

# FACT SHEET

## Understanding and Control of Cooperative Associations

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Many people lack understanding of and frequently are confused about the different types of ownership. These include individual proprietorships, partnerships, regular business corporations, and cooperative associations.

A cooperative association is a corporation, but it differs from the regular business corporation. Therefore, it is a special type of a corporation. In a regular business corporation the stockholders, who are the owners, are usually one group; and the people with whom the corporation does business, namely the patrons, are a second group. Sometimes there may be a slight overlapping.

If a cooperative association is organized and operated as it should be, there is basically only one group, the member-patrons (stockholder-patrons). This is because those who patronize and use the association are also the stockholders and owners.

Another significant difference is that in a regular business corporation any net balance from business operations at the end of a fiscal year is allocated to the stockholders on the basis of the amount of stock held. In a cooperative association, however, it is allocated to the patrons on the basis of the amount of business done (patronage) with the association. The reason for this difference is that a cooperative business association is operated at cost. Any underpayments for products marketed and any overpayments for supplies purchased or services performed always belong to the patrons.

Because the patrons in a cooperative association are also the owners, namely the members (stockholders), they also have a voice and control in the association's operations. This challenge isn't always fully understood and accepted by the member-patrons of a cooperative association. They have the responsibility to study, to think through, to discuss, and finally to act on matters of interest and benefit to:

- (1) themselves and all member-patrons of their cooperative association.
- (2) the cooperative associations with which their local association is affiliated.

(3) the cooperative movement, generally.

(4) the farming business and agriculture, generally.

Another basic difference between regular business corporations and agricultural cooperatives is that cooperative associations bring the "on-the-farm" and the "off-the-farm" agricultural businesses closely together. The member-patrons of a cooperative association are the farmers themselves who also either directly or indirectly usually own regional and national cooperative associations. A regular business corporation that is engaged in "off-the-farm" agricultural activities usually is owned by nonfarmers. But, it obtains its patronage either directly or indirectly from farmers.

Final decisions and control in all agricultural cooperative associations should remain with the farmer owners -- if not directly then indirectly through their local associations on through to the regional and national associations. An individual agricultural producer cannot always fully understand the integrated businesses he needs. In some cases, he may already be one of the member-patron owners. This clearly emphasizes why information must be fed back to him. It must largely flow in the other direction from the way the cooperative structure is built up and controlled.

Agricultural cooperative association decisions and control should always flow from the individual farmer members (stockholders) wherever they may be (regardless of how far removed and scattered) to the board of directors. The board is elected by them to operate between membership meetings and to establish business policies. Management, in turn, should follow the business policies established by the board of directors.

Decisions and controls should also flow from local cooperative association members through their board of directors on to regional cooperative associations. In case of further vertical integration it should flow on to national cooperative associations in the same manner. The retention of decision-making by farmer members, and the flow of control and authority from the individual farmer members through their elected representatives on through

to regional and national associations, makes the flow of information in the other direction an absolute necessity.

In a cooperative association with a direct farmer membership, large or small, management must keep the board of directors fully informed. Management must also assist them in studying the many factors involved for the most efficient business operations.

The directors, with the help of management, must then provide such information to the member-patrons at annual meetings, through special reports, and in any other way possible. Thus, the member-patrons will have a better understanding of the association's affairs.

