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H. C. RAMSOWER, Director

DUTIES OF MEMBERS, DIRECTORS, AND MANAGERS OF COOPERATIVE ASSOCIATIONS

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Duties of Members, Directors, and Managers of Cooperative Associations

What takes place when a cooperative association is formed?

A group of farmers set out to work together to do something which they believe can be done better that way than by each working independently. In this bulletin attention is given only to business undertakings, and the group is considered as entering upon an adventure in business organization.

They form a corporation. The corporation is a business device that has been used for many years in the field of general business activity. A lawyer has defined it as follows: "A corporation is an artificial entity created by the statute law and endowed with many of the legal capacities of individuals, as the power to take, hold, and convey property, make contracts, sue and be sued, and the like."

Status of Corporation Defined.—The outstanding characteristic of a corporation is that it is a legal entity distinct from its members, individually or collectively. When it enters into a contract or any other relation, its members as individuals are not involved. It may even sue one of its members or be sued by one of them. The title to property is vested in it and not in its members.

A corporation is often described as an artificial person and can be thought of as a distinct member of the business community. When, therefore, a corporation charter is granted to a group of farmers, there appears a new member of the community as far as business and legal matters are concerned. It is just as much a new neighbor as a new farmer who moves in, and is entitled to just as fair treatment.

The corporation is just as likely to make blunders as a real person. It is especially prone to do so in the early years of its life. As a member of the business community it can be expected to live up to the code of business ethics that prevails there, and is entitled to the same fair treatment that characterizes dealing between one man and another.

General Advantages of a Corporation—

1. It enables a large number of persons to unite and pool their capital into one undertaking, thus making possible large scale operations with consequent greater possibilities in the use of costly machinery and skilled management.
2. It enables men busy in another field of endeavor, as farming, to carry on a type of business, as marketing, for which individually they have not the time, and often not the training or experience.
3. The corporation is more enduring than a private enterprise or a partnership. It is a creature of law with power to perpetuate itself, and does not go out of existence with the death of any of its members or even officers.
4. Men may engage in an enterprise in which certain elements of risk are involved without placing their entire private fortunes in jeopardy. A definite liability is set in the ownership of the stock of the stock corporation, or, if a nonstock corporation, a specific sum is fixed in the certificate of incorporation or the law beyond which a member is not liable.
5. Persons can generally get in and out of a corporation easily. This feature may be modified materially by contract or by restrictions as to the sale of stock by stockholders, but as a rule it is not difficult for a member to sever his connection with a corporation.

A Partnership Compared with a Corporation.—The only other form of business organization at all common—a form far older than the corporation—is the partnership. There is a simplicity and a lack of formality about it which are convenient; it is easily entered upon, and if all agree and no debts exist, as easily dissolved. A corporation comes into existence only as a result of deliberate purpose and through forms prescribed by law; no one gets into a corporation without knowing it. Men may drift into a partnership. The law frequently implies it with all its attendant liabilities for persons who did not dream they were in a partnership. This liability unfortunately extends to one's entire property, so that if the enterprise fails, D, who has property, may have to pay not only his share of the debts, but, in the event that some or all the others in the project have no property that the law can attach, may have to pay much more than his share—even the whole debt. Worse yet, even if D should dispose of his interest to E, D might have to pay his share or more of the debts existing at the time he sold out his interest. In the corporation this liability of a stockholder or member is limited—in Ohio it is limited to the amount unpaid on one's stock or membership fee.

In a partnership one cannot in general dispose of his interest without consent of his partners. The death or bankruptcy of a partner ends the partnership and forces a reorganization or the discontinuance of the enterprise.

One could not safely enter an organization with strangers or with any large number if the unlimited liability feature were present. In any large group, too, someone would be wishing to retire from it almost any time, and death, bankruptcy, or other cause would force retirement. Hence, for any enterprise involving large numbers, or to operate over large areas, or through any extended period of time, there is need of some other type of organization. The corporation was developed to serve this need; more recently modifications, mostly minor, in the general corporation type have given us the cooperative association.

