussed, written in final form, approved, and reviewed at least annually by the board. To promote clear understanding, a policy manual is made available to each director and the manager.

Policy statements may be general in content, reflecting the board's philosophy of what kind of business the co-operative should be:

'...strive to provide leadership and co-operate with other businesses, community and civic groups in promoting and carrying out programs of mutual interest and benefit to the community'

Thus, the manager has a basis for making a decision on minor commitments to participate in community events without first getting board approval. Policies may also be specific:

'...no additional credit shall be extended to any patron whose account is over 120 days past due'

Such a policy gives the manager authority to refuse extending additional credit even to a director.

Some other simplified examples of how a manager implements board policy are:

- Policy - an independent Certified Public Accountant shall audit the financial records at the end of each fiscal year
Implementation - the manager keeps appropriate records and provides other information that is necessary to complete an audit
- Policy - an annual business plan shall be prepared for approval and progress reports made at monthly board meetings
Implementation - without further specifics, the manager prepares a budget for approval, then compares the budget to actual business transacted and reports any other information that would help the board understand the co-operative's financial status
- Policy - employee pay raises shall be based on job performance
Implementation - job descriptions and performance standards are written for each employee and performance is reviewed annually
- Policy - an annual membership meeting shall be held
Implementation - various meeting committees are formed to plan the time, place, content, physical arrangements and publicity

Members and their elected board of directors may not be experienced in running a business, or their business experience may be quite different from operating a co-operative. For example, running a family business for profit is different in many ways from running a co-operative with many owners and a function to create profit for the owners based on use rather than for the co-operative itself. In essence, the co-operative is a subsidiary to the family business. This supportive orientation is different. The way that commodities are handled and functions are performed is different. Facilities, personnel and much of the equipment are different. Thus, the professional

manager is hired not only to manage the co-operative, but also to advise the board of directors on how the business can be operated most effectively.

The manager is expected to provide technical advice in many areas, including:

- Competitive strategy - cost cutting, pricing policy, service packages, co-operative benefits
- Financial strategy - credit control, debt load, cash flow, member equity
- Operational strategy – product storage and handling, pick up and delivery schedules, administrative procedures, store traffic organization, staffing
- New technology and equipment - industry innovations, improved machinery, research results
- New products and services - additions or replacements, product information
- Policy changes - made necessary because of problems with implementation, or by changes in business environment
- Regulatory changes - chemical use, worker safety, environmental contaminations
- Government affairs - new or changed legislation, government assistance programs, involvement in public policy

Manager's Daily Operations

Some textbooks describe management as the process of planning, organizing, directing, coordinating and controlling; but something happens to those five straightforward functions in the transformation to real life application, whether the manager heads a small or large department, organization or business, including a co-operative.

A more realistic description of the atmosphere in which these functions are performed is something like this:

- Planning - bookkeeper calls in sick, so the financial report won't be ready for the afternoon board meeting and the fire safety inspector arrives unannounced
- Organizing - feed delivery truck calls in to report a breakdown on the road, cash register computer locks up, and the board president drops in for a chat
- Directing – high school student waiting to solicit ad for school paper and a member is waiting to complain about the new credit policy
- Coordinating - wife calls to report water heater leaking and a supervisor arrives for performance review
- Controlling - director walks in complaining about treatment from an employee and a railroad dispatcher calls to say a railcar shortage means only six instead of eight cars will be available for a shipment

That more typical scenario of managing takes place in times of headaches and heartaches, irritation or elation, in winter and summer, year after year. These scenarios apply not only to the manager, but also to the entire staff.

In managing people, money and facilities, the manager wears many hats at different times in assuming the roles of coach and player, educator and motivator, diplomat and dictator, mediator

and magician, judge and jury, leader and follower, analyst and activist. The manager is always accountable. To most people the manager is simply the person who gets things done!

Hiring Staff

Hiring and maintaining competent staff is the manager's most important job. It is through people that the manager gets things done. In fact, how well the manager selects employees directly bears on how difficult the job of managing will be.