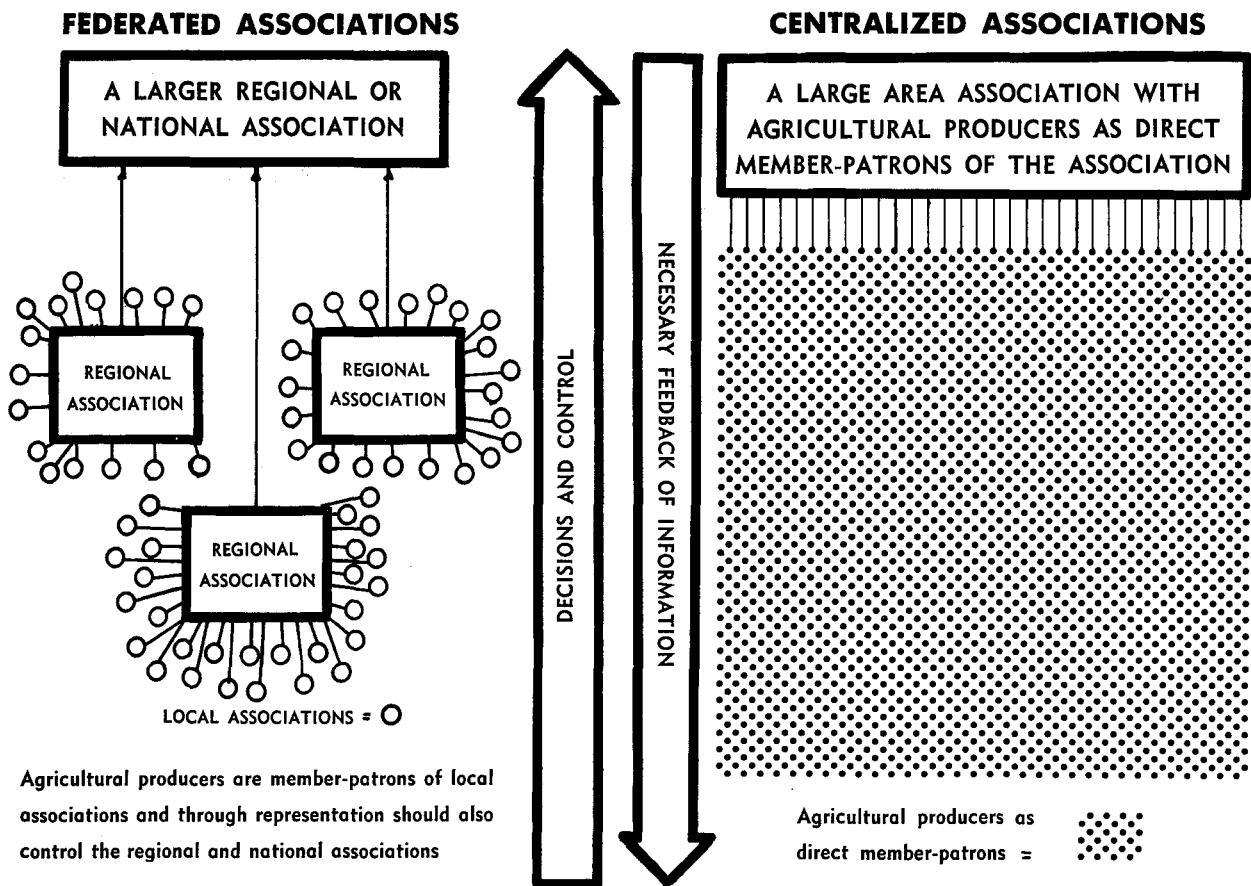
If farmer members and other agricultural producers are to understand the need (1) for regional and national cooperative associations and (2) for both vertical and horizontal integration of cooperative associations, in order to remain competitively strong and to benefit agriculture, then information about such needs must be provided to them.

Management and directors of a national cooperative association must keep its regional asso-

ciation members fully informed about their business operations, including the unfavorable as well as the favorable factors. Management and directors of regional cooperative associations must, in turn, keep its local association members fully informed. Management and directors of local associations must, in turn, keep their individual member-patrons fully informed.

All this can be clarified in another way. If "off-the-farm" agricultural activities are to be integrated by farmers themselves in the cooperative way, decisions and controls must also be integrated. But, decisions and control must flow from the farmer members to the farthest point of integration; whether such integration is in marketing, purchasing, or providing rural services.

In order to have farmer members make intelligent decisions in these matters and give intelligent control, a "feedback" of complete information is needed from the farthest point of integration to such farmer members. The extent to which this is accomplished will determine the future success, or failure, of cooperative associations at the various levels of operation and the extent to which they will be strong and worthwhile competitors in the total economy of the nation.



General arrangement for information, understanding, and control should be the same for all types of cooperative associations.

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Cooperative Extension work in Agriculture and Home Economics, University of Minnesota, Agricultural Extension Service and United States Department of Agriculture Cooperating, Skuli Rutford, Director. Published in furtherance of Agricultural Extension Acts of May 8 and June 30, 1914.

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