The Cooperative Corporation—Its Aim, Control, and Patronage

The corporation has proved to be as necessary and useful in agricultural cooperation as in other lines of business. The cooperative corporation as a business structure is not essentially different from the straight business corporation, but it does differ distinctly in aim, method of control, and patronage relationship. The contrasts can be briefly set up as follows:

Straight Business Corporation	Cooperative Corporation
Aim.—To make profits which will appear as dividends to the stockholders on their money invested.	**Aim.**—To effect savings for its members and render them better services than they could otherwise have.
Control.—Money votes (one share, one vote), and is the controlling power.	**Control.**—Men vote (one man, one vote). Sometimes, but rarely, commodity votes.
Patronage.—It is not absolutely essential that stockholders buy from or sell to the corporation.	**Patronage.**—Members must give the cooperative their patronage or it will soon go out of existence or fail to be a cooperative.

To ascertain whether a corporation is cooperative or not determine the aim, the method of control, and who are the beneficiaries. If the aim is savings and better services, the control democratic, and the benefits accrue to those who furnish the business, the concern is cooperative.

The Aim of a Cooperative Corporation.—To achieve the aim of effecting savings to its members is not an easy task for the cooperative association. In many instances where farmers have decided to enter the field of marketing with their own marketing machinery, the competition has been very keen. In the long run, the cooperative undertaking must make an actual saving either by doing the job as well at less cost, or better at the same net cost. If it does not, the cooperators are likely to decide that the game is not worth the candle, and allow their interest to wane.

The savings come mainly from three sources—handling of greater volume, greater efficiency of operation, and securing as savings what formerly went into net profits over all costs of operation. It is difficult for a group new to the market to be more efficient, and often the profits they seek are no more than enough to cover costs, so really it comes back on the one hand to securing savings through handling a large volume, and on the other hand, to being only mildly expectant of profits until they have gained some experience in marketing.

The rendering of better services than those afforded by existing marketing agencies may be a stronger motive for cooperation in some cases than the hope of direct savings. Within this field would fall the creation of wool pools to effect sale on a quality basis, and the establishment of farmer-owned exchanges to handle feeds with open formula, seeds of known origin, and fertilizers without fillers. Private agencies have often been slow to meet the increasing demands for better services and the cooperative corporation has been able, when well handled, to step in and do this with a high degree of success.

Control of a Cooperative Corporation.—Member control by the provision of "one man, one vote" has long been considered one of the fundamental principles of cooperation. There are some men who have given much thought to the matter who are inclined to think that commodity control approaches more nearly to justice to everyone concerned.

In commodity control the member with the greatest amount of product to go through the organization would have most to say in determining its policies. For example, a creamery might provide for commodity control by giving each member as many votes as he had cows in production or as many votes as cans of milk delivered. Those who advocate commodity control argue the "one man, one vote" method may place the larger producers at the mercy of the small ones who might be willing to follow a policy that would mean ruin to the man who has practically all his investment in that particular line of business. The small milk producer might, for instance, be willing to turn over 50 percent of his milk checks for a year toward the purchase of a plant because he has several other larger sources of income, while for the intensive dairyman this policy would be ruinous.

This in actual practice is not as great a menace as it might at first appear, because it usually works out that those who have the most of a commodity also have the most business ability, and they largely determine the policies of the corporation.

Patronage of Members Necessary.—The importance of patronage cannot be overestimated. A great corporation like Swift and Co. might achieve success and pay some dividends to its 40,000 stockholders if not a single one of them either sold it a steer or bought from it a pound of beefsteak, but not so with a cooperative. The cooperative association, to serve its purpose, must have the patronage of its members.

Often in the setting up of a cooperative corporation on a capital stock basis, the leaders in the undertaking have assumed that ownership of a share of stock would be an absolute guarantee of patronage on the part of the stockholder. This has not proved to be a safe assumption. Too often stockholders have been lured to competitors by what they considered a price advantage, and have thus become a party to forcing their own corporation into a vicious circle of reduced volume, higher overhead, and higher prices in order not to show an operating loss.

Duties of Members

The first duty of a member of a cooperative association is to understand clearly just what his organization is aiming to do. It may be that its aims are set too high, for one of the greatest weaknesses of the cooperative movement of the present day is that it has been oversold. In such cases, the members should set to work to make a reappraisal, and bring the aims down to a point where, with honest support of the membership, they may be attained.

