

COOPERATIVE POLICY DEVELOPMENT

Phil Kenkel
Bill Fitzwater Endowed Cooperative Chair
Extension Economist, OSU, Stillwater
(405) 744-9837

OKLAHOMA COOPERATIVE EXTENSION SERVICE
OKLAHOMA STATE UNIVERSITY

June 2008

Policy: The Cooperative Map

If a traveler gets lost and needs direction, he will look for a map to give him guidance. If a cooperative's board of directors loses its purpose or doesn't know what to do, it too must have a map to provide direction. Cooperative policies provide just this kind of map. Policies are a set of guidelines defined by the cooperative in its first stages of development that cover topics as large as the disbursement of member refunds of sales, and as small as employee coffee breaks. Ideal policies are not completely left open to interpretation yet are still broad enough to provide flexibility.

Policies should deal with recognized needs of the coop and should be carefully thought out and researched. The basic guide in the development of the policies should be found in the objectives set forth by the cooperative and help in the realization of the mission of the cooperative.

Why have policies?

Well written policies serve several purposes. First they provide a legal paper trail for the cooperative and mitigate legal liability on some issues. They help the board of directors determine how to deal with re-occurring situations within the cooperative and provide valuable internal controls. Furthermore, without policies the cooperative cannot achieve the goals set forth by the board and the members.

Who Writes and Enforces Policies?

It is primarily the responsibility of the board of directors to write policies as well as maintain and update them. Management also has a role in developing specific policies that pertain to the management of the cooperative. Policies should be reviewed every year or immediately after a major structure change such as a merger, expansion, or buyout. A chairperson should be appointed to a committee to make an initial review of the policies and draft needed policies. These policy changes should be presented before the board as a whole at the next board meeting to be adopted and recorded in the minutes. A third party who can objectively evaluate the strengths and weaknesses of the cooperative and provide advice as to the legality and appropriateness of the current policies should be involved in the writing process of new ones. It is also the board's responsibility to evaluate how well the policies are being used within the cooperative; yet, it is the responsibility of the manager to implement them.

Even the best policies are absolutely useless unless they are implemented and used effectively. Employees of the cooperative should be thoroughly aware of the policies in place and a hard copy of cooperative policy should be available for use at all times. However, while the manager is responsible for implementing policies it is still the responsibility of the board to evaluate the implementation.

Writing Policies:

The writing of policies often depends mostly on the structure of the cooperative. Broader policies offer more flexibility but are also open to interpretation. Stricter policies are more easily interpreted; yet, offer little flexibility for the management and employees to work in. Generally when the cooperative can accept the interpretation of the policies developed, no more specifics need to be added. Remember, the only thing worse than not having a policy at all, is for the policies in place to be broken. So properly implementing

and monitoring current policies is imperative for the legal and financial health of the cooperative.

Policies are most effective when they are written down and bound in a hard copy. Orally conveyed policies are subject to interpretation and memory; written policies are harder to dispute. The steps in actually writing policies are:

- **Identify:** The board of directors must first identify the general areas to be covered by the policies. These categories may include management, board, employee, human resources, organization, sales, marketing, production, or community policies.
- **Formulate:** Then the board must formulate the new policies or change old ones to better fit the company. Ideas for new policies can come from management, employees, members, or directors themselves.
- **Adopt:** No matter who helps to formulate policies, it is the job of the board of directors to adopt them. It is important to note that a majority vote is needed to change or adopt policy, and directors should have a chance to review and consider the new policy before the meeting begins.
- **Distribute:** A policy that no one knows about is useless and a waste of paper; therefore, policies that have been adopted by the board should be written down, bound in a manual, classified by content, and distributed to persons concerned with administering them. These people should be knowledgeable as to the contents of the manual and ensure its proper application.
- **Implement:** As discussed above, it is the duty of the manager to implement new policies. The manager will accomplish this by developing procedures, issuing instructions and ensuring that those individuals affected by policies understand, accept and observe adopted policies.
- **Control:** Policies provide a source of internal control for the board of directors and the control of policies is the only management function that the board possesses.
- **Evaluate and Review:** All policies should be periodically evaluated and reviewed for content and effectiveness. This is the job of both the directors and management. The effectiveness of a policy is best determined by its acceptance and implementation by the whole organization.

