

A guide to structure conversion for a 21st century cooperative
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Having been asked to speak about Swiss Valley Cooperative's recent structure conversion, I think that can best be done by going through the steps and procedure we used to complete the process.

The first decision was to acquire the service of a knowledgeable resource person in the field of agriculture cooperatives, one not only familiar with dairy, but with many other types of ag industries as possible. His review of our current structure which included:

- Article and by laws
- Governance guidelines
- Relevant policies
- Board operating procedures
- Board committee assignments

The person we chose had knowledge of the revised coop laws of today and this made it easy for our board of directors and management to proceed.

Upon realizing the magnitude of this task before us, we looked next at board committees thinking this could move along more rapidly with committees working more easily. We also drafted a new list of committees, which included:

- Executive
- Governance
- Budget/Finance
- Business/Strategic
- Compensation/Work Force
- Member/Industry/Public Relations

We also added the option of creating additional sub-committees, if needed.

With these now established, a new set of charters listing responsibilities and guidelines for each committee were drafted, board of members were assigned and along with management and consultant, the process began to review the various area of our articles by-laws, coming back to full board with recommendation for further discussion and approval. This procedure worked well bringing the full board to an understanding position and agreement. The work of these committees gave us the assurance everything was covered and that Swiss Valley Farms Cooperative can continue to function for the purpose intended and in the best interest of member-owners and employees.

The second benefit achieved by the above mentioned work was that it gave us a blue print of how we wanted our cooperative to function for the future. With that in place, the next step came acquiring an attorney. Again, the key in this selection was a person specializing in

cooperative law. His first review was of the states we operate in and which had revised and updated their cooperative laws. The findings resulted with two being quite similar and in our case, happened to be the ones having the largest number of our members. It seemed less confusing to reorganize in the state where the headquarters and officers are located.

The challenging part then began with governance committee and attorney developing the new draft of articles and by-laws in accordance with state laws. After numerous revisions by committee, discussion with full board and more revisions, the work progressed.

Having many months behind us and months still ahead, we knew membership deserved to be made aware of a new concept and reasons for change. A well scripted explanation was presented to member-owners at their district meetings with ample time for questions. Let me point out the time frame of this explanation was approximately five months ahead of asking for their vote. It was also at this time that we started to inform all members by all of our current communication methods, with repeats in some publications plus special letters in combined mailings, encouraging members to direct their questions to whom ever they were comfortable talking with.

We still need to go back and finish more structure conversion, legalities, but I wanted to bring in the member-owner information issue now and reflect on its importance. I strongly believe the timing and complete understanding by members will help accomplish the desired goal.

Another legal issue needed to deal with was moving our cooperatives from the state where originally recorded into a different state. This required permission to withdraw the cooperative along with assets and without a tax liability. This was obtained through the method of a plan of merger. When this document, along with articles and by-laws were completed, and approved by full board, we then were ready to put together a finalized packet.

Packets, which included ballot, were put into member-owners hands by separate mailing and considerable ample time. The cover letter again encouraged questions and gave emphasis to points of importance and every members participation as a two-third majority was needed for passage.

The reason so much time and effort for informing members was because the most major change proposed, was going from membership cooperative to a stock cooperative. To the members, this conversion did eliminate yearly dues and eligibility is gained by transfer of some equity. For the board, this decision became easier after weighting the advantages of more sources capital, needed to maintain and expand operations. Currently, we use the banking industries that have ratio limits that deserve our respect and member equity but they also need capital for their own business growth. We need to be mindful of costs to members, loss of raw product, lowered group sales, less market share, and a slight loss of price control; all of these create a negative effect. Other options are retired members that may wish to leave their stock in, and the employees that may want to be part of the cooperative. Stock options may be awarded toward employee salaries, and finally the cooperative may be open to outside investments.

Another feature of the new structure is the capability to utilize outside directors. We think all-producer board can be strengthened by the options and advice of other people with experience and knowledge in areas of finance, marketing, mergers, sales, etc. This did cause concern of member control, leading to the decision of maintaining the majority of the board being producer-members.

In summary, may I say this was a great experience for our board and would recommend to all coops to periodically examine your structure. We now believe Swiss Valley Farms Cooperative is better positioned for the 21st century.