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. He should attend all meetings and thereby contribute his best efforts directly to the management through constructive criticism. If he signs a producer's contract he should live up to it. If called upon to serve as an officer or director, he should endeavor to discharge his duties fairly and seriously.

Financing the Cooperative.—One of the most definite duties of the member is that of financing. One of the reasons for creating a corporation is to make possible an equitable distribution of the burden of financing. There are various ways of doing this. In some cases all cooperators put in the same amount of money, but more frequently there is some gradation based either upon the volume of business to be done, or the ability or willingness of the producer to risk money in the enterprise. If a certain number of men are willing to do more than their proportionate share based on amount of their patronage, they may be taken care of in their extra contributions by giving them preferred stock or some other form of preference in security. This is a more advanced type of business procedure than has been reached by most of the small cooperatives, but it is quite common in the larger types.

The member should keep two things clearly in mind with respect to financing. Primarily, the cooperative venture is not set up to return high dividends upon stock, but rather to effect savings which will be reflected in other ways than in stock dividends. The aim should be to provide enough funds to enable the concern to operate efficiently, and on these funds there should be paid a fair rate of interest. Secondly, the distribution of the burden should be as general and as equitable as possible. In many cases schemes have been used to loan credit on members' demand notes and other devices, to the extent that the members have gained the impression that there was little or no responsibility demanded. In other words, it has been too easy to get into the undertaking, and there has not been a full appreciation of individual financial responsibility.

Producing Quality Product.—Success of the business program of cooperation depends much upon factors of production on the farm. The member controls the reputation of the association for grades and grading largely through the quality he produces. The corporation can market only what he delivers. This means that the producer must have a knowledge of market demands and enter into a joint program of production and marketing. What the member does in this joint program will have a very important bearing upon the success of the association as a marketing agency.

In the matter of getting his product to his marketing machine, he should make intelligent use of all available market news service, and in addition be in sympathetic touch with the manager. One of the benefits of organized marketing is that small sacrifices and adjustments on the part of producers may mean real gains by the association through more orderly marketing.

Spirit of Cooperation.—Cooperation cannot be built upon a point of view illustrated in this little incident that is said to have happened in Italy. A birthday party was being held for the parish priest, and the word had been passed around quietly that each parishioner should bring to the party a quart of his very best wine and empty it, before entering the house, in a cask to be placed under a tree in the yard. At the proper point in the festivities the committee in charge brought in the cask, set it on the table and from it poured pure water. Each fellow had calculated that his neighbors would all do as they had been told, and he could slip in a bottle of water, save his quart of wine, and no one would be the wiser.

In contrast to this, it is not an easy matter for a member to maintain consistently against all sorts of pressure, a sound constructive point of view with respect to his organization. It is, however, the price of success.

Value of a Producer's Contract.—Shall the member's relationship and responsibility to his cooperative association be expressed in the form of a producer's contract? The particular conditions under which the cooperative is operating should determine the answer to this question. In many cases it does not appear to be essential, but in others it is highly desirable. The contract has this in its favor. It tends to crystallize thinking on the vital points and bring about a clearer understanding. A full appreciation of responsibility on the part of the signer must, however, be present, or the contract will be only a scrap of paper. The contract is an effective means of placing understandings upon record, but it is in no sense a device that will in itself create responsibility.

The value of the producer's contract is tersely stated by an Englishman who made a careful study of cooperative marketing in the United States, as follows: [1] "Binding agreements of this kind strengthen associations from the business side and by their psychological effect. It is no doubt true that no body of producers is likely to continue a permanent contractual relationship unless the members are convinced that they are receiving satisfactory service without the membership contract as a basis. The membership contract is not the final word in cooperative relationship between members and associations; this must be made businesslike and educational as well, but the contract does represent an essential link in sound business effort."

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[1] Report upon Large Scale Cooperative Marketing in the United States of America (1925) by R. B. Forrester, M.A., M.Com. (Cassel Lectures in Commerce in the University of London.)

