



The Duties

&

functions

OF THE

BOARD MEMBERS

of a
Cooperative

BOOK TWO

The Duties & functions of the BOARD MEMBERS of a Cooperative

CONTENTS

1. Outcomes
2. Introduction
3. The Directors
4. The Chairperson
5. Director's fees
6. Board Meetings
7. Financial Controls and Audits
8. A Well-balanced Board
9. Why Cooperatives Fail
10. The Relationship between the Board and Management
11. Assessment

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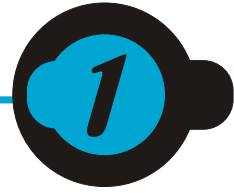
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BOOK TWO



Outcomes

After you have studied the following pages, you will have a clear understanding of the functions of the Board of Directors of a Cooperative as well as the duties and functions of Directors and how they differ from the duties of the Management team.

You will know who is eligible as members of a Board, how to appoint a well-balanced Board and where the dividing line between the duties of a Board and those of the personnel corps lies.

You will also learn

- the most common reasons why businesses fail and how to prevent that, and
- the importance of a business plan and sound financial controls.

Introduction

A cooperative belongs to its members and idealistically members should jointly take all necessary decisions. However, in practice it is normally not possible. When a cooperative consists only of a few members, it might be possible for all members to take an equal share in the running of the daily affairs and the taking of business and management decisions. In a small cooperative members might even be able to perform all the duties that would normally be performed by paid employees on a rotating basis.

For instance: if a cooperative consists of a group of ladies who bake cakes for sale, they might take turns to work in the shop and perform the necessary duties. In this way members can work in shifts one day per week, and take care of their own baking on the other days.

However, when a cooperative starts to grow, this will no longer be possible. Not only will members find that they can make more money if they can attend to their baking full time and hire somebody to mind the shop full time, but at a certain stage they might need the services of somebody with expert knowledge, like special marketing skills or bookkeeping and auditing skills. And if the cooperative still keeps growing, it might require a full time manager to direct the services of employees like marketers, bookkeepers and shop assistants.

Large agricultural cooperatives usually consist of members who are full time farmers and cannot devote time to running the daily activities of their cooperative. The day-to-day business activities of the cooperative is therefore run by a full-time General Manager who oversees the duties of various managers, who in their turn manage and oversee the duties of clerks, bookkeepers, store men, mechanics, harvest evaluators, fertilizer experts, pesticide experts and managers of grain silos.



This does not mean that the members of the cooperative lose their control over the activities of their business. They still have to oversee the work of the General Manager and his staff and take strategic business decisions themselves. But because it is no longer practical for all the members to meet regularly to attend to this business, they appoint a few able members to form a Board of Directors that will meet regularly and act on behalf of all the other members.

A Board of Directors could consist of as many members as a cooperative finds practical (the number must be specified in the statutes of a cooperative), but the law stipulates that there must be at least three members on a Board of Directors.



Introduction ... continued

The Directors

• In order to become a Director, one must:

- be a legal adult;
- be a member or an affiliated member of the cooperative;
- or be a member of a concern who is itself a cooperative or is affiliated to a cooperative.
- The right of married women to engage in trade and commerce, and therefore to become members and directors of cooperatives is guaranteed under South Africa's Bill of Rights and its Constitution.
- In terms of section 108, non-members could be coopted on the Board, if there is a need for specific expertise.

• Without the specific permissions of a competent court of law no person may serve as a director

- who is a patient in terms of the Mental Health Act (1973)
- who is an unrehabilitated insolvent;
- who has been convicted of theft, fraud, perjury or other felony.

• A Director of a cooperative loses his/her position as a Director

- if for any of the above reasons he/she becomes incompetent to serve as a Director
- if he/she is absent from four consecutive board meetings without the permission of the Board
- after 30 days of his/her resignation as member (or a shorter period if the Board so decides) or
- if he/she has been removed from office in terms of the statutes of the cooperative.



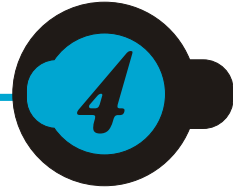
The Directors

As Directors serve only as the representatives of the members of a cooperative, any Board member can be removed from office during any legally constituted general meeting of members.

