

8-1932

Step in the Organization of a Cooperative Marketing Association

A. M. Eberle

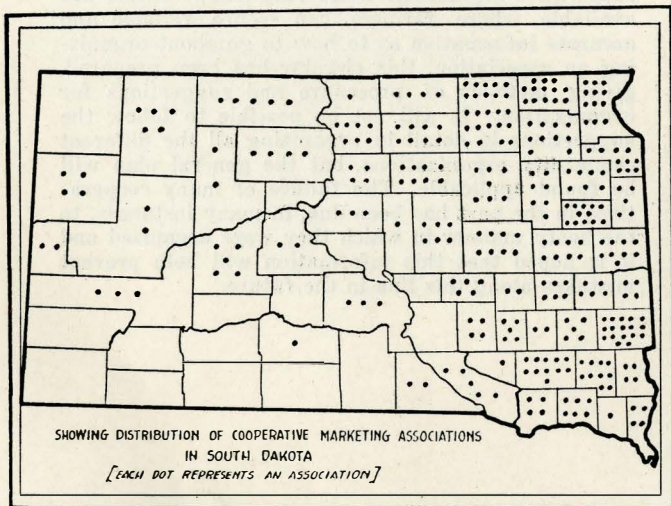
Follow this and additional works at: http://openprairie.sdstate.edu/extension_circ

Recommended Citation

Eberle, A. M., "Step in the Organization of a Cooperative Marketing Association" (1932). *Extension Circulars*. Paper 316.
http://openprairie.sdstate.edu/extension_circ/316

This Circular is brought to you for free and open access by the SDSU Extension at Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. It has been accepted for inclusion in Extension Circulars by an authorized administrator of Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. For more information, please contact michael.biondo@sdstate.edu.

Steps in the Organization of a Cooperative Marketing Association

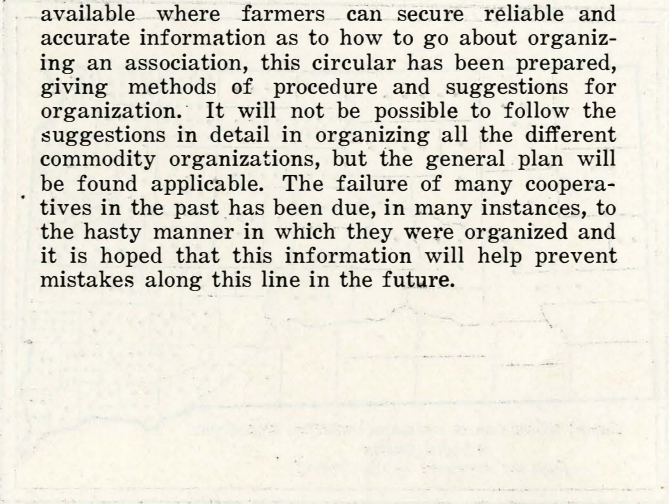


SOUTH DAKOTA STATE COLLEGE
EXTENSION SERVICE
C. Larsen, Director
Brookings, S. D.

Steps in the Organization of
Cooperative Marketing

Foreword

In many South Dakota communities there has been a great deal of interest recently in the subject of cooperative marketing. Since only a few sources are available where farmers can secure reliable and accurate information as to how to go about organizing an association, this circular has been prepared, giving methods of procedure and suggestions for organization. It will not be possible to follow the suggestions in detail in organizing all the different commodity organizations, but the general plan will be found applicable. The failure of many cooperatives in the past has been due, in many instances, to the hasty manner in which they were organized and it is hoped that this information will help prevent mistakes along this line in the future.



South Dakota State University
Department of Agricultural Economics
Brookings, S. D.

TABLE OF CONTENTS

Preliminary arrangements	4
First meeting	4
Duties of the preliminary survey committee	5
Survey questionnaire	5
Second meeting	7
Duties of committees	8
Stock subscription committee	8
Building and equipment committee	9
Organization and by-laws committee	9
Things that need to be considered	10
Cooperative marketing associations	10
Essential features of the South Dakota cooperative laws	11
Meeting of subscribers	12
First meeting, board of directors	14
Qualifications and duties of a manager	14
Things worth knowing about a cooperative association	16
Suggested form of Articles of Incorporation	17
Suggested form of By-Laws	20

Steps in the Organization of a Cooperative Marketing Association

A. M. Eberle*

Extension Economist, Marketing

Preliminary Arrangements

In almost every community there is some one agitating the formation of a cooperative marketing association. Sometimes it is just spite work on the part of the agitator, because he had a disagreement with the local buyer. On the other hand, many times the party in question has a genuine interest in cooperative marketing and really wants to see an organization formed for the good of the community.

It is seldom advisable to call a meeting of farmers as soon as some one makes the suggestion of organizing a cooperative organization. As a rule it will be found, if a meeting is called right away, that the interest lies only with a few which discourages further work on the proposition. It is advisable to give the discussion plenty of time to grow so that one farmer will hear it from another. In this way interest will be created and plenty of time will be allowed for thinking the proposition over. After the discussion has reached a point where action seems advisable, some one interested can ask the county agent to call a meeting or if there is no county agent, can call it himself. All those who have expressed themselves as favorable should be asked to attend.

First Meeting

It is possible that only a few will be present. This has its advantage in that the work that needs to be done can be accomplished quicker with a small group than with a large one.

If the county agent calls the meeting the first order of business would be to elect a temporary chairman. If a farmer calls the meeting he should act as chairman. The chairman should open by stating the purpose of the meeting and discussing the proposition in a general way. The meeting is then thrown open for discussion. The purpose of this discussion is not to decide the question, but rather to bring out points both for and against the proposed organization. After the discussion has gone on for some time, the chairman should propose that an investigating committee be elected to look into the proposition and report at some future meeting. This committee should consist of five or six men and should have the official title of "Survey Committee." The members can be nominated from the floor, or the chairman given power to select the personnel of the committee. The meeting is then ready to adjourn.

* Acknowledgment is made to Sherman E. Johnson and R. E. Post for their valuable suggestions in the preparation of this circular.

Duties of the Preliminary Survey Committee

The members of the survey committee should meet immediately after the general meeting and organize by electing a chairman and a secretary.

The committee may proceed in a number of ways, depending upon the kind of organization and conditions existing in the community.

Survey Questionnaire

It may be advisable to send out a questionnaire to farmers of the community in order to find out what interest exists and the possible support that could be expected if the proposed marketing association were organized. The form of questionnaire will vary according to the commodity which the proposed cooperative intends to market. The following will serve as an illustration. This form could be used where a survey committee is investigating the advisability of organizing a cooperative livestock shipping association.