Duties of Directors

When a large number of men pool their efforts in a cooperative enterprise there must be some way to concentrate responsibility for getting things done. This is accomplished by electing a board of directors. They are chosen by the members to determine the policies and direct the affairs of the association. This is a definite and important responsibility. It naturally falls into the following distinct lines of duty:

1. To determine policies.
2. To define the field of operation of the organization.
3. To employ a manager or managers and properly correlate membership and commodity management.
4. To receive reports of the management, analyze them and pass on to the membership such information as they should have about their organization.

Directors Determine Questions of Policy.—The task of determining policies is not an easy one. Successfully to direct the policies of a business enterprise in as highly competitive a field as marketing farm products in a state like Ohio, requires clear vision and business acumen. The job is made more difficult when we are going through a period of rapidly changing prices as we were between 1915 and 1925. This is shown by the fact that hundreds of old, business organizations of every type, some of them among the best established in the country and with boards of directors that have had years of business experience, are now bankrupt or in grave financial straits. The death rate of cooperative corporations in the last two years has been high, but, by and large, the directors have probably made about as good a record as have those in other lines of business.

Directors Should Determine Field of Operation.—A question of policy which often arises is, should the cooperative become a closed corporation? For example, a cooperative starts out undercapitalized, largely because neighbors who benefit by it refuse to help by taking stock—refuse even though they admit the good they are securing from it,—and even though many of them talked of taking stock up to the time they were asked to sign. A hundred or so stockholders carry the risks thrice the number should have shared—possibly through a period of deficits and no dividends, due to declining prices, lack of working capital, and low volume of business. Ultimately the vision and courage of the few win out, and the company is on a basis of service, of dividends, and of surplus. With the stock worth $150 a share and paying 6 percent in dividends on stock plus a patronage dividend of still more, some of the people who "wanted to see how it came out" would now be glad to get in at par or thereabouts. The temptation is to say to them: "You refused your opportunity and made us carry the load. You get for nothing part of the benefits through a better market, but some of the benefits we expect to hold for those who made the better market possible."

Another somewhat different situation may develop with respect to a local cooperative such as a milk producers' association that is supplying a limited local market. When the production of milk by the membership is near the right amount to meet the fluid milk demands of the market, should the association take in more producers and create for itself a surplus problem? In the

New England states several local cooperatives of this type have adopted a closed corporation policy, and there is a tendency to adopt a similar policy in some markets of Ohio.

We make no attempt to decide. On a basis of fairness, our sympathies are with the few who carried the load, or worked into an adjustment with the market. The practice among Ohio cooperative elevators seems to be to encourage new members to come in, even to the extent of offering at or near par, stock whose book value is considerably above that.

A somewhat related but quite different question is that of selection. The general tendency in the formation of a cooperative to market a particular commodity, is to try to get in all producers of that commodity in the territory to be included. The result is, it is found a year or two later, that along with the main body of farmers who cooperate in the upbuilding of a better and more permanent industry, there is a group—sometimes small, sometimes considerable—comprising a choice collection of contract-breakers, knockers, chronic soreheads, people who fight every attempt toward better quality. It is frequently recognized that the organization would be better without them, and in the campaign for a renewal of contracts, the directors may decide to solicit those who are likely to work whole-heartedly with the organization, and who produce quality goods or produce in quantity sufficient to make it advantageous for them to improve quality. There is evident in many quarters in Ohio at present a distinct sentiment toward selection of membership in the cooperative movement.

Contact with Management Is Important.—The immediate contact of the directors with the management is the line of duty most constantly in evidence. In this matter two things are highly important. They are a clear understanding of the general character of the problems of management, and a hire and fire authority that is functioning to produce real discipline in the organization. Leniency on the part of the board in permitting the manager or anyone else to take the larger share of responsibility for determining policies will often result in a breakdown of discipline.

Under all circumstances a board of directors should insist upon frequent and complete, usually monthly, reports from the management. These reports should disclose the real condition of the business and be the basis of deciding policies. Through them and by personal contacts with the business, each director should make himself as familiar as possible with the everyday problems of the business.

Keeping Membership Informed.—The responsibility of the board of directors does not end with the receipt and analysis of the reports from the manager. The members are entitled to know of the true condition of the business from those they designated to run it. This is a point on which boards of directors probably fall short as much as in any one feature. Many times boards get the idea, especially when things are not going quite as smoothly as they might, that it is just as well not to let the members know everything, at least not at once. This leads to dissatisfaction and even distrust on the part of the members when they do finally learn the truth. Had they known the facts at the proper time they might have been willing to do something at once to remedy the situation.

