MANAGEMENT PROCESSES IN COOPERATIVE

GRAIN MARKETING FIRMS

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PREFACE

This study was undertaken to analyze the management activities of the board of directors of cooperative grain marketing firms. Included were the board's role in establishing objectives, goals, plans, and policies for the firm. The decisions made by the board, board with the manager and the manager alone were also determined. The management activities performed by the boards were compared to the suggested activities in management literature to arrive at suggestions to improve the board's management activities. These suggestions would enable the board to more fully fulfill their role in managing the firm, thereby benefiting both the firm and its farmer members.

I wish to express my appreciation to Dr. Richard W. Schermerhorn for his guidance and encouragement throughout the latter stages of the study and to the late Dr. Nellis A. Briscoe for his guidance during the initial stage of the study. I also wish to thank Mr. Gus Page, Mr. Jim Enix, members of the grain trade, the managers and directors who took time to provide information and help for this study. Thanks are also given to Dr. John R. Franzmann and Dr. Joseph J. Klos for their encouragement and helpful suggestions concerning the final manuscript.

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CHAPTER I

INTRODUCTION

Grain marketing firms serve the farm community by maintaining facilities to receive grain and many also provide inputs for farm production. There are 236 grain marketing firms[1] in Oklahoma that operate one or more country grain marketing facilities* and these firms provided a market for an estimated 119,196,000 bushels[2] of wheat produced in 1969. Both cooperative and non-cooperative grain marketing facilities are most highly concentrated in the major grain producing counties in Oklahoma (see Figure 1). In the southeast portion of Oklahoma, a non-wheat producing area, there are few grain marketing facilities.

Grain marketing firms perform an assembly function in the marketing of grain and maintain facilities to perform this function. The grain grown in their trading area is brought together at the country elevator; shipped to terminal elevators and from there to processors. The facilities used by a typical grain marketing firm to receive grain include scales, truck dumping equipment, storage facilities for grain and grain quality testing equipment. Most grain marketing firms also provide

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*Country grain marketing facilities is the common term for firms that buy grain from farmers. Other firms, terminal grain marketing facilities, generally buy from country firms and usually buy in railroad car lots or semi-truck loads. These firms have facilities for unloading larger shipments where the country firms usually do not.

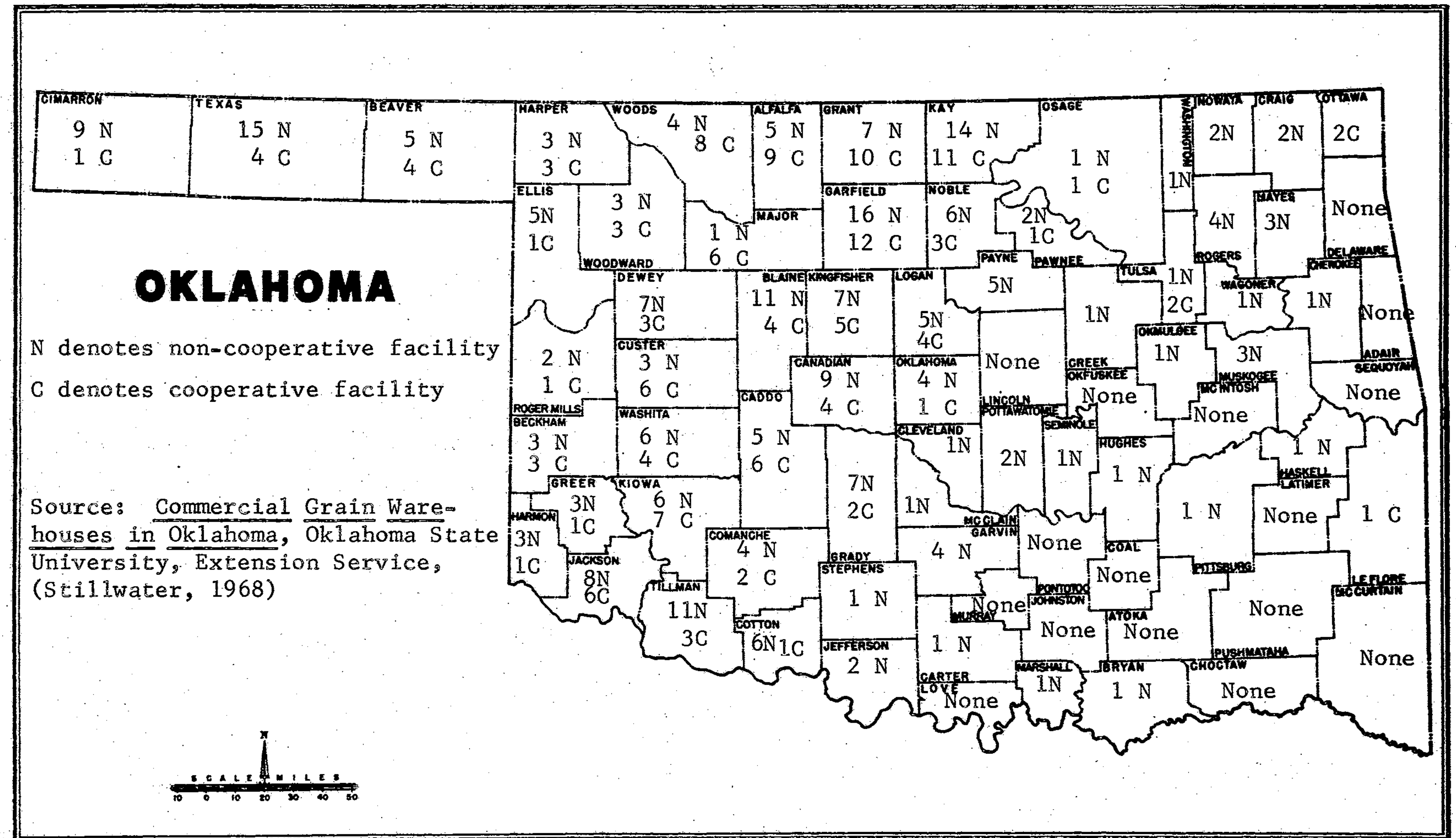

Figure 1. Number of Country Grain Marketing Facilities

customer storage facilities for farmers who wish to sell their grain at a future date.

The assembly function provided by grain marketing firms is important because it gives farmers a timely, convenient place to market their crops. With todays high speed harvesting equipment, grain can be harvested in approximately one week. Thus, farmers need a convenient place to sell or store their grain at a time permitting them to complete the harvest without increasing the risks of losses due to the elements. In the past, some farmers did not have a grain marketing facility nearby that could handle the grain as fast as it could be harvested. They had to store the grain on the ground, risking losses until they could transport it to market.

In many instances, the grain marketing firm would be more correctly called the farm supermarket because the firm provides much more than just a place to sell grain; although buying grain is their primary function. Many firms sell livestock feed, fertilizer, seeds and petroleum products.

The facilities and types of products within product groups merchandised by these grain marketing firms vary from certain basic products to custom blended products. Feed facilities range from a warehouse for sacked feed to complete grinding and mixing operations. The grain marketing firms that grind and mix feed will prepare feeds to meet the farmer's particular needs. In fertilizer, some firms merchandise only sacked fertilizer; but other firms with more elaborate facilities will blend fertilizer components and sell bulk fertilizer to meet a specific farmer's needs. Those firms selling bulk fertilizer usually will provide for spreading the fertilizer on the ground by renting bulk spreaders to farmers and/or having a truck that can spread the fertilizer. Farm seeds are usually sold in sacks but the firms may clean and treat home grown seeds. To round out their services provided to farmers, many grain marketing firms distribute petroleum products. They have a filling station at the main office to sell gas, oil and tires, and also have bulk farm delivery of gasoline and diesel fuel. In addition, some firms have field tire repairing services where they will repair or replace farm implement tires at the farm.

A significant percentage of all grain marketing firms in Oklahoma are cooperative firms which transact an important volume of business. Of all the firms, 94, or 40 percent, are cooperative firms which market one-half of all grain produced in the state. In addition, about one-third of the fertilizer and about 15 percent of the feed purchased by farmers in Oklahoma is sold by cooperatives.[3] Realizing the importance of cooperatives in the grain marketing industry, this study is limited to cooperative firms.

Cooperative and non-cooperative grain marketing firms differ basically in the form of ownership. There are four types of ownership: single proprietorship, partnership, general corporation and cooperative corporation. The cooperative corporation type of ownership is built on three principles. These principles are: (1) service at cost to member-patrons, (2) democratic control by member-patrons and (3) limited returns on equity capital.[4] Cooperatives are owned and operated by the member-patrons, whereas a non-cooperative firm is owned and operated by a person or persons who do not necessarily trade at the firm. Cooperatives provide service at cost to member-patrons by distributing profits, usually called savings, on the basis of patronage or volume of business conducted with the cooperative and have limited returns on equity capital.

This concludes the discussion of grain marketing. In the following sections in this chapter, the financial situation of cooperative grain marketing firms in Oklahoma, including the factors affecting finances, the problem, objectives, procedure used and the plan of study followed in this thesis are discussed.

Financial Situation

The financial condition of cooperative grain marketing firms has changed over time. As illustrated in Table I, the average rate of return on investment in the local cooperative* has declined for all size groups between 1961 and 1966. The average rate of return for the 1961 crop year ranged from a low of seven percent for the small sized firms to a high of twelve percent for medium sized firms. The range for the average rate of return on investment in the 1966 crop year was from a low of one-half of one percent for small firms to a high of four percent for medium sized firms. Furthermore, none of the large size firms had

*The method of computing the rate of return on investment was to divide adjusted net earnings by investment in the local association and multiply by one hundred. Adjusted net earnings were found by subtracting expenses plus other deductions plus taxes from operating income or sales plus gross earnings on commodities. Hence the only difference between adjusted net earnings and total net earnings of the cooperative is that adjusted net earnings does not include other income additions consisting of dividends on stock, carrying charges and interest, miscellaneous income and patronage refunds received. Investment in the local cooperative was found by subtracting investment in other cooperatives from total assets.

TABLE I

RATES OF RETURN ON INVESTMENT FOR A SAMPLE OF OKLAHOMA GRAIN MARKETING FIRMS, BY SIZE GROUPS, FOR 1961 AND 1966 CROP YEARS[1]

Size	Range in gross operating income[2] Low	High	Number of firms 1961	1966	Average rate of return on investment 1961	1966	Range in return on investment 1961 Low	1961 High	1966 Low	1966 High
	(Dollars)				(percent)					
Large	200,000 and over		14	13	10.722	1.915	3	22	-16	11
Medium	100,000	199,999	29	32	11.870	4.226	-22	36	-10	31
Small	0	99,999	25	23	7.242	.552	-2	26	-24	20

[1]Data for this table was obtained by contacting the 92 cooperatives that have headquarters in Oklahoma. Balance sheets and income statements were obtained from 68 firms for both 1961 and 1966 crop years. The crop year was used because the fiscal year of all cooperatives is not the same. Thus by using crop years, the financial information would be more comparable between firms. The fiscal year selected was that which most nearly corresponded to the receiving of crops harvested in 1961 and 1966 and covering the time that this grain would be merchandised by the elevator.

[2]Gross operating income was found by adding operating income or sales to gross earnings on commodities.

losses in 1961 but in 1966, three of them did. The medium size firms had the highest return on investment in both years.*

In addition to changes in financial conditions, there were changes in size of firms as measured by gross operating income. Table II illustrates changes in firm size between 1961 and 1966. Among the large firms in 1961, 10 firms stayed in the large group into 1966, but four moved into the medium group. Among the medium firms in 1961, three moved into the large group and five moved into the small group in 1966. In the small group, however, seven of the firms increased their size and moved into the medium sized category.

The factors that affect these changes in size and financial condition in cooperative grain marketing firms include crop conditions, government crop controls, government storage operations and management of the firms.

Since grain marketing firms are closely related to primary agricultural production, changes in crop conditions can affect their profitability. Grain marketing firms have large amounts of capital in buildings and facilities and therefore, a large proportion of their expenses do not vary with the amount of grain handled. Hence, in years of smaller crops, these firms need a larger margin* to cover their expenses. However, competition among grain marketing firms may not

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*One is tempted to say that the medium sized firms are of a more optimum size which allows them to operate their facilities at the most economical level. This could be a true inference if all the firms in the size categories had the same rated capacities and operated the same number of facilities; in other words, their size units of production are the same. However, some of the medium and large size firms operated more than one facility.

*Margins are the spread between the buying price and selling price of grain.

TABLE II

CHANGES IN THE CLASSIFICATION[1] OF FIRM SIZE FOR A SAMPLE OF OKLAHOMA GRAIN MARKETING FIRM BETWEEN 1961 AND 1966

Size in 1961	Size in 1966			
	Large	Medium	Small	Total number 1961
	(Number)	(Number)	(Number)	
Large (Number)	10	4	0	14
Medium (Number)	3	21	5	29
Small (Number)	0	7	18	25
Total Number 1966	13	32	23	68

[1]Classification based on gross operating income: large, 200,000 dollars and over; medium, 100,000 to 199,999 dollars; small, under 99,999 dollars.

allow increases large enough to cover all costs of operating the firm and, in this situation, the firm would be operating at a loss.

In addition to variation in crop yields, government farm programs can affect the operations of grain marketing firms. The government's efforts in controlling the amount of grains produced could reduce the amount of grain that grain marketing firms receive. Changes in the amount of grain grown have not been too important, mainly because farmers have found ways to circumvent the program's desired effects by increasing yields per acre. Hence, even with acreage reductions, the amount of grain delivered to the elevators has not changed too drastically.

A side effect of government farm programs has changed the grain marketing firms' storage operations. The farm programs allowed farmers to store their grain if prices were unfavorable and in time the government received this grain at the support price. Many times this grain was stored with the grain marketing firms by farmers and later by government. To provide enough storage facilities, the government encouraged the grain marketing firms to expand their storage facilities. This increased storage capacity enabled the grain marketing firms to receive storage income from the government and some of the grain marketing firms began to view government storage revenue as permanent income. They began to operate with smaller margins and also added the selling of additional goods and services. Some of these additional enterprises, although needed or wanted by the firm's patrons, were not completely profitable and were subsidized by storage revenues. When the government was able to reduce the amount of surplus grain, the grain was removed from storage. This has meant a sharp reduction in storage revenues for firms and in some cases, the firms began to lose money, since the firms had increased their storage capacity and had more repair and maintenance expenses. Those firms that had added unprofitable additional enterprises had even larger reductions in profits.

Another factor that is often overlooked in financial changes is management. Management can take action to offset the above factors. The margin can be raised in years of short crops or more stringent quality-price adjustments can be made to achieve larger margins without changing prices. Management can anticipate changes in grain stored and have alternative uses for these facilities in mind so that revenues do not change drastically. In addition, management is responsible for evaluating the profitability of additional enterprises the firm may undertake.

Another change in the grain marketing industry is that of a decline in firm numbers. The number of grain marketing firms declined 23 percent between 1962 and 1967.[5] This decline is also an indication of problems attributable to management.

Good management is essential for the survival of any firm. In a classic study by W. W. Cochrane and R. H. Elsworth, the largest single cause of discontinuances of all types of cooperatives were difficulties in the field of management which accounted for 19.8 percent of the failures.[6] The other reasons were as follows:[7]

Difficulties in the field of membership	19.7 percent
Natural or unavoidable causes	10.9 percent
Insufficient business for efficient operation	10.3 percent
Financing and credit difficulties	9.6 percent
Transportation problems	9.1 percent
Opposition from competing enterprises	8.9 percent

Declining prices	5.4 percent
Consolidations and mergers	3.2 percent
Technological changes	1.2 percent
All others	1.9 percent

Many of these reasons given for discontinuances should be included in difficulties in management. The board and manager are responsible for public relations activities to maintain the membership and to establish a business that farmers want to join. Management is also responsible for planning operations that are of efficient size to earn normal profits. Management may need to take steps to expand the trading area so that sufficient business is generated. Financing and credit difficulties also reflect the fact that management has not generated enough member financing or have not effectively controlled accounts receivable. Transportation problems were caused by changes in transportation methods that lessened the need for local cooperatives. The management of these firms either did not anticipate these changes or were not willing to adopt to the changes after they occurred. The same situation applies to technological changes. Management is also responsible for meeting competition from other firms. Thus, discontinuances due to competition are an indication of weak management. The only areas listed above in which management could not have averted discontinuance are in natural or unavoidable causes and in declining prices. Hence, a more realistic percentage of discontinuances caused by management is 83.7 percent.

W. W. Cochrane and R. H. Elsworth caution that their data may be biased. The data for this study was furnished by a former officer or employee, interested townspeople and occasionally by a member-patron. Early in the study the authors almost concluded that discontinuances were caused by inefficient management or disloyal members depending upon whether the information was furnished by a former member or an ex-manager.[8] It should also be noted that this study covers the great depression which started in 1929 and was a difficult time for all types of businesses.

Statement of the Problem

Management in general is responsible for operating the grain marketing firms. There are, however, different levels of management that deal with different types of problems. The lowest level of management is the foreman or supervisor level. This group in management is primarily concerned with supervising the workers and in solving technical problems. The next level of management includes the manager and the assistant managers. This is the highest level of operating management which is primarily concerned with day-to-day problems. They make decisions that affect the lower levels of personnel and technical operational problems. In addition, they also help formulate long-run decisions in incorporated firms but in firms where the manager is the owner, he must formulate the long-run decisions on his own. In incorporated businesses, the highest level of management is the board of directors. They are primarily concerned with long-term decisions and controlling the firm through reviewing the financial condition.

Cooperative grain marketing firms have all three levels of management. This study, however, is limited to analyzing the management role as performed by the highest level of management, the board of directors. The board of directors is the group that guides and directs the firm. As such, they should not be making day-to-day decisions. They should be anticipating changes in their customers needs and analyzing the profitability of providing services that will fulfill these needs.

In addition to customers needs, the board must anticipate other changes that will affect the firm. An example of this type of change was discussed in regard to changes in storage revenues. Before building additional storage, the boards should have considered alternative uses for the facilities when they were no longer needed for grain storage. In those instances where the board and manager had planned for change, the firm's revenues may have been reduced but not to the extent that resulted without planned for alternative courses of action.

The board of directors has an obligation to the shareholders to see that all aspects of the firm are as efficient as possible. In cooperatives, the shareholders are the firm's patrons and increases in efficiency will benefit the patrons directly. The board's obligation is partially fulfilled by reviewing the financial statements and methods of operation of the firm. In addition, the board must review their own performance to see if it can be improved along with the other aspects of the business.