Sample Policies

The following are some sample policies that are applicable to most cooperatives. They are sorted as general, member relations, public relations, financial, marketing and employee policies. There should also be a policy for the altering of policies. This sample policy page was created integrating policies suggested by the USDA and the Triangle Companies of Enid, OK.

Sample Policies of XYZ Cooperative

Adopted (date) at (place)

GENERAL

Authority

Management is authorized by the board of directors to take whatever actions are necessary to conduct the business of the cooperative, including operations, control of all expenses, and membership activities within the framework of policies and budgets as may be established by the board.

The board of directors shall only issue instructions to the general manager. The general manager may delegate the carrying out of these instructions to other employees, but shall be responsible and accountable for their proper performance.

The board of directors has authority only while functioning as a board. No single director or group of directors, except as authorized by the board, other than at a board meeting, has authority to set any policy or exercise any authority over any operations or employees of the association.

Internal Control

The board of directors is authorized to implement internal controls. Sales tickets, Checks, and Deposits shall be accounted for numerically. Invoices will be received only with proper authorization and supporting documentation. A system of checks and balances shall be used for important transactions such as bank deposits, bank reconciliation's, invoices, and bills. This system shall ensure that each of these important high risk transactions will be checked by at least two authorized employees of the cooperative.

Board's Duty to Follow Legal Documents

The articles and bylaws in conjunction with the membership agreement and other contracts with members of the cooperative form the basis under which the cooperative operates. As a result, each board member is responsible for reading and understanding the basic tenants of all legal documents and of ensuring that the board of directors as a whole follows any requirements they contain for either the board or the cooperative. Board members will also comply with the cooperative policies and applicable regulatory requirements for activities involving federal funds. (see Activities Involving Federal Funds, Supplements I&II)

Board Meeting Procedure

Board meetings are important and should be conducted in a businesslike manner. This is where plans and policies are made, operations reviewed, and decisions reached for the guidance of management.

Discussions should be full, but limited to the business at hand. An agenda, with the exception of emergency items, for the meeting shall be prepared in advance by the board president and mailed, e-mailed, or faxed to board members at least (number) days before the meeting date.

(For more information see the OSU Fact Sheet on Board Meeting Procedures)

Board's Use of Consultants

The board is responsible, with the consultation of the manager, for hiring such outside consultants as may be necessary to operate this business in an appropriate manner. These consultants may include, but are not limited to accountants, lawyers, and engineers.

Conflict Of Interest

It should be the responsibility of the directors to conduct their personal business affairs in such a manner that they do not conflict with the best interest of the association.

Directors should not expect to personally benefit by their actions as directors of the association other than the normal benefits expected as a coop member/stockholder.

Directors shall not engage or otherwise be involved in any business through rental, lease and/or ownership, which is in any way in competition with the association.

Directors conducting their personal business affairs with the association shall not accept special financial or service privileges that would not normally be accorded any other member. This includes special prices, special services, and the use of the association's assets.

Directors will disclose in writing to the board of directors at the next scheduled meeting, any conflict of interest as outlined in this policy, as they exist or when they may be involved in the future. It shall be the decision of the Board to make said determination regarding any conflict or perceived conflict of interest and approve or disapprove any transactions with directors and/or board members.

The Board of Directors shall be responsible for determining any violation of this conflict of interest policy. Any director determined to be in violation of this policy shall be immediately ineligible to serve on the Board of Directors and his office shall be declared vacant.

Confidentiality

A director may not disclose information obtained by virtue of his or her position as director before such information is made available to all members at the direction of the board, nor provide such information to select persons under circumstances giving business or other advantage to the director or other person.

Insurance and Bonds

The general manager/ board committee/ shall determine through annual review if all phases of the business are adequately protected by insurance and bond coverage, and report findings to the full board all soon as possible after the review. The board shall ensure that actions are taken to correct any deficiencies.