The rare opportunity is to assemble a staff from the start. Usually, the manager inherits a staff and makes changes as employees leave, retire or (in extreme situations) are fired. In any case, the board of directors needs to provide the manager with the proper tools to build the best possible staff.

Hiring tools given to the manager include a wage and salary plan, an attractive benefits package with performance incentives, health care, vacation and sick leave, retirement, acceptable working conditions, clear personnel policies in writing, an organization chart, job descriptions and performance standards.

The organization chart and the job descriptions are the blueprint tools for the manager. They describe what functions must be performed and the knowledge, skills and abilities needed for the co-operative to accomplish its purpose. The manager then finds candidates with the right education or experience and desirable personality traits and work habits.

Assembling a cohesive workforce is just the beginning of the manager's personnel responsibilities. Effective communication with employees is maintained through daily contact, regular employee meetings and at least an annual, formal performance appraisal.

The employees make the co-operative work for members and must understand the business they work for. However, the manager is the key employee, providing direction, leadership and motivation, resulting in a harmonious and purposeful work atmosphere.

Setting Goals

Managers continually plan as they direct the daily affairs of the co-operative, reaching to events as they occur. This informal, almost subconscious, planning comes with informal goals summed up simply as 'getting the job done'.

Formal planning and goal setting is a more deliberate process that takes place to implement the policies, directives and long-term goals of the board of directors. Planning and goal setting provides a basis for measuring how well the co-operative is meeting member's needs.

The manager is responsible for developing short-term tactical plans, typically a year ahead, while the board is responsible for long-term and more strategic planning that may look up to five years ahead. It is not uncommon, particularly in progressive co-operatives, for the manager and key staff to also develop long-term plans for review and approval by the board of directors.

A short-term plan may be limited to developing a budget for the coming year or may be a business plan containing more than just financial goals. Short-term plans, for example, might be developed for increasing sales or marketing volume, increasing operating efficiency, expanding territory served, increasing the number of member meetings or entering the final phase of a long-term plan, such as merging with a neighboring co-operative.

The manager's planning and goal setting also applies to their own performance and to the performance of each employee. This exercise is an integral part of evaluating job performance, including identifying training requirements or needed changes in policies and operating procedures.

Setting goals and laying plans to reach those goals is a deliberate process to improve the effectiveness of the co-operative in returning benefits to its members.

Reporting to the Board

One of the important responsibilities of the manager is to ensure that the board of directors is not surprised by events that occur at the co-operative. Even if the by-laws or board policy do not require information to be reported, the prudent manager keeps the board well informed on anything that could affect operations. The manager should sound out the board president on intended plans or actions and should report some decisions to directors so they know before the rest of the membership.

Formal reporting takes place at regularly scheduled meetings of the board of directors, usually monthly. By-laws and board policy will prescribe what required information should be in the manager's report. Financial statements and information on major issues or proposed actions should go to directors at least one week before the board meeting, so they can study the material and be prepared to ask questions or make decisions. Major items in the manager's report include:

- A statement of operations with budget comparisons
- A balance sheet with comparisons to one or more previous years
- Accounts receivable status, with particular attention to delinquent accounts
- Progress toward goals set as part of planning at the beginning of the year
- Summary of operations during the most recent period
- Proposals for immediate action or longer-term consideration

Some managers also report to directors periodically by personal letter or regularly in a newsletter format. Content designated is to keep directors informed not only about the co-operative, but also about industry trends, research results, governmental regulations and even the manager's philosophy about running the co-operative and improving its performance.

Complete and accurate reports to the board are necessary for good business management and effective reporting helps build mutual respect and trust between the manager and board.

Co-operative Employees

Co-operative employees work for a unique organization because the business owners are the day-to-day customers. By contrast, most employees of investor-owned firms have little (if any) contact with customers, much less owners, through the course of their careers.

This close contact with the owners requires certain sensitivity by co-operative employees in serving member's needs. Therefore, employees become the pillar for the success of their co-operative.