Directors serve office for a period of time stipulated in the statutes of the cooperative, but no longer than five years. However, Board members may be re-elected after that period. Should a member resign, die or be removed from office before his/her term of office has expired, another director can be appointed in that vacancy *for the remainder of the term that the predecessor would normally have served.*

Directors play such a vital role in the well-being of a cooperative, that they are normally elected on the very first general meeting of members, unless the statutes of the cooperative stipulates a different procedure. Any member of a cooperative may be nominated as a candidate for the election of board members.





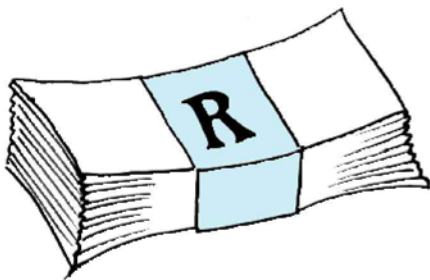
Chairperson

In order to chair the meetings of the Board of Directors and to perform other functions delegated to them, a Chairperson and vice Chairperson are selected by the Board of Directors from among its own members. A Chairperson also acts as the spokesperson for the Board of Directors and represents it at functions where it would be impractical for the full Board to be present. This position is always for a stipulated length of time (no longer than five years), and there must be regular elections for these positions.

Chairpersons lose their positions as soon as they stop being members of the Board of Directors.



Directors' fees



Because board members have to devote more of their time to the affairs of the cooperative and the interests of other members, they may be compensated for their time and work. This remuneration could be in the form of salary, fees for attending board meetings or special bonuses.

The remuneration of directors must be fully disclosed and put before a general meeting of members for approval.



Board Meetings

The Board of Directors must meet as often as necessary to oversee and direct the affairs of the cooperative, but not less than once a month. Minutes should be kept of all Board meetings and decisions.

It is the duty of the Board to regularly deliver a comprehensive and understandable report of the cooperative's activities to its members. This report must specifically address all matters that affect the well being of the cooperative, including matters which causes concern and might develop into serious problems. Under no circumstances may vital information, even information that may reflect badly on the Board and its members, be withheld from members.

These reports must reflect a balance between the positive and the negative aspects of a cooperative's activities.

● The Board's annual report must include:

- the financial statements of the cooperative, giving a true reflection of the financial affairs of the cooperative
- an auditor's report on the financial statements
- an assurance that adequate financial record of the cooperatives' activities have been kept and assurance that efficient financial controls have been in place.

The Board must assure its members that there is no reason to fear that the cooperative will not be able to conduct its affairs successfully over the coming year, and if they cannot give this assurance, a full disclosure of the reasons must be given.

Report

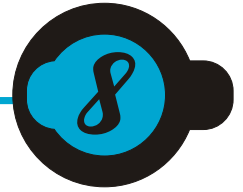
Financial controls & audits

The Board of Directors carries the final responsibility for adequate financial controls and efficient audits of the financial affairs of a cooperative. The Board of Directors must therefore ensure that adequate financial controls and regular internal audits are in place and must properly minute their decisions in this regard. It is recommended that the Board institute an auditing committee to supervise the financial controls and auditing procedures.

At all times the personnel in charge of financial controls should have free access to the auditing committee and especially the chairperson of the Board, to report on findings and even suspicions of malpractice. At regular intervals an external auditor should inspect the records of the cooperative and should report his findings to the audit committee and the chairman of the Board.



A well-balanced Board



A Board of Directors has important duties and Board members carry great legal responsibilities. Board members should therefore never be elected on popularity alone, but should always be people with special knowledge or experience. It is of vital importance that Board members should be able to take sound business decisions and are able to understand and interpret financial statements, or they will not be able to properly control the day-to-day activities of the cooperative.

A well-balanced Board is one in which business and managerial skills are adequately represented. One Director may have proven business skills, while a second might be an expert in bookkeeping and a third in managerial skills or investments. These skills are vital or otherwise a Board could become totally dependent on its General Manager and other personnel for advice on what decisions to take. In this way a Board can easily lose its independence and can no longer be an effective representative of its members and their concerns.