Company Vehicle

The General Manager shall be furnished a company vehicle. The Manager will be required to maintain a log showing the number of personal and company miles driven and will pay for fuel used for personal used, based on the percent of personal miles driven. A lease value will be established for the vehicle for IRS purposes. The lease value, based on the percent of personal miles driven, will be included in the manager's W-2 form as required by the IRS.

MEMBERSHIP POLICIES

Communication

The board will actively communicate with members, patrons, communities being served, other cooperatives, and the public, as appropriate, and in keeping with the cooperative's communication plan. Attitudes about the cooperative shall be gathered and recorded and the information will be used to shape programs, procedure, and policy.

All communications will consistently project the desired image of a well-managed, soundly-financed, and democratically-controlled cooperative established to improve the economic condition of members and patrons.

Purchase of Common Stock

At all times, the bylaws of the cooperative shall determine how and when any potential or existing member who desires to participate in patronage refunds shall purchase shares of common stock.

Any member who desires to participate in the patronage refunds of the (cooperative) shall purchase (number) share of common stock at a par value of \$__ with cash.

The balance of the necessary shares may be earned from patronage, earned from services provided to the coop, or transferred from equities of another consenting member.

Membership Policies

All applications for membership must be in writing and must be submitted to and approved by the board of directors according to the provisions of the by-laws

PUBLIC RELATIONS

Political Activity

No employee shall engage in any partisan political activity as a representative of the cooperative.

FINANCIAL

Accounts Payable

The board instructs the manager to ensure that all moneys owed are paid on a timely basis to avoid service charges, interest penalties, and or delinquent notices. Where applicable, bills are to be paid, if cash flow and credit limits allow, in time to receive any discounts for early payment.

Annual Financial Audit

The board of directors shall engage the services of a Certified Public Accountant/ Public Accountant/ for the purpose of auditing the financial records and accounts of the cooperative at the end of each fiscal year.

The engaged accountant shall be instructed to prepare an Unqualified Opinion/ Qualified Opinion/ audit of the financial records. The final prepared audit shall include,

but not be limited to: a balance sheet, statement of operations, source and use of funds, and the necessary supplementary schedules.

Upon completion of the audit, a full report shall be presented to a majority of the board in an official directors' meeting. The accountant's reports must be approved or rejected by official board action, and made a part of the board's minutes.

Annual Operating Budget

The manager shall prepare or cause to be prepared an annual operating budget for board consideration. The preliminary budget should be presented to the board not later than 90 days prior to the beginning of the next fiscal year. The board of directors shall approve the final budget by (number of days) days after completion of the past fiscal year's audit.

Management shall operate the cooperative as far as practical within the budget as adopted. Any expenditures exceeding an approved budget line item by more than 10% shall require a budget modification be approved by the board prior to expenditure

Management is responsible for developing long-range plans for review and approval by the board, which will provide for orderly growth, maintain financial stability, provide for orderly growth, maintain financial stability, and meet the needs of members served by the cooperative.

Borrowing Policy

All major borrowing shall be obtained from the source of least cost but must be in compliance with previous loan covenants, agreements, and commitments.

Borrowing may not exceed the loan limit of (number) set by board resolutions.

The board in conjunction with the manager shall review the loan resolution annually. If needed, the manager may request board approval to increase the limit during the year. To assure the availability of adequate funds and credit services at reasonable cost, the cooperative will maintain alternative sources of capital, utilizing the Farm Credit System, other lending institutions, and other sources, as appropriate.

The project manager shall maintain a log of all loans, including amounts, lending agency, account numbers, current balance, interest rates etc. This log shall be provided to the board as requested, but no less than an annual basis.

Director Per Diem, Mileage, and Travel Expense for Activities not Involving Federal Funds

Directors shall be provided an honorarium \$__ for attendance at all regularly scheduled meetings. Directors serving on president-appointed committees shall also receive \$__ for each meeting attended.

A scheduled meeting is when a director is performing duties as a director.