Since the board of directors of Oklahoma cooperative grain marketing firms must assume the responsibility for meeting changes that affect the firm, they must continue to improve their management functions if they are to most effectively manage the cooperative.

This problem area is too broad for efficient study and therefore specific objectives were developed. The specific objectives of the study are:

1. To determine the board's activities in performing their duties regarding basic objectives, broad policies, firm planning, decision-making, personnel, finances, member relations, board training and board meetings.
2. To specify the board and manager authorities in these management activities.
3. To specify differences, if any, in board performance between firms earning above average returns on investment and firms earning below average returns on investment.
4. To specify the differences, if any, in board activities related to size of firm.
5. To suggest methods of improving the management processes of the board of directors.

Procedure

The population of firms for this study includes those in northwestern and northcentral sections of Oklahoma. This area consists of the following counties: Alfalfa, Blaine, Canadian, Custer, Dewey, Ellis, Garfield, Grant, Harper, Kay, Kingfisher, Major, Noble, Roger Mills, Woods and Woodward. This population was selected for the following reasons. Farmers in this area produced 57 percent of the wheat in Oklahoma using average wheat production for 1958 through 1967. This area also includes 58 percent of the cooperative grain marketing firms in Oklahoma. The study was also restricted to firms whose principle business was grain marketing. In the southern part of the state, many firms that market grain have as their principle business that of ginning cotton. Therefore, these firms would not be comparable with those in the wheat producing area.

The sample was selected after the population was further restricted. Since part of the analysis depends upon categorization by rate of return on investment, the population was limited to those firms that had cooperated in supplying financial statements for the 1961 and 1966 crop years. Arbitrarily, 14 firms were selected for this study including four firms from the large gross operating income category, six firms from the medium income category and four firms from the small income category (the gross operating income categories are those shown in Table I). This combination of firms was selected to secure a representative sample of firms in the various income size categories.

In addition to a gross operating income size classification of firms in the sample, the firms were further classified within each income size category on the basis of their return on investment. The criteria used for the rate of return on investment was that the firm be above the average return on investment in both 1961 and 1966 crop years, or below average return on investment in both years. Therefore, the firms' performance would more nearly reflect longer-run management conditions and not the other factors that can change the financial condition discussed above. The next criteria used was that the firm be among the highest in return on investment in 1966 or among the lowest in 1966. Only one of the firms used in the study did not meet the first criteron condition but all firms met the second condition.

The members of the board of directors of the fourteen firms in the sample were interviewed in depth using a personal interview schedule. This schedule was designed to determine the various aspects of the director's job and the type of people who serve as directors. All but two of the boards interviewed in this study had five members -- one had eleven and one had six members. Every attempt was made to interview all the directors of each of the fourteen boards. A total of 73 directors were interviewed which was 95 percent of the total possible board members. The names and addresses of the directors were secured by contacting the manager of the cooperative.

In general, the data from the personnel interview survey is analyzed on the basis of the board as an entity because the board as a group makes decisions. The directors' responses were translated into a board response by assuming that if half or more of the directors on a board give a similar response, this response was taken as the board's response.

This assumption of majority rule may not be valid in those circumstances where one board member dominates the board and where many of the board members have not experienced the decision. Inexperience could especially affect responses on decisions made very infrequently. For example, a decision regarding the types of information needed to consider building new facilities may be one in which the minority response would be more realistic than the majority response, if the majority of the board members have not experienced this decision. Consequently, the minority response of those that have experienced the decision may be a more accurate account of the information that the board would need to consider the problem. No satisfactory method was available to deal with these problems; therefore, it is assumed that they will not critically affect the results reported herein.

Another qualification in using board majority answers is the problem of new board members who have not been adequately orientated. These directors would not be acquainted with objectives, goals and policies until they were discussed in a board meeting. Therefore, the director would state that the firm did not have objectives, goals and policies if they had not been discussed. This problem could influence the results as reported herein but the assumption is made that enough directors have served long enough that board majority answers will give true answers.

An additional source of management information was also used in the study. Each firm that cooperated in the financial analysis was sent a mail questionnaire concerning over-all firm management. These questionnaires were completed by the manager. The results from this questionnaire were used in developing the personal interview schedule. There were 70 firms included in this mailing and returns were obtained from 41 of the firms.* This information will be presented where appropriate in conjunction with the analysis of data from the personal interview schedule.

Before the analysis of data, an introduction to the theory of management and its application to the board of directors is presented in Chapter II. Chapters III through IX are an analysis of the data collected and Chapter X consists of the summary and suggestions for improvements.

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*The percentage response was very acceptable for this type of survey. The total percentage response was 59 percent and ranged from a high of 88 percent in medium sized above average rate of return on investment firms to a low of 36 percent in small firms that had below average rates of returns on investment.

FOOTNOTES

[1]Commercial Grain Warehouses in Oklahoma, Oklahoma State University, Extension Service (Stillwater, 1968).

[2]Oklahoma Crop and Livestock Reporting Service, Crop Production, Statistical Reporting Service (October 1, 1969, Oklahoma City).

[3]James R. Enix, Farmer Cooperatives in Oklahoma, Oklahoma State University, Extension Service (Stillwater, 1969), p. 2.

[4]Paul Roy Ewell, Cooperatives: Today and Tomorrow (Danville, 1964), p. 211.

[5]L. D. Schnake, B. L. Sanders, and Barry Bloyd, "Predicted Adjustments in Oklahoma Grain Storage Facilities," Oklahoma Current Farm Economics, Oklahoma State University, Department of Agricultural Economics and Extension Economics, Vol. 42, No. 2 (Stillwater, 1969), p. 4.

[6]W. W. Cochrane and R. H. Elsworth, Farmer's Cooperative Disturbances 1875-1939, U. S. Department of Agriculture, Farm Credit Administration, Miscellaneous Report No. 65 (Washington, 1943), pp. 26-32.

[7]Ibid., p. 29.

[8]Ibid., pp. 3-4.

CHAPTER II

MANAGEMENT THEORY

The theory of management has evolved from the writings of the early Egyptians. However, the first scientific management studies were not undertaken until the early 1900's Since these early beginnings, the theory of management, especially in agriculture, can be utilized in three ways or from three viewpoints.

Management Viewpoints

Management and the process of managing are viewed differently by different persons. However, these different viewpoints can be generally categorized such that management can be considered as: 1) an input in the production process; 2) entrepreneurship; or 3) a separate enterprise in the firm's total production process.

Those holding the view that management is an input in the production process would argue that a given level of management ability is just as important as a certain level of any other input. This view is used in farm production and farm budget studies where the research assumes a level of management as in linear programming output studies or gives a series of farm budgets for different levels of management. This approach is satisfactory for these purposes but it does not lead to a method of studying management. Management is assumed given and the factors that contribute to different levels of management are not examined.

A second viewpoint of management is called entrepreneurship. Joseph Schumpeter is generally considered the originator of the term entrepreneur and its definition. He defined the entrepreneur as an innovator and considered the following changes as innovations:[1]

(a) The introduction of a new good or a new grade of a good already in use.

(b) The introduction of a new method of production.

(c) The opening of a new market.

(d) The employment of a new source of supply of factors of production.

(e) The reorganization of an industry, several industries, or part of an industry.

Albert Halter has further refined this viewpoint and suggested a method to use entrepreneurship in studying management.[2] Halter's definition of an entrepreneur is one who attempts new combinations of the factors of production which are not implied by past or present price ratios. Production of some good is accomplished by the combination of inputs. The economics of production is concerned with finding the output at which the last unit produced costs the same as the additional contribution to the firm's revenue. In addition, the least cost output requires that inputs be combined such that the additional output from one unit of input divided by the marginal resource cost of the input be the same for all inputs used. Halter's entrepreneur utilizes new technology to change the combination of inputs included in the production model. Management then becomes only the promotion and execution of new ideas. It is not labor or the administration of a going concern, nor is it providing money or credit for setting up the new enterprise. Thus, the managers to be studied are those that instigate change when changes are not indicated in our models.[3] This type of management deals with unexpected changes and we do not have a satisfactory framework within which to study it.

A third viewpoint of management has been put forth by Glen L. Johnson.[4] Management is considered to be a separate enterprise devoted to defining and solving problems, carrying out the solutions to problems, and bearing responsibility for decisions and consequent actions.[5] This viewpoint of management most nearly corresponds with the majority of the writings on management especially those relating to nonfarm businesses. As an example, Leon Garoian and Arnold F. Haseley in their book define management as the guidance, leadership, and control of a group effort to achieve common goals. Management can refer to the people who manage, or the processes followed in managing, the action phase.[6]

The latter viewpoint of management will form the basic framework for developing the concepts upon which this study is based. Under this viewpoint, the generally accepted method of studying and evaluating management is to define management by separating the process of managing into various functions which are defined in the following section.

Management Functions

The classification of management functions will vary among authors. Dalton E. McFarland[7] uses a classification system of planning, organizing and controlling, but others break down the classification further. The most common breakdown includes planning, organizing, directing, coordinating and controlling.[8] This classification will be utilized to discuss the overall role of management in the operation of a cooperative grain marketing firm.

These five functions are used in all levels of management from the foremen in the plant to the board of directors. However, the scope or complexity of the activities included in each management function are somewhat different at the different levels of management. At the foreman level these functions are applied to day-to-day department decisions and the manager must use these functions for day-to-day firm decisions. Furthermore, the board applies these functions to long-range firm decisions and decisions concerning the firm's role in the industry. Since this study is concerned with analyzing the role of the board of directors of cooperative grain marketing firms, the management functions will be discussed as they apply to the board.

Planning

The board's activities in the planning function include adoption of plans which will lead to the attainment of the firm's objectives and goals. Planning is an attempt to look into the future to anticipate forthcoming events and successful planning depends upon well formulated objectives and goals. Hence, the board is also responsible for formulation of objectives and goals as part of the planning function prior to the actual development of plans. The objectives should represent the overall purpose of the company in satisfying the needs of employees, stockholders or members, consumers and suppliers. Goals are important to businesses because goals are designed to show progress toward the business's objectives. The firm's plans should show how its resources will be combined to accomplish the goals and ultimately the objectives. In addition to combining the resources, the plan must include indicators designed to determine if the work is progressing according to the predetermined, planned schedule.

Organizing

Organizing is the grouping of people and other resources such that plans are accomplished both economically and effectively. After the various plans are developed, they must be arranged so that their implementation is operational. Implementation will be made easier if the processes are grouped into departments and the relationship between the various departments shown in the organizational chart.

The organizational structure of a firm can be line, staff or committee. The most common type of organizational structure is the line structure where the head of each unit reports only to his supervisor and is reported to by those below him. The line structure is usually modified to include some staff and committee functions. The role of the staff position is to advise line personnel regarding specialized areas such as research and development and market research. Usually, unlike line positions, staff positions have no authority over personnel below them on the line organizational chart -- they have an advisory function only. This type of structure is very common in large organizations. The committee structure may also be used in conjunction with line structures. The committee is usually permanent and is used to coordinate ideas, collect information and pool judgments regarding various management decision areas.

In organizing, the board should insure that the firm has an appropriate organizational structure and that job descriptions and specifications are developed to fit the organizational structure. Job descriptions should specify responsibilities, authority, and relationships between jobs. The special skills or training needed to effectively perform given jobs should be included in the job specifications.

Directing

Directing is defined as the process of getting work done through others and at the board level, it is primarily concerned with directing the performance of the manager. The board delegates the authority for operation of the firm to the manager. Therefore, it is important that the board select a competent manager to which they can delegate tasks and responsibility. The board must have clear effective guidelines for the manager to follow to insure that the manager operates the firm in accordance with the board's wishes. Further, the board should encourage the manager to select competent subordinates and train these people to develop their managerial capabilities for future promotions.

Coordination

The board's activities in coordination primarily involve coordinating plans and insuring that the various units of the firm understand each other's role in the over-all operation of the firm. Understanding between units will promote effective and efficient achievement of objectives and goals. Coordination can be improved by promoting voluntary coordination and by clarifying the organizational structure.

If coordination is slighted, plans may fail because of incomplete scheduling or inadequate timing. Plans must be coordinated so that short-run plans complement the long-run plans to accomplish goals and ultimately the firm's objectives.

Controlling

The board of directors utilize controls to keep the firm on its planned course. Controlling is an evaluating progress, predicting results and knowing when and how to initiate remedial action in time to prevent serious deviation from plans. Control should not be thought of as only a corrective or punishing action, but rather to keep the business progressing toward its objectives. An indirect result of adequate controls is that objectives and goals are established and that effective planning and coordination are accomplished.

Using the Functions

The five functions of management tend to overlap and become combined in actual use. For example, in developing plans, the plan should include activities that are part of the other four functions if the plan is complete. This overlapping and use of more than one function in solving problems makes management analysis on the basis of management functions very difficult. It is much easier to obtain data for analysis by fashioning questions pertaining to the decision activities rather than by the five functions. In the next section, application of theory, the management theory is related to the decision activities performed by the board.

Application of Theory

In this section the theory of management is applied to those activities that should be performed by the board of directors. The activities discussed in this section are interpretations of the directors' job, decision-making and decision areas, basic objectives and broad policies, planning, personnel, trusteeship and members' interests, and a sound board.

Interpretation of the Directors' Job

In order to perform adequately and efficiently the role of a member of the board of directors of a firm, the directors must know and understand their specific duties and their legal responsibilities as a director. This section describes the duties and responsibilities as set forth in the literature.

The duties of directors include the following:[9]

1. Establishing basic objectives and broad policies. The board should formulate the basic purpose or objective of the firm which is a statement of the mission of the firm. Although frequently overlooked, the articles of incorporation state the business of the firm. This can and usually does serve as the firm's purpose or objective. Therefore, the articles should be reviewed periodically and must be changed if there are changes in the laws or changes in the firm.

   Policies are statements that reflect the board's thinking to lower levels of management by acting as guidelines within which lower levels of management can make decisions. In addition to developing guidelines, the board must make decisions within the limits specified by the membership. These limits are specified in the bylaws of the firm.

2. Electing board officers to provide leadership and organization. The board should elect their most competent members to be board officers. These officers should be capable of performing the duties of their respective offices. In addition to their office duties, the officers should guide the board so that the board avoids engaging in day-to-day operating decisions.

3. Approving appointment of key personnel. The board must select the manager and also should approve other personnel that may become the manager.

4. Approving important financial matters to safeguard changes in assets. The board approves financial matters to obtain an equilibrium between growth and excess spending which may threaten the life of the organization. The directors serve as trustees of the firm's assets and are accountable for safeguarding the assets. Also to be most effective, the board must be thoroughly acquainted with financial analysis.

5. Providing for sound planning which coordinates short-term decisions with long-range objectives. The board should insist that relevant plans are developed by subordinates and then approve, reject or modify these plans as required. The board must insure that the year ahead plans are consistent with plans for five to ten years hence. This will insure that objectives will be achieved smoothly.

6. Harmonizing diverse interests of members and perpetuating a

sound board. All corporations including cooperatives are composed of special interest groups, including members or stockholders, executives and employees. The board must promote harmony among these groups while working in the best interest of the firm as a whole. To promote harmony, the board should keep effective lines of communication open between management and members so that understanding is maintained between both groups. The elements of communication that inform members on the qualifications for effective directors and inform new board members on their role in the firm will help insure the existance of a sound board.

In addition to duties, the directors should know their legal responsibilities. The responsibilities of the board of directors consist of the following:[10]

1. Directors cannot abdicate their responsibility to direct and should attend board meetings on a regular basis. The directors are elected by the membership to direct the cooperative and in law they are required to do so. Directors should attend meetings regularly because absence from board meetings does not constitute freedom of a board member from responsibility of decisions by the board.
2. Directors must manage the business along lines imposed through the articles of incorporation and bylaws. The articles of incorporation state the name of the firm, its principal place of business, the business of the firm, and the amount of capital stock of the firm. The bylaws state the decision areas within which the board can take action without

referral to the members. Thus, the board members must be familiar with these documents and understand the corporate form of ownership to be able to conduct themselves and the business within the limits imposed. However, the board members should also be aware of the procedures for changing these documents when conditions in the firm and industry indicate changes are needed.

3. Directors are responsible for appointing officers and delegating authority to them for carrying out the functions of the corporation. The members delegate authority to the board for operating the firm. However, the board can, in turn, delegate much of its authority to the manager for the day-to-day operation of the firm. The board is still, however, responsible for the actions of those to whom it delegates authority.

4. Directors must act in good faith and with reasonable care in handling the affairs of the business. The directors act in good faith by putting the well-being of the firm first in all of their decisions. Directors are to take normal business risks in the operation of the firm. However, they may be held financially responsible for undertaking risks that would not be considered normal business risks such as operating without any insurance.

5. Directors are considered in law as representing a trusteeship to members or stockholders. As a trustee, the board is responsible for the effective management of the firm. They

must protect the investors' capital in the firm by appraising the financial affairs and also managerial practices.

Decision-Making and Decision Areas

There are many types of changes that can affect the firm's ability to survive as indicated in Chapter I. The firm must adapt to these changes either before they begin to affect the firm or after the effects are known. The firms that anticipate the changes and begin adjustments early will maintain a stronger competitive position.

Since the board acts as the final management decision-maker, it is important that the board recognize indications of changes that can affect the firm. Specifically, the boards of cooperative grain marketing firms are in an excellent position to be aware of changes in agriculture because they all have farming interests. The board can then bring agricultural changes to the manager's attention and together they can predict how these changes will affect the firm. However, the manager may be more aware of changes in transportation and the grain marketing industry than the directors. So the board and manager should work as a team in recognizing possible changes and the expected effects.

In analyzing external changes, the board and manager may need to consider making major changes in the firm's operation. In this case, the board and manager need information to make knowledgeable decisions. For enterprise additions to the firm the board needs expected costs for equipment, buildings, supplies and personnel. It also needs an estimate of expected returns for the enterprise including prices and volume that can be attained.

The board also needs information on the past performance of the firm with comparisons for earlier time periods to be effective in controlling the business. In addition, it needs an estimate of projected performance for the months ahead. In reviewing this information, the board needs to have or to develop a skill in asking the questions in order to understand changes in performance so that it can suggest improvements.