Where a Board is confronted with a matter on which it does not itself have the necessary skills, such as deciding on complex legal matters, the Board should never hesitate to make use of an independent expert to advise it on the proper course to take. Such an expert could be an attorney or an advocate, a special financial advisor or even a bank manager. However, it is always good to have a second opinion to prevent rash and costly decisions.



why Cooperatives Fail



As Board members are ultimately responsible for the success or failure of their cooperative, it is necessary to look at the most common reasons why businesses fail.

- The most common reason is the presence of an over-dominant or over-ambitious chief executive officer, as this may lead to decisions which have not been considered and approved by the Board. This is the reason why it is recommended that the chairman of the Board and the function of chief executive officer should always be separated. This will for instance prevent an over-ambitious managing director, who, so obsessed with the expansion of the cooperative, loses sight of the needs of ordinary members, from entering into investments that are to the detriment of the cooperative and its members.
- A second reason why cooperatives fail is Boards that are not well informed about the duties of Directors and what is expected of them. Boards should always be given the opportunity of improving their skills and knowledge, whenever training opportunities arise.
Boards may also be uninformed as a result of insufficient information from their management team. That is another reason why board members should have the necessary skills to oversee the activities of their management teams and to evaluate the information passed on to them.
- A third reason for failure is insufficient internal financial controls. Such controls should always be able to prevent a manager or other member of the managing team to take far-reaching decisions on his/her own, or to spend large amounts of money without prior permission and approval.

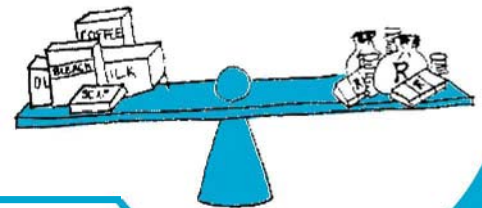
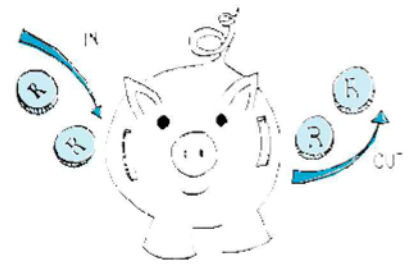


- Another reason for failure, is the absence of an adequate business plan which is strictly adhered to and which can be the yardstick for any expansions of expenditures. It is therefore of vital importance that Boards should draw up a business plan covering in broad terms the aims of the next five years and in detail the plans the cooperative will follow over the next year in order to realize those broad aims. Without such a business plan there can be no adequate budgeting and no financial controls.

In order to effectively control expenditure and compare it with the aims of the business plan, a cooperative should prepare a monthly management account and monitor actual expenditures against budgeted figures. It is of vital importance that such figures reflect the business conducted over the past month and are accurate.

It is also the duty of the Board to monitor the cash flow of their cooperative continuously. Without efficient cash management, no business can survive. Effective cash management involves:

- Knowing how much cash the cooperative will need
 - Adapting the business plan to the realities of cash-flow
 - Constantly monitoring the cash flow to prevent wastage, and
 - Maintaining a realistic balance between cash in hand and money invested.
- Another reason why cooperatives sometimes fail is inadequate control over stock levels. Any item kept in stock unnecessarily will cause an outflow of money due to the interest on invested capital and the cost of keeping an item in stock. It can often amount to more than 50% of the original cost of stock. Insufficient stock, on the other hand, can lead to poor customer service and customer dissatisfaction. The aim should always be to maintain a healthy balance between stock in hand and available capital.



Why Cooperatives Fail ... continued



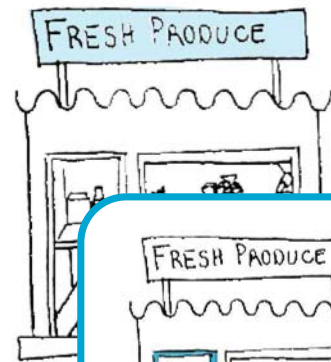
why Cooperatives Fail... continued

This requires constant monitoring. The Board members have a duty to check the information that is passed on to them by management.