A director may be authorized by the president to use his/her personal vehicle for cooperative business when necessary and a cooperative vehicle is not available. When such a personal vehicle is used, the director shall be paid the applicable IRS rate per mile for the actual miles driven. The rate shall be reviewed yearly. Public transportation expense will be reimbursed if in the opinion of the president, it is most advantageous to the cooperative and the director. Transportation expense for a spouse (will/ will not) be

allowed. Air travel will be allowed at (type) class, if the cost is less than other modes of travel. Travel expenses involving federal funds are subject to Travel And Vehicle Use Policy For Activities Involving Federal Funds (Supplement II).

Expenditures for Facilities, Machinery, and Equipment not Involving Federal Funds

The general manager shall obtain approval from the board for purchases or leases of new or replacement facilities, machinery, or equipment exceeding \$____.

In emergencies, where replacement of an asset is needed before a general board meeting, can be held, the manager may obtain approval by contacting the (name) board committee by phone and having individuals indicate approval.

In this situation, the committee shall have the approval ratified at the next board meeting and included in the minutes of the meeting.

In all instances the General Manager shall utilize the applicable procurement procedures for the expenditure of federal funds.

Expenditures for Supplies and Services not Involving Federal Funds

The board must approve expenditures for operational supplies and services exceeding \$__ (per month/annually).

Operational supplies or services costing in excess of this amount should be placed for bids, with at least (number) price quotes obtained. For supplies and services less than the stated amount, the manager shall have the authority to authorized purchase.

Capital Stock And Other Equity Redemption

Any redemption of capital stock or other member equities can only be made with prior approval of the board of directors and in accordance with the provisions of the by-laws, and, if required, with the approval of the association's lender. Estates should be given first priority

MARKETING

Marketing

The cooperative is to market only products from those areas that can be expected to provide a reasonable return to both the producer and the cooperative.

Each marketing service provided by the cooperative shall be self-sustaining, with producers to finance each service in proportion to their use of it.

To assure supplies of raw products of suitable quality to meet sales needs and commitments, contracts may be made between the cooperative and producers.

Marketing operations are to be consumer oriented. The cooperative shall provide marketing and technical information needed for growers to plan their production in line with consumer demands as to quality and quantity, and in the forms desired by consumers.

To meet consumer demand, the cooperative may purchase products from sources other than its members, but not to exceed (number) percent of the total dollar marketed.

Marketing agreements are legal contracts between the grower and the cooperative. The cooperative will protect the integrity of its marketing agreements and the interests of the members of its marketing agreements and the interests of the members who comply with their agreements by initiating appropriate legal action against members who violate their marketing agreements and other persons who induce such violation.

Producer Payments

Timing of payment schedules to producers for products shall be determined by the board, consistent with sound business practices and in compliance with restrictions imposed or recommended by the lending institution. Payments shall be administered on a day-to-day basis by the manager.

Payments to producers will be equitable in relation to quality delivered and services performed.

EMPLOYEE RELATIONS

Application Requirements

All applicants shall complete and file an employment application form prior to personal interview.

Conduct

While management makes no pretense of controlling an employee's conduct when not at work, his/her conduct and reputation "off the job" affects the public image of the cooperative. To this extent, employees' conduct will be taken into consideration.

Every effort shall be made to create a good public image of the cooperative through the media of clean work clothes, clean facilities and equipment, and "off-work" behavior of employees.

A pleasant, friendly, and courteous greeting whether in personal contact or on the telephone, will go a long way in creating a good public image of the cooperative plus a good public image of oneself.

The employee should at all times be supportive of the cooperative goals and strategies as well as fellow employees.

The employee should offer constructive suggestions to his/her supervisor to improve the cooperative's goals, strategies, and other employees to better serve the cooperative's patrons.

Discrimination

The association will not discriminate against hiring of any applicant or the employment against hiring of any applicant or the employment of any person because of race, color, national origin, sex, age, handicap, or religion in accordance with the Equal Employment Opportunity Act.

Director Education

All Directors should attend at least one series of a director development training program as soon after election as possible.

Persons Eligible for Employment

The association will not hire close relatives of the general manager or any director as a permanent full-time employee or permanent part-time employee.

Close relatives included spouse, child, father, mother, sister, brother, father-in-law, mother-in-law, sister-in-law, brother-in-law, son-in-law, daughter-in-law, or grandparent.

