

AN OLD STORY...

# MEMBERS OF AGRICULTURAL COOPERATIVES 101

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TARTU, ESTONIA  
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# Overview

- Getting to know each other
- Basics of agricultural cooperatives
- Introduction to the cooperative lifecycle
  - Coffee Break
- Purpose and types of agricultural cooperative
- Measuring cooperative performance
  - Lunch Break

# Overview

- Co-designing solutions to challenges facing agricultural cooperatives
  - Coffee Break
- Members of agricultural cooperatives: Duties, responsibilities and rights
- Appreciating our strengths as members of the cooperative

# Overview

- Supervisory Boards of agricultural cooperatives: Duties, responsibilities and rights
- Managers of agricultural cooperatives: Duties, responsibilities and rights
- Recap and farewell

**PART I**

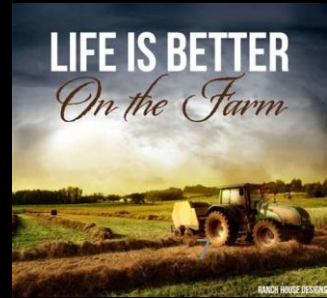


# **Introduction**

But let's get to know each other  
a little better...

# TASK: Self-Reflection

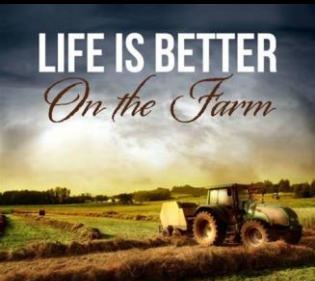
Think through the following questions...



# TASK: Discuss in Groups

Discuss in your group what you feel comfortable to share from the self-reflection exercise.

Jot down on a piece of paper a summary of your discussion in a phrase or two and hand it over to us.





**PART II**



# **Basics of Cooperatives**

# Support for Farmers' Cooperatives



There is no country in the world with an advanced agri-food system where agricultural cooperatives do not play a major role in the main food supply chains.

Cooperatives' lifespan is twice  
that of traditional businesses\*

What is an agricultural cooperative?

# Some definitions of 'agricultural cooperative'







# **International Co-operative Alliance**

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise.

