



# Understanding Cooperatives: Cooperative Business Management Functions

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Business management is the process of getting things done by and through others. In cooperatives, the management team consists of two distinct entities—the board of directors elected by the members and a professional business manager hired by the board.

Working in concert, both have the same overall objective but each has separate and divisible functions. Conflict within the management team arises when either doesn't know, or fails to recognize the division of functions.

## Relationships

The elected board is the governing body of the cooperative. It has certain legal responsibilities to the members and others like financiers, and holders of marketing, supply, or service contracts. The hired manager reports to the board and is responsible for the cooperative's day-to-day operations.

## Management Functions

Functions are actions or activities needed to perform a particular role. The management functions of elected directors and hired management may appear similar, but because of different levels of authority and responsibility, the direc-

tors and manager have different activities and roles for the same function.

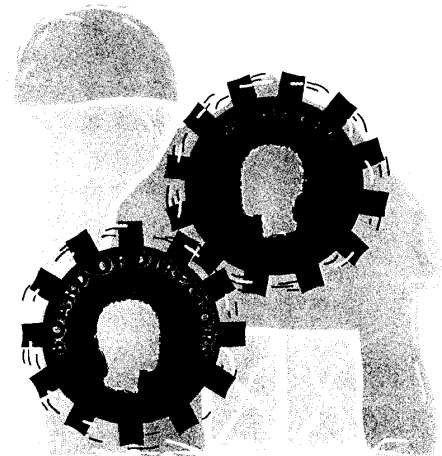
The management functions of directors are often defined as planning, organizing, directing, coordinating, and controlling (PODCC). The functions of hired management may be identified as planning, organizing, motivating, and controlling (POMC).

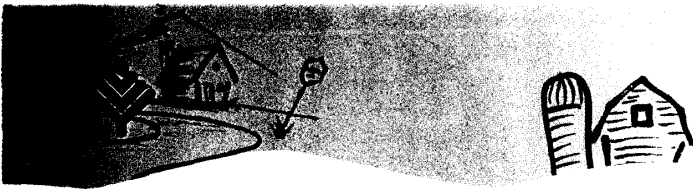
## Director Functions

The board of directors provides direction to the affairs of the business to ensure development and growth in products, markets, and positive financial results. Five functions are generally recognized—planning, organizing, directing, coordinating, and controlling to fulfill this purpose.

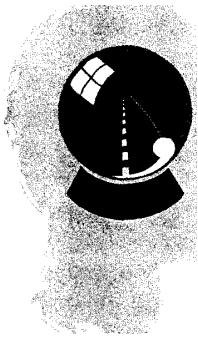
## Planning

Planning is the decisionmaking function of management and requires sound judgement. Collecting information concerning business alternatives, synthesiz-





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## **BOARD OF DIRECTORS**

ing the information, and evaluating it are important parts of decisionmaking. Planning involves deciding when, where, and how to take action and projecting anticipated results.

The board is responsible for determining and systematically arranging all the main factors to achieve the goals and objectives of the business. The planning function by directors is usually considered long-term and broad in scope. Strategic planning and preparation of a capital budget are specific examples.

### ***Organizing***

When the planning is completed, all of the cooperative's resources, both physical and human, must be grouped according to function. Organizing involves arranging all of the groups so the business operates as a productive unit. The group needing the most consideration is human resources. People are an important part of successful cooperative operations.

The board's role in human resource activities is hiring a competent manager and designing the overall organizational structure. Board approval of a competitive wage and salary plan plus a benefits package is a necessary component. The manager hires, trains, and makes work assignments for the employees.

The nature and location of the business plus the services owner-members want determine how physical assets will be grouped.

### ***Directing***

The planning and organizing functions must be accomplished for the directing activity to be effective. Effective directing requires setting well-defined, clear-

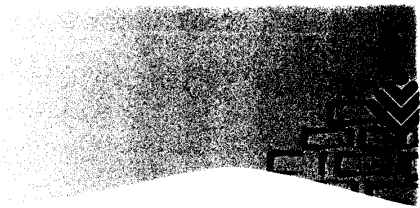
ly understood, and consistently administered policies. For the manager to function effectively, the directors must delegate responsibility with the appropriate authority and predetermined measures of accountability. Directors engage in contract negotiations, approve membership applications, and make recommendations on day-to-day operations. Directors focus on approving short- and medium-term plans of the manager, reviewing reports, and making decisions about long-term plans.

### ***Coordinating***

Directors coordinate all phases of the business so that each supports the other. The use of physical and financial assets and personnel activities must be integrated to accomplish predetermined goals and objectives. Specific examples include overseeing facility use, arranging timely financing, preparing the manager's job description, and purchasing and selling assets to meet members' needs.

### ***Controlling***

Directors exercise control of the cooperative by keeping themselves informed of the progress of the business, assuring acceptable performance in all phases of the business. They interpret trends and results and know when to initiate corrective action. Directors are responsible for preventing unauthorized actions and keeping members informed of the cooperative's progress. Accepting and approving management reports, reviewing financial statements, and reviewing physical facilities are specific examples of director control.



## **Manager Functions**

With certain given resources, the manager has the responsibility for organizing and operating the cooperative in a way that will optimize the benefits members desire. Resources are the manager's capabilities, physical facilities, employees, and the net worth of the business. Four functions are recognized for management to meet this responsibility—planning, organizing, motivating, and controlling.