The board and manager must work together as a team but each has specific types of decisions that they should make. The manager should make operating decisions and the board should be primarily concerned with long-range decisions. However, in some cases the decisions are made jointly by the board and manager. The types of decisions that each should make are summarized in Table III.

Establishing Basic Objectives and Broad Policies

The basic purpose or objective of the cooperative is a statement of the mission of the firm. The objective may be savings for members, service, expansion or growth of the firm. Service is defined to be providing goods or delivery activities that the farmers need or want. Joseph G. Knapp has stated that cooperatives are initiated for the primary purpose of securing services of a higher quality and/or at a lower cost than would be otherwise obtainable.[11]

The statement of objectives should be very general to allow flexibility and should be reviewed and updated periodically. When the firm is initiated, it usually has a large amount of debt representing buildings and equipment. At this time, a profit or savings objective may be most important until the firm builds it's financial base. Later the firm may want to change, placing the emphasis on something other

TABLE III

AREAS IN WHICH DECISIONS ARE MADE BY VARIOUS PERSONS OR GROUPS

Board	Board with Manager	Manager
Establish objectives.	Critically review methods of operation.	Provide information on content of board meeting
Review articles of incorporation and bylaws periodically.	Establish goals for the firm.	Select, discipline and release employees.
Establish policies.	Review policies periodically.	Assist and advise board.
Evaluate progress in relation to goals.	Determine goal for share of grain market.	Set wages and salaries.
Approve long-range plans.	Determine goal for share of merchandise and service market.	Establish safety inspection program.
Approve promotions.	Evaluate new ventures.	Determine grains to be merchandise.
Review manager's evaluation of personnel.	Evaluate new technological developments.	Determine where grains will be sold.
Approve facility expansion or addition of new enterprises.	Evaluate insurance coverage.	Determine where merchandise will be purchased.
Approve expansion or contraction of trade area.	Evaluate option of owning or leasing.	Set prices for grain.
Establish allocation of profits or savings.	Develop long-range plans.	Set prices for merchandise and services.
	Develop financial plans.	Determine type of advertising and promotion.
	Determine credit guidelines.	Evaluate use of men and equipment.
	Evaluate accounts receivable.	
	Determine amount of advertising and promotion.	

than profits. Thus, the objectives may need to be updated as the firm matures or to meet changes in their customers' needs or trading area. Hence, objectives should be general in nature and carefully prepared in written form both to insure long-run flexibility and because they must be utilized in developing plans, goals and policies.

Since the board reviews and approves objectives, goals and policies, it is in the best position to visualize needed changes in the corporate papers and to present needed amendments to the membership for their action. The corporate papers include the articles of incorporation and the bylaws. The board must act in accordance with these papers and insure that the firm is operating consistently with these papers. Over time, these papers may need ammendments to allow the firm to adapt to new conditions. For this reason, these papers should be critically reviewed on a periodic basis.

Goals are steps toward the firm's objectives. Managers should develop the goals because they will be responsible for reaching the goals and managers are most familiar with the strengths and weaknesses of the firm. Consequently, goals set by the manager should be more attainable than if the goals are set by the board. However, the board must review the goals to insure that the goals will lead to the objectives and to insure satisfactory progress toward the objectives.

Policies reflect board thinking to lower levels of management and provide guidelines or limits within which managers can make decisions. The board in conjunction with the manager should develop broad policies pertaining to: personnel, marketing, production, engineering, member relations, finances and public relations. To be effective, these policies must be carefully written to eliminate any possible confusion arising from ambigious wording and they must be distributed to those individuals making decisions. Effective policies allow individuals in management, regardless of their outlook and viewpoint, to make decisions that are consistent with board thinking.

Planning

The firm must have plans to accomplish its goals and to reach its objectives. The board is responsible for seeing that plans are developed but may not actively prepare the plans. Since the board has limited time, the board may delegate the responsibility for developing plans to the manager or a board committee. However, the full board must review and approve or revise these plans to insure that they will achieve the desired objectives.

There are two time periods in which the firm must develop plans, the short-range and the long-range. The short-range plan usually cover periods up to one year and the long-range plan covers periods of more than one year.

The short-range plan should include a detailed annual financial plan that specified sources and uses of capital. This plan or budget is useful because it helps management detect enterprises that are deviating from plans and then management can make changes that will bring performance back to expectations to keep the firm operating profitably.

The long-range plans should include specification of market share, facilities and service plan. The board and manager should estimate their firm's share of the market, then decide whether they want to maintain or expand this share. If they decide to expand their market share, they must develop a goal for the percentage increase they desire and plans on how to achieve this goal.

Long-range plans for facilities and services are especially difficult to formulate because changes can occur during the planning period. For example, plans for buildings must be extremely long-range because concrete grain storage facilities can last for 60 years. Long-range plans for facilities, such as these, must anticipate the many changes that are possible in farming, the farm community, and the nonfarm community that may necessitate changes in the services offered to farmers and in turn the facilities needed to provide these services.

Plans for different time periods must be coordinated to be consistent and allow the firm to progress smoothly toward its objectives. To facilitate coordination, yearly plans should be developed for each year in the next five to ten years. The first year of the plan would be most detailed and be considered the short-term plan. The short and long-term plans are thus all one plan and will fit together smoothly. However, the board must review the plans to make sure that the plans are coordinated and are consistent with the firm's objective.

Personnel

One of the most important duties of the board is the selection of a competent manager to operate the firm. The manager is important because the board delegates the responsibility for the day-to-day decisions to him and they expect him to develop plans and goals for the firm. Usually the board members have their own businesses to manage and cannot devote large amounts of time to their board work.

Thus, they depend on the manager and his subordinates to develop plans and goals for the firm.

The board must take steps to insure that the firm will have a continuing supply of competent management. Thus, the board should have a program for training potential managers. The board needs to realize that the assistant positions are in one sense training positions and should be staffed by people suitable for future promotion. The board should encourage management people to attend training programs offered by associations and educational institutions.

Training can improve employee performance and potential but if wages and salaries are not competitive, the firm may lose the employee to a competitor after training. Wages and salaries can be considered operating decisions and, therefore, the responsibility of the manager. However, in small firms, the board may retain the responsibility of setting wages and salaries. Where the board wants to retain control over the amount of wages and salaries paid, but not be involved in actually setting them, it may develop a salary schedule plan. This plan usually sets minimum and maximum salaries for each type of position; yet, allows the manager to make the final determination based on competition and the performance of the individual.

In addition to meeting competition on wages and salaries, the board needs to consider the various additional benefits that the firm will provide its employees. Such benefits as retirement benefits help the firm to hold employees because they will lose these benefits if they change jobs. Other fringe benefits, however, such as price discounts given employees on goods sold by the firm, could cause internal problems for grain marketing firms. For example, employees with part-time farming operations could obtain their farm supplies at a discount whereas the members could not. The members may feel they are unduly compensating the employees in this situation.

Trusteeship

As trustees, the directors are obligated to protect the members' interests in the firm. In general, the directors fulfill this obligation by approving important financial matters, analyzing the financial condition, taking normal business risks, redeeming stock and allocating savings.

The board of directors must approve important financial matters to insure the economic feasibility of major changes. The board should prepare or have prepared a complete feasibility study for such things as additions of new enterprises, expanding or contracting the trading area and new ventures. The board must carefully review the costs and expected returns in these studies and the long-range potential of these changes.

The board must also be knowledgeable in analyzing financial statements including the balance sheet and income statement. The balance sheet shows the financial condition of the business firm at a given date and consists of the assets, liabilities and net worth of a firm.[12] The income statement shows the profit or loss by the firm during an accounting period by stating the source of income and describing the nature of expenses.[13] The board must understand the information contained in these statements and should compare them with past statements to detect changes over time. The directors should also use financial ratios that indicate the firm's profitability, solvency and liquidity because these ratios provide the directors with an efficient and effective method of analyzing the firm's financial condition.

Directors are responsible for taking normal business risks such as undertaking new ventures if they appear profitable, but they are not to take other risks such as operating without adequate insurance. The board should periodically review the types and amounts of insurance carried by the firm to make sure that the firm is not taking abnormal risks.

The board must also redeem stock and allocate savings. Cooperatives generally retire stock when the member leaves the association, and, consequently, should plan ahead to anticipate when the association will be retiring stock and provide funds for this purpose. If a large stockholder leaves the association, the association may not have the funds to retire his stocks unless advance preparations are made. The savings of the firm can be returned to the patrons or retained in the firm to retire debt or build up funds for further expansion or improvements. The board must allocate these savings between the firm and the members and must consider future plans and current debt in this allocation process.

Members' Interests and a Sound Board

The board must work for the good of the entire cooperative and, therefore, not be swayed by a small special interest group. The desires of special interest groups can create problems when deciding upon the types of additional enterprises the firm will undertake and the type of grain that the firm will merchandise. The firm should add enterprises that are economically feasible and that will benefit the greatest number of members. The firm should handle the grains grown by most of their members. Also, the firm may handle speciality crops if it appears profitable to do so.

Since the patrons are also the owners of a cooperative, the cooperative must maintain a close understanding between the members' interests and that of the firm. The members should understand, for example, the grain pricing procedure. Thus, they need to know the factors affecting the price the firm receives and also realize that the firm must cover expenses to remain in business. An understanding of the factors affecting price and expenses that must be covered will help maintain and build the membership of the firm.

The problem of communications and understanding in cooperatives is somewhat less than in noncooperatives because the membership trades and visits at the firm. Therefore, the manager generally knows all the member-owners of the business. Cooperatives usually supplement this communication with progress reports on the firm presented in an annual meeting, and some firms utilize a periodical newsletter to keep members informed of the current operations of the firm.

The board of directors must help insure that the future boards of the firm will be able to adequately perform their duties. They can do this by educating members of the cooperative on the qualifications for directors; by establishing eligibility requirements for directors; and by providing adequate training for board members.

The election of directors should not be based on popularity but should be based on the qualifications of the individual. Members selected to the board should be those that can contribute to the effective operation of the cooperative. These members should be of good character, have an inquisitive mind, be able to analyze problems, be able to draw conclusions and have the ability to appraise men.

The directors of cooperatives are elected by the membership during the annual meeting. The board members selected should be the most qualified and they should not have special interests. The special interests criteria can be a problem because all people have special interests. Therefore, the board should be composed of directors who have different special interests so that all the members are represented. One type of eligibility requirement restricts the board's members to geographic areas in which the cooperative has members. This method insures that all areas are represented, thus tending to limit special interest groups that may form due to geographical area. However, it is possible that one geographic area would have more qualified people. If this is the situation, geographic restrictions might not allow the most qualified people to serve on the board. If the primary objective is to limit special interest groups, then one procedure might be to have the board made up of people from each of the different types of farm specializations. This again would tend to limit the selection of a well qualified individual if his speciality was already filled on the board. Therefore, it becomes important for the members to realize both the advantages and disadvantages in board selection before they can make a decision that will work best for them.

The length of service of board members is another area in which some hard choices have to be made. This is caused by the problem of educating new board members. If the cooperative uses on the job training for educating new board members, it must allocate sufficient time for the members to learn their job and become proficient. They would need a longer term of office or more terms in office than those who receive other types of training. However, directors can also serve too long and may not make an adequate contribution to the board because they do not utilize new ideas and methods of operating the business. Therefore, a balance must be made between serving long enough to learn the job and serving too long.

Another type of training for directors is formal training. The advantage of formal training is that areas of management may be covered that the present board knows very little about. Formal training can be beneficial to increase the proficiency of both new and present members. However, the directors need to realize this training is available and realize the benefits so that they are willing to devote the necessary time.

Another type of training is informal and can be accomplished by having a junior board. These people attend board meetings but do not have voting rights. There are two disadvantages associated with this type of training. First, the use of a junior board will not raise the level of total board proficiency because only current areas of board expertise will be maintained. Secondly, if the present board selects the members of the junior board, the present board can hand pick their successors. Thus, the board's philosophy could be maintained because other members would not be as qualified as the junior board members for election to the board. Maintaining board philosophy is only a disadvantage when it keeps members with new ideas or opinions from serving on the board. However, the disadvantage of hand-picked junior boards is eliminated if the total membership of the cooperative selects the members to serve on this board.

In addition to board members, the conduct of the board meeting can affect the functioning of the board. The board meeting requires planning which is usually accomplished by providing the directors with an agenda prior to the meeting. The agenda gives the board members an idea of what is to be presented. In conjunction with the agenda, the directors should receive other materials that require some thought and analysis before they could reach a decision. If these materials are received in advance of the meeting, a decision can be made in the meeting without postponing the decision until the next meeting.

Summary

This chapter has discussed the viewpoints of management and the functions of management. The viewpoint of management, management considered as a separate enterprise, was found most appropriate for providing a framework of analysis for this study. The five functions of management -- planning, organizing, directing, coordinating and controlling -- were discussed as they apply to the board of directors. These functions were found to be ill suited to present the findings in this study. Therefore, the theory from these functions was applied to activities performed by the board.

The section on application of theory corresponds to the next seven chapters in this study. First, the duties and responsibilities of a board of directors were discussed briefly. Next, the six board duties were discussed based on the types of activities that should be performed within each duty. These constitute Chapters IV through IX.

FOOTNOTES

[1] J. A. Schumpeter, The Theory of Economic Development (Cambridge, 1934), p. 66.

[2] Albert N. Halter, "The Challenge of Management in Agriculture," Conference Proceedings on Describing and Measuring Managerial Ability and Services (Denver, 1962), pp. 1-6.

[3] Ibid., p. 5.

[4] Glenn L. Johnson, "Methodology for the Managerial Input," The Management Input in Agriculture (April, 1963), pp. 1-30.

[5] Ibid., p. 12.

[6] Leon Garoian and Arnold F. Haseley, The Board of Directors in Agricultural Marketing Businesses, Oregon State University Cooperative Extensive Service (Corvallis, 1963), p. 19.

[7] Dalton E. McFarland, Management Principles and Practices (New York, 1958), p. 43.

[8] For example see: Leon Garoian and Arnold F. Haseley, p. 19, George Abshier and Robert D. Dahle, Management for Agricultural Marketing Firms, USDA Federal Extension Service (Washington, 1965).

[9] Adapted from, Leon Garoian and Arnold F. Haseley, The Board of Directors in Agricultural Marketing Businesses, Oregon State University Cooperative Extension Service (Corvallis, 1963), pp. 4-12.

[10] Ibid., p. 3.

[11] Joseph G. Knapp, Farmers in Business (Washington, 1963), p. 4.

[12] Richard W. Schermerhorn, Financial Statement Analysis for Agricultural Marketing Firms, University of Maryland Cooperative Extension Service, Agricultural Economics Information Series No. 24 (College Park, 1964), p. 3.

[13] Ibid., p. 8.

CHAPTER III

CHARACTERISTICS OF THE BOARD MEMBERS AND INTERPRETATION OF THE DIRECTOR'S JOB

This chapter describes the personal characteristics of the directors interviewed during the study and their interpretation of their job as a member of the board of directors. The personal characteristics will give some insight into the type of people that serve as directors of cooperative grain marketing firms. These characteristics include the ages, occupations, schooling, training of the directors and their participation in community activities. The directors' interpretation of their job is concerned with what directors think their duties and responsibilities are and the director's own evaluation of his knowledge in performing his duties and responsibilities.

Director's Characteristics

One method to illustrate directors' characteristics is to describe a typical director. The median value will be used as a descriptive measure because the median is not affected by the magnitude of extreme deviations from the average. Since the median gives only part of the information available, the range will be used to give a measure of variation in the observations.

The directors included in the study were farmers with a median age of 52 years. The ages of the directors ranged from 26 to 86 years old and very few of the directors were under 30 or over 65 years of age. All of the directors interviewed had farming interests; 67 were full-time farmers and six were part-time farmers. They grew small grains, primarily wheat, and raised livestock, primarily beef cattle. Their farms ranged from 160 to 4,000 acres in size with the median size farm consisting of 880 acres.

Many of the directors had served more than one term and had held a board office. In all of the cooperatives interviewed, the term of office for the directors was three years. The number of years served on the board ranged from one-fourth of a year to 46 years with the median being four years. The typical director has, therefore, served one term and started serving a second term. The board of directors has three offices that directors can hold -- the president, vice-president and secretary-treasurer. The number of board offices held by directors ranged from none to three, with a median of one.

The directors were asked about the amount of education they had attained. In converting the various kinds of degrees attained, it was assumed that a Bachelor of Science degree accounted for four years beyond high school, a Master of Science degree accounted for six years and a business college degree accounted for one and one-half years beyond a high school education. The number of years of schooling ranged from seven to 18 years with the median number being 12 years. In addition to formal education, the directors can attend schools and short courses offered by the Cooperative Extension Service and by the various cooperative organizations. Fifty-six percent of the directors had attended some of these training meetings. The final question in the personal data section dealt with the number of community activities that the directors are involved in. The number of community activities that directors actively engage in ranged from none to five with the median being two.

In summary then, the typical director for all the firms interviewed would be 52 years old and operates a wheat and livestock farm consisting of 880 acres. He has served on the board for four years and has held one board office. The typical director has a high school education and has attended some of the director training meetings. He is also active in community activities and actively engages in two community activities.

In order to isolate differences in the characteristics of the firms' directors in the study, the firms were divided into groups on the basis of size and performance. The size categories consisted of large, medium and small firms and were determined by gross operating income discussed in Table I of Chapter I. Performance was based on the rate of return on investment in the local cooperative, also discussed in Chapter I. The firms were divided into two performance groups, one consisting of those firms that had above average rates of return on investment and the other that had below average rates of return on investment, hereafter called group A and group B firms, respectively. The medians and ranges for the directors' characteristics for these groups are presented in Table IV.

