

BULLETIN

COOPERATIVE LEADERSHIP

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Central to the success or failure of any cooperative is a functioning Board of Directors that represents all of the co-op's members. Therefore, it is critical that the right co-op members are nominated and elected to the Board of Directors. Some cooperatives struggle with the nominating process, and finding qualified members to serve on the Board, or even finding individuals who are willing to serve, can be quite a challenge. This paper reflects upon the qualifications of Board members, the nomination process, the size of the Board, term limits, and the use of outside directors.

Director's role as leaders

The Board is responsible for the long-term future of the co-op. This makes it vital that directors will look after the interests of the cooperative and be free from conflict (personal, financial, or other). Directors must also work to understand and represent the diverse needs of the membership. The Board balances these needs with the co-op's long-term goals, ultimately making decisions that are beneficial to the co-op in general, and to the co-op membership as a whole. Directors should use their position as leaders to ensure that the cooperative remains focused on its vision, purpose, core values, and performance. Boards have a responsibility for understanding the cooperative's business as well as the external environment in which the business operates. The Board of Directors, working together, sets policy and oversees the cooperative's operations and decisions while paying particular attention to the welfare of the co-op and the members. The Board is responsible for bringing value to the cooperative and its membership as a whole.

The nomination of directors

The co-op's bylaws should include information on how the Board of Directors will be nominated and elected. It is strongly advised that an official nominating committee be established, rather than simply taking nominations from the floor at the annual meeting. The latter method is not likely to acquire the most qualified individuals to serve on the Board.

A co-op's bylaws typically state who may serve on the nominating committee: current Board members, past Board members, co-op members, or a combination of members and directors. It is important that nominating committee members be knowledgeable of specific director roles and responsibilities, and of directors' important position in leading the cooperative. A written job description is very useful in such instances and can be forwarded to individuals interested in running for a place on the Board.

It is highly recommended that at least two candidates be nominated for each open director position so members may choose who they deem best qualified for representing their interests on the Board. Prior to being nominated, the committee should inform the candidates of their roles and responsibilities, and of the time commitment that is required to do the job. Individuals should not be "arm twisted" to be on the nomination list. Look for individuals who have both strong personal characteristics and business characteristics.

Below are some personal characteristics to consider. A good director should:

- Have integrity and good character
- Be able to resist pressure from special interest groups
- Be able to work with people, to express ideas clearly, and to ask good questions
- Possess a good educational background (formal or informal)
- Be progressive and loyal
- Be constructive and energetic

Business characteristics may include:

- Success in managing personal business
- Knowledge of the business environment and the co-op industry
- An active interest in the cooperative's affairs as a member
- Ability to organize and make decisions
- Ability to evaluate managerial potential and performance
- Knowledge and understanding of finance and the ability to read financial reports.

The composition of the Board should also reflect the composition of the membership, taking into account factors such as age, size of business operation (example, farm size), geographic location, and numerous additional characteristics. Cooperatives with membership dispersed over a wide geographic area may divide the membership into districts, with one or more directors from each district.

Once the selected individuals agree to be on the nomination ballot, a brief background of the individuals should be made available to the voting membership. Because many members may not personally know the nominees, such a written document is very useful, and should highlight the background of the candidates and why they want to serve on the Board.

Voting

An important responsibility of the members is to elect, amongst themselves, qualified directors. For most cooperatives this responsibility is carried out through a one member-one vote policy. Large cooperatives, such as regional cooperatives, have membership districts. In such a case, members in a district elect delegate(s) from within the district who in turn cast the actual ballot for nominated directors to the Board at the co-op's annual meeting. While uncommon, some states do allow proportional voting based on the amount of business done with the cooperative.

Board size

Most state laws require a minimum Board size. For example, Wisconsin statutes require a minimum of five directors, unless there are fewer than 50 members, and in that case the Board size may be as few as three. While a seven member Board is the most common size, this number generally increases as a co-op expands, with some large cooperatives having 35 or more Board members. The critical question to ask is whether the Board members are representative of the membership. If this is not the case, the Board may be unnecessarily large.

Term lengths

How long should a director serve? While there is really no right or wrong answer, term limits average between one to three years, with the latter being most common. New directors need about a year to become fully acquainted with the business operations of the cooperative. Therefore, a one year term may be too short for an individual to become a fully effective director. While most cooperatives allow directors to serve one or more consecutive terms—with or without a limit on the maximum number of consecutive terms served—some cooperatives impose an age limit, such as 65, for their directors. Limiting the number of terms allows other qualified members to serve as directors.

Outside directors

Most state incorporation laws restrict Board seats to a co-op's active members, yet a few states allow outside directors (non-members) as voting members of the Board. Meanwhile, as cooperative businesses become complex to manage, it is becoming increasingly difficult for Boards to capture all the expertise required to manage and control the cooperative. Outside directors, whether in an advisory capacity or as voting members, may help fill this gap. An increasing number of cooperatives have non-member outside directors who serve in an advisory role.

Summary

Since boards of directors by law are legally responsible for the cooperative, it is critical that all directors be highly qualified. Furthermore, directors on the board need to represent the cooperative membership as a whole. Cooperatives need to have in place a director nomination process insuring that individuals nominated for positions on the board are qualified and will provide appropriate membership representation. Finally, it is important that members are responsible, taking time to study the candidates and voting in all elections.

Additional Information

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