What are co-operatives and what makes them so different? Co-operatives are user-owned and democratically controlled businesses from which benefits are derived by members in proportion to use. Co-operatives are operated for the mutual benefit of the members. This unique type operates under three distinct principles:

User Financed

This principle means that the customer or people who use the co-operative are its owners. Their responsibility is to provide the equity capital or risk capital for operating the business. Other funds necessary for financing the operation may be borrowed from sources such as local banks, credit unions and nationwide organizations.

User Controlled

Customers control the overall operations and the purpose of the business through their elected directors. Directors respond to the wishes of the members when setting the objectives and goals of the co-operative. Directors who do not respond to member's needs may not be re-elected.

User Benefits

Members enjoy the benefits of the business because they accept the financial risk of capitalizing it. Members share the benefits of different types of co-operatives in different ways. They may be from sharing the profit or loss generated by business activity, or gaining services they cannot receive elsewhere.

The Co-operative Business Structure

Co-operatives are people organizations. They are organized to serve people's needs either by increasing their economic income or by providing products and services not available from other sectors of the business community. Four distinct groups each with separate roles comprise a co-operative, but all coordinate to accomplish the objective of a successful business. These groups are:

Members

These are the business owners who organize, incorporate, finance and elect a board of directors to set the co-operative's policies.

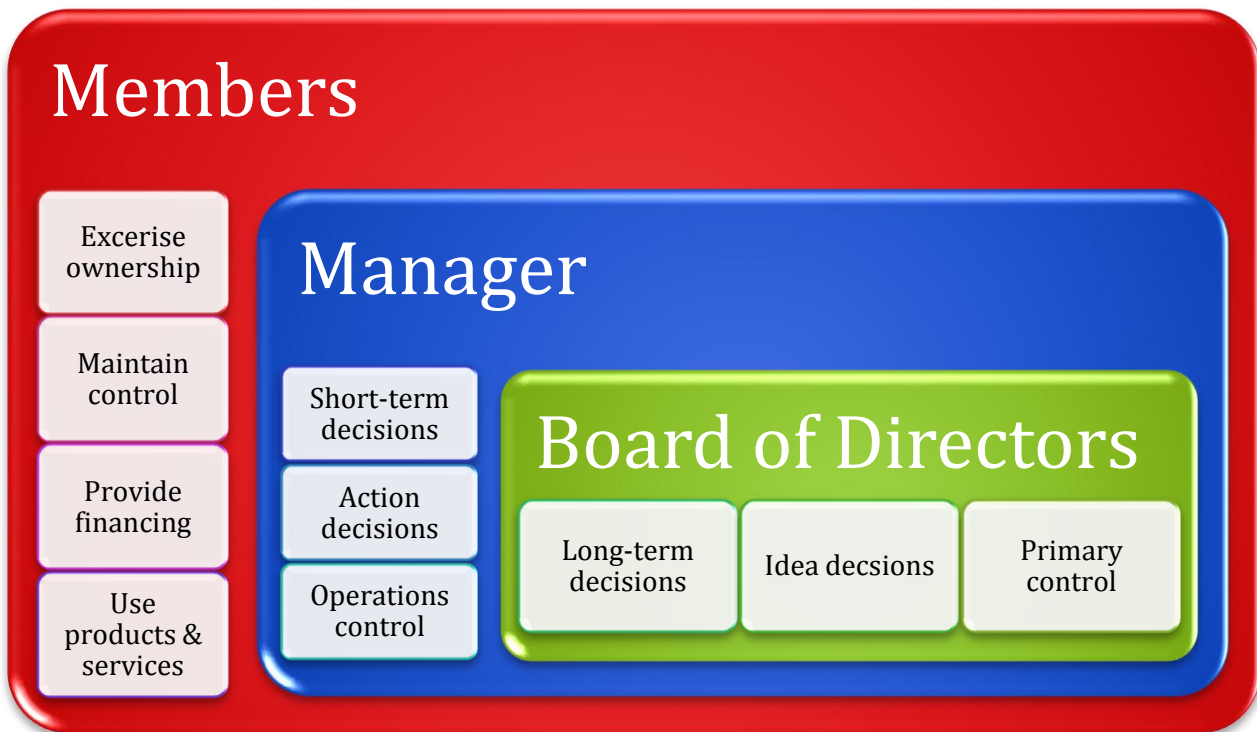
Directors

Members of the board of directors are elected by, and serve at the will of, the membership. Some co-operatives may limit the years or terms directors may serve. The directors have two primary

responsibilities; hire competent management and guide the direction of the business by providing policy and oversight to its operations.