To All Farmers Interested in Organizing a Cooperative Livestock Shipping Association

The organization of a cooperative livestock shipping association was discussed at a meeting the other night of some 20 livestock producers and a committee was appointed to study further into the matter. The committee was instructed to investigate the need for a shipping association in the community, the expenses involved, the possible volume that could be expected and the possible benefits that would be derived.

In order to secure information relative to the sentiment in the community, the marketing methods now being practiced and the possible volume that could be expected, we would appreciate having you answer the following questions, and sign and return this questionnaire at your earliest convenience.

Signed by committee _____

1. How many head of the following classes of livestock do you ordinarily market each year? Number cattle _____. Number hogs _____. Number sheep _____.

2. Where do you usually sell your livestock? Check the agency through which you usually sell that class of livestock.

Cattle: Terminal market____. Local buyer____. Local packer____

Hogs: Terminal market____. Local buyer____. Local packer____

Sheep: Terminal market____. Local buyer____. Local packer____

3. Would you consider joining a shipping association? _____

4. Are you in a position to state definitely that you will join, at this time? _____

5. Would you be willing to attend a meeting to learn more about the proposed organization?

Signed.....

Address.....

Cooperative Creamery.—In the case of a proposed cooperative creamery the questionnaire could start with an introduction along the lines suggested for a shipping association and include the following questions.

1. How many cows did you milk during last year?

2. About how many pounds of butterfat did you sell last year?
.....

3. Do you ship direct to a creamery, sell to a cream station, or to a local creamery?

4. How many cows do you expect to milk this year?

5. Would you be interested in joining a cooperative creamery?
.....

6. State definitely, if possible, whether or not you would join, otherwise leave blank.

7. Would you attend a meeting called some time in the near future to discuss the organization of a creamery?

Signed.....

Address

Farmers Elevator.—A survey of the community should be made as to the possible volume that an elevator could expect. The following are some questions that could be incorporated in a survey questionnaire.

1. How much grain did you market last year? Wheat;
Oats; Rye; Barley; Flax;
Corn

2. Under normal conditions how much do you market each year? Wheat; Oats; Barley;
Rye; Flax; Corn

3. Would you be interested in hearing about the possible advantages of a farmer owned elevator?

4. Will you attend a meeting called for that purpose?

Signed.....

Address

These can be reworked to suit almost any kind of a cooperative association. Following are some very important questions which need to be

considered. The committee can work on these while waiting for the questionnaires to be returned.

1. Secure figures on volume of product shipped from community during recent years.
2. Estimate amount that can be expected to be handled by the proposed association now and in the future.
3. Study marketing services now available, their costs and efficiency of operation, if possible.
4. Study services that can reasonably be expected from the new organization and its probable efficiency as compared with present agencies.
5. Estimate probable support of producers in community from standpoint of:
 - (a) Financial support.
 - (b) Patronage support.
6. Estimate total funds needed. These funds may be secured through selling stock or by borrowing from a bank and using pledges as security.
 - (a) Outlay for buildings and equipment.
 - (b) Funds needed for operation.
 - (1) Salaries, manager and help.
 - (2) Interest, bonds, insurance.
 - (3) Repairs.
 - (4) Miscellaneous items.
 - (5) Cash needed as revolving fund in case commodity is paid for when delivered.

After all this information has been secured and put in report form, it is time to call a second meeting. This meeting is called by the chairman of the survey committee. A suitable date should be selected and set far enough in advance so every one has a chance to learn of the meeting. Those farmers who indicated on the survey blank that they would attend the meeting should receive a personal invitation. It will be advisable to stress the main purpose of the meeting in the announcement stating that the "Survey Committee" is going to give its report on the proposed marketing association and every one interested is invited to attend to hear this report and express his ideas.

Second Meeting

The meeting is presided over by the chairman of the survey committee.

1. He calls for the report of the committee which is given by the secretary.
2. After the report the meeting is opened for discussion. The chairman should encourage all farmers to enter into the discussion. He should make it clear that not only comments on the report will be welcomed but their individual ideas will be appreciated. The chairman should call on leading farmers who may be reluctant to get up on the floor but who are known to

have good ideas and whose opinions will have some weight on the proposition.

After the discussion has gone long enough the chairman should indicate that he is ready to entertain a motion either to go ahead with the organization of the association or to drop the question at least for the present. If it is voted to go ahead, then the chairman should state that it will be necessary to appoint several committees.

3. The committees to be appointed are:

- a. Stock subscription committee (12 to 15 men).
- b. Building and equipment committee (3 to 5 men).
- c. Organization and by-laws committee (5 to 7 men).

Perhaps the best way to get the personnel of the committees nominated would be by appointing a nominating committee. This could be suggested by the chairman and a motion entertained to the effect that the chair appoint the nominating committee. After the members of the nominating committee have been either appointed or elected they should be instructed to suggest names for the various committees. It is advisable to read to them the duties of each committee as outlined in this circular so they will be in a better position to suggest men suited for the various duties.

- d. General chairman. The nominating committee should also recommend a general chairman. This man must be a leader in the community, well thought of and respected by everyone. His duty is to coordinate the work of all committees. He consults with the chairmen of the committees, sees that they are at work, calls meetings of the chairmen of the committees and sometimes of all the members of the various committees.

He heads the general committee which is composed of the chairmen of the sub-committees. Their duty is to take up the work that cannot be easily handled by the other committees, such as looking around for a manager and other things not directly under the supervision of the three main committees.

- e. After the nominating committee is at work the meeting will be at a standstill until they bring in their report. Further discussion of the proposed cooperative should be invited. Perhaps the circulating of a stock subscription list at this time would materially assist the stock subscription committee. A blank should be prepared whereby the signer agrees to take so many shares of stock in the proposed organization. A suggested form will be found under the stock subscription committee discussion. This blank can then be passed around and all those interested asked to sign. Of course, where the cooperative is to be organized on a membership basis the blank need only state that the signer will become a member and will pay the membership fee.

Duties of the Committees

Stock Subscription Committee.—This committee should be composed of from 12 to 15 men and so appointed that they will be located in all directions from the point of operation. The chairman should be named

when the list is read from the floor. They should be men of good standing. Their duty is to carry the stock list and solicit the sale of shares of stock.

This committee should get together as soon after its appointment as possible. The chairman of the committee is charged with this duty. They should organize the territory and work in pairs. It perhaps will not be possible to find everyone at home the first time around and a second trip should be made to see those who were missed and those who failed to subscribe the first time. It is usually a good plan to solicit the prominent men first.