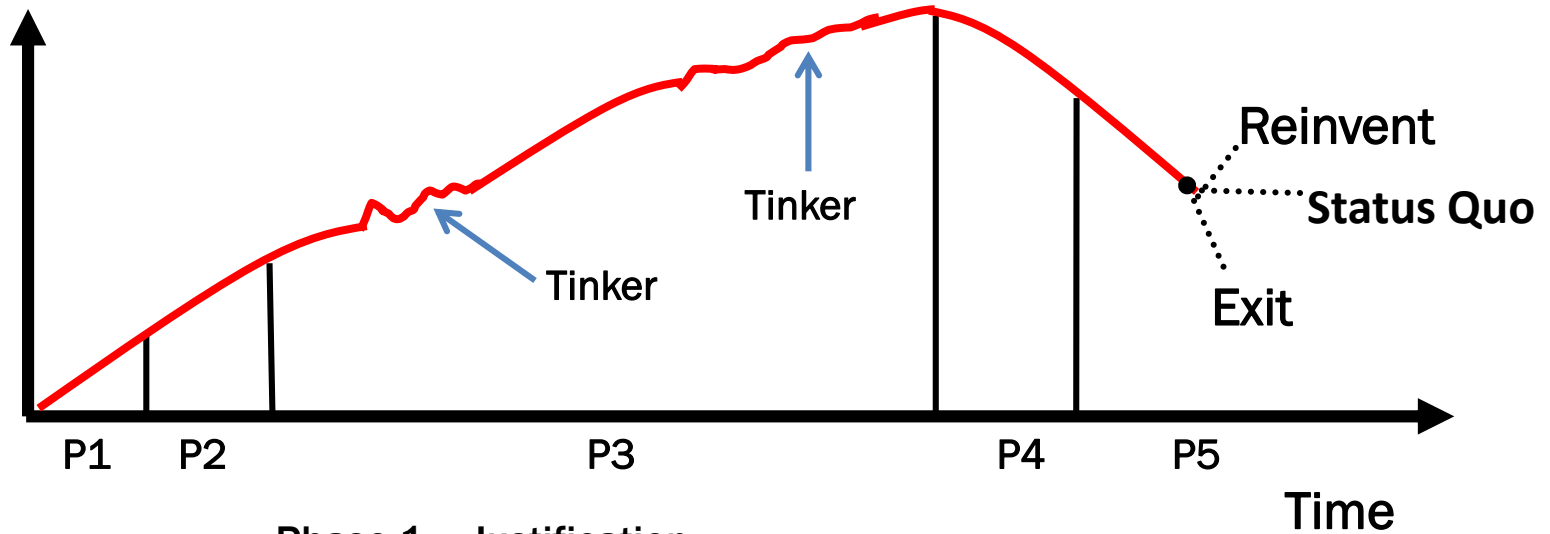


Agricultural cooperatives are businesses jointly owned by farmers, which are:

- ◆ User-owned
- ◆ User-controlled
- ◆ User-benefitted

# Cooperative Lifecycle

## Health of Cooperative



Phase 1 = Justification

Phase 2 = Organizational Design

Phase 3 = Growth-Glory-Heterogeneity

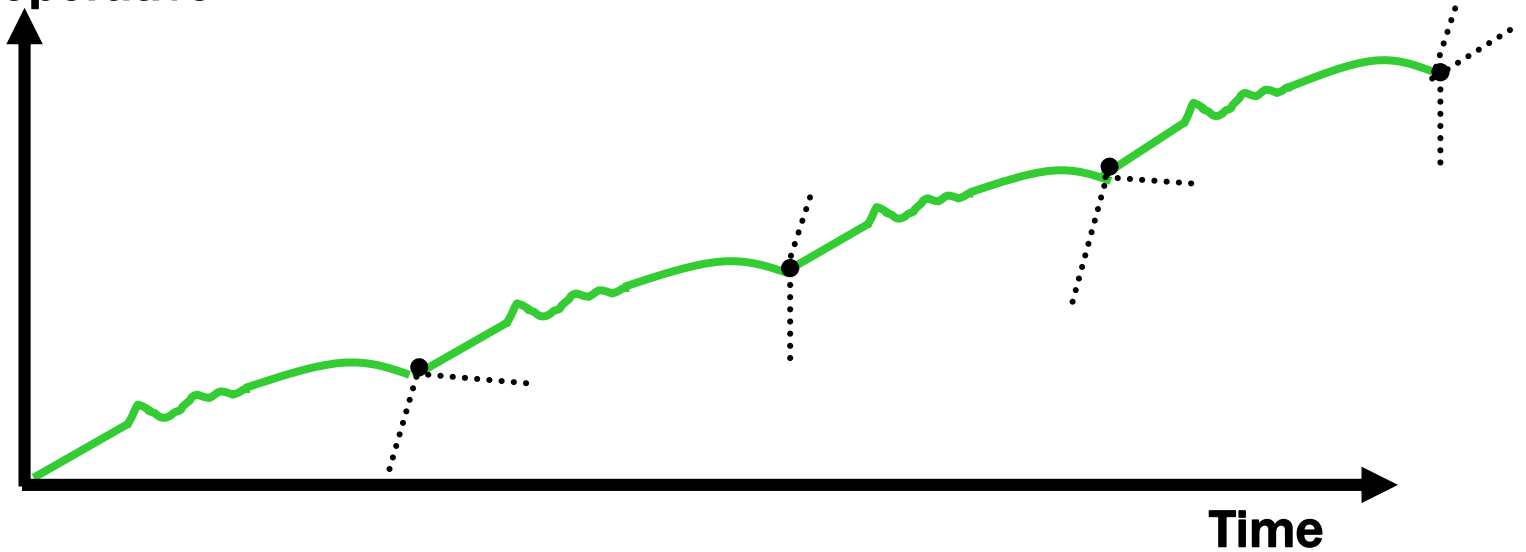
Phase 4 = Recognition and Introspection

Phase 5 = Choice



# Cooperative Lifecycle

Health of Cooperative





# Coffee Break

## 15 Minutes



# Justification: The Basics

Organization  
is costly

Justification  
essential for  
survival

Homogeneity

Advantages

- Tax
- Patron Driven
- Anti-Trust
- Access to Credit
- Other

# Justification: Traditional Reasons

Avoid the Bad Guys

Reduce Gap between Producer Price & Consumer Price

Influence Consumer Price

Reduce Farmer-Members' Risk

Provide Missing Services

Reduce Asymmetric Information

Provide Individual Producers with Market Access

Scale – Scope Economies

Improve supply chain coordination

# Agricultural Cooperatives by Function

Bargaining

Input Supply

Marketing

Processing

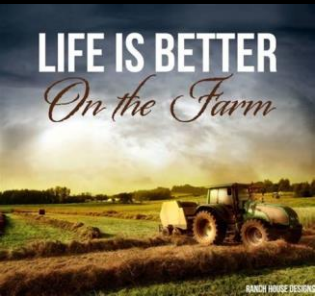
Service

Multipurpose

Are cooperatives different?