Manager

As a co-operative employee, the manager serves at the pleasure of the board. Managers are responsible for the day-to-day operations of the co-operative. One of their most important tasks is to hire quality employees. In the chain of reporting relationships, employees are directly responsible to the manager, but the final evaluation of their productivity comes from customers (the owners) of the co-operative.



Employees

Members want and expect good service and fair treatment from the employees of a co-operative business. Employees must understand that this unique business relationship places added emphasis on people skills when dealing with members.

Co-operative employees are the glue that binds members to their business. Employees deliver the supplies customers buy, order and maintain inventories, keep accurate accounting records, provide services, advise and recommend products to meet customer's special wants and needs, handle customer complaints, represent the co-operative in the business and civic community, educate the members and public about the goods and services offered by the co-operative, adequately maintain facilities to serve members and help to instruct and educate other employees. Employee careers often span the employment of several managers and numerous elected directors. Employees are the co-operative's frontline business representatives to the members, other customers and the community.

Characteristics of the Quality Employee

The qualities of co-operative employees are not unlike those of employees working for investor-owned businesses. However, because of the unique ownership structure, people working in co-operatives are often regarded as a personal employee of every customer. To meet this unique demand, employees need particular characteristics.

Develop a Positive Attitude

All of us like to be treated special. The 'make me feel important' sales tool is valuable when dealing with all types of customers. This same attitude of respect and a positive attitude also help to build a team spirit among employees of the co-operative. Repeat business, customer satisfaction and co-operative business success depend on all employees displaying a positive attitude. Customers appraise employee attitude when answering the telephone and handling customer complaints promptly and fairly.

Understand & Support the Co-operative

It is hard for employees to deliver quality services if they do not understand the business that employs them. Co-operatives are a unique business structure. The customer owns the business. Ownership entitles members to services they may not expect or request from privately held businesses. This also places certain responsibilities on the owner.

These two unique characteristics set co-operative employees apart from those in other types of business. Co-operative employees are often asked questions about internal operations and the earnings of the business. A well informed employee knows how to handle these questions in a way that satisfies the member, without revealing information that could be useful to the competition. Managers and key personnel must keep all employees well informed on current co-operative information.

Follow Policies & Rules

A well informed employee keeps abreast of current co-operative policies and rules. The purpose and application of any policy or rule should be discussed with a supervisor or explained in an employee meeting. Policies and rules are implemented to safeguard member interests, set good business standards and ensure the co-operative's success.

An employee's supervisor or the manager is responsible for handling any conflict with the co-operative's policy. If an exception to a policy is requested, it is the responsibility of the employee's supervisor or the manager to interpret, evaluate and act on the request. A well informed employee avoids evaluating policy or rules to fit a particular situation or circumstance. Employees should implement the co-operative's policy and rules in a fair and equitable manner toward all customers.

Respect & Treat Fairly All Customers

As customers, co-operative members want to be treated fairly and honestly by the business they own. Special concessions shared with selected customers soon bring dissatisfaction among all customers. While some members may feel they should receive special treatment because they are owners, employees who treat all customers equitably gain their respect and confidence. Leaders of the co-operative quickly identify the employees who treat customers with respect and honesty. Special treatment of one customer may generate short-term results, but cause long-term animosity and dissatisfaction among most customers. Employees must offer merchandise and services in a sense of best value to all customers.