- Bad credit control leads to write-off and losses and may even sink a cooperative. Good credit control, on the other hand, improves the cash flow and releases capital for the purchasing of more stock or for investment in some other aspect of the cooperative's activities.
- A too heavy reliance on borrowed money can also place a crippling burden on a cooperative. It is therefore one of the duties of the Board of Directors to monitor the capital requirements regularly and to keep a healthy balance between borrowed capital and equity (the cooperative's own resources, made up of reserves and the share capital paid by members of the cooperative).
- A too rapid expansion of activities can also land a cooperative in trouble. When business is going well, management often tries to expand and to offer more services to members. As member satisfaction is vital to any cooperative this is often laudable, but trying to offer too many services too quickly can just as easily over-extend a cooperative's resources. It is always better if a cooperative concentrates on its core-business (that is what a cooperative does best) and increasing its profitability, before new activities are exploited.

The most important steps to be taken to improve profitability are to:

- increase sales and profit margins
- decrease cost of sales
- decrease overheads
- improve the co-ordination between various activities and departments.



The Relationship between the Board and Management

When a cooperative is small, it is possible for members to perform all the functions themselves. However, when it is no longer possible to do this, full-time personnel must be appointed to perform these functions. In a small cooperative this can mean only the appointment of a sales clerk or a bookkeeper, while in a large cooperative it may mean appointing a general manager and managers for the various activities of the cooperative. In all cases it is imperative that the Board of Directors and the personnel know what the difference in their various functions are. A board trying to do the job of personnel could be just as disruptive as personnel trying to formulate policies for the long-term future of the cooperative.

The Board of a cooperative will always have clear lines of command and all personnel appointed will have a detailed job description of their duties. Their performance should always be evaluated against their job description.

A conscientious board member of a cooperative will never meddle in routine tasks when he/she is not directly responsible for those tasks. All complaints should instead be brought to the attention of the appropriate manager or general manager. Outside the board room, directors have no special duties and powers.

A board member should never forget that he/she is only acting on behalf of all the other members and have no rights over and above the rights of an ordinary member. Any board member insisting on more favourite treatment is not acting in the spirit of his/her stewardship on behalf of the other members. Any signs of favouritism will be ill-regarded by other members and may lead to such a director not being re-elected.

For the same reason Directors (and for that



matter the general manager) should refrain from appointing their family members to managing positions within the cooperative, as this could easily lead to charges of nepotism (the favouring of relatives) and even of corruption.

It is one of the prime duties of a director to keep the other members of the cooperative fully informed of the decisions of the board and the long-term strategies of the cooperative.

A board member must by law always declare his/her interest when he/she could personally gain, directly or indirectly, from any decision of the board. In such a case a director is by law required to recuse her/himself from the deliberations and the subsequent vote on the matter. Failing to do so is a criminal offense.

Being a member of the board of directors is not an honorary position, but directors are obliged to take an active interest in all matters concerning their cooperative and could by law held accountable for their deeds.

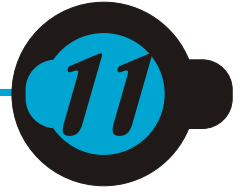
The board of a cooperative should never adapt policies or make long-term decisions without consultation with the general manager. Without such a relationship of trust between the board and the general manager, the general manager will not be able to function properly and make recommendations to the board that he/she regards as being in the best interest of the cooperative.

Board members should always accept the moral obligations that go with directorship. This include an obligation to always act in the best interest of all members, and to always keep abreast of the latest development so that they could perform their duties to the best possible advantage of the cooperative as a whole.



The Relationship between the Board and Management

... continued



Assessment

1. Describe the difference between small and large Cooperatives with regards to:
 - Members
 - Management
 - Functions
2. Name the qualifications needed to be a Director as well as the grounds for removal.
3. Describe the functions of the Chairperson and the duration of his appointment.
4. How are Directors remunerated?
5. Describe Board meetings with regard to the reasons, nature and impact thereof.
6. How are the finances of a Cooperative regulated?
7. Give an example of a well-balanced Cooperative Board.
8. Name the reasons why Cooperatives fail.
9. Describe the relationship between the Board and Management with regards to:
 - Job description
 - Functions of each individual

