

Defining a Member in a Cooperative

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Most U.S. agricultural cooperatives were started in the early 1900's when life was different. Farm operations at that time were smaller, less mechanized and had simple financial structures. Early cooperatives likely had an easy time defining who was a member and the membership roles matched the profile of the family farm operations. Today's farms are obviously larger, more technologically advanced and much more productive. The organizational structure of farm operations has also become more complex. Many farming operations involve multi-generational owners and are organized as corporations, limited liability companies or trusts. Those structures make it more difficult to define who should be a member of the cooperative.

When the farming entity is not a natural person a cooperative must use some sort of "look through" procedure to define voting, patronage and equity redemption treatment. That process is full of pitfalls. If the cooperative retires equity based on age of patron, the younger members of a multi-generation farm entity have an incentive to game the system and have business reflected in their parents name. If the cooperative pays 100% cash patronage after equity redemption (a practice which is not recommended) the incentive is even greater. The other issue that every cooperative must define is how many voting memberships are associated with farming entity and who are the designated members.

Most cooperatives operate on a one member-one vote basis. That makes it important to ensure that the active membership is represented in board elections and key decisions. Farming operations organized as corporations, LLCs and trusts are typically large operations generating significant patronage. "Look back" procedures typically distribute patronage in the same proportion as the ownership in an LLC. Membership in a trust is related to the grantor of the trust and doesn't change until the trust is distributed to the recipients. That structure would create one member for each partner in the LLC and one member in each trust which follows the trust distribution.