Be Well Trained

Employees must be able to explain technical information about the service areas in which the co-operative operates. The customer relies on employees to recommend correct products or services. The ability to respond to customer questions and resolve their problems determines if customers return to the co-operative for future needs. Because of the fast pace of today's business and changes in technical product and environmental regulations, employees must continually train themselves in product and service areas. Sound customer advice and accurate information are an important part of providing quality service. Well trained employees understand and appreciate the fact that serving the needs of customers is the first step in customer satisfaction.

Be a Team Player

All of us want to be on a winning team. Team success in the business arena depends on all players co-operating to reach predetermined objectives and goals. Employees must know the goals of their co-operative and understand the game plan to attain them. Those who are critical of fellow employees, the management or the elected leadership become negative thinkers. Each employee of the co-operative sales organization should know about its overall sales goals and their part in them. Employees working in service organizations must be aware of the service level required to meet the organization's overall objectives and employee's expected contribution to the team effort.

Participate in Community Activities

The image of the co-operative to the rest of the business community lies with the employee. Employee participation in service and civic organizations, school activities, professional and youth groups and business organizations, such as the Chamber of Commerce, is important. Costs associated with participation in service and civic organizations or professional groups are often paid by the co-operative. Most co-operatives maintain political and religious neutrality. When representing the co-operative, employees must be cautious about taking a particular stand or participating in an activity which has a special social, political or religious orientation. Volunteering talents not only contributes to the employee as an individual, but also shows that the co-operative is interested in the needs and welfare of the community.

Keep Supervisors Informed

Constant communication is a key element in all business operations. Employees are the eyes and ears of the business. They constantly deal with the customers and the public. This feedback helps shape future procedure and policy changes necessary to increase customer appreciation and satisfaction. Employee communication with supervisors provides the instruction that can lead to implementation of desired changes. Unsafe working conditions or damaged facilities and broken equipment should be reported to supervisors for correction or repair. Irregularities in business operations or planned absences from the job must be communicated to keep the business operating efficiently. Effective communication means not only talking, but also listening carefully to comments and suggestions from customers, instructions from supervisors and recommendations from other employees. All of these things will help to build the co-operative team.

Maintain Personal Appearance

Employees represent the co-operative's image to the members via day-to-day contact. Part of the first impression that a customer makes of an employee is based on personal appearance. A positive first impression leads to customer satisfaction. Clean, correct fitting apparel, appropriate for the working conditions is a benefit. Any co-operative uniform required for the job should be fitted and cleaned. A well groomed employee reflects the person's self-esteem and a positive image of the co-operative.

Maintain Facilities, Equipment & Inventory

This aspect of co-operative employment may have less appeal than working with customers. However, the importance of these functions must be understood so the co-operative can be an aggressive and profitable business. Accurate accountings of inventory, balancing of cash or repairing of equipment are important activities to a profitable business. Dirty or poorly arranged merchandise can be just as much of a deterrent to reaching sales goals as overpricing or poor selection of merchandise for sale.

Customers do not like doing business in messy facilities or trying to obtain quality service from equipment in disrepair. In the mind of the customer, malfunctioning equipment often reflects lower or poor quality products and an attitude that employees do not take customer satisfaction seriously. Clean and well maintained facilities and equipment also create a safer work environment.

Summary

Given its unique business structure, each co-operative has particular goals and objectives. The objective of the co-operative that sells supplies to its members is to provide merchandise on a best value basis. The goal of a co-operative that markets products and services produced by the members is to pay fair market value or negotiate for the highest price. In such cases, the objective is to provide a needed service, not necessarily to save money or obtain the highest price. Quality employees will understand why businesses are organized as co-operatives and be able to explain their uniqueness.

Additional Information

The Nova Scotia Co-operative Council has more information that focuses on the roles and responsibilities of people in co-operatives.

The Council conducts research, collects statistics, provides onsite technical assistance and develops educational materials. We are here to assist Nova Scotians organize co-operatives and provide continuing assistance as needed. Periodically, the staff conducts workshops for key participants in new and existing co-operatives.

For a complete listing of publications and brochures available from the Nova Scotia Co-operative Council, please visit our website at www.nsko-opcouncil.ca or contact a business development officer in your area.



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