This is one of the reasons for the large board of directors which a cooperative commonly has. It is recognized that a board of five members can be gotten together more easily and more economically than a larger board; it can decide questions more quickly—is a better executive body, in other words. The functions of the board of directors in a cooperative, however, are not merely executive. It has the problem of carrying along with it in its decision, and its methods of operation of business, the confidence and goodwill of the whole body of members and patrons. In the average cooperative it is relatively only a few who have come into the organization with much understanding of its aims and its problems. Misunderstandings result; criticisms are made; lack of information and misinformation are the order of the day. How fortunate if a member can say: "I do not know personally, but Joe Blank is on the board, and things won't go far wrong before they hear from him."

That each member can say this depends in large measure on the number of members in the board, and how well they are distributed over the territory. If in a board of nine members, well distributed, each one makes an effort to get thoroughly acquainted with the operations of his company, and then talks these things over with his neighbors so as to inform them about and interest them in the work of the organization, there will be one more manager who can say: "I tell you I have a good board. I believe we are putting it over. I couldn't do it alone."

Problems of the Board of Directors

Responsibilities of the Advisory Council.—In some organizations operating over a territory of several counties like the milk organizations, the board becomes a sort of executive committee for a larger group, called often the advisory council. At the council meeting each three months the board makes a report, answers questions, receives instructions, announces policies, with the expectation that each councilman shall make a definite and reasonably full report to his local group, and shall in addition be all the time a center of information and inspiration for his locality. His failure—and unfortunately he all too frequently does fail—cuts the cord that binds the local member in spirit and goodwill to the association.

Credit Extension a Problem for the Board.—In cooperative associations dealing in supplies the question of credit is always a troublesome one. If the association operates upon a credit basis, the day-to-day extension of credit must rest with the manager, but in local elevators or cooperative supply stores, the board may well have a credit committee to go over the accounts with the manager at regular intervals to determine where and when credit limits should be set.

Keeping Out Instead of Getting Out of Legal Troubles.—Keeping out of legal entanglements is one of the real problems of cooperative corporations. The cooperative movement can well consider the adoption of the policy that has become fixed with many straight business concerns, of submitting their proposed actions to legal authority before rather than after taking the step on the theory that it is less expensive and more desirable to keep out of legal troubles than to get out of them.

Pitfalls and Snares of Directors.—Among the pitfalls and snares that sometimes befall directors are: (1) assuming undue financial responsibilities, (2) the lure of selfish gain, and (3) cultivating political bees.

One form of responsibility that is quite often assumed by members of the board of directors should be resorted to only in times of extreme emergency and then only temporarily. It is the matter of carrying, personally, the financial burdens and obligations of the association. There are hundreds of instances to be found where directors have signed their personal endorsements to notes in bank to carry the corporation over financial difficulties. This is absolutely contrary to the underlying idea of the corporation; namely, to make possible business operation with risks evenly and equitably distributed. It is also opposed to the cooperative idea, for this certainly results in cooperation in spots only.

Another undesirable condition is developing in certain quarters of the cooperative field. A type of producer-director is to be found who directs as a personal business, doing it for what there is in it for him on a per diem basis. The type of producer who is needed for the important job of director is the one who has made good as a business man, and who will direct from the standpoint of the welfare of the business undertaking and not in his own selfish interests.

Another evil that must be added to the list of influences that tear down rather than build up cooperative administration, is the temptation to play politics. Farmers are no more immune to the buzzing of the political bee than other citizens, and in cooperative movements that have been fostered by other farmers' organizations there has been in some cases a notorious amount of playing petty politics. This factor was perhaps the most important one in the collapse of the Grange west of the Mississippi a generation ago. While this diversion may be indulged in by members as well as directors, the responsibility for checking it rests largely with the directorate.

Management of Cooperatives

In the typical cooperative association we have two important elements involved,—men and commodity. This leads to a natural division of the field into man or membership management, and commodity management which includes the dollars involved in handling the commodity. The general manager of one of the largest and most successful eastern cooperatives, and one of the keenest students of the movement, believes that most of the management mistakes that cooperatives have made to date have come through failing clearly to recognize these two types of management.