Analysis of Table IV indicates that the directors of group A firms were younger than group B directors and that the median age declined as firm size declined. The median ages of small firms' directors were about 10 years younger than the median ages of large firms' directors.*

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*As indicated by the age ranges, the percentage of directors under

TABLE IV

PERSONAL CHARACTERISTICS OF DIRECTORS FOR A SAMPLE OF OKLAHOMA COOPERATIVE GRAIN MARKETING FIRMS, CLASSIFIED BY PERFORMANCE GROUP AND SIZE OF FIRM

Characteristics	Size of firm	Group A Median	Group A Range	Group B Median	Group B Range
Age (years)					
	All	50	27-86	53	26-68
	Large	56	45-86	56.5	34-65
	Medium	50	33-76	51.5	36-68
	Small	46	27-56	44	26-59
Farm Size (acres)					
	All	800	160-2200	920	160-4000
	Large	720	400-2200	1230	160-4000
	Medium	960	500-1750	860	204-3600
	Small	640	160-960	800	228-4000
Years Served (number)					
	All	7	.25-46	3	.25-20
	Large	12	2-46	4	.25-20
	Medium	7	.25-31	3	.25-9
	Small	5	.75-12	2.25	.75-16
Board Offices Held (number)					
	All	1	0-3	1	0-3
	Large	1	0-3	0	0-2
	Medium	1	0-3	1	0-3
	Small	1	0-1	1	0-2
Education (years)					
	All	12	8-16	12	7-18
	Large	12	8-15	12	9-18
	Medium	12	8-16	12	7-16
	Small	12	12-16	12	8-12
Community Activities (number)					
	All	2	0-5	2	0-5
	Large	1	0-3	2	0-5
	Medium	2	0-4	2	0-5
	Small	2	1-5	1	0-5

On the question of age, Garoian and Haseley state that the optimum board is one that incorporated youthful vigor with the experience of age.[1] The directors serving on the boards in the study can both include or exclude Garoian and Haseley's ideal depending on the definition one chooses. Among the boards in the study, four had directors whose ages had less than 20 years spread. Seven boards had directors whose ages were spread between 20 and 30 years and three boards had a spread of more than 30 years. The four boards where the range in ages is less than 20 years probably do not fit Garoian and Haseley's definition. However, there is no reason to say this is bad from the performance data since they are evenly divided between group A and group B. The ages of directors and the proportion of younger to older members probably is less important than the ability of the director regardless of his age.

Since older directors could have served on the board longer, one might expect that age and years of service would be related. The number of years of board service did decrease as the firm size decreased but the relationship was not directly related to age (see Table IV). The group B directors had served less years in all size categories than had group A for the same size category.

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40 years old increased as firm size declined. However, the relative number of directors under 40 years old was larger, six to eight percent, in group B than group A, except those in the medium size category. Thirteen percent of the directors of medium sized group A firms were under 40 years old relative to only seven percent of the medium sized group B firms' directors. In addition, the relative number of directors 60 years of age or older declined as firm size declined. The percentages of directors 60 years of age or older were the same for medium and large size firms but the relative number of directors 60 years old or older for medium sized firms was six percent larger for group A than group B.

In Table IV, there were also some differences in size of firm with the group A directors tending to farm smaller units. Group A directors in all size groups except the medium group had fewer acres in their farms.

The median number of years of schooling for the directors was the same for all groupings of directors (see Table IV). However, none of the small group B firms' directors had schooling beyond high school while the other groups had similar percentages ranging from 33 to 40 percent. In addition, all of the small group A firms' directors had finished high school.

The results of this study suggest that the schools and short courses for directors do have some value and that directors should try to attend these meetings. A greater percentage of group A directors had received some training at meetings and short courses for directors than had group B directors (see Table V). These results should be qualified to the extent that group A directors may have more time and more opportunities to attend these meetings because they generally have served on the board longer and have smaller farming operations.

Interpretation of the Director's Job

The directors need to understand their duties and responsibilities as directors if they are to be effective as directors. The duties and responsibilities of the directors as given in management literature were given in Chapter II. This section of the chapter analyzes the directors' responses to questions asking them to state their duties, responsibilities and whether they thought they had acquired the necessary knowledge to perform their duties and responsibilities.

TABLE V

PERCENTAGES OF DIRECTORS THAT HAVE ATTENDED TRAINING MEETINGS FOR A SAMPLE OF OKLAHOMA COOPERATIVE GRAIN MARKETING FIRMS CLASSIFIED BY PERFORMANCE GROUPS AND BY SIZE OF FIRM

	Size of Firm	All Directors	Group A Directors	Group B Directors
			(percent)	
Have attended Training Meetings	All	56.16	69.70	45.00
	Large	40.00	55.56	31.25
	Med.	65.52	73.35	57.14
	Small	63.16	77.78	50.00
Have not attended Training Meetings	All	43.84	30.30	55.00
	Large	60.00	44.44	68.75
	Med	34.48	26.67	42.86
	Small	36.84	22.22	50.00
Totals	All	100.00	100.00	100.00
	Large	100.00	100.00	100.00
	Med	100.00	100.00	100.00
	Small	100.00	100.00	100.00

Duties

The directors' responses concerning their duties were classified into the six categories discussed in Chapter II. The percentages of directors responding, including classification by size and performance of the firms, are presented in Table VI.*

Approving financial matters was the only duty which was mentioned by more than half of the directors in each firm size group and performance groupings. This would indicate that the directors consider analyzing financial matters as an important part of their duties and that no differences appeared among firm size and performance groupings.

In terms of percentage response, the second most important duty is harmonizing interests and perpetuating a sound board. "Communicating with members" included in this duty was mentioned by many of the respondents. More than half of the directors of the medium and large sized group A firms stated that harmonizing interests and perpetuating a sound board was part of their duties. This same analysis of group B directors reveals less concern for this duty in comparison with group A firms except for the small size group.

Establishing objectives and policies was only considered to be an important part of director duties by the large size group A firms. Lesser importance of this duty to the other size-performance categories of firms' directors is indicated by the much smaller percentages responses. As the firm size declined in both performance groups the percentage of directors stating that establishing objectives and

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*The titles of the duties have been shortened in Table VI, but they have the same meaning as in Chapter II.

TABLE VI

DUTIES OF DIRECTORS AND PERCENTAGES OF DIRECTORS RESPONDING FOR A SAMPLE OF OKLAHOMA COOPERATIVE GRAIN MARKETING FIRMS CLASSIFIED BY FIRM SIZE AND PERFORMANCE GROUPS

Duty	Size of firm	All Directors	Group A Directors	Group B Directors
		(percent)		
Establish objectives and policies				
	All	16.44	18.18	15.00
	Large	32.00	55.56	18.75
	Medium	10.34	6.67	14.29
	Small	5.26	0[a]	10.00
Electing capable board officers				
	All	35.62	39.39	32.50
	Large	36.00	22.22	43.75
	Medium	37.93	40.00	35.71
	Small	31.58	55.56	10.00
Approving personnel				
	All	21.92	24.24	20.00
	Large	20.00	11.11	25.00
	Medium	24.14	33.33	14.29
	Small	21.05	22.22	20.00
Approving financial matters	All	69.86	72.73	67.50
	Large	68.00	66.67	68.75
	Medium	65.52	73.33	57.14
	Small	78.95	77.78	80.00
Providing for planning				
	All	4.11	0	7.50
	Large	8.00	0	12.50
	Medium	3.45	0	7.14
	Small	0	0	

TABLE VI (Continued)

Duty	Size of firm	All Directors	Group A Directors	Group B Directors
		(percent)		
Harmonizing interests and prepetuating a sound board				
	All	37.50	45.45	41.10
	Large	37.50	55.56	44.00
	Medium	35.71	53.33	44.83
	Small	40.00	22.22	31.58
Totals[b]				
	All	180.00	199.99	189.05
	Large	206.25	211.12	208.00
	Medium	164.28	206.66	186.21
	Small	160.00	177.78	168.42

[a]None of the directors in this category gave this activity as one of their duties.

[b]The totals are greater than 100 percent because some directors gave more than one response.

and policies declined also. This indicates that directors of smaller firms attach less importance to this as a part of their duties than do directors of larger firms.

Only performance group B directors responded that they had the duty of providing planning. These responses were extremely low, indicating very little importance is attached to this duty.

As an aggregate, most of the directors did not state as their duties all those suggested in management literature. The "totals" percentage response gives an indication of the number of duties mentioned by each director. These percentages indicate that most directors gave approximately two of the six duties listed as being their duties.

Responsibilities

To function most effectively as directors, they should know their responsibilities as well as their duties. The directors' responses concerning what they considered to be their responsibilities were classified into the five responsibilities explained in Chapter II. Only two of the responsibilities can be considered important to the directors in terms of percentage responses and there were no significant findings in terms of performance or size groupings.

The responsibilities to act in good faith and with reasonable care and to represent a trusteeship were given by more than half of the directors in most categories (see Table VII). The only exception was in the small group A firm category in which the directors indicated less importance to representing a trusteeship.

The other three responsibilities in Table VII were not as important in terms of percentage response. However, the directors of large

TABLE VII

RESPONSIBILITIES OF DIRECTORS AND PERCENTAGES OF DIRECTORS RESPONDING FOR A SAMPLE OF OKLAHOMA COOPERATIVE GRAIN MARKETING FIRMS CLASSIFIED BY FIRM SIZE AND PERFORMANCE GROUP

Responsibility	Size of firm	All Directors	Group A Directors	Group B Directors
		(percent)		
Direct and should attend board meetings				
	All	30.14	27.27	32.50
	Large	36.00	11.11	50.00
	Medium	24.14	20.00	28.57
	Small	31.58	55.56	10.00
Follow corporate papers				
	All	8.22	6.06	10.00
	Large	12.00	11.11	12.50
	Medium	3.45	0[a]	7.14
	Small	10.53	11.11	10.00
Appoint officers and delegate authority				
	All	30.14	36.36	25.00
	Large	32.00	22.22	37.50
	Medium	31.03	46.67	14.29
	Small	26.32	33.33	20.00
Act in good faith and with reasonable care				
	All	80.82	84.85	77.50
	Large	76.00	77.78	75.00
	Medium	82.76	93.33	71.43
	Small	84.21	77.78	90.00

TABLE VII (Continued)

Responsibility	Size of firm	All Directors	Group A Directors	Group B Directors
		----------------	(percent)	----------------
Represent a trusteeship				
	All	57.53	57.58	57.50
	Large	56.00	66.67	50.00
	Medium	58.62	66.67	50.00
	Small	57.89	33.33	80.00
Totals[b]				
	All	206.85	212.12	202.50
	Large	212.00	188.89	225.00
	Medium	200.00	226.67	171.43
	Small	210.53	211.11	210.00

[a]None of the directors in this category gave this activity as one of their responsibilities.

[b]The total is greater than 100 percent because some directors gave more than one answer.

group B firms and small group A firms indicated their responsibility to direct and attend board meetings was important. There are other differences in the percentage responses but these do not have any special significance in terms of performance or size groupings.

The directors' responsibility of following corporate papers received a very low percentage response. At another point in the interview, many directors indicated that they consult the bylaws at most board meetings. Thus, their responsibility to follow the corporate papers may have been so obvious to them that they did not consider this worth mentioning as a responsibility.

Most of the directors mentioned two of the five responsibilities given in Chapter II. This estimate of the number of responsibilities mentioned by each director is indicated by the "Totals" percentage response.

Acquired Adequate Knowledge

In addition to knowing their duties and responsibilities, the directors must receive or acquire the knowledge to perform their duties and responsibilities. When asked if they thought they had received or acquired adequate knowledge to perform their duties and responsibilities, 44 percent of all the directors indicated that they had. More group B directors indicated they had adequate knowledge than group A directors, 47.5 percent as opposed to 39 percent. The percentages for the size groupings were similar to those in the performance groups above except in the medium size group. The percentage response was larger for the medium sized group A firms' directors, 40 percent, than for the medium size group B firms' directors, 36 percent.

To determine the length of time the directors had to serve before they felt they had acquired an adequate knowledge of performing their duties and responsibilities, directors' answers were compared to the number of terms they had served on the board (see Table VIII). For all directors in all sizes of firms, more directors stated they had acquired the necessary knowledge than those that did not after they had served four or more terms in office. Among all group A directors, this position was attained after their fourth term, but for all group B directors, the position was attained after the third term in office. As the size of the firm declined, the position where more directors stated they had acquired knowledge than those that had not was attained with less terms on the board for both performance groups. This indicates that directors of small firms feel they need less time to acquire knowledge to perform their duties and responsibilities.

Another method that directors might use other than experience to gain a knowledge of duties and responsibilities would be to attend schools and short courses. If these schools help the directors feel that they have adequate knowledge of performing duties, then the number who attended schools should have stated that they had an adequate knowledge of duties. It was found that for all directors that attended schools, more of them felt they did not have adequate knowledge of performing duties and responsibilities than those that did (see Table IX). This was true for directors in both performance groups but not for directors of large size firms. The directors in large size firms indicated that attending schools and short courses had no effect on their knowledge of performing their duties and responsibilities. It is possible then, that the schools and short courses may not fully train

TABLE VIII

TERMS SERVED ON BOARD AND KNOWLEDGE OF PERFORMING DUTIES AND RESPONSIBILITIES
FOR A SAMPLE OF OKLAHOMA COOPERATIVE GRAIN MARKETING FIRMS
CLASSIFIED BY FIRM SIZE AND PERFORMANCE GROUP

Number of terms in office	Size of firm	All directors acquired knowledge		Group A directors acquired knowledge		Group B directors acquired knowledge	
		Yes	No	Yes	No	Yes	No
		(percent)					
1							
	All	8.22	24.66	9.09	15.15	7.50	32.50
	Large	8.00	16.00	11.11	0	6.25	25.00
	Medium	6.90	27.59	6.67	20.00	7.14	35.71
	Small	10.53	31.58	11.11	22.22	10.00	40.00
2							
	All	13.70	12.32	6.06	12.12	20.00	12.50
	Large	12.00	12.00	0	11.11	18.75	12.50
	Medium	13.79	13.79	6.67	13.33	21.43	14.29
	Small	15.79	10.53	11.11	11.11	20.00	10.00
3							
	All	2.74	10.96	0	18.18	5.00	5.00
	Large	4.00	4.00	0	11.11	6.25	0
	Medium	0[a]	13.79	0	13.33	0	14.29
	Small	5.26	15.79	0	33.33	10.00	0
4							
	All	4.11	2.74	3.03	3.03	5.00	2.50
	Large	8.00	4.00	11.11	0	6.25	6.25
	Medium	3.45	3.45	0	6.67	7.14	0
	Small	0	0	0	0	0	0

TABLE VIII (Continued)

Number of terms in office	Size of firm	All directors acquired knowledge Yes	All directors acquired knowledge No	Group A directors acquired knowledge Yes	Group A directors acquired knowledge No	Group B directors acquired knowledge Yes	Group B directors acquired knowledge No
		(percent)					
5							
	All	4.11	1.37	6.06	3.03	2.50	0
	Large	8.00	4.00	11.11	11.11	6.25	0
	Medium	0	0	0	0	0	0
	Small	5.26	0	11.11	0	0	0
Over 5							
	All	10.96	4.11	15.15	9.09	7.50	0
	Large	12.00	8.00	11.11	22.22	12.50	0
	Medium	13.79	3.45	26.67	6.67	0	0
	Small	5.26	0	0	0	10.00	0
Totals							
	All	43.84	56.16	39.39	60.60	47.50	52.50
	Large	52.00	48.00	44.44	55.55	56.25	43.75
	Medium	37.93	62.07	40.01	60.00	35.71	64.29
	Small	42.10	57.90	33.33	66.66	50.00	50.00

[a]There were no respondents in this category.

TABLE IX

TRAINING MEETINGS PARTICIPATION AND KNOWLEDGE OF PERFORMING DUTIES AND RESPONSIBILITIES FOR A SAMPLE OF OKLAHOMA COOPERATIVE GRAIN MARKETING FIRMS CLASSIFIED BY BY FIRM SIZE AND PERFORMANCE GROUP

	Size of firm	All directors acquired knowledge		Group A directors acquired knowledge		Group B directors acquired knowledge	
		Yes	No	Yes	No	Yes	No
		(percent)					
Attend schools or short courses							
	All	21.92	34.25	27.27	36.36	17.50	32.50
	Large	24.00	24.00	33.33	33.33	18.75	18.75
	Medium	24.14	41.38	33.33	40.00	14.29	42.86
	Small	15.79	36.84	11.11	33.33	20.00	40.00
Did not attend schools or short courses							
	All	21.92	21.92	12.12	24.24	30.00	20.00
	Large	28.00	24.00	11.11	22.22	37.50	25.00
	Medium	13.79	20.69	6.67	20.00	21.43	21.43
	Small	26.32	21.05	22.22	33.33	30.00	10.00
Totals							
	All	43.84	56.17	39.39	60.60	47.50	52.50
	Large	52.00	48.00	44.44	55.55	56.25	43.75
	Medium	37.93	62.07	40.00	60.00	35.72	64.29
	Small	42.11	57.89	33.33	66.66	50.00	50.00

the directors but do make them realize their role in the firm is larger than they thought. In addition, the short courses should encourage them to study and learn more about their role on their own.

Summary

Group A directors may have more time to devote to their duties because they tended to have smaller farms and they have had more years on the board to become familiar with their duties. In addition, they tended to be slightly younger than group B directors.

The directors considered approving important financial matters their most important duty. Their most important responsibility was to act in good faith and with reasonable care. The directors indicated that they had to serve three terms in office before they had acquired an adequate knowledge of performing their duties and responsibilities. In addition, it was found that the primary result from attending schools and short courses was to make directors realize their role as a director is larger than they thought. It is concluded then, that schools and short courses for directors do have some value and directors should try to attend these meetings.

In the following chapters the analysis is shifted from the individual directors to the board as a decision making unit. The next chapter begins the analysis of the boards' activities in performing their duties.

FOOTNOTES

[1] Leon Garoian and Arnold F. Haseley, The Board of Directors in Agricultural Marketing Businesses, Oregon State University Cooperative Extension Service (Corvallis, 1963), pp. 106-107.

CHAPTER IV

DECISION-MAKING AND DECISION AREAS

Management is concerned with the task of making decisions that will keep the firm operating and progressing toward its objectives. Since the board makes decisions as a unit, this chapter and the proceeding chapters contain an analysis on the basis of the board as an entity response.

This chapter is composed of two parts, decision-making and decision areas. The first part describes various aspects of decision-making including the boards' perception of business changes, the working relationship between board and manager, and the types of information used by the board in the decision-making process. The second part of the chapter discusses the types of decisions made by the firm and who in the management structure makes these decisions.

Decision-Making

Agriculture and farming have been undergoing changes, particularly technological changes. This process of change has been occurring rapidly in the past and is expected to continue in the future. Farmers that have maintained or increased their incomes have had to adjust rapidly to keep pace with these technological changes. These changes have also had a spillover effect on the firms serving farmers. Thus, farmer orientated businesses such as grain marketing firms have had, and will continue to have, the problem of anticipating changes in farming and recognizing how these changes will affect their businesses.