# TASK

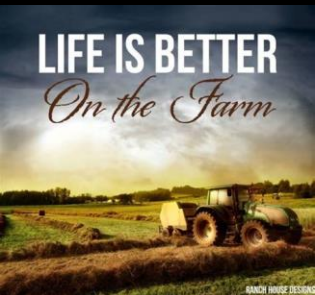
## Measuring Performance





# TASK

## Pricing and Strategy Decisions at the Board Level



# So, are cooperatives different? YES!

## Purpose

- Optimize patron objective

## Ownership

- Residual claim rights – proportional to use
- Residual control rights – non-proportional

## Structure

- Centralized
- Federated
- Hybrid

## Strategy

- Affected by purpose

# Cooperatives' Complex Economic Value

- Influence on prices/services
- Co-op business assets, enterprise level
- Members' assessment of value
- Aggregating and aligning members' needs
- Trust and loyalty
- Member participation in decision making



**Lunch Break**

**1 Hour**

## **PART III**



# **Organizational Challenges of Agricultural Cooperatives**

# TASK

## Free Riders, etc.



Agricultural cooperatives, which have survived for over 100 years, have been very successful in addressing the **TRAGEDY OF THE COMMONS** and similar challenges through numerous organizational changes...

And who does all these  
organizational changes?

**MEMBERS**





# Coffee Break

## 10 Minutes

## **PART IV**



# **Members of Agricultural Cooperatives: Duties, Responsibilities and Rights**

# Members of agricultural cooperatives...

- ✓ Foundation of co-op
  - ✓ Meeting their needs—reason for existence
- ✓ Support
  - ✓ Patronage
  - ✓ Capital investment
- ✓ Own and use co-op
- ✓ Commitment and use

# Member ownership and control

## **Legal Responsibilities:**

- ✧ Incorporate co-op
- ✧ Approve/change articles of incorporation, bylaws, major policies
- ✧ Sign marketing agreements/other binding contracts
- ✧ Elect directors
- ✧ Vote on significant actions
- ✧ Ensure co-op follows business and co-op law

A cooperative's success largely depends on how well members understand what it is and how it operates.

# Members: Control Guidelines

## Legal framework

- Articles of Incorporation & Bylaws
  - Co-op name; place of business, capital structure; incorporators
  - Type, purpose, operations, membership qualifications, duties of officers & directors, meeting & voting procedures, procedures for raising and refunding member capital; procedures & rights in case of dissolution.
- Member applications
- Marketing agreements
- Policies: Board
  - Employee conduct & work rules
  - Office hours
  - Board/management relations
  - Major asset purchasing
  - Lines of business, etc.

# Members: Governance

- Vote on major decisions
- Authority delegation to Board
  - Democratic process
    - Level of member control analogous to active participation

# Members: Governance

- **Active participation**
  - Formal: Annual Meeting
    - Nominating and electing Directors
    - Amending bylaws
    - Accepting the audit report
    - Voting on major actions/policies proposed by the board/management
    - Voting on resolutions and motions



# Members: Governance

- **Active participation**

- Informal

- Serving on advisory committees and accepting special assignments;
    - Expressing opinions in discussions with other members or directors;
    - Providing feedback to employees and management;
    - Responding to surveys about attitudes and assessments, product and service evaluations, buying and marketing intentions, and providing other opinions about changing conditions.

# Members: Governance

- **Active participation**
  - Informal...



# Members: Financial Responsibility

- Capital in proportion to use
  - Operating Capital (Equity)
    - Members:
      - Direct investment
      - Retained margins
      - Per-Unit retains
    - Non-Member retained earnings
- BASE CAPITAL  
PLAN?**

# Members: Financial Responsibility

- Startup Capital
- Control follows Finance

**Separate  
Capital  
Pools?**

Members need to realize that the cooperative is THEIR business. So, in addition to being farmers, they are also businessmen and businesswomen.



# Concluding Remarks

# Thank You!

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