Qualifications of a Manager.—If we accept this division of the field, we will expect to find some differences in the qualifications of membership and commodity managers. To deal with the problems of handling the commodity and financing it through the channels of trade, men are needed who are specialists in that particular line and who "know their way around the market" for that particular product. The best source for this type of man is often the market itself, where men have grown up in the work, and the most successful cooperatives have drawn many good men from this source.

To deal with the producers and handle the difficult personal situations that often arise, a membership manager is needed who is farmer-minded and who possesses the instincts, tact, and imagination to guide and direct group activity and keep alive that thing we all recognize and yet find so hard to define—the spirit of cooperation.

In the larger organizations that run into thousands of members, a division of the work into membership and commodity management is possible. In the smaller cooperative one manager must be responsible for both lines of work, except as some of the responsibility of membership management may be assumed directly by the board of directors.

In organizations operating over a wide territory keeping in touch with the membership is an important matter, and board members have a very definite responsibility in the matter of maintaining membership morale. An illustration of how this may work out may be found in almost any organization that handles a product on either the pooling or prorating basis. Returns reach the member some time after his product has left his hands, and he may not understand clearly when he gets his check, how it was figured. His first impulse is to go to his director, and when he does he should get from him a clear and satisfactory explanation. Evasion or confusion on the part of a director in such an instance is almost certain to create suspicion in the mind of the member.

The combination of membership and commodity managing ability in the same man is not unusual in the smaller cooperatives. The record of successful management in many of the farmers' elevators and livestock shipping associations in Ohio is an example of this. The work requires a high degree of all-round ability and in general the smaller organizations have not paid salaries high enough to attract men of sufficient business caliber.

Management Dangers to Be Avoided.—Two weaknesses in management must be guarded against. The manager may become little more than a rubber stamp for the board of directors. It is poor business administration to deprive the manager of the power to make decisions with respect to operating situations as they arise. To do so slows down the business machine and in addition places upon the board of directors an amount of detail that is unwarranted.

The other weakness is the opposite of the above situation. The manager attempts to function both as manager and board of directors. Herein lies great risk to the whole organization. The judgment of a single individual in matters of policy is not likely to be as sound over a long period as that of a group. The members of the board, realizing that they are mere figureheads, do not take the responsibilities that they should in furthering the interests of the association. The greatest danger, however, in a policy of this sort, is the jolt that the organization gets if it loses this self-sufficient manager. When he leaves, the association is in the hands of a helpless board, and it is lucky indeed if it does not go on the rocks before someone gets it in hand.

Duties of the Manager

The manager, whether his duties are with the membership or the commodity, is a most important factor in creating an impression in the minds of those who deal with the organization as to its general character. Upon him depends largely that factor which every one recognizes as so valuable in business—goodwill.

This depends very largely upon the personality and attitude of the manager. He represents the cooperative's most vital contact with the public, and it is his duty to create with it a favorable impression.

An illustration may better bring out this point. At the annual meeting of a certain cooperative elevator in Ohio, the local banker was asked to say a few words. The gist of his talk was that it was a pleasure for him to extend congratulations to the elevator as a successful and respected member of the business community. He then referred to the high regard in which the manager was held by the business men of the town as well as by the farmers who employed him. There exists in this community the most friendly feeling toward the elevator, due apparently to the fact that the manager is a broad-minded business man.

Manager Should Not Be a Member of Board.—It is always the function of the manager to carry out faithfully and efficiently, the policies formulated by the board of directors. He should not be a permanent member of the board, for the reason that no one should be expected to sit in judgment upon his own acts. An emergency may arise in any corporation when, for the time being, it seems best to have a member of the board serve as manager. No serious objection can be raised to this as a temporary arrangement, but it should never be made permanent, and during this time the director should not vote upon matters directly affecting his compensation or details of his management.

Manager Must Be Willing to Explain Operations.—Upon the manager rests the responsibility of having an all-round grasp of the operation. There are always management situations more or less technical or involved, and the manager should be patient enough to explain these to the members of his board to an extent that enables them to reach sound conclusions in directing policies and to answer intelligently questions that members may put up to them.