The agribusiness firms that analyze the changes in farming correctly will have the opportunity to plan flexibility into their operations and, therefore, obtain a stronger competitive position. For this reason, the board's and manager's thinking on changes that may be needed in their business should be keeping pace with the agricultural changes in their trading area. All of the boards of directors in this study indicated that their thinking and that of the manager was keeping pace with the agricultural changes in their areas.

In addition to thinking ahead, the board and manager must also work together as a team with the manager assisting and advising the board, but the manager should not ask the board to make day-to-day decisions. All of the boards were in agreement that their managers assisted and advised them in their duties and they were also in agreement that the manager did not ask the board for too many decisions on matters which he should decide, i.e., the day-to-day decisions.

Although the board and manager must work as a team, each has specific duties and responsibilities and these should be distinguished to promote harmony and good working relations. The manager is primarily responsible for the day-to-day operation of the business while the board is responsible for the longer-run decisions of the firm. In this study, all of the boards indicated that the directors' duties were adequately distinguished from those of the manager. These results indicate that problems associated with unclear definitions of board and manager duties does not occur.

The board generally relies on the manager to keep them informed on the operation of the cooperative. Therefore, it is important that the directors receive enough information from the manager to make proper decisions. All of the boards responded that they received enough information for proper decisions from the manager. Although some directors qualified their answer by stating that they got all the information the manager had.

Throughout the personal interview schedule, the directors were asked various questions concerning the types of information they received and/or used to evaluate various decisions. The types of information included: operating information, information presented by the manager, information to evaluate additional enterprises, information used to evaluate trading area size changes, information used to evaluate amount of advertising and promotion, information used to evaluate new ventures, and information to evaluate owning or leasing of facilities and/or equipment. The types of information included under these headings is presented in Table X. In this table the information is presented for the board as an entity giving the number of boards receiving the information by size and performance grouping.

In Table X, there were more types of information in which a larger percentage of group B firms' boards received and/or used the information than group A firms' boards. Ignoring the "don't know" categories, there are 16 information types that more of the group B firms' boards indicated they received and/or used the information than did group A firms' boards. In five of the information types, more of the group A firms' boards received and/or used the information than did group B firms' boards. Thus, on the basis of these answers, it can be

TABLE X

NUMBER OF BOARDS FOR A SAMPLE OF OKLAHOMA COOPERATIVE GRAIN MARKETING FIRMS RECEIVING SPECIFIC TYPES OF INFORMATION BY SIZE AND PERFORMANCE GROUP

Types of Information	Size of Firm	All Firms	Group A Firms	Group B Firms
		--------	(number)	--------
Operating Information:				
Budgets[a]	All	8	2	6
	Large	2	0	2
	Medium	3	1	2
	Small	3	1	2
Operating statements	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2
Cost Reports	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2
Periodic Progress Reports[a]	All	9	3	6
	Large	2	0	2
	Medium	4	2	2
	Small	3	1	2
Review of Operations	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2

TABLE X (Continued)

Types of Information	Size of Firm	All Firms	Group A Firms	Group B Firms
			(number)	
Operating Plans Utilizing Budgets and Long-Range Finances Forecast[a]	All	7	2	5
	Large	2	0	2
	Medium	3	1	2
	Small	2	1	1
Including: Facilities[a]	All	7	2	5
	Large	2	0	2
	Medium	3	1	2
	Small	2	1	1
Finances[a]	All	7	2	5
	Large	2	0	2
	Medium	3	1	2
	Small	2	1	1
Personnel[a]	All	7	2	5
	Large	2	0	2
	Medium	3	1	2
	Small	2	1	1
Progress Report on Goals	All	3	0	3
	Large	1	0	1
	Medium	1	0	1
	Small	1	0	1
Information Presented by Manager: Balance Sheet[a]	All	13	6	7
	Large	4	2	2
	Medium	5	2	3
	Small	4	2	2

TABLE X (Continued)

Types of Information	Size of Firm	All Firms	Group A Firms	Group B Firms
		----------	(number)	----------
Comparative Balance Sheet[a]	All	4	1	3
	Large	1	0	1
	Medium	2	1	1
	Small	1	0	1
Income Statement[a]	All	13	6	7
	Large	4	2	2
	Medium	5	2	3
	Small	4	2	2
Comparative Income Statement[a]	All	4	1	3
	Large	1	0	1
	Medium	2	1	1
	Small	1	0	1
Margins[a]	All	13	6	7
	Large	4	2	2
	Medium	5	2	3
	Small	4	2	2
Other (Bank Balance, Inventory, Budgets, Cash Flow)	All	2	1	1
	Large	0	0	0
	Medium	1	1	0
	Small	1	0	1
Information to Evaluate Additional Enterprise: Need, Benefits and Service to Community, and Volume[b]	All	9	5	4
	Large	3	2	1
	Medium	3	1	2
	Small	3	2	1

TABLE X (Continued)

Types of Information	Size of Firm	All Firms	Group A Firms	Group B Firms
		-------	(number)	-------
Financial (Cost, Returns, Financing)[a]	All	9	4	5
	Large	3	2	1
	Medium	3	1	2
	Small	3	1	2
Other (Do Not Compete with Other Businesses)	All	1	1	0
	Large	0	0	0
	Medium	1	1	0
	Small	0	0	0
Information Used to Evaluate Trading Area Size Changes:				
Need, Benefit and Service to Community, and Volume[a]	All	7	3	4
	Large	3	2	1
	Medium	2	1	1
	Small	2	0	2
Financial (Costs, Returns, Financing)[b]	All	11	6	5
	Large	3	2	1
	Medium	4	2	2
	Small	4	2	2
Boards that didn't know[b]	All	1	1	0
	Large	0	0	0
	Medium	0	0	0
	Small	0	1	0
Information Used to Evaluate Amount of Advertising and Promotion:				

TABLE X (Continued)

Types of Information	Size of Firm	All Firms	Group A Firms	Group B Firms
		———	(number)	———
Financing (Costs, Effectiveness, Sales)[a]	All	3	1	2
	Large	1	1	0
	Medium	1	0	1
	Small	1	0	1
Boards that didn't know	All	8	4	4
	Large	2	1	1
	Medium	4	2	2
	Small	2	1	1
Information Used to Evaluate New Ventures: Need, Benefit and Service to Community, and Volume[b]	All	5	4	1
	Large	1	1	0
	Medium	3	2	1
	Small	1	1	0
Financial (Costs, Returns, Financing)[b]	All	11	6	5
	Large	3	2	1
	Medium	5	3	2
	Small	3	1	2
Visit other Facilities[b]	All	1	1	0
	Large	0	0	0
	Medium	1	1	0
	Small	0	0	0
Information to Evaluate Owning or Leasing: Financial (Costs, Returns, Financing)[a]	All	11	5	6
	Large	3	1	2
	Medium	4	2	2
	Small	4	2	2

TABLE X (Continued)

Type of Information	Size of Firm	All Firms	Group A Firms	Group B Firms
		----------	(number)	----------
Boards that didn't know	All	4	2	2
	Large	0	0	0
	Medium	2	1	1
	Small	2	1	1

[a]Information types received and/or used by more group B than group A boards.

[b]Information types received and/or used by more group A than group B boards.

concluded that more of the boards of group B firms are receiving and/or using more types of information to make decisions.

One of the important types of information that should be used in decision making consists of budgets. Budgets are projected costs and revenues for the firm and/or enterprises in the firm. In Table X, the following types of information can be considered budgets: "budgets" and "operating plans utilizing budgets and long-range finances forecast" under the heading of operating information; and "financial" under the headings of information to evaluate additional enterprises, information used to evaluate trading area size changes, information used to evaluate new ventures and information used to evaluate owning or leasing.

More boards of group B firms indicated they received budgets and budgeting information than did boards of group A firms. More than half of the boards in both group A and B received budgets to evaluate large financial decisions (including additional enterprises, trading territory changes, new ventures, and owning or leasing decisions). More than half of the group B firms' and less than half of the group A firms' boards received budgets to evaluate operations (which may include grain handling, fertilizer sales, feed sales or petroleum sales).

Budgets to be used in large financial decisions are only part of the information needed by the board. The additional information required would be included in a carefully prepared feasibility study. This study should include an estimate of the demand, reflecting need, benefits and service to the community and from this a projection of the expected volume. Further, the volume should be estimated in both the short- and long-term. Next, the board needs estimates of required facilities, equipment and personnel for the proposed facility to determine costs and to determine the breakeven volume needed at competitive prices or estimated prices. These estimates will allow determination of expected profits or losses from the facility. The information for this type of study can be obtained by surveying the present members and/or expected patrons, visiting other facilities, utilizing studies prepared by colleges or other firms and information from trade publications.

Very few of the boards indicated that they prepare a complete feasibility study but many did indicate they obtained or formulated estimates that would constitute a reasonably complete study* to evaluate additional enterprises, trading area size changes and new ventures. More than half of the boards in both performance groups indicated they prepared a reasonably complete study to evaluate additional enterprises. Only boards of firms in group B indicated a reasonably complete study was used by more than one-half of the firms to evaluate trading area size changes. More than half of the firms in the group A performance group indicated they had a reasonably complete study to evaluate new ventures.

In addition to receiving feasibility information the board should receive information to evaluate the current operation of the firm. As indicated earlier, a majority of the boards of firms in group A do

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*The estimates for a reasonably complete feasibility study indicate the information types in Table IX consisting of need, benefits and service to community, and volume, and financial information. If these estimates were fully evaluated, a complete feasibility study would result. However, many times an estimate of need and costs were indicated without an indication that these were carried to the point of estimating breakeven volume or a specific profit or loss figure.

not use budgets to evaluate current operations. Furthermore, a majority of them do not receive periodic progress reports. A majority of all the boards received operating statements, cost reports, balance sheets, income statements and operating margins (the difference between prices paid and received by the firm). Thus, the boards of many firms in group A are only receiving the results of operations, while more of the boards of group B firms are receiving this information plus budgets which give expected results from operations. One explanation for the smaller response from group A firms could be that these boards did not recognize that projected income statements are in fact budgets.

All of the boards of directors stated that they critically reviewed the methods of operations. In almost all firms, 11 of 14, this review was conducted at each board meeting. The firms that did not review operations at each board meeting were in the small and medium sized group A category. There was no majority among all the boards on what types of information were reviewed when they evaluated the methods of operations. More of the group B firms' boards, four of seven, stated that they reviewed the financial statement and three of the seven group A firms' boards indicated they reviewed all departments of the firm.

When the directors review operations, they should ask questions that go beyond the financial information to discover why various departments perform as they do. In this way, the directors can help point out potential problem areas that need correction before the problem gets too large. All of the boards indicated that their members demonstrated skill in asking questions regarding operations.

The managers of the firms in the study are presenting the types of operating information that their boards want. The directors interviewed were reminded of their legal, social, and ethical obligations and asked what types of information the manager should present so that they could fulfill these obligations. The boards of all firms but one stated that financial information should be presented by the manager. The board that did not indicate financial information should be presented had no agreement among the majority of its members as to the information that should be presented. Even in this case, the most common answer was financial information. Thus, the boards are receiving the types of information that they want from the manager. In addition, most of the directors would agree with the one that stated, "if we want certain information, we ask for it and the manager provides it." In only 26 percent of the cases did the directors indicate that that they wanted something that the manager was not already providing. Their answers included member and/or public relations, market trends and present all sides of everything.

Additional information on the types of information that the managers present to their boards was available from the mail management questionnaire. The firms were asked to indicate the types of materials that the manager presents to the board. The choices given in the questionnaire included the annual audit, ratio analysis, charts and graphs and a category for other answers which usually was recorded as monthly financial statements. These responses are presented in Table XI for size and performance groups.

Analysis of Table XI indicates that most boards received the annual audit (see the percentages under "all" for size of firm). While the percentages for all firms for the all size category are similar,

TABLE XI

PERCENTAGES OF MANAGERS FOR A SAMPLE OF OKLAHOMA COOPERATIVE GRAIN MARKETING FIRMS WHO INDICATED THAT THE BOARDS RECEIVED SPECIFIC TYPES OF MATERIALS BY SIZE AND PERFORMANCE GROUP

Type of Material	Size of Firm	All Firms	Group A Firms	Group B Firms
		(percent)		
Annual Audit	All	82.93	77.78	92.86
	Large	71.43	60.00	100.00
	Medium	91.30	93.33	87.50
	Small	72.73	57.14	100.00
Ratio Analysis	All	21.95	22.22	21.43
	Large	57.14	60.00	50.00
	Medium	13.04	13.33	12.50
	Small	18.18	14.29	25.00
Charts and Graphs	All	24.39	14.81	42.86
	Large	71.43	60.00	100.00
	Medium	17.39	6.67	37.50
	Small	9.09	0[a]	25.00
Other	All	21.95	25.93	14.29
	Large	71.43	80.00	50.00
	Medium	13.04	13.33	12.50
	Small	9.09	14.29	0
Totals[b]	All	151.22	140.74	171.44
	Large	271.43	260.00	300.00
	Medium	134.77	126.66	150.00
	Small	109.09	85.72	150.00

[a]None of the managers in this category indicated their boards received this type of information.

[b]The totals are larger than 100 percent because some managers gave more than one answer.

relatively more of the large firms presented ratio analysis, charts and graphs and other information than did medium or small firms.

The results from the mail survey indicate that boards of large firms receive more useable information than do other directors. However, this conclusion was not substantiated in the personal interview survey. One explanation may be that the directors in the personal interview survey consider the charts, graphs and ratio analysis part of and included in the balance sheets and income statements usually presented.

Decision Areas

In this section, the boards' responses on who makes various decisions are compared to the expected decision areas included in Table III of Chapter II. The comparison will allow analysis on whether the board and/or the manager are making decisions in the expected areas and also on whether the boards stated certain decisions are made by any person or group in the firm.

Throughout the personal interview schedule, the directors were asked questions concerning who makes various decisions and whether certain decisions were decided by certain individuals or groups. The boards' responses to these questions are presented in Table XII. The responses are grouped by size and performance categories and all the decision activities are presented under the expected decision-maker to facilitate analysis. The only decisions not included in Table XII, that are in Table III, are establishing objectives, establishing policies and developing long-range plans.

In almost two-thirds of the activities in Table XII, a significant

TABLE XII

ACTIVITIES IN WHICH THE BOARD OF A SAMPLE OF OKLAHOMA COOPERATIVE GRAIN MARKETING FIRMS INDICATED DECISIONS ARE MADE BY BOARD, BOARD AND MANAGER, AND MANAGER, CLASSIFIED BY PERFORMANCE GROUPS AND SIZE OF FIRM

		All Firms Decisions made by			Group A Firms Decisions made by			Group B Firms Decisions made by		
Activities	Size of Firm	Board	Board and Manager	Manager	Board	Board and Manager	Manager	Board	Board and Manager	Manager
		(number)								
Expected Board Activities:										
Annually review corporate papers	All	9	0[a]	0	5	0	0	0	0	0
	Large	1	0	0	1	0	0	0	0	0
	Medium	4	0	0	2	0	0	2	0	0
	Small	4	0	0	2	0	0	2	0	0
Evaluate progress in relation to goals	All	3	0	0	0	0	0	3	0	0
	Large	1	0	0	0	0	0	1	0	0
	Medium	1	0	0	0	0	0	1	0	0
	Small	1	0	0	0	0	0	1	0	0
Approves promotions	All	8	2	1	5	1	1	3	1	0
	Large	2	1	0	1	1	0	1	0	0
	Medium	3	0	1	2	0	1	1	0	0
	Small	3	1	0	2	0	0	1	1	0
Review manager's evaluation of personnel	All	14	0	0	7	0	0	7	0	0
	Large	4	0	0	2	0	0	2	0	0
	Medium	6	0	0	3	0	0	3	0	0
	Small	4	0	0	2	0	0	2	0	0

TABLE XII (Continued)

Activities	Size of Firm	All Firms Decisions made by			Group A Firms Decisions made by			Group B Firms Decisions made by		
		Board	Board and Manager	Manager	Board	Board and Manager	Manager	Board	Board and Manager	Manager
		(number)								
Approve type of additional enterprises[b]	All	7	5	0	4	3	0	3	2	0
	Large	1	2	0	1	1	0	0	1	0
	Medium	3	2	0	2	1	0	1	1	0
	Small	3	1	0	1	1	0	2	0	0
Approve expansion or contraction of trade area[c]	All	6	1	0	2	1	0	4	0	0
	Large	1	1	0	0	1	1	1	0	0
	Medium	2	0	0	1	0	0	1	0	0
	Small	3	0	0	1	0	0	2	0	0
Establish allocation of profits or savings	All	12	1	0	5	1	0	7	0	0
	Large	3	1	0	1	1	0	2	0	0
	Medium	5	0	0	2	0	0	3	0	0
	Small	4	0	0	2	0	0	2	0	0
<u>Expected Board with Manager Activities:</u>										
Critically reviews methods of operation	All	0	14	0	0	7	0	0	7	0
	Large	0	4	0	0	2	0	0	2	0
	Medium	0	6	0	0	3	0	0	3	0
	Small	0	4	0	0	2	0	0	2	0
Establish goals for the firm	All	0	3	0	0	0	0	0	3	0
	Large	0	1	0	0	0	0	0	1	0
	Medium	0	1	0	0	0	0	0	1	0
	Small	0	1	0	0	0	0	0	1	0

TABLE XII (Continued)

Activities	Size of Firm	All Firms Decisions made by Board	Board and Manager	Manager	Group A Firms Decisions made by Board	Board and Manager	Manager	Group B Firms Decisions made by Board	Board and Manager	Manager
		(number)								
Review policies annually	All	0	5	0	0	3	0	0	2	0
	Large	0	0	0	0	0	0	0	0	0
	Medium	0	3	0	0	2	0	0	1	0
	Small	0	2	0	0	1	0	0	1	0
Determine goal for share of grain market[b]	All	1	1	1	0	0	0	1	1	1
	Large	0	1	0	0	0	0	0	1	0
	Medium	1	0	0	0	0	0	1	0	0
	Small	0	0	1	0	0	0	0	0	1
Determine goal for share of merchandise and service market[b]	All	0	0	3	0	0	0	0	0	3
	Large	0	0	1	0	0	0	0	0	1
	Medium	0	0	1	0	0	0	0	0	1
	Small	0	0	1	0	0	0	0	0	1
Evaluate new ventures	All	2	10	0	1	4	0	1	6	0
	Large	0	4	0	0	2	0	0	2	0
	Medium	0	5	0	0	2	0	0	3	0
	Small	2	1	0	1	0	0	1	1	0
Evaluate new technological developments[b]	All	0	10	1	0	5	1	0	5	0
	Large	0	3	0	0	1	0	0	2	0
	Medium	0	3	1	0	2	1	0	1	0
	Small	0	4	0	0	2	0	0	2	0
Evaluate insurance coverage[b]	All	4	7	1	1	4	0	3	3	1

