

Designing the Perfect Cooperative

Phil Kenkel

Bill Fitzwater Cooperative Chair

In my cooperative class I have student teams create hypothetical cooperatives and perform a feasibility analysis. It is always interesting to see how fresh eyes look at the cooperative business model. That makes me ponder how I would design the perfect cooperative. I'll limit that discussion to a traditional open membership cooperative such as a farm supply and commodity marketing cooperative. The closed membership or "New Generation" cooperative is really a different animal.

I would begin by requiring a non-trivial investment in membership stock, say \$5,000 so that every voting member had some skin in the game. That is not really a structural change from the formation of our existing cooperatives. Cooperatives simply haven't adjusted the membership investment level from the level set when the price of a Model T pickup was \$300. To get more radical, I would use the multi-stakeholder model and have a second membership category for employees. Human resources are both the most important asset and also the largest challenge in many agricultural cooperatives. Why not bring employees into the cooperative tent and distribute a portion of patronage to that group in proportion to hours worked? That would align all of the stakeholders, both employees and producers on the goal of profitability and patronage. I would use a base capital system. New members would not receive cash patronage until they built their required equity. Members that did less volume/hours or exited the cooperative would be over invested and have equity redeemed. In my mind, the base capital system most accurately reflects the principle that members have an obligation to fund their cooperative.

In terms of governance, I would designate one seat on the board for the employee group and have one paid outside voting director. I would stick with one member-one vote which was good enough for the Rochdale pioneers! I would have bylaw provisions mandating a minimum ratio of unallocated equity to total equity and also a maximum level. That would protect the membership from rouge boards that failed to create a reserve on the one hand or diverting returns away from members on the other hand.

That covers most of the structural elements of my "perfect" commodity marketing and farm supply cooperative. I think we could do a better job of communicating how cooperatives are distributing and retaining profits and why the board made those choices. On-line voting and mandated director education are also good practices.

As for the perfect name for my cooperative, I think I would have to go with United Farmers and Producers Equity Exchange Union Elevator and Supply Association Company. Wait till you see that name on a hat!