### **Planning**

Managers assist the directors in developing the overall goals and objectives of the business. They are an essential part of the decisionmaking process. Managers set goals and objectives for day-to-day operations, design operating procedures and methods, and make financial projections. Managers are primarily responsible for making yearly plans and projections. They must plan and implement the tasks that accomplish the goals and objectives established by the board. Managers also make annual projections of balance sheets and operating and cash-flow statements.

### **Organizing**

Managers are responsible for grouping operational processes, assets, and personnel and establishing their relationships for efficient day-to-day business operations. Developing personnel organization charts which show employee relationships, writing job descriptions, and establishing acceptable levels of performance are manager responsibilities. Manufacturing processes, sales programs, and service schedule relationships also must be organized to meet the cooperative's goals.

### **Motivating**

Coaching and leading the cooperative's employees, members, and customers are essential functions of the manager. The manager must create positive employee working conditions and act as a liaison and spokesperson for the business, its owners, and other stakeholders. Managers are responsible for staffing, training, and mobilizing the personnel under their supervision. Responsibility for internal and external interpersonal relationships places a heavy time demand on managers.

### **Controlling**

The supervisory function assures satisfactory performance in all phases of business. Measuring and evaluating the results of employee performance, executing board policies, and overseeing physical assets are critical to accomplishing the cooperative's goals and objectives. The last phase of the control function concerns unmet goals and objectives and decisions of how, when, and what corrective action is needed.

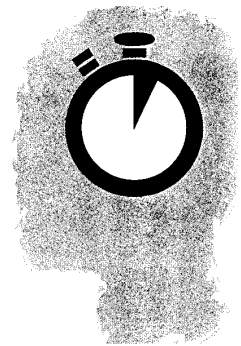
## **Interrelationships-Manager and Directors**

The manager and directors have different roles within the same management function. They function as a team to reach the same goals and objectives established for the business. To avoid conflict they should:

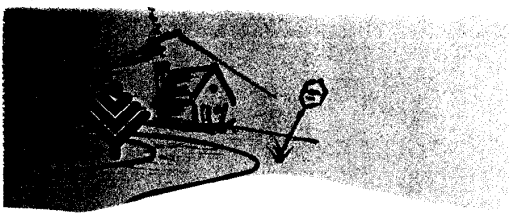
- ◆ Know the differences in the roles each plays,
- ◆ Respect each other's different role,
- ◆ Recognize how the separate roles interact,
- ◆ Acknowledge how the same function relates to separate groups in the cooperative structure, and

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The manager and directors have different roles within the same management function.



**MANAGER**



Cooperative management is complex. It often involves managing the affairs of several unlike businesses under one structure.

◆ Relate and accept each other's independent role and judgement in the same function.

### **Harmonizing Director and Manager Roles**

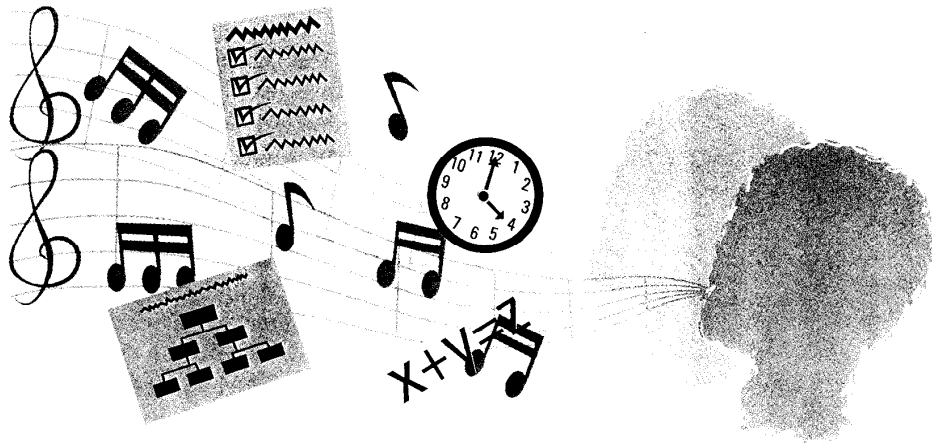
A harmonious management team starts with well defined and documented organizational charts. Members, employees, financiers, and holders of other contractual agreements with the cooperative are able to recognize the point of authority or decision for business actions. Frequent and open communication between the board and the manager helps to resolve small problems before they become complex or a source of irritation.

The use of an executive committee from the board will reduce the time and complexity of solving problems and

speed up the decisionmaking process.

Formal and written evaluations of a manager's performance on an annual or more frequent basis provide guidelines for making corrections or adjustments desired by the board. Written recommendations and agreed upon changes with target dates are desirable. Evaluation sessions also permit the manager to express views on board operations and decisions in a neutral setting.

Cooperative management is complex. It often involves managing the affairs of several unlike businesses under one structure. Adding to the complexity, the user-owner cooperative business must satisfy the majority of the customers. All have different needs depending upon how they are interacting with the business. This is not a small or easy task in any management arena. ■



This circular is one in a continuing series that provides training information and presentations for education resource persons who may or may not be familiar with the cooperative form of business. This series provides the basic background material they need, in a form that can be readily adapted, with limited preparation time, to a lecture or other presentation.

For a complete listing of the series, write to RBCDS—Cooperative Services, U. S. Department of Agriculture, Education and Member Relations Program Area, Ag Box 3253, Washington, DC 20250.3253.

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