TABLE XII (Continued)

Activities	Size of Firm	All Firms Decisions made by Board			Group A Firms Decisions made by Board			Group B Firms Decisions made by Board		
		Board	Board and Manager	Manager	Board	Board and Manager	Manager	Board	Board and Manager	Manager
		(number)								
	Large	1	3	0	0	2	0	1	1	0
	Medium	1	3	1	0	2	0	1	1	1
	Small	2	1	0	1	0	0	1	1	0
Evaluate option of owning or leasing[b]	All	4	5	1	1	3	1	3	2	0
	Large	0	2	0	0	1	0	0	1	0
	Medium	2	2	0	0	2	0	2	0	0
	Small	2	1	1	1	0	1	1	1	0
Develop annual financial plans[b]	All	0	2	1	0	1	0	0	1	1
	Large	0	1	1	0	1	0	0	0	1
	Medium	0	0	0	0	0	0	0	0	0
	Small	0	1	0	0	0	0	0	1	0
Determine credit guidelines[b]	All	1	7	2	0	1	2	1	6	0
	Large	0	2	0	0	0	0	0	2	0
	Medium	0	3	1	0	0	1	0	3	0
	Small	1	2	1	0	1	1	1	1	0
Evaluate accounts receivable	All	2	9	0	1	4	0	1	5	0
	Large	0	3	0	0	2	0	0	1	0
	Medium	0	4	0	0	1	0	0	3	0
	Small	2	2	0	1	1	0	1	1	0
Determine amount of advertising and promotion[b]	All	1	3	10	0	1	6	1	2	4
	Large	0	2	2	0	1	1	0	1	1
	Medium	1	0	5	0	0	3	1	0	2
	Small	0	1	3	0	0	2	0	1	1

TABLE XII (Continued)

Activities	Size of Firm	All Firms Decisions made by: Board	All Firms: Board and Manager	All Firms: Manager	Group A Firms Decisions made by: Board	Group A: Board and Manager	Group A: Manager	Group B Firms Decisions made by: Board	Group B: Board and Manager	Group B: Manager
		(number)								
Expected Manager Activities:										
Provide board meeting agenda	All	0	0	6	0	0	2	0	0	4
	Large	0	0	2	0	0	1	0	0	1
	Medium	0	0	2	0	0	1	0	0	1
	Small	0	0	2	0	0	0	0	0	2
Assist and advise board	All	0	0	14	0	0	7	0	0	7
	Large	0	0	4	0	0	2	0	0	2
	Medium	0	0	6	0	0	3	0	0	3
	Small	0	0	4	0	0	2	0	0	2
Select, discipline and release employees	All	0	0	14	0	0	7	0	0	7
	Large	0	0	4	0	0	2	0	0	2
	Medium	0	0	6	0	0	3	0	0	3
	Small	0	0	4	0	0	2	0	0	2
Set wages and salaries[b]	All	8	5	1	5	2	0	3	3	1
	Large	1	2	1	1	1	0	0	1	1
	Medium	4	2	0	2	1	0	2	1	0
	Small	3	1	0	2	0	0	1	1	0
Gives raises[b]	All	9	4	1	5	2	0	4	2	1
	Large	2	1	1	1	1	0	1	0	1
	Medium	4	2	0	2	1	0	2	1	0
	Small	3	1	0	2	0	0	1	1	0
Establish safety inspection program	All	1	0	8	0	0	5	1	0	3
	Large	0	0	3	0	0	2	0	0	1
	Medium	0	0	4	0	0	2	0	0	2
	Small	1	0	1	0	0	1	1	0	0

TABLE XII (Continued)

Activities	Size of Firm	All Firms Decisions made by			Group A Firms Decisions made by			Group B Firms Decisions made by		
		Board	Board and Manager	Manager	Board	Board and Manager	Manager	Board	Board and Manager	Manager
		(number)								
Determine grains to be merchandised	All	0	1	11	0	1	5	0	0	6
	Large	0	1	3	0	1	1	0	0	2
	Medium	0	0	4	0	0	2	0	0	2
	Small	0	0	4	0	0	2	0	0	2
Determine where grain will be sold	All	0	0	14	0	0	7	0	0	7
	Large	0	0	4	0	0	2	0	0	2
	Medium	0	0	6	0	0	3	0	0	3
	Small	0	0	4	0	0	2	0	0	2
Determine where merchandise will be purchased	All	0	2	11	0	1	5	0	1	6
	Large	0	0	4	0	0	2	0	0	2
	Medium	0	1	4	0	0	2	0	1	2
	Small	0	1	3	0	1	1	0	0	2
Set prices for grain	All	0	0	13	0	0	6	0	0	7
	Large	0	0	4	0	0	2	0	0	2
	Medium	0	0	5	0	0	2	0	0	3
	Small	0	0	4	0	0	2	0	0	2
Set prices for merchandise and services [b]	All	0	3	9	0	2	4	0	1	5
	Large	0	0	4	0	0	2	0	0	2
	Medium	0	3	1	0	2	0	0	1	1
	Small	0	0	4	0	0	2	0	0	2
Determine type of advertising and promotion[b]	All	1	3	9	0	1	5	1	2	4
	Large	0	2	2	0	1	1	0	1	1

TABLE XII (Continued)

Activities	Size of Firm	All Firms Decisions made by Board	All Firms Decisions made by Board and Manager	All Firms Decisions made by Manager	Group A Firms Decisions made by Board	Group A Firms Decisions made by Board and Manager	Group A Firms Decisions made by Manager	Group B Firms Decisions made by Board	Group B Firms Decisions made by Board and Manager	Group B Firms Decisions made by Manager
		(number)								
	Medium	1	0	4	0	0	2	1	0	2
	Small	0	1	3	0	0	2	0	1	1
Evaluate use of men and equipment	All	0	1	12	0	0	6	0	1	6
	Large	0	0	3	0	0	1	0	0	2
	Medium	0	0	6	0	0	3	0	0	3
	Small	0	1	3	0	0	2	0	1	1

[a]None of the boards stated this decision was made by this decision maker.

[b]Activities in which there was a significant departure from the expected decision maker.

[c]Four of the boards indicated that the stockholders decided on expansion or contraction of the trade area. The stockholders were indicated by one of the large group B firms, two of the medium group A and one of the medium group B firms.

number of boards declared that if anyone made the decision the expected decision-maker as shown in Table III made the decision. On the other hand, there were 12 activities in which there was a significant departure from the expected decision-maker (noted in Table XII).

There are several reasons why there could be a significant departure from the expected decision-maker. The expected decision-maker in Table III should not necessarily be viewed as the absolute final answer. Table III was developed on the basis that day-to-day decisions and all other decisions are delegated by the board except financially important decisions involving major firm changes. Those decisions made by the board and manager include activities that the board should delegate authority for development of proposals but reserve review and approval authority for these proposals. However, the respective abilities of the board and the manager, the time each has available for making decisions and the relative importance of the decision within each firm will influence which person or group will make the decision. Therefore, the 12 activities in which there was a significant departure are only important from the standpoint that they illustrate the degree of delegation of authority in these firms.

Although a significant number of boards indicated that the board and manager approved the type of additional enterprises, the boards have not delegated all authority for this decision. The types of additional enterprises that the firm engages in could substantially change the firm and, therefore, were considered as a board type decision. However, since the board and manager must work as a team, the manager would be consulted in this type of decision and it would be reasonable that both the board and the manager could make the decision on the type of additional enterprises the firm would undertake.

In determining the goals for the share of the grain, merchandise and service markets, the manager should determine the goals subject to a review and approval by the board. Thus, these goals were considered as a decision for both the board and the manager. One firm's board indicated the whole authority for developing goals for the grain market was delegated to the manager and one board did not delegate this authority. All of the boards that gave answers indicated that they delegated all authority for determining the goal for the share of the merchandise and service market. Therefore, more of the boards indicated these decisions were delegated to the manager than expected.

A significant number of the boards, especially among group B firms, indicated that they did not delegate any authority to evaluate the insurance coverage of the firm. It was expected that the board would consult with the manager in evaluating the firm's insurance coverage; which most of the boards indicated they did. However, only one board indicated that they did delegate authority to the manager to evaluate the insurance coverage.

The boards indicated similar responses to evaluating owning or leasing equipment or facilities as they did in evaluating the insurance coverage. More of the boards, especially among group B firms, indicated they did not delegate any authority to evaluate the option of owning or leasing. It was expected that the manager would receive or obtain the information on which to make a decision and then consult with the board before a decision was finalized. In fact, more of the group A firms' boards indicated the decision was made jointly with the manager but among group B firms' boards, more of the boards indicated they made the decision. Almost all of the boards indicated that they did keep the authority for evaluating owning or leasing equipment or facilities even though some did share the authority with the manager.

A significant number of the boards in relation to all boards answering the question indicated that the manager has authority for developing annual financial plans. Since the board has limited time, the manager would develop a proposed financial plan which would be presented to the board for approval. The largest number of boards indicated the board and manager developed the annual financial plan which would support the above statement.

A significant number of the group A firms' boards indicated that they delegate authority to the manager to develop credit guidelines whereas the group B firms' boards did not. Since bad debts can become too large without an appropriate credit guideline which allows competitive flexibility and safeguards for the firm, the board and manager should both develop this policy. In a majority of the firms, the boards indicated the credit guidelines were developed in this manner.

A majority of the boards indicated that the manager determined the amount of advertising and promotion whereas the board was expected to participate in this decision as they fulfill their controlling duties. Most of the boards gave the impression that they did very little advertising and that it was not large enough to worry about. Thus, many of the boards delegated this decision to the manager since it was not large enough for the board to consider. Those boards that delegated the decision for determining the amount of advertising and promotion also delegated the decision on determining the type of advertising and promotion. It was expected that determining the type of advertising and promotion would be delegated to the manager and for most firms this decision was delegated. However, a significant number of boards, primarily group B, indicated the board retained some authority in this area.

A significant number of the boards indicated that they did not delegate authority for setting wages, salaries and giving raises. The board should set the manager's salary and other salaried positions which would include the assistant manager or managers because these positions are management training positions and the salary must be competitive to hold the trainees. The board should delegate the authority for setting other, non-management, wages to the manager. Most of the bylaws of the firms in this study state that the board shall set the manager's salary and render such other help as is necessary to operate the business. Thus, it is assumed that most of the firms' boards interpretated this statement to mean that they set both salaries and wages. The one firm that indicated the manager set salaries and wages had stated in their bylaws that the manager would set the other employees compensation but the board would set the manager's salary.

Some of the boards indicated that both the board and manager decided the prices for merchandise and services. Since competitive conditions can change rapidly, it was expected that the authority for determining prices would be given to the manager. However, the manager may want to discuss the margins for merchandise and services with the board particularly if changes in the margins are considered to be long-range changes.

Another interesting aspect of Table XII concerns those activities in which many of the firms' boards did not indicate a board majority answer on who made the decision implying that the decision probably was not made. However, since the manager always attends the board meeting, it is possible that a particular decision was made but the directors would not agree upon specifically who made the decision. On other decisions, these may be made by the manager and not discussed so that the board would not be aware that the manager performed the activity. For some of the activities, the directors were asked for additional information that would give further insights into whether the decision was made. These will be discussed more fully in the following chapters. Given these qualifications, many of the boards of all firms indicated that decisions were not made on the activities of establishing goals of all types, using goals to evaluate progress, reviewing policies annually, developing annual financial plans and providing an agenda for board meetings. The activities that were probably not performed by group A firms were the same as for all firms but for group B firms, they only indicated the activities of "review policies annually" and "develop annual financial plans" were probably not developed. In addition, there were a larger number of activities that were probably not performed by large size firms than the other size categories.

Additional information is available from the mail management survey on the areas in which the board makes decisions as viewed by the manager. The managers were given choices in which it was expected that the board should be making decisions including: over-all company objectives, over-all company policies, over-all company goals, and long-range and consequential commitment of resources (see Table XIII).

A significant percentage of the managers indicated that the boards of their firms made decisions on over-all company objectives and over-all company policies. Direct comparisons between the mail management survey and the personal interview survey are not possible in these areas because the boards were not specifically asked who made these decisions because it was assumed that boards did establish the objectives and policies of the firm.

When the results from the two surveys are compared, relative to who sets goals in the firm, it was found that many managers indicated the board made these decisions and the boards stated that the board with the manager set the goals for the firm. However, for specific goals, the boards stated the managers made these decisions. Thus, there seems to be some confusion between the board and manager as to who decides on goals. In addition, the manager's responses that the board makes decisions indicates a much larger number of firms that have goals than the boards' responses would indicate. The boards may have not realized that they were deciding upon goals, whereas the managers did, thus explaining the differences.

The relative number of boards and managers in the two surveys who declared that the board made decisions on long-range and consequential commitment of resources were about the same. Forty-three percent of the boards stated they made these decisions and 54 percent of the managers stated the boards made these decisions. For comparison purposes, long-range and consequential commitment of resources would include the activities of approve type of additional enterprises and approve expansion or contraction of trade area in Table XII.

TABLE XIII

MANAGERS' INTERPRETATION OF THE AREAS IN WHICH THE BOARD MAKES DECISIONS FOR A SAMPLE OF OKLAHOMA COOPERATIVE GRAIN MARKETING FIRMS, CLASSIFIED BY FIRM SIZE AND PERFORMANCE GROUP

Decision Area	Firm Size	All Firms	Group A Firms	Group B Firms
		(percent)		
Over-all Company Objectives	All	73.17	74.07	71.43
	Large	85.71	100.00	50.00
	Medium	73.91	73.33	75.00
	Small	63.64	57.14	75.00
Over-all Company Policies	All	85.37	92.59	71.43
	Large	85.71	100.00	50.00
	Medium	91.30	100.00	75.00
	Small	72.73	71.43	75.00
Over-all Company Goals	All	46.34	44.44	50.00
	Large	42.86	40.00	50.00
	Medium	43.48	46.67	37.50
	Small	54.55	42.86	75.00
Long-Range and Consequential Commitment of Resources	All	53.66	62.96	35.71
	Large	85.71	80.00	100.00
	Medium	52.17	66.67	25.00
	Small	36.36	42.86	25.00
Totals[a]	All	258.54	274.06	228.57
	Large	299.99	320.00	250.00
	Medium	260.86	298.10	212.50
	Small	227.28	214.29	250.00

[a]The total is greater than one hundred because some managers indicated more than one decision area.

Summary

The boards of directors in this study indicated that the board and manager work well as a team. All of the boards indicated that their thinking and that of the manager was keeping pace with the agricultural changes in the firm's trading area. The managers assisted and advised the boards and did not ask the board to make day-to-day decisions. Furthermore, the boards indicated that the directors' duties were adequately distinguished from those of the manager and that the boards receive enough information from the manager for proper decisions.

More of the group B firms' boards received and/or used a greater amount of different types of information than did boards of group A firms. This result was especially evident for budgets, where more group B firms' boards received and/or used budgets to evaluate current operations than did group A firms' boards. Very few of the boards indicated that they prepare a complete feasibility study to evaluate additional enterprises, trading area size changes and new ventures. But, many boards did indicate that they obtain or formulate estimates that would constitute a reasonably complete study.

All of the boards are receiving financial information to evaluate the past operation of the firm and indicated they used this information to critically review the methods of operation at each board meeting. Also, the boards indicated that their members demonstrated skill in asking questions regarding operations.

Next, the areas in which someone or group in the firm should make decisions were examined to determine if the expected decision-maker was making the decision and, also, if anyone makes the decision. In two-thirds of the decision areas, a significant number of the boards indicated that the expected decision-maker made the decision. Furthermore, a significant number of the boards indicated that decisions were probably not made on the activities of establishing goals of all types, using goals to evaluate progress, reviewing policies annually, developing annual financial plans and providing an agenda for board meetings. Also, the boards of group A firms and boards of large firms indicated their firms probably performed less decision activities than boards of group B firms and other size firms.

When the managers' answers were compared with the boards' responses on who makes certain decisions, it was found that many managers expect the boards to formulate goals and that the boards expect the managers to formulate goals for specific enterprises in the firm.

CHAPTER V

BASIC OBJECTIVES AND BROAD POLICIES

A major task confronting the board of directors of a cooperative is that of long-run decision-making which primarily involves establishing the firm's objectives, goals and policies. The objectives of the cooperative are statements of purpose which define the mission of the cooperative, whereas goals represent steps in reaching the cooperative's objectives and policies are statements of intent regarding the cooperative's philosophy or beliefs on issues relevant to the functioning of the business.

This chapter analyzes the board's role in these decisions and also discusses the types of objectives, goals and policies formulated by the firms in this study. This analysis is presented under the general headings of maintaining and enforcing corporate papers, basic firm objectives, goals and policies.

Maintaining and Enforcing Corporate Papers

Part of the board's duties are to maintain the corporation's papers which include the articles of incorporation and the bylaws. The articles of incorporation contain a statement of the reason for the firm's being and can be used as the firm's objective. The bylaws on the other hand, contain policies approved by the members of the firm to provide guidelines within which the board and manager function.

The guidelines concern selection of the board, term of office, duties of the board officers, duties of the manager, provisions for retiring stock and broad guidelines for determining allocation of savings.

The corporate papers should be reviewed on a periodic basis to insure that they are compatible with the current operation of the firm. A majority of the boards of directors reviewed the corporate papers annually. More of the group A firms reviewed the articles of incorporation and the bylaws annually than did group B firms, five and four of the seven firms in each group, respectively. Size of firm inversely affected the boards' responses because all the small firms, two-thirds of the medium and one-fourth of the large firms' boards reviewed the corporate papers annually. This finding may indicate that the smaller size firms are able to set aside time to review these papers, whereas larger firms may not.