Selection of New Employees

The decision to hire shall be based on how well personal qualifications compare with the job requirements.

Department supervisors shall screen and interview job applicants.

The department supervisor shall have the responsibility for hiring and discharging an employee, subject to the approval of the general manager.

Safety and Compliance

It is the policy of (cooperative) to provide safe work conditions for all employees. A person chosen by the board of directors will have authority and responsibility for maintaining the Injury and Illness Prevention Program and will be accountable for safety practices, safety education and training, communicating safety information and fire protection.

A health and safety training program to train employees in general safe and healthy work practices shall be provided as well as specific instruction with respect to hazards specific to each employee's job. All safety policies will be provided to all new employees and to all employees given a new job assignment. Employees will be trained whenever new substances are introduced to the workplace and represent a new hazard, and whenever the employer recognizes a new or previously unrecognized hazard.

Each employee has to learn and obey safety practices and rules, and use all proper safety devices and protective gear. Disciplinary actions will be taken to assure that employees comply with safe and healthy work practices.

Accident reporting

Any injury at work—no matter how small—must be reported immediately to your supervisor and receive first aid attention. Serious conditions often arise from small injuries if they are not cared for at once.

Line of Authority

The board of directors of this cooperative has given full authority to the general manager to employ, terminate, and set wages of all cooperative employees within the guidelines of the approved wage and salary plan, except him/herself. Employees are cautioned not to discuss personal grievances and problems or accept orders from directors, patrons, or any other employee except the general manager or his/her supervisor.

It shall be the responsibility of management to communicate line of command to the employees through job descriptions, organization charts, and other media.

Personnel Records

A personnel file shall be maintained for each employee. Individual personnel files will be considered confidential.

This file shall contain such information as the employee's application form, physical report, references, State and Federal withholding tax forms, yearly performance appraisal reviews, emergency contact numbers and other employment history.

An inactive file shall be maintained for at least three years for persons who have left employment of the association.

Sexual Harassment Policy

It is the policy of (association) to maintain a work atmosphere free of any pressures on employees relating to sexual harassment. Sexual harassment will not be tolerated at (association) and employees who engage in such conduct are subject to the full range of disciplinary policies.

Drug/Substance Abuse Policy

In compliance with the 1988 Drug-Free Workplace Act no drug or substance abuse will be tolerated at (association). In accordance with this policy the (association) shall publish and distributing to all employees upon employment a written statement regarding this controlled substance prohibition in the workplace, with descriptions of disciplinary actions which may be taken against employees for violation of such prohibition. This same written policy shall be placed prominently in the workplace. Furthermore if an employee, director or board member should be found in violation with this policy they shall be subject to the appropriate administrative disciplinary action, or be required to participate in a drug abuse assistance or rehabilitation program at their own expense.

CHANGES IN POLICY

This director/manager handbook may be changed or amended at the discretion of the board of directors at any regular or special meeting of the board of directors.

This policy is to be effective as of _____ and until altered or canceled.

OTHER POSSIBLE POLICIES

Smoking Policy

Because (cooperative) is a private building not open to the general public, smoking at (cooperative) is not governed by state law or local ordinance. (Cooperative) allows employees who have private offices to smoke in their offices. Employees who share offices must refrain from smoking in the office if any employee in that office objects. Please observe the posted no smoking signs.

Smoking/No-Smoking Signs

To support its policy of not allowing smoking in other than designated smoking areas, (cooperative) has posted "No Smoking" and "Smoking" signs in the appropriate areas. Each sign posted in an area where smoking is prohibited carries the internationally recognized symbol for no smoking; a red circle containing a lit cigarette with a line drawn diagonally through the circle. Please observe these signs at all times.

Zero Tolerance

This company has a policy of zero tolerance for violence. If you engage in any violence in the workplace, or threaten violence in the workplace, your employment will be terminated immediately for cause. No talk of violence or joking about violence will be tolerated.

"Violence" includes physically harming another, shoving, pushing, harassing, intimidating, coercing, brandishing weapons, and threatening or talking of engaging in those activities. It is the intent of this policy to ensure that everyone associated with this business, including employees and customers, never feels threatened by any employee's actions or conduct.