It will depend upon the kind of organization and the finances needed as to whether or not it will be necessary to sell the shares for all cash. Sometimes arrangements can be made at the bank for money needed, using the shares of stock as security. In that case it will only be necessary to get a small deposit from the subscriber, the balance to be paid either by paying a small amount each time the member markets his product or by taking it out of his patronage dividend at the end of the year.

The following heading may be used on the stock lists. If it seems necessary the method of paying for the stock can be stated in detail.

“We, the undersigned, do hereby subscribe for shares of
 stock as indicated after our names, of the proposed _____
 _____ Cooperative Association, par value of \$_____,
 with the understanding that this agreement is null and void un-
 less a total of _____ shares have been subscribed. To
 show my good faith I am advancing 5 per cent of the amount of
 my subscription.

Name	Address	No. of Shares
-----	-----	-----
-----	-----	-----
-----	-----	-----

Building and Equipment Committee.—This committee should be composed of from three to five men. Their duties are to investigate and find a suitable location, secure plans for a building, get bids from contractors as to the cost of building same, and get in touch with various equipment houses to find out what necessary equipment would cost. A very satisfactory way for the committee members to acquaint themselves with the most desirable building and equipment would be to visit similar cooperatives in other towns. This gives a chance to see different plans in actual use. Then by studying blue print plans showing other arrangements a very satisfactory one can be developed.

Organization and By-Laws Committee.—This committee should consist of from 5 to 7 men. Their duty is to draw up articles of incorporation and by-laws.

The by-laws of an organization are very important. They can be likened to the blue print of a building. It would be almost impossible to erect

and operate a building successfully unless plans and methods were first worked out. The by-laws of an organization are its working plans, without which it could not be established, much less conducted successfully afterwards.

It would be impossible to draw up a standard form of by-laws that would suit all organizations. The Extension Service can be of help in furnishing suggested forms for the particular organization under discussion. The state cooperative law must also be taken into consideration in developing the by-laws. At the end of this circular will be found a suggested form of by-laws.

One of the first things this committee should do is to send for a copy of the "Cooperative Marketing Laws of South Dakota" and their amendments. These are available from the office of the Secretary of State, State Capitol, Pierre, South Dakota. At the same time, request should be made for several copies of the blanks used in filing articles of incorporation. The paragraphs of the cooperative laws pertaining to the particular kind of an organization that is under consideration should be read by the entire committee in order that every one will be acquainted with the procedure necessary for legal incorporation.

The first step is to decide on the articles of incorporation. As soon as they have been agreed upon, and this should not be hard as they only state the purpose of the organization and give a skeleton of its structure, a copy properly executed should be sent to the Secretary of State, together with the necessary filing fee. The committee will sign as the incorporators. The reason for incorporating at this time is so the charter will be on hand when the first meeting of the stock holders is called. This clears the way for finishing the organization work as the organization is then actually in existence, and matters are not delayed as would be the case if another meeting had to be called.

Deciding on the by-laws is usually a harder task. By using the suggested form found in the back of this circular as a guide, a set can be worked out suitable for the proposed organization. When completed it is usually advisable to have an attorney look them over to determine their legality. The committee should iron out all differences of opinions in their meetings and be prepared to present a set approved by the whole committee. The state law requires that the by-laws be approved by the stockholders and so it is necessary that they be presented at the first meeting after the charter has been received. The law also states that a copy should be filed with the Secretary of State within 30 days after the organization has been incorporated.

Things That Need to be Considered in Planning the Details of the Organization

Cooperative Marketing Association.—A privately owned corporation is usually organized and operated for profit. Each share has a vote and no limit is placed on the number of shares any one person can hold. The profits are generally paid as dividends on the capital stock.

A cooperative marketing association is usually incorporated and is operated for the mutual benefit of its members. After paying a reasonable rate of interest on the shares of stock, the balance, if any, of the ac-

rued profits are pro-rated back as a patronage dividend according to the amount of business done by each member.

Some cooperatives do not incorporate. A non-incorporated cooperative is considered a partnership. When operating as a partnership each member is liable for the debts of the others incurred in carrying on the business. It is difficult to sue or be sued under a set-up of this kind. Since this form is very unsatisfactory further mention of it need not be made.

Cooperatives may incorporate either as a stock company or a non-stock company. The members of an incorporated cooperative are not liable for the debts of the cooperative and in case of failure can only lose the amount of the stock for which they subscribed. When operating as a non-stock cooperative a membership fee is usually charged. Shipping associations are generally organized this way, as no investment is needed outside of a few supplies.

When a creamery or a farmers elevator is organized it is necessary to have shares of stock, and so details must be worked out as to number of shares, par value of each and how they will be sold.

Essential Features of the South Dakota Cooperative Laws.—There are three laws on the statute books relating to the organizing and incorporating of cooperatives.

Cooperative Corporations.—Chapter 3, Sections 8837-8838 provide that corporations with capital stock may be formed under the general corporation laws of the state and have all the rights and be subject to all the duties, restrictions and liabilities therein mentioned so far as the same are applicable to such corporations. In addition such corporations may, in their articles of incorporation, fix and limit the general dividends to be declared and paid annually from their surplus profits and may fix and provide for the making and paying of equal cooperative dividends annually according to the business done with them by their stockholders.

Cooperative Associations.—Chapter 4, Articles 8839 to 8853 is the second law dealing with the organizing of a cooperative. Other industries besides agriculture can incorporate under this law and some of the things it does not provide for can be listed as follows:

1. Does not limit incorporation to agriculture.
2. Does not limit maximum number of directors.
3. Does not limit shareholders to actual producers.
4. Does not provide for organization of cooperative with non-capital stock.
5. Does not limit shareholder to one vote.

The fact that this law does not provide for the above features does not mean that they cannot be inserted in the by-laws of the association. Any feature that is deemed necessary can be put into the by-laws. The Federal cooperative law is known as the Capper-Volstead Act. In order to enjoy the privileges of this act it will be necessary to include in the by-laws the restrictions of the Federal statute as well as those of the State. The Capper-Volstead act states that a cooperative must provide for the following:

1. The association must be producer-owned and controlled.
2. Each member is limited to one vote where the dividend on capital stock is more than 8 per cent. Where the dividend is limited to 8 per cent

or less each share of stock is entitled to one vote. Provision must be made in the by-laws for one or the other alternatives.