After these corporate papers are reviewed, steps should be taken to change or amend the papers if modifications are needed due to changes in the general philosophy or business objectives of the firm or because of changes in various laws which affect the operation of the firm. The boards were asked when the last change was made in their corporate papers. Only one-half of the boards in the study could agree as to when the last change was made. For the firms that could agree, the change had been made within the previous three years. However, there was little, if any, difference in the time period since the last change in the articles of incorporation and the bylaws between firms that indicated they reviewed these papers annually and those that did not.

These findings indicate that the firms in this study modify their corporate papers when their philosophy or the laws change and not necessarily on the basis of the board's review. Unfortunately, the bylaws and the articles of incorporation were lumped into one question, thereby individual review of the papers was not specifically determined. However, based upon some of the directors' comments, the boards were mainly answering these questions as they relate to review and modification of their bylaws. Also, some of the directors stated that a representative of the Feed Dealers Association keeps them advised regarding modifications that may be needed in their bylaws and assists them in reviewing their bylaws. This advisory service does not seem to be a regular annual review, but rather a periodic review, or when changes in the laws require changes in the firms' corporate papers.

Basic Firm Objectives

The objective or mission of the firm should be developed to provide direction in establishing goals and plans. All of the firms have objectives or purposes because, as mentioned earlier, the articles of incorporation contain generalized statements that can be used as the objective of the firm if the directors have not developed other more specific objectives. Examples of the generalized statements in the articles of incorporation include: to buy and sell all kinds of grains and other farm products or farm supplies; to prepare for market, manufacture and handle or transport grains and farm supplies; to do a public warehousing business and store grain and other farm products in interstate commerce; purchase, hold or convey real estate and to borrow money; and to finance and aid in the financing of the marketing of the agricultural products of its members and to make advance payments and advances to members. Since these statements are so general, the directors may not have realized that they could serve as objectives. In fact, none of the directors gave any indication that they were aware that the articles of incorporation contained statements that can be used as the firm's objective. Also, this finding supports the earlier suggestion that the boards primarily review the bylaws and not necessarily the articles of incorporation.

Rather than ask if the firm had objectives, the boards were asked what, in their opinion, was the purpose of the firm. From the boards' responses, most of the firms had objectives, because in 13 of the firms, one-half or more of the members of the boards agreed in their opinions on the objective or objectives for the firm. The objectives given were that the firm was to provide service for the farmers, patrons and community. Many boards elaborated on the service objective by stating that the firm's objective was to handle grain at the best return to farmers and farm supplies at lowest cost. Since cooperatives return their savings or profits to the patrons either in cash or as stock, an objective of best return or lowest cost does not necessarily mean that the farmer will receive the highest price for his grain when he sells the grain or pay the lowest price for farm supplies at the time of purchase. The farmer or member of a cooperative will share in the cooperative's profits resulting from his patronage at the end of the year.

In the mail management questionnaire, the firms were asked if the company's over-all objectives were written. Only 37 percent of the firms indicated that they had written objectives which points out again that many managers were not aware that the articles of incorporation contain an objective for the firm. The percentages for group A and group B were 30 and 50 percent, respectively. The relative number of firms having written objectives in the size categories were 71 percent for large firms, 30 percent for medium size firms and 27 percent for small firms. Therefore, size of firms seemed to affect their having written objectives or that the manager is aware of an objective for the firm.

Goals

Goals should be established to measure progress toward the firm's objective. Goals should be developed by the manager then reviewed by the board for changes needed before the board approves them. After these benchmarks or steps are established, the firm should use goals in developing plans to reach the objectives.

The boards of firms that have goals should not only be aware that the goals exist, but should have some knowledge on the specifics of the goal. Only three of the 14 boards gave answers that indicated that their firms had goals and that they were familiar with the goals. These were all group B firms and their goals were set in terms of sales which would include both grain purchased and sold and also sales of farm supplies. These goals were developed for use in the firms' plans, either their five-year or yearly plan.

These three boards also stated their firms had goals for their share of the grain, merchandise and service markets. They determined these goals by projecting their previous purchases and sales into the future and also used an estimate of potential changes. These potential changes would include such considerations as affects of government crop programs, higher yielding varieties of crops, weather estimates that affect both cattle feeding and crop yields, changes in the type or kinds of livestock raised in the community and local farming practices. These three boards also stated that their firms had yearly plans to reach these goals.

The other boards interviewed indicated that their firms did not set goals for their market share; the firm set prices and took what business came their way for both grain and merchandise. However, even though the boards did not state their firms had goals, they did indicate that the manager who generally sets these prices keeps prices competitive to maintain the firm's current market share.

Policies

A set of policies setting the firms' philosophy on issues relevant to the functioning of the business allows a decision-maker to take action that is consistent with the members' or boards' wishes without consulting the members or boards. Since these policies are used as guidelines, they should be carefully written so that the policies specifically and clearly state the limits for the decision-maker and so that the decision-maker can refer back to the written policy to refresh his memory. The members approve policies that provide guidelines for the board and, to a smaller extent, for the manager, whereas the board should develop policies for the manager and lower levels of management.

More than half of the boards, five of the seven in both group A and group B, indicated their firms had written policies. Thus, some of the boards did not realize that the bylaws contain written policies. In addition, half of the ten boards' whose firms had written policies reviewed these policies on an annual basis. Three of the group A and two of the group B firms' boards stated they made this review (see Table XII, Chapter IV). Since the number of answers are different between responses on annually reviewing corporate papers and on an annual review of policies, it must be assumed that most or all boards were not considering their review of the bylaws as a part of a review of written policies.

The policies that should be developed to provide guidelines for the manager include: personnel, marketing, production, engineering, member relations, finances and public relations. The boards were asked questions pertaining to specific guidelines that would be included in these policies. The responses to these questions have been presented in Chapter IV or will be discussed in Chapters VI through IX as they apply to the boards' duties. The general areas in which these guidelines can be classified are presented in Table XIV.

Almost all of the boards, not less than 13 of the 14, gave answers to the specific questions which indicated that their firms had some guidelines for each of the major headings consisting of personnel, marketing, engineering, members or stockholders, finances and public relations. Thus, although some boards indicated they did not have written policies, their answers indicated that they do, in fact, have policy guidelines. Many of the boards gave answers that indicated that they did not have guidelines for training in the personnel area and union relations in the public relations area. Specifically, in the union relations area, union activities have been very limited in these firms; therefore, the boards have not developed guidelines for the manager to deal with unions.

TABLE XIV

AREAS IN WHICH THE BOARD INDICATED THE FIRM HAD POLICY GUIDELINES FOR A SAMPLE OF OKLAHOMA COOPERATIVE GRAIN MARKETING FIRMS CLASSIFIED BY FIRM SIZE AND PERFORMANCE

Policy Area	Firm Size	All Firms	Group A Firms	Group B Firms
		------	(number)	-------
Personnel:				
Selection	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2
Training	All	6	3	3
	Large	2	1	1
	Medium	4	2	2
	Small	0	0	0
Compensation	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2
Promotion	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2
Personnel Safety	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2
Marketing:				
Products to be sold	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2
Customers	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2
Distribution channels	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2

TABLE XIV (Continued)

Policy Area	Firm Size	All Firms	Group A Firms	Group B Firms
		------	(number)	-------
Prices	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2
Sales	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2
Promotion and advertising	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2
<u>Engineering</u>:				
Processes (men and equ ment)	All	13	6	7
	Large	3	1	2
	Medium	6	3	3
	Small	4	2	2
Facilities	All	13	7	6
	Large	4	2	2
	Medium	6	3	3
	Small	3	2	1
<u>Members or Stockholders</u>:				
Savings disposition	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2
Protection of capital	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2
Member relations	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2
<u>Finances</u>:				
Sources of capital	All	14	7	7
	Large	2	2	2
	Medium	6	3	3
	Small	4	2	2

TABLE XIV (Continued)

Policy Area	Firm Size	All Firms	Group A Firms	Group B Firms
		------	(number)	-------
Owning or leasing	All	10	5	5
	Large	2	1	1
	Medium	4	2	2
	Small	4	2	2
Cash and depriciation allowances	All	14	7	7
	Large	4	2	2
	Medium	6	3	3
	Small	4	2	2
Credit	All	12	6	6
	Large	3	2	1
	Medium	5	2	3
	Small	4	2	2
Public Relations:				
Union relations	All	3	1	2
	Large	1	1	0
	Medium	1	0	1
	Small	1	0	1
Community standing	All	13	7	6
	Large	4	2	2
	Medium	6	3	3
	Small	3	2	1

In the mail management survey, a significant percentage of the managers in most size and performance categories indicated their firm had written policies on marketing, finance, employees and members or stockholders (see Table XV). The percentage response ranged from a low of one-fifth of all the firms that had marketing policies to a high of over half of all the firms that had employee policies. The relative response for large firms was higher than for the other size firms in the policy areas of finance, employees and members or stockholders. Also, the totals category in Table XV indicates that more of the large firms have policies than the other size firms.

Direct comparison between the types of written policies in the two surveys is not possible, but a comparison of the percentage of firms with any written policies is possible. The boards were asked if they had written policies, but the managers were asked for specific written policies. So as to make the answers compatible, the percentage of firms with any written policies was obtained for the managers' answers. This latter percentage is not in Table XV, but reflects the relative number of firms in the mail survey that have one or more written policies. The percentages of firms in which the manager and those which the board stated they had written policies were almost the same; being 73 percent (or 10 of 14 firms) in the personal interview survey and 78 percent in the mail survey. These percentages imply that not all the managers nor the boards realize that the bylaws contain written policy statements. The managers of group B firms may have a higher level of realization because 93 percent of them indicated their firms had one or more written policies, whereas only 71 percent of the

TABLE XV

PERCENTAGES OF MANAGERS WHO STATED THEIR FIRMS HAD WRITTEN POLICIES FOR A SAMPLE OF OKLAHOMA COOPERATIVE GRAIN MARKETING FIRMS CLASSIFIED BY FIRM SIZE AND PERFORMANCE

Policy Area	Firm Size	All Firms	Group A Firms	Group B Firms
		------	(percent)	------
Procurement	All	2.44	3.70	0[a]
	Large	14.29	20.00	0
	Medium	0	0	0
	Small	0	0	0
Marketing	All	19.51	14.81	28.57
	Large	14.29	0	50.00
	Medium	17.39	13.33	25.00
	Small	27.27	28.57	25.00
Production	All	7.32	7.41	7.14
	Large	0	0	0
	Medium	8.70	6.67	12.50
	Small	9.09	14.29	0
Finance	All	43.90	44.44	42.86
	Large	71.43	80.00	50.00
	Medium	39.13	40.00	37.50
	Small	36.36	28.57	50.00
Processes and Facilities	All	9.76	3.70	21.43
	Large	14.29	0	50.00
	Medium	13.04	6.67	25.00
	Small	0	0	0
Firm and Community Relations	All	14.63	11.11	21.43
	Large	14.29	0	50.00
	Medium	8.70	13.33	0
	Small	27.27	14.29	50.00
Employees	All	60.98	51.85	78.57
	Large	71.43	80.00	50.00
	Medium	60.87	53.33	75.00
	Small	54.54	28.57	100.00
Members or Stockholders	All	39.02	18.52	78.57
	Large	71.43	60.00	100.00
	Medium	21.74	0	62.50
	Small	54.54	28.57	100.00
Total[b]	All	197.56	155.54	278.57
	Large	271.45	240.00	350.00
	Medium	169.57	133.33	237.50
	Small	209.07	142.86	325.00

[a]None of the managers in this category stated their firms had written policies in this area.

[b]The total is greater than 100 because some managers gave more than one response.

boards so stated. The percentages were nearly the same for group A firms' boards and managers.

Summary

A majority of the boards maintain and enforce their corporate papers by reviewing these papers annually. Also, the smaller sizes of firms' boards seemed to have more time to review these papers. However, less than half of the boards knew when the last change was made in ther articles of incorporation or bylaws.

Most of the boards stated their firms had objectives and these were that the firm would provide service for their patrons and the community. Some of the boards and also managers did not realize that the articles of incorporation contain statements that could be used as objectives. Relatively more of the group B managers than group A stated their firms had written objectives. Also, relatively more of the managers of large firms stated their firms had written objectives.

Most of the boards indicated that their firms did not have goals. For the few boards that did, the over-all goals measured the level of sales and that goals for market shares were based upon the results from previous years modified to reflect future changes.

In general, all the boards had developed policy guidelines for the their firms but not all of these were written. The policies were in the areas of personnel, marketing, engineering, members or stockholders, finances and public relations.

In the next chapter the boards' duties in planning are analyzed by examining the types of plans that the firms develop.

CHAPTER VI

PLANNING

One of the most difficult duties of management is the development and coordination of plans. Plans require an estimate of the future and the changes that will occur in grain production, grain handling and grain utilization. As the plan is projected further ahead, these changes become more difficult to estimate and the possibility of errors becomes larger. In addition, the short and long-term plans must be considered together to insure that short-term plans complement long-term plans. If these plans are not coordinated, a short-term plan can lead the firm in a different direction than specified in the long-term plan.

The planning horizon is not a satisfactory classification scheme to discuss plans for salaries, market share, facilities and services because these plans will span both time periods. Therefore, if the time period classification system was used, these plans would need to be discussed in both time periods. To simplify the discussion, this chapter will discuss planning from the viewpoint of the various plans that the firm might develop. These include salary schedule plans, market share plans, an annual financial plan and plans for facilities and services. After discussing these plans, coordination of plans is discussed.

Salary Schedule Plans

Salary schedule plans which establish wage and salary limits for each type of position are useful to provide guidelines for setting salaries and wages. These plans are especially useful in those instances where the board wants to review and approve only the total amount of salaries and wages paid and not the amount paid to each employee. The board can control the total amount paid by establishing pay ranges for employees and delegating the responsibility to the manager to set salaries in these ranges.

Only three of the boards, one group A and two group B, indicated that their firm had a salary schedule plan. Furthermore, only two of these three boards could describe their salary schedule plans. The medium sized group A firm and small sized group B firm indicated that in their plans raises were based upon the length of time the employee had been employed. The employees must become more productive as they are on the job longer because the group B firm's board also stated that wages and salaries were adjusted to individual performance (see section on Compensation in Chapter VII).

Most of the boards in this study did not use salary schedule plans to delegate responsibility to establish wages and salaries because most did not delegate this responsibility (see Table XII in Chapter IV). Furthermore, most of the boards did not use salary schedule plans to help the board set salaries and wages. In addition, the firms that had such plans did not establish a framework within which the most productive employees would be rewarded if the worker became more productive following a greater length of time on the job.

Market Share Plans

The share of the market attained by the firm becomes important in determining profitable margins and thereby prices. Grain marketing firms have high fixed costs associated with buildings and equipment. Therefore, as the number of units handled increases, the lower these fixed costs per unit become. Thus, if prices are equal to those of competitors, the volume handled becomes the deciding factor in whether the firm realizes a profit from its operations, providing that any firm can realize a profit.

The share of the market attained or expected by the firm and the resulting volume should be part of the basis for determining prices in the short-term context. In a long-term context, the planned market share is helpful in deciding upon the size of facilities to build in a certain location. Since estimates of the market share are useful in the short and long-term, the firms should set goals for their share of the market and formulate plans to achieve these goals.

As discussed in Chapter V, many of the boards stated that market share goals were not developed and plans were not developed for the share of the market. In general, the boards believed that the firms set prices and take whatever business comes their way; however, the manager would probably adjust prices if sufficient business was not generated.

Annual Financial Plan

The firm should develop an annual financial plan to evaluate and control performance and to identify any enterprises in which expected returns are less than expected costs. This plan which specifies sources and uses of capital provides the board and manager with a basis to compare actual costs and returns of the firm and its enterprises with the planned costs and returns. Thus an annual financial plan can be used by the board and manager to control the firm's performance because they can detect small deviations from the expected performance in time to make adjustments before the profitability of the firm is affected. The planning process may identify some enterprises that will not earn a profit with expected costs and returns. For unprofitable enterprises, the board and manager have the opportunity to make a re-evaluation and determine if the profitability of the enterprise can be improved or if not, whether the enterprise should be discontinued.

Most of the group B firms' boards, six of the seven, indicated that their firms had an annual financial plan but only three of the group A firms did. These results would suggest that group B firms are using annual financial plans to try to improve their profitability.

Only three of the nine boards that had an annual financial plan could agree as to who developed the plan (see "Develop annual financial plans" in Table XII, Chapter IV). However, in two additional firms, the boards could agree that a representative from the Bank for Cooperatives did most of the development of the annual financial plan.

The Bank for Cooperatives is even more important in these firms planning activities than indicated above. The boards' answers to questions on whether the firms have and use budgets, plan operations with budgets and long-range finances forecast, and whether the firm prepares an annual financial plan were compared. The only boards that answered these questions the same and knew who developed the plan were those that the Bank for Cooperatives had helped.

Plans for Facilities and Services

Among the long-term plans firms can develop, the firms should develop plans for facilities and services. Although part of the plan will be for the year ahead changes, these plans should be extremely long-term because they may include buildings which can last for as long as 60 years.

To determine the present facility needs, the boards were asked if the present facilities were adequate for the normal business volume. All except one of the boards stated that their firms' facilities were adequate. In addition, most of the firms, 11 of 14, had plans for replacement, expansion and/or improvement of facilities and services. However, only five of these firms knew how far the plans were projected into the future.

The group A firms do not plan as far ahead as do group B firms. Of the two group A firms' boards, that knew the planning horizon, one stated the horizon was less than one year and the other stated the horizon was from one to five years ahead. All of the group B firms' boards indicated their planning horizon for facilities and services ran from five to ten years ahead.

Additional information on the planning horizon was obtained in conjunction with the question on whether the firm had operations planned utilizing a budget and long-range finances forecast (see Table X, Chapter IV). Six boards gave their planning horizon which was from one to ten years. Only the three group B firms' boards above gave the same answer for their planning horizon in both planning operations and plans for facilities and services. This finding casts doubt on the other firms long-range planning.

In the mail management survey, the managers were asked if the firm had a long-range plan for the next five, ten or twenty years. Forty-one percent of the managers had a five year plan while only two percent had a ten year plan and none had twenty year plans (see Table XVI). Also a much larger percentage of large firms had plans than did the other sizes which suggests that the planning may have been a contributing factor in the firms' growth.

Cooperative grain marketing firms that purchase merchandise from the cooperative supplier have available to them a free planning service. This firm will develop a five year plan for their customers. This firm has stated that these plans have been a popular service and many of the cooperatives have had plans developed for them. Although the boards were not specifically asked if they had these plans, three firms did indicate they had used this service.

Coordination of Plans

To proceed smoothly toward their objectives, all firms must carefully coordinate their plans because these plans are to a great extent interrelated. For example, the development of salary schedule plans should be coordinated with the firm's training procedures so that salaries and wages can be adjusted to retain trained people and attract those people for training that will be needed to manage later. Market share goals and plans to attain these goals must be considered with plans for facilities and services so that facilities are used at capacity. These interrelationships exist in both the short and long-range plans and between the two time periods. For example, market share plans in the short-range must be made compatible with present facilities

TABLE XVI

PERCENTAGES OF MANAGERS INDICATING THEIR FIRMS HAD LONG-RUN PLANS FOR FIVE, 10 AND 20 YEARS FOR A SAMPLE OF OKLAHOMA COOPERATIVE GRAIN MARKETING FIRMS, CLASSIFIED BY FIRM SIZE AND PERFORMANCE

Type of Plan	Firm Size	All Firms	Group A Firms	Group B Firms
		------	(percent)	--------
Five year plan	All	41.46	48.15	28.57
	Large	71.43	80.00	50.00
	Medium	34.78	40.00	25.00
	Small	36.36	42.86	25.00
Ten year plan	All	2.44	0	7.14
	Large	14.29	0	50.00
	Medium	0	0	0
	Small	0	0	0
Twenty year plan	All	0	0	0
	Large	0	0	0
	Medium	0	0	0
	Small	0	0	0
Totals	All	43.90	48.15	35.71
	Large	85.72	80.00	100.00
	Medium	34.78	40.00	25.00
	Small	36.36	42.86	25.00

but modifications can be started so that in the longer-range when facilities are expanded, the market share will have grown to fully utilize the expanded facilities.

Coordination of plans only becomes important if the firm develops plans. Summarizing the earlier sections, most of the firms do not develop salary schedule plans or market share plans. Many of the firms had annual financial plans and plans for facilities and services. Some of the budgets and long-range plans seem to be developed by outside firms with the bank developing budgets and the supplier developing long-range plans.

Unfortunately, no data was collected on the coordination of plans but some danger signals are evident. Good planning requires well formulated objectives and goals which many of the firms do not seem to have. When the firms develop their own plans, they can coordinate these plans and also clarify objectives and goals if needed. However, if the firm receives plans from outside firms, these plans will be based upon the outside firms' interpretation of the firm's objectives and goals. The firm may receive a short-range plan based upon an outside firm's interpretation of the firm's objectives and goals and also receive a long-range plan based upon another outside firm's interpretation of the firm's objectives and goals. These plans will be coordinated if the two outside firms' interpretation of the objectives and goals are the same. If the interpretation is not the same and the firm uses these plans without review, the plans may be conflicting thereby retarding the progress of the firm.

Analysis of the boards' responses indicates that the boards should increase the number and types of plans that they develop and keep these plans current through review and continued projections. In the next chapter, the boards' duties pertaining to personnel is discussed.

CHAPTER VII

PERSONNEL

The board of directors' duties related to personnel include selection of the manager and the development of a personnel policy statement. The personnel policy should include statements on selection, training, compensation, promotion and personnel safety.

Selection and Training

The board should develop guidelines related to personnel selection and training in such areas as: the freedom granted the manager in selecting, disciplining and releasing employees; job specifications; training programs; organizational charts; and job descriptions.

Selecting, disciplining and releasing employees is an operating type decision and as such should be the responsibility of the manager. Among the firms in this study, all of the boards of directors agreed that the manager had complete freedom in selecting, disciplining and releasing employees.

Although the manager is given complete freedom in hiring and releasing employees, the board may specify that specifications be developed so that a prospective employee must meet certain requirements before being considered for the job. These requirements might include such qualifications as the applicant will not partake of alcoholic beverages, will have a high school education, will be in good health, and for prospective truck drivers and propane distributors, have certain licenses or be able to obtain such licenses. Four of the seven firms in both performance categories had developed job descriptions.

After a new employee is hired, he must understand and learn to perform his job. To gain information on the amount and type of training that employees receive, the boards were asked if the cooperative has a training program for new employees and to describe the program. None of the firms had an elaborate training procedure. However, some of the boards indicated they used on-the-job instruction in conjunction with schools and short courses available from other firms and institutions to train employees. This type of training was used for both new employees and for employees who are qualified to fill management positions as they occur. Five of the 14 firms had employees in training who are qualified to fill management positions as they occur. More group A firms' boards indicated their firms do this type of training than group B, three as opposed to two, and none of the small firms indicated that they had employees in management training. Thus, size of firm appears to affect management training programs probably because small firms tend to have fewer employees and do not believe they can justify having assistant managers who are receiving training.

Three of the firms that had employees in management training were cooperating with their supplier who has initiated a program to train managers for cooperative grain marketing firms. The supplier hires the potential manager and has him complete the supplier's formal training program. After that, the potential manager is placed with one of the grain marketing firms to receive on-the-job training under an experienced manager. At the end of the training period, the trainee may leave the firm. In one of the firms interviewed however, the firm providing on-the-job training decided that they did not want to lose the trainee and kept him with the firm. Also the managers seemed satisfied with the arrangement and one stated he expected to learn from as well as train the trainee. This program was initiated by the firms' supplier because many firms are not training their own future managers and are forced to recruit their management people from outside the organization. Since only two firms were training management people on their own, this study would support the supplier's contention.

Another aid, especially for new employees, is an organizational chart showing lines of authority and responsibility. This chart shows new employees to whom they report and it forces the manager to define the areas for which each man is responsible; thus preventing overlaps and conflicts. When the boards were asked if they had a written organizational chart, only two stated their firms had them. Although organizational charts should be used by all firms, firms that have many enterprises may find these charts more important than other more specialized firms. The two firms in the study that had these charts did have many enterprises even though one was a small sized firm and the other a medium sized firm.

In the mail management survey, relatively more of the managers indicated their firms had an organizational chart than in the personal interview survey and these managers were concentrated in the large sized firms. The percentage of all firms in the mail survey that had an organizational chart establishing functions, authorities and relationships between organizational units was 49 percent. Relatively more of the group B firms, 64 percent, had organizational charts than group A, 41 percent.

In addition, 86 percent of the large, 30 percent of the medium and 64 percent of the small firms had these charts. These percentages also suggest that size as used in this study may not be the best measure for the need and use of these charts, rather, the complexity of the operation is a more meaningful reason for the preparation of an organizational chart.

Among the firms in both surveys, the board's and manager's answers on the existence of organizational charts were the same in 75 percent of the firms.* This illustrates that the directors are not completely aware of the management tools used by the manager. However, the board may not need to know all the details of the firm's organizational chart but the board should know if an organizational chart exists and whether it is kept up to date because of its importance in maintaining a smoothly operating firm.

Since the organizational chart only shows who reports to whom, it should be supplemented with a detailed job description that specifically states not only authorities and responsibilities but also makes clear the duties of each position. For example, a job description would include the title of the position, to whom the position holder would report, who reports to the position holder, and the duties of the position such as being in charge of the feed department, requiring the maintenance of acceptable inventory levels of feed ingredients, supervising the grinding and mixing of feed, supervising the delivery

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*There were eight firms that were included in both surveys. In six firms, the boards and managers agreed in their answer, they either both said yes or no. However, in two firms, the manager indicated the firm had an organizational chart but the board said the firm did not.

of feed, maintaining the equipment necessary to the operation of the department and assisting customers in the best selection of feed to meet the customers' need. This description not only helps the employee know what is expected of him but is very useful when evaluating employee performance. Slightly more of the boards of group B firms than group A firms stated their firm had job descriptions for each position, three as opposed to two of the seven, respectively. Thus, there seems to be no significant differences in performance groups in relation to the existence of job descriptions. More of the large firms, 50 percent, had job descriptions than medium, 33 percent, and small firms, 25 percent.

The relative number of firms avowed to have job descriptions was smaller in the mail survey than in the personal interview survey. In the mail survey, only 15 percent of the managers declared their firms had job descriptions for all positions and more of the group B, 21 percent, than group A, 12 percent, had job descriptions. However, a much greater percentage of the large size firms, 43 percent, had developed job descriptions than the medium, nine percent, or small firms, nine percent. These findings from both surveys would suggest that smaller firms do not feel that they need job descriptions for all positions whereas large firms do.

As was done for organizational charts, the two surveys can be compared if the boards' answers are compared to the managers' answers on whether job descriptions were developed for all positions. Among the firms in both surveys, 75 percent of the managers' answers were the same as those given by the board and in 25 percent of the answers they were different. This finding again illustrates that the boards are not fully aware of the management tools used by the manager.

Compensation

Compensation for personnel includes wages, salaries and benefits. This section describes the boards' thinking on the following aspects of compensation: keeping salaries and wages equitable, making adjustments in compensation for individual performance and providing benefits in addition to wages and salaries.

Wages and salaries must be equitable if the firm is to attract and hold a competent work force. The boards of all the firms in the study declared that their wages and salaries were equitable compared to similar jobs in the surrounding area. In addition, many of the boards, eight of the 14, stated that they determined whether wages and salaries were equitable by comparing their wages with wages paid at other firms in the area. Six of these firms were in the group A category and two were in group B which suggests that group A firms may be more willing to meet competitive wages to retain or hire competent people. In addition, four other firms, one in group A and three in group B, stated they just paid the government minimum wage which could be the same as other firms are paying but would not be the same if workers were willing to relocate.

Workers will generally perform their work more satisfactorily if they are aware that wages and salaries are adjusted according to individual performance or productivity. Most of the boards indicated that wages and salaries were adjusted to individual performance and thus, those who worked harder and/or find new more efficient ways to perform their jobs get raises or larger raises. All of the group B firms and four of the seven group A firms' boards stated that wages and salaries were so adjusted. These results combined with those on equitability of wages and salaries suggest that group B firms may reward employees on their productivity and not on the basis of competitive offers.

Benefits in addition to wages and salaries, commonly called fringe benefits, are important to many of today's employees. All of the boards indicated that fringe benefits were provided for their employees. Next the boards were asked if these benefits included vacations, insurance, retirement benefits and merchandise discounts. All of the boards stated their firms provided vacations and insurance. The employees were generally provided with a two week vacation and were included under Workman's Compensation which provides coverages for accidents or death on the job. In addition, most of the firms, 10 of 14, provided retirement benefits for their employees under a plan developed by their insurance company or through Social Security. On the other hand, merchandise discounts are not a wide spread practice among the firms interviewed because only three of the firms, all group B, gave such discounts. In addition, some of the boards mentioned that their firms provided uniforms for their employees as an additional benefit.

Promotion

Promotion of personnel includes not only promotion but also appraisal and review of employees' performance and schooling for employees. Thus, the firms should encourage the best performance from their employees to be considered for promotion and help them gain the skills needed for positions with more responsibility.

Firms should consider qualified employees within the organization for promotion before they look outside the firm because this practice provides an incentive for present employees. However, this practice of promoting from within will not bring people with new ideas into the firm and could cause the firm to have a negative attitude regarding the adoption of new methods unless the management people are encouraged to attend meetings or otherwise keep pace with changes in the industry and methods of managing the business. All the boards in this study stated that present employees are considered for promotion before they consider individuals from outside the organization.

Employee performance should be appraised objectively and periodically both to provide a basis for promotion and to encourage the employees to increase their productivity. Productivity should increase if the employees are aware that they will be rated on performance and the supervisors will be encouraged to suggest methods to the workers that will increase the workers' productivity. Almost all of the boards, 13 of the 14, appraised employee performance. In general then, the firms that based wages and salaries on performance stated they appraised performance objectively and periodically.

The firm should encourage employees to attend schools and short courses that will improve their performance and qualify them for promotions. All of the boards encouraged their employees to attend schools and short courses and most, 12 of 14, firms pay the expenses involved.

Personnel Safety

The firm should insure that adequate safety precautions are taken to protect the employees while on the job. One method would be to place the responsibility for safety inspections and making recommendations for improvements on one individual. As indicated in Table XII in Chapter IV, the manager is responsible for safety inspections and making recommendations in a majority of firms. In addition to the managements' inspections, safety inspections are conducted by other firms including the insurance company, state and federal agencies. Thus, adequate precautions are taken to provide a safe place for employees to work.

In addition to reducing accidents through inspections, the firm should consider how they will provide for those who have sustained accidents. All of the firms had insurance to limit their liability for accidents involving employees and the public. Thus, these firms have made provisions for those suffering injury and also have protected the firm's assets and its goodwill.

Summary

In selection and training of personnel, all the boards gave the manager complete freedom in selecting, disciplining and releasing employees and eight of the 14 boards stated that job specifications had been developed. However, none of the firms had elaborate training procedures; but, five of them did have employees in management training. Three of these five firms had not initiated this training on their own but were cooperating in a program developed by their supplier. Only a few of the firms had organizational charts and job descriptions. Size and performance did not seem to be highly related to the existence of these management aids in the personal interview survey but in the mail survey more of the large firms had organizational charts and job descriptions suggesting that larger firms may find these aids more useful than other sized firms.

In the area of compensation, all the boards stated their wages and salaries were equitable and usually this was determined by checking with other firms in the area. All of the group B and four of the group A firms adjusted wages and salaries on the basis of the employees' performance. In addition, most of the firms provided insurance, vacations and retirement benefits for their employees but very few gave merchandise discounts to their employees.

All of the firms indicated that they provide incentives for their employees by promoting from within if qualified people are available and by encouraging employees to attend schools and short courses. Most of the firms paid the expenses for these schools and short courses. Also, most of the firms appraised their employees' performance objectively and periodically.

The survey results establish that adequate precautions are taken to provide a safe place for employees to work and that the firms have made provisions for those suffering injury and also have protected the firms' assets and goodwill. In the following chapter, analysis of the boards' duties is continued and the boards' role as trustees for the members is discussed.

CHAPTER VIII

TRUSTEESHIP

The members of cooperatives and other corporations delegate authority to the board to operate the firm; therefore, the boards are considered as trustees for the members. As trustees, the boards are responsible for supervising the operation of the firm. Since these supervisory obligations encompass all the boards' duties, this chapter analyzes the boards' duties as trustees including their responsibility for approving important financial matters, and safeguarding and approving changes in assets. Since the person or group that makes decisions on important financial matters has been previously discussed, these topics will be dealt with in one brief section. However, decisions relating to safeguarding and approving changes in assets are discussed in the sections entitled: sources of capital, allowances and credit, and protection of capital. Since the boards use financial information to evaluate the firm's performance, sources of capital, allowances, credit and protection of capital, the final section in this chapter discusses financial information received by directors.

Approving Important Financial Matters

The person or group responsible for making decisions on important financial matters which include enterprise additions, changing the trade area, new ventures and owning or leasing equipment and/or facilities was presented in Chapter IV in Table XII. In all of these decision areas, the boards of most firms declared that the board either made the decisions or the board with the manager made the decision. For the category of all firms, the boards stated that decisions were made on enterprise additions to the firm by the board in seven firms and the board with the manager in five firms; decisions were made on changing the size of the trading area by the board in six firms and by the board with the manager in one firm; evaluations were made on new ventures by the board in two firms and the board with the manager in ten firms; and decisions were made on owning or leasing equipment and/or facilities by the board in four firms, the board with the manager in five firms and the manager alone in one firm. Decisions on changing the trade area which might involve a merger with another cooperative or the building of another facility were taken to the stockholders in four of the firms in this study. Thus, even though about half of the boards stated that they made decisions on changing the trading area, the stockholders were consulted in a significant number of the firms. Therefore, the boards in this study are fulfilling their duties in evaluating important financial matters or are consulting the stockholders for larger decisions.

Sources of Capital

Cooperative grain marketing firms in general use two methods of obtaining capital; i.e., internal financing through retained earnings and external financing through borrowing or sale of stock. Retained earnings are that portion of the firm's profit that is not distributed to owners. In cooperatives, the profit or net earnings of the firm are called savings. The cooperative must pay out 20 percent of their savings in cash to maintain their cooperative status and this can reduce their federal tax. That portion of the savings distributed to the member-patrons is allocated on the basis of the business they transacted with the cooperative.

Most of the boards, 12 of the 14, declared that they decided upon the allocation of profits. The boards were then asked what was considered in the profit allocation decision. Twelve of the 14 boards indicated that the financial condition of the firm was the primary consideration. The financial condition included the availability of profits, and the short-term and long-term financial needs of the company which includes stock retirement, and remodeling or building program planned. These results indicate that the boards are considering the welfare of the total firm in deciding upon the allocation of profits as they should.

Another factor that would effect the allocation of profit is whether the firm uses internal financing only to finance capital spending programs. Less than half of the boards, six of 14, stated their firms rely at least partially on internal financing. These boards were consistent in this respect because they consider financial needs in allocating profits. More of the group A firms, four of seven, stated they relied on internal financing than did group B firms, two of the seven. These results suggest that more of the group A firms have savings that can be utilized for internal financing than do group B firms which would be expected since group A firms are considered as the more profitable firms.

The available funds of the firms also became the most important difference when the firms stated their position on retiring member equities. The bylaws of these firms state that the firm will retire member equities when the owners of the equities, cease to be members of the cooperative. All of the group A firms' boards indicated that they generally retire member equities when the equities become eligible for retirement. However, six of the seven group B firms stated they did not have funds available to retire these equities. Only one of the group B firms indicated they were retiring member equities on a regular basis.

The directors in this study indicated that they take a short-run outlook regarding retirement of member equities. Only one director stated his cooperative had started a small sinking fund for stock retirement and another indicated that when they have excess funds they reduced the amount of stock. The boards should plan ahead by making estimates of the amount of stock that will become eligible for retirement. If many of the stockholders should retire at the same or nearly the same time, the firm may not have funds available to retire this stock. Thus, the boards should make provisions for stock retirement that will maintain adequate capital funds and not be faced with the possibility of dissolving the corporation to retire stock.

Allowances and Credit

In many cases, suppliers will offer discounts if accounts are paid within ten days or other time periods. In such cases, the buyer can realize savings by keeping his bills current even when he must borrow from other sources. All of the grain marketing firms in this study utilize any cash discounts offered by their suppliers. Thus, these boards intend to realize savings that will benefit the firm and therefore the members.

The decisions related to credit at the board level of management are primarily concerned with who should be responsible for credit guidelines and evaluation of the