In concrete terms, it means that the manager of a shipping association owes an obligation to his board of directors to explain in detail the problem involved in prorating, so that if members who do not understand the settlement on a certain shipment of livestock go to their nearest director with their statements he can talk to them intelligently about it.

Reports of the Board of Directors.—Custom and the regulations of most cooperatives provide for a regular monthly meeting of the board of directors, with such special meetings as emergencies or extra business may require. All boards probably have expected and received from the manager at these meetings at least a general statement of condition, difficulties, and needs in the operation. Some boards from the beginning, and more as time goes on, have recognized the need of practically as complete facts month by month, or at least quarterly, as are given the stockholders at the annual meeting. For some things estimates will probably be sufficient, but expense problems can be solved and efficiently developed only by a discussion based on data covering the problem at hand. Further, it is only reasonably full reports that point out the weaknesses to be corrected.

One part of the directors' meeting should be the discussion of any suggestions or criticisms received by any director from stockholders or patrons, or any ideas a director can advance for improvement in any line.

Not all managers have cooperated with their board as they should; some boards, too, may have discouraged the manager's attempt to give them the facts by using them to interfere unduly in management details. There is a constantly growing tendency for managers to use the directors' meeting as a means of educating their boards in marketing practice and problems, and securing their cooperation in passing on these facts to stockholders and patrons.

Boards, too, as they come to know market practices, and the conditions and needs of their particular enterprise, are finding a larger and larger place for themselves in constructive suggestion to the manager, in answering unfair criticisms among their neighbors, and in being centers of accurate news regarding their company.

Reports to the Stockholders

The problem of membership relations of a cooperative has been discussed under the head of management. The one big opportunity to get before the stockholders the financial condition and business problems of their enterprise is the annual meeting. It is more than this. It is a means of educating them in problems and costs of marketing, of teaching them what a cooperative really is, and of developing in them a spirit of cooperation.

The first aim should be to get out an attendance, and every legitimate device,—publicity, individual notices, dinners, telephone, personal influence—should be used. It is easy to get them out once; whether they come generally will depend on how interesting a time they have when they come. Above all, the stockholders, when they come, must get what they came for—the facts about the business enterprise under discussion.

Among the things which stockholders should hear at the annual meeting are:

I. The outstanding figures of the balance sheet, showing the condition of the business at the time of the audit.

The list of assets, or properties, owned by the company, should be in some detail, showing separately value of buildings, of plant equipment, office fixtures, delivery equipment, stockyards, railway sidings. In the case of elevators, for example, inventories would better appear not as one figure, but in principal items, as grain, coal, flour, and feed, general merchandise, and possibly other groups.

Reserves for depreciation and for loss on accounts are best understood if subtracted directly from the respective asset accounts.

Surplus or deficit should be shown and its effect on the book value of the stock.

II. The financial history of the enterprise since the preceding audit, as shown by the income and expense statement.

The volume of business in total and the principal groups in it, as in inventories above.

The total of gains with mention of principal sources.

The total of losses and expenses for the period, with a rather detailed analysis of expense. If corporation has an insurance scheme, as, for example, in shipping livestock, a complete insurance fund statement would be included showing all receipts, and an itemized account of all losses.

The net gain or loss for the period.

III. Brief and definite comparisons with the past.

Present fixed assets, inventories, and receivables with those of a year ago.

Major income and expense items with previous years.

Volume of business and its relation to expense per unit handled or net gain.

Any unusual items of income or expense in the past year or expected in immediate future.

IV. Some discussion of future needs and policies, preferably by the manager.

Needed equipment or repairs.

New commodities to be handled or old to be dropped and why.

Changes in credit policy.

Possible premium on certain grades or varieties.

Production improvement program for community.

Community service program of organization.

In Ohio the law requires every corporation to furnish each stockholder annually a copy of the balance sheet. It is highly desirable to add to it a copy of the income and expense statement. Thirty to forty minutes spent with these statements in hand will cover I, II, and III in the above outline.

Nothing else can be substituted for facts, and when reports are presented to the membership in this way, it develops membership responsibility and with it a feeling that the organization is really cooperative.