3. The association can not do more business with non-members than with members.

Cooperative Marketing Law.—Chapter 15, laws of 1923 is another cooperative law and provides for the organization of a cooperative marketing association. It limits the organization to agricultural products, its members to producers and provides for capital and non-capital stock associations. Some of the main features of this law are:

1. Not less than 5 persons may associate themselves together as a cooperative association.
2. Such an association shall be managed by a board of not less than five directors to be elected by and from the stockholders of the association, at such time and for such term as the by-laws may prescribe.
3. Any association may amend its articles of incorporation by a majority vote of its stockholders present, providing a ten-day written notice be sent to each stockholder stating the purpose of the meeting and giving the amendment or amendments to be considered. Voting by mail or by proxy on the amendment is permitted where provisions for doing so have been made in the by-laws.
4. No member may own more than one-twentieth of the issued common stock of the association and an association, in its by-laws, may limit the amount of common stock which one member may own to any amount less than one-twentieth of the issued common stock.
5. Suggestions as to how the net earnings of the association can be apportioned:

By paying only the rate of interest necessary to sell shares of stock and saving as much of the profit as possible to pro-rate back as patronage dividends.

By setting aside 10 per cent of the net profits per annum for a reserve fund, until an amount has accumulated in said reserve fund equal to the paid up capital stock.

By setting aside an amount not less than one per cent nor more than 5 per cent of the net profits as an educational fund to be used in teaching cooperation.

The balance of such net earnings may be apportioned among the stockholders as provided for in the by-laws in proportion to the business transacted between the association and its stockholders.

Meeting of Subscribers

General Chairman calls meeting of subscribers.—After the general chairman is satisfied that all committees are ready to report he calls a meeting of the subscribers. Non-subscribers are welcome to attend but have no voting power. The organization is now incorporated and only those that have signed the stock subscription lists, or in case of a membership association, those that signed as members, are considered subscribers.

The meeting is presided over by the general chairman. He gives a short talk reviewing the work of the committees and any new develop-

ments that might have occurred. He then calls for the report of the following committees:

1. Stock subscription committee.
2. Building and equipment committee.
3. Organization and by-laws committee.
 - a. The stock subscription committee report should be accepted by vote.
 - b. The building and equipment committee report should be accepted by vote.
 - c. The organization and by-laws committee report must be voted upon by the subscribers.
 - (1) The articles of incorporation can be read just as a matter of information.
 - (2) The by-laws should be read as they were drawn by the committee, so as to give the members an idea as to what they contain. Then they should be read section by section. After a section is read, the chairman will call for discussion. If there is no discussion or corrections to be made and everyone is in accord with the section a motion should be made for its adoption. Then the next section is read and the same procedure followed. After all sections have been read and adopted by the stockholders, some one should move that the by-laws be adopted as a whole. The organization in this way goes on record favoring the by-laws, and this is recorded in the minutes by the secretary. The secretary should send a copy to the Secretary of State, Pierre, South Dakota, stating that they have been adopted by a majority vote of the members and are recorded in the book of by-laws.

4. **The Selection of the Board of Directors.**—Next in order is the selection of the board of directors. The men so selected should be pretty well scattered over the community. They should be successful farmers and men who have had experience in the commodity the organization is going to market. In order that more consideration may be given to the qualifications of the different members for membership on the Board of Directors it is well to have a nominating committee appointed to present names for the consideration of the group. In the selection of candidates for the Board of Directors the following should be kept in mind.

- a. Members of the board of directors should not be employees of the association.
- b. No person should be a director who is connected in any way with any business that comes in competition with the business of the association.
- c. Any person who accepts a position as director must be willing to give the association sufficient time and study to see that it is operated along sound business lines.
- d. The board of directors must remember that the membership has a perfect right to ask for complete information at any time.
- e. The board of directors must direct. This responsibility should

not be delegated to anyone, and to do so means breaking faith with the membership.

When the nominating committee is ready the chairman should call for its report. He should then ask if there are any other nominations. After all nominations have been made he should entertain a motion that nominations be closed. In voting for the directors it is advisable to vote by ballot and follow the regular parliamentary rules.

First Meeting, Board of Directors

The first meeting of the Board of Directors should be held immediately after the general meeting at which time the Board should organize for the work to be done. Election of a president and secretary and treasurer should be held first. Then they are ready to transact business. Some of the things that will require their immediate attention are:

1. Arrange for building the needed physical facilities by contract or otherwise.
2. Secure equipment needed.
3. Arrange for finances.
4. Arrange for collection of subscriptions.
5. Hire manager.
6. Establish bookkeeping system.

It will, no doubt, be necessary to meet once a month or even oftener to begin with. It will be the directors' duty to determine policies and keep in constant touch with the manager and the operations of the business.

Qualifications and Duties of a Manager

It is very important that a man with the best qualifications possible be secured as manager. The failure of many cooperatives in the past has been due to the poor type of manager chosen to run the business. Many times someone in the community is picked because he is out of a job, or because he has a slight knowledge of the commodity to be marketed. This almost always results in a failure of the business. A manager has a great responsibility. He must be a man who understands men and can handle the membership, and who also understands the principles of marketing involved and has a wide knowledge of markets. In the case of large cooperatives there are usually separate men handling these two different management phases. In the smaller cooperatives the same man must handle both and that makes it all the more important to select a man, if possible, having both qualifications.

The keeping in touch with the membership is very important. The directors also have a very important part to play in this regard. Whenever dissatisfaction comes up and the member goes to one of the directors for an explanation, the director should be sufficiently familiar with the operations of the cooperative to be able to answer him. If he cannot, the member becomes suspicious and the correct member relationship cannot be maintained. It is part of the duties of the directors to know what is going on at all times. This does not mean that the manager should have

no responsibilities. Proper managerial functions should not be taken away from him. He should be in a position to make decisions with respect to operating situations as they arise, but he should not be able to run the board of directors. The manager should give a report of the business to the directors every time they are in session so that they will be kept informed as to how he is succeeding. This also gives the directors a chance to advise with him as to the best course to follow.

The manager should not be a permanent member of the Board. Occasion may arise when it is necessary for a Board member to manage the business for a short time, but this arrangement should never be permanent. Since it is the duty of the manager to carry out policies formulated by the Board of Directors it would be most unfair to ask him to sit in judgment upon his own acts. For the time that a Board member is manager he should not vote upon matters affecting his compensation or details of his management.

With the manager rests that very important factor called good will. This depends very largely upon the personality and attitude of the manager. He represents the cooperative's contact with the public and it is his duty to create a favorable impression.

The following are some of the duties of a manager:

Be Willing to Explain Operations.—The manager should, at all times, be willing to explain operations and operating problems. He should go into detail regarding these problems so the Board of Directors will understand them and be in a position to make intelligent decisions. It must be remembered that the manager is trained in the commodity that he is handling and so should be willing to explain operations in detail and be patient with his board in order to have a close working relationship.

Report Regularly to Board.—The manager should give a report of the business every time the Board meets. This should have a definite place in the order of business and time allowed for discussion. In this way the manager feels that the Board is interested and the relationship will be such that the manager will have confidence in his Board and be willing to present facts as they actually exist.

Carry Out Policies.—The manager should always keep in mind that he is a hired man and his duty is to carry out policies as formulated by the Board of Directors. This does not mean that he cannot make decisions, but rather that since the Board is responsible to the membership for the success of the business it is up to them to formulate the general policies of the organization and to see that they are carried out.

Sympathetic Attitude Toward Troubles.—The manager should at all times be sympathetic towards any grievance that members have. He must discuss them in detail with the complaining member and satisfy his complaint in a courteous way. This is the only manner in which a friendly member relationship can be maintained.

Get Along With Help.—The manager must be able to get along with help. Loyal employees are a great asset to any business and particularly so to a cooperative. A manager who does not have this ability certainly cannot run a cooperative successfully.

Things Worth Knowing About a Cooperative Association

Things a Cooperative Cannot Do.

- | | |
|----------------------------------|--|
| 1. Control prices. | 5. Consistently get more for members than non-members. |
| 2. Guarantee cost of production. | 6. Operate without trouble. |
| 3. Control production. | 7. Run without support. |
| 4. Eliminate all the middlemen. | |

Qualifications of a Good Director.

- | | |
|---------------------------|-----------------------------|
| 1. Outstanding character. | 4. Good judgment. |
| 2. Real business ability. | 5. A recognized leader. |
| 3. Plenty of experience. | 6. Real cooperative spirit. |
| | 7. The will to serve. |

Responsibilities of Directors.

1. To formulate sound business policies.
2. To employ honest and capable management.
3. To inform themselves upon the nature of the business of their association and to study the possibilities of applying the principles and successful practices of cooperation.
4. To enforce the policies which they adopt.
5. Help to form sound public sentiment.
6. To maintain contact with the leadership of their respective communities.
7. To receive reports of the management, analyze them and pass on to the membership such information as they should have about their organization.
8. To carry on the business so that the membership will know what is going on at all times and maintain confidence in the organization.

Obligations of Membership.

1. The first duty of a member of a cooperative association is to understand clearly just what his organization is aiming to do. If the member accepts full responsibility of membership in the hope of sharing fully in the benefits, he must have, in addition to a knowledge of the aims, a clear understanding of the job and a knowledge of the individual duties that go with it.
2. Attend all meetings.
3. Study reports.
4. Exchange opinions.
5. Help to form sound public sentiment.
6. Live up to obligations.
7. Support organization loyally.
8. Find out cause of dissatisfaction.
9. Deal with disloyalty.
10. Have cooperative spirit.
11. Elect competent directors.

Articles of Incorporation

The following suggested form of Articles of Incorporation will apply to all cooperatives:

ARTICLES OF INCORPORATION

of Tyler County Shipping Association.

KNOW ALL MEN BY THESE PRESENTS:

That we, the undersigned John Doe, Harry Brown, George Smith, Frank Green, and Kenneth Jones

for ourselves, our associates and successors, have associated ourselves together for the purpose of forming a corporation under and by virtue of the statutes and laws of the State of South Dakota, more particularly under Chapter 15, Laws of 1923, and we do hereby, certify and declare as follows, viz:

FIRST

The name of this corporation shall be The Tyler County Shipping Association

SECOND

The purpose for which this organization is formed is to market the livestock of its members on a cooperative basis under the laws of the State of South Dakota.

THIRD

The place where the principal business of this Corporation shall be transacted is Neward in the County of Tyler State of South Dakota, but a business office may be located at other places as designated from time to time by the Board of Directors where meetings of the Directors and Stockholders may be held for the transaction of business.

FOURTH

The term for which this Corporation shall exist shall be 40 years.

FIFTH

The number of directors of this Corporation shall be 8

and the names and residences of such who are to serve until the election of their successors are as follows:

NAMES	RESIDENCES
John Doe	Newark, South Dakota
Harry Brown	Newark, South Dakota
George Smith	Newark, South Dakota
Frank Green	Newark, South Dakota
Kenneth Jones	Newark, South Dakota
Michael Wright	Newark, South Dakota
Nathaniel House	Newark, South Dakota
Capper Kennard	Newark, South Dakota

SIXTH

The amount of Capital Stock of this Corporation shall be and is

Twenty Thousand DOLLARS

Divided into Two Thousand shares

of the par value of Ten DOLLARS

each, fully paid and non-assessable.

SEVENTH

The resident agent of this Corporation upon whom service of process may be made, shall be _____ of _____

South Dakota, and service upon him shall be taken and held as due and personal service upon this corporation.*

No Stockholder shall be liable for the debts of the Corporation in any amount greater than his unpaid subscription.

IN TESTIMONY WHEREOF, We have hereunto set our hands this _____ day of _____, 19____.

*The above article applies only to Corporations of this State not doing or carrying on business within this State.

STATE OF _____ }
COUNTY OF _____ } ss.

BE IT REMEMBERED, That on this _____ day of _____
A. D., 19____, before the undersigned personally appeared the above named

well and personally known to me to be the same persons described in and who executed the foregoing instrument and severally acknowledged to me that they executed the same.

[SEAL] IN WITNESS WHEREOF, I have hereunto set
my hand and affixed my official seal at said County
the day and year last above written.

[Notary Seal.]

Notary Public.

STATE OF _____ }
COUNTY OF _____ } ss.

_____ and _____

BEING DULY SWORN, each for himself deposes and says: That he is one of the persons described in and who signed the foregoing Articles of Incorporation as an incorporator therein; that he has read said Articles and knows the contents thereof; that the incorporators intend in good faith to form a corporation for the purpose of the promotion of a lawful business as set forth in said articles and not for the purpose of enabling any corporation or corporations to avoid the provisions of Sections 4352 to 4364, inclusive, Revised Code of 1919, of the State of South Dakota, relating to unlawful trusts and combinations, and laws amendatory thereto.

Subscribed and sworn to before me this _____ day of _____,
A. D., 19_____.

[Notary Seal.]

Notary Public.

Suggested form of By-Laws*

This suggested form of By-laws is for a cooperative elevator for use in South Dakota. Forms for other cooperatives can be secured by writing Extension Service.

*Furnished by the Northwest Grain Association.

(Formed under the provisions of Chapter 15 of the Laws of the State of South Dakota for the year 1923, and all acts thereof and supplementary thereto.)

ARTICLE I—PURPOSES AND POWERS

Section 1. Purposes.—The purposes of this Association shall be those set forth in its Articles of Incorporation.

Section 2. Powers.—This Association shall have power to engage in any activity in connection with the marketing, selling, harvesting, preserving, drying, processing, canning, packing, storing, handling or utilization of any agricultural products produced or delivered to it by its members, or the manufacturing or marketing of the products thereof, or in connection with the purchase, hiring or use by its members of merchandise, supplies, machinery or equipment, or in the financing of such activities; to operate grain elevators and warehouses, flour and feed mills; to lease, buy, build, own, improve, mortgage, sell or control such real, personal or mixed property as may be necessary for the conduct of its business or businesses; to encourage better and more economical methods of production, and to eliminate waste, so far as possible, in the marketing of farm products; to cultivate and develop cooperative activity among agricultural producers; to subscribe for stock in any other association, without further authorization from its stockholders, and to have all the powers conferred on cooperative associations by the laws of the State of South Dakota.

Section 3. Construction of Words.—For the purpose of these By-Laws the words "association", "company" or "corporation" shall be construed to mean the same, and the words "stockholders" and "members" shall be construed to mean the same.

ARTICLE II—CAPITAL STOCK

Section 1. Authorized Capital Stock.—The Capital Stock of this association is

----- (\$-----) Dollars, divided into
 ----- (-----) shares of the par value of
 ----- (\$-----) Dollars each.

Section 2. Certificates of Stock.—Certificates of stock shall be issued to holders of fully paid stock. Each certificate shall be numbered and shall state the par value of the stock, the number of shares represented, the name of the person to whom issued and shall bear the signatures of the President and Secretary and the seal of the Association.

Each certificate shall bear on the face the following:

1. "This certificate, No. -----, representing ----- shares of stock, numbers -----, is issued and accepted in accordance with and subject to the conditions and restrictions stipulated in the By-Laws and amendments to the By-Laws of

-----, of -----
 -----, South Dakota.”

2. “Transfers of shares shall be made upon the books of the Association only to persons engaged in the handling of the agricultural products handled by the Association and with the approval of the Board of Directors and when the stockholder is free from indebtedness to the Association.”

3. “No stockholder in this Association shall be entitled to more than one vote nor own more than one-twentieth (1/20) of the issued Common Stock of the Association. Every stockholder, upon uniting with this Association, agrees that in case he shall desire to dispose of his shares of stock in the Association, the Association shall have the first right to purchase the same at their book value, and that no offer or assignment or sale shall be made unless the Association shall fail, after thirty (30) days notice in writing, to purchase the shares.”

Section 3. Treasury Stock.—Treasury stock of this Association shall consist of stock of the Association that may be purchased or otherwise acquired by it. Such stock shall not share in the apportionment of capital stock dividends and may be canceled at the discretion of the Board of Directors.

Section 4. Certificate Record and Receipt.—A record of each certificate of stock issued shall be kept on the stub thereof and each certificate received for in the following form:

“In consideration of the issuance to me of certificate of stock
 No. ----- for ----- shares of the Capital Stock of
 -----, of -----
 -----, South Dakota, I do hereby agree to all of the
 conditions, restrictions, limitations and reservations stipulated in
 the By-Laws and amendments to the By-Laws of the Association,
 and more especially to those appearing on the face of the certifi-
 cate, which I have received this ----- day of -----,
 193___.

Witness:

-----.”

Section 5. Stock Transfers.—All transfers of stock shall be made with the approval of the Board of Directors upon the books of the Association upon surrender of the certificates covering the same in person by the holders of the shares, or by their legal representatives, when the stockholder is free from indebtedness to the Association. No transfer of stock shall be made within ten (10) days next preceding the day appointed for

distribution of net earnings. In case of loss or destruction of a certificate of stock, another may be issued in its place, upon proof of such loss or destruction, and the giving of a satisfactory bond of indemnity when considered advisable by the Board.

Section 6. Determining Book Value.—During the first two years that the Association is operating, all stock shall be sold at its par value. Thereafter all stock sold by the Association shall be sold at its book or par value, whichever is greater, as determined by the Board of Directors.

ARTICLE III—MEMBERSHIP

Section 1.—Qualifications.—Any person, firm partnership, corporation, or association, including both landlords and tenants in share tenancies, who may be a producer of any of the farm products handled by the Association in any territory tributary to the shipping points of this Association, may become a member of this Association upon application accepted by the Board of Directors, by agreeing to comply with the requirements of these By-Laws and by purchasing at least one share of its Capital Stock and by meeting any other requirements of the Board of Directors.

Section 2. Termination of Membership.—In case of the death of a member, or if a member ceases to be eligible for membership as prescribed in Section 1, or removes from the territory tributary to the shipping points of this Association, or ceases to patronize it for a period of three consecutive years, or shall fail to comply with these By-Laws and other requirements, the Association, through the Board of Directors, may elect to purchase his share or shares of stock and terminate his membership, upon tender to him or his heirs or legal representatives of the book value of his shares, together with any dividends or patronage refunds due and unpaid less any indebtedness then due the Association.

Section 3. Restrictions.—No member of this Association shall be entitled to more than one vote, regardless of the number of shares of stock of the Association held by him, nor shall any member of the Association own more than one-twentieth (1/20) of the issued Common Stock of the Association. If any member shall by purchase or by operation of law come into possession of more than one-twentieth of the issued common Capital Stock of this Association, the Board of Directors may elect to purchase such excess shares upon tender to him of the book value thereof, together with any dividends or refunds due and unpaid.

ARTICLE IV—MEETINGS

Section 1. Fiscal Year.—The fiscal year of this Association shall commence on the first day of _____.

Section 2. Annual Meeting.—The annual meeting of the stockholders of this Association shall be held at _____, South Dakota, on the last _____ in _____.

of each year, at the hour of ----- M., if not a legal holiday, but if a legal holiday, on the next business day following.

Section 3. Special Meetings.—Special meetings of the stockholders of the Association may be called at any time by the Board of Directors, and shall be called at any time upon the petition of at least ten (10) per cent of the stockholders, which petition shall state the specific business to be brought before the Association and the time and place of the meeting.

Section 4. Notice of Meetings.—Written or printed notice of meetings for every regular and special meeting of members shall be prepared and mailed to the last known address of each stockholder not less than ten (10) days before such meeting. Such notice shall state the object or objects thereof and the time and place of meeting. No business shall be transacted at special meetings other than that contained in the call.

Section 5. Absent Members Voting.—Voting by proxy shall be permitted. Absent members may also vote on specific questions, other than the removal of directors, by ballots transmitted to the Secretary by mail and such ballots shall be counted only in the meeting at the time at which such vote is taken; provided, that all stockholders of record shall have been notified in writing of the exact wording of the motion or resolution upon which such vote is taken, and a copy of the same is forwarded with and attached to the vote of the stockholder so voting.

Section 6. Quorum.—Twenty (20) per cent of the stockholders shall constitute a quorum for the transaction of business at any meeting of the Association. The order of business at the annual meeting shall be:

1. Roll call.
2. Proof of due notice of meeting.
3. Reading and disposal of minutes.
4. Annual reports of officers and committees.
5. Election of Directors.
6. Unfinished business.
7. Adjournment.

ARTICLE V—DIRECTORS AND OFFICERS

Section 1. Directors.—The Board of Directors of this Association shall consist of seven members, each of whom shall be a stockholder of this Association. At the first election of Directors to succeed the incorporating Directors, the members shall elect two Directors for one year, two Directors for two years, and three Directors for three years, and thereafter each Director shall be elected for three years. Directors shall hold office until their successors have been duly elected and qualified and have entered upon the discharge of their duties.

Section 2. Election of Officers.—The Board of Directors shall meet within ten (10) days after the first election and within ten (10) days after each annual election, and shall elect by ballot from among themselves a President and one or more Vice Presidents, each of whom shall hold office until the election and qualification of his successor unless earlier removed

by death, resignation or for cause. They shall also elect a Secretary and a Treasurer, (or a Secretary-Treasurer) who need not be Directors.

Section 3. Vacancies.—Vacancies in the Board of Directors shall be filled by the remaining members of the Board until the next regular or special meeting of the stockholders of the Association.

Section 4. Quorum.—A majority of the Board of Directors shall constitute a quorum at any meeting of the Board.

Section 5. Compensation.—The compensation of the Directors and Officers may be fixed at any annual or special meeting of the stockholders of the Association.

Section 6. Removal.—Any Director or Officer of the Association may be removed from office for cause by a majority vote of the entire membership at any regular or special meeting called for that purpose. A petition, requesting such removal, must be signed by ten (10) per cent of the members and filed with the Secretary not less than ten (10) days before such meeting. Such petition shall state the grounds alleged for such removal and such Director or Officer, and the persons bringing such charges, shall have the opportunity to be heard at such meeting in person, or by counsel, and by witnesses.

ARTICLE VI—DUTIES OF DIRECTORS

Section 1. Management of Business.—The Board of Directors shall have general supervision and control of the business and affairs of the Association and shall make all necessary rules and regulations, not inconsistent with law or with these By-Laws, for the management of the business and the guidance of the officers, employees, and agents of the Association. They shall have installed an adequate accounting system and shall require proper records to be kept of all business transactions.

Section 2. Employment of Manager.—The Board of Directors shall have power to employ and to dismiss a business manager, and such other employees as may be necessary or desirable, and fix their compensation. The business manager shall have charge of the business of the Association under the direction of the Board of Directors.

Section 3. Bonds and Insurance.—The Board of Directors shall require the Manager and all other officers, agents and employees, charged with responsibility for the custody of any of its funds or property, to give adequate bonds. Such bonds shall be furnished by a responsible bonding company approved by the Board of Directors and the cost thereof shall be paid by the Association. The Board of Directors and Manager shall furthermore provide for the adequate insurance of the property of the Association, including grain and property of all kinds, regardless of ownership, which may be in the possession of the Association, or stored by it, and in addition shall provide for adequate employers' liability insurance for all employees.

Section 4. Meetings.—The Board of Directors shall meet at least once every month at the principal office of the Association at a time to be set by the Board. Special meetings shall be held upon call of the President or upon written request of four members of the Board.

Section 5. Audits.—At least twice each year the Board of Directors shall secure the services of a competent and disinterested public auditor or accountant who shall make a careful audit of the books and accounts of the Association and render a report in writing thereon, which shall be submitted to the members of the Association at their annual meeting. The report shall include at least: (1) A balance sheet showing the true assets and liabilities of the Association; (2) an operating statement for the fiscal period under review which shall show the cost of, and income from sales and the gross income or loss from each of the commodities handled during the period ;(3) an itemized statement of all expenses for the period under review; (4) a statement of the market position of the elevator at the close of the period; (5) a statement of outstanding storage tickets at the close of the season; (6) a statement of weights and quantities of commodities received and accounted for, showing overages or shortages in each commodity handled; and (7) a certified statement of inventories to be obtained in the manner and form prescribed in the following section:

Section 6. Taking of Inventory.—The Board of Directors each year shall appoint a committee of not less than three of its members whose duty it shall be with the assistance of the Manager, to take an inventory of all property of the Association within fifteen (15) days after the close of the fiscal year. The results of such inventory shall be put into a written report, properly itemized and sworn to as accurate and true before a Notary Public by each member of the Committee. The original of each inventory report shall be promptly submitted to the Secretary to be a part of the permanent records of the Association. The information contained in any inventory report shall be available to any auditor engaged in auditing the business of the Association.

ARTICLES VII—DUTIES of OFFICERS

Section 1. Duties of President.—The President shall preside over all meetings of the Association and the Board of Directors and perform all acts and duties usually performed by presiding officers and executives of similar associations.

Section 2. Duties of Vice President.—In the absence or disability of the President, the Vice President shall perform the duties of the President.

Section 3. Duties of Secretary.—The Secretary shall keep a complete record of all meetings of the Association and of the Board of Directors and shall have possession and general supervision of the books and records of the Association. He shall perform such other duties required of him by the Association or the Board of Directors.

Section 4. Treasurer.—The Treasurer shall have custody of all money belonging to the Association and shall keep a full and complete record of all receipts and disbursements thereof. The Treasurer shall pay out no money except on the order of the President and Secretary, and shall make a report of the financial condition of the Association at its annual meeting and at such other times as the Board of Directors may require. The Treasurer shall perform such other duties required of him by the Board of Directors, and may be required to execute a bond, paid for by the Association, to protect the Association from losses occasioned by him.

ARTICLE VIII—DUTIES OF MANAGER

Section 1. In General.—Under the direction of the Board of Directors the Manager shall have general charge of the ordinary and usual business operations of the Association, including the purchasing, marketing and handling of all products and supplies handled by the Association. He shall, so far as practicable, endeavor to conduct the business in such a manner that the patrons will receive just and fair treatment, and at the same time provide the Association with sufficient funds to meet operating expenses and provide for the disbursements covered in divisions 1, 2, 3, of Section 1, Article IX hereof. The Manager shall deposit all money belonging to the Association in a bank selected by the Board of Directors and shall make all disbursements therefrom for the ordinary and necessary expenses of the business by check in the manner and form authorized by the Board.

Section 2. Duty to Account.—The manager shall be required to maintain his records and accounts in such manner that the true and correct condition of the business may be ascertained therefrom at any time. He shall render annual and periodical statements in the form and manner prescribed by the Board of Directors. He shall carefully preserve all books, documents, correspondence, and records of whatever kind, pertaining to the business, which may come into his possession. He shall prepare daily, unless otherwise authorized by the Board of Directors, and keep in the office of the Association a grain record which shall show the true "long" or "short" market position of the Association in each kind of grain at the close of each business day.

ARTICLE IX—DISTRIBUTION OF INCOME

Section 1. Method of Distribution.—At the end of each fiscal year after paying the expenses of the Association for operation and otherwise, and after setting aside a reserve for depreciation in an amount not less than five (5) per cent of the original value of all machinery and office fixtures and equipment, and after providing for payments on interest or principal of long-time obligations or amortized debts of the Association incurred in the conduct of the business, and after having provided for the purchase of necessary supplies or equipment, the Board of Directors shall apportion the net income, in so far as funds are available, in the following order and manner:

- (1) By setting aside not less than ten (10) per cent of the earnings as a reserve until an amount of not less than the amount of capital stock issued and outstanding has accumulated in said reserve.
- (2) By paying not to exceed eight (8) per cent interest on the capital stock.
- (3) By setting aside an amount, not less than one (1) nor more than five (5) per cent of the net income, as an educational and community reserve to be expended for furthering the best practices of agricultural production and marketing and for advancing the interests of the community generally.
- (4) The balance of such net income shall be apportioned between all patrons of the Association as provided in the following section.

Section 2. Methods of Paying Patronage Refunds.—Patronage refunds shall be paid in cash to all patrons of the Association, except that in the case of a patron who is eligible for membership in the Association and who is not the owner of at least one share of the Capital Stock of the Association patronage refunds shall be credited to the account of such patron until the account shall equal the book value of a share of stock, whereupon the Association shall issue and deliver to him a share of stock of the Association. When such patronage refunds are credited upon the purchase price of a share of stock for a period of three years, the Board of Directors may require such prospective stockholder to pay the balance of the book value thereof or cancel said refund and set it aside as a reserve of the Association. If, after the payment of operating expenses and interest on Capital Stock, and the setting aside of reserves for necessary purposes, it is then found possible to declare a patronage dividend but the financial condition of the Association does not permit of immediate payment being made, payment of such patronage refunds shall be deferred by the Board of Directors until sufficient funds have been accumulated to permit payment in cash.

(1) **Grain Rate:** The total net income from grain operations, after deducting an equitable proportion of all expenses and an equitable proportion of appropriations provided for in Section 1 above, shall be divided among the grain patrons upon the basis of the dollar value of sales of each kind of grain by each patron, or in such other equitable manner as may be determined upon by the Board of Directors.

(2) **Merchandise Date:** The total net income accruing from the handling of merchandise and supplies and from other miscellaneous sources, after deducting an equitable proportion of all expenses and an equitable proportion of the appropriations provided for in Section 1 above, shall be divided upon the basis of the dollar value of sales to each patron, or in such an equitable manner as may be determined upon by the Board of Directors.

Section 3. Application of Dividends to Indebtedness.—Any part or the whole of the interest on capital stock or patronage refunds apportioned to any patron shall be credited on the indebtedness, should any exist, of the patron of the Association and in such case the patron shall be notified in writing of the amount so applied.

ARTICLE X—MISCELLANEOUS PROVISIONS

Section 1. Credit.—The business of this Association shall be conducted, so far as possible, on a cash basis in accordance with instructions from the Board of Directors. At the regular meetings of the Board of Directors a list of the open book accounts, showing the amount and age of each account, shall be submitted by the Manager; these shall be examined by the Board and the Manager shall be instructed as to the terms of further extension of credit to patrons. All accounts due and unpaid shall, at the end of sixty (60) days from the date of sale, bear interest at the current bank rate and all sales tickets shall so state.

Section 2. Collective Buying.—All merchandise purchased through the Association, other than that regularly carried in stock, shall be paid for

in cash by the members ordering such supplies at the time of ordering the same.

Section 3. Speculation.—Neither the Manager nor any other agent or employee of this Association shall during the period of his term of office or employment deal or trade in futures or options in grain or other commodities or stocks in his own name or in the name of any other person or in the name of this Association, except as it may be necessary to hedge actual purchases or holdings of grain or sales of stored grain, and then only with the knowledge and consent of the Board of Directors. This Association shall, so far as it is practicable, avoid any and all speculation in grain, and shall endeavor to keep closely hedged at all times, either by the purchase or sale of actual grain, obviating the necessity for a hedge, or by the sale or purchase of futures as the case may be.

Section 4. Business with Non-stockholders.—The Association shall not deal in the products of non-stockholders to an amount greater in value than such as are handled by it for stockholders.

Section 5. Corporate Seal.—The corporate seal of this corporation shall consist of two concentric circles between which shall be the name of the corporation and the words, "Incorporated, State of South Dakota", and in the center shall be inscribed the words "corporate seal", and such seal as impressed on the margin hereof is hereby adopted as the corporate seal of this Association.

Section 6. By-Laws Printed.—After adoption, these By-laws, preceded by the Articles of Incorporation, shall be printed in pamphlet form and a copy thereof shall be delivered to each stockholder and to each person who may later acquire one or more shares of the Capital Stock of the Association hereafter as shown on the books of record.

Section 7. Book of By-Laws.—All By-Laws adopted must be certified by a majority of the Directors, and the Secretary of the Association, and legibly copied in a book kept in the office of the Association known as the "Book of By-Laws", which shall be open to the inspection of the public during the office hours of each day. No By-Law shall take effect until so copied.

Section 8. Amendment of By-Laws.—These By-Laws may be repealed or amended at any regular meeting of the Association, or at any special meeting of the Association called for that purpose, by a two-thirds affirmative vote of the stockholders present and voting at such meeting, provided ten (10) days written notice, setting forth the proposed By-Laws or amendments to be voted on, shall be given to the stockholders, by mailing a copy of such notice to each stockholder at his last known address.

Extension Service

South Dakota State College of Agriculture and Mechanic Arts

Published and distributed under Acts of Congress, May 8 and June 30, 1914, by the Agricultural Extension Service of South Dakota State College of Agriculture and Mechanic Arts, Brookings, C. Larsen, director, U. S. Department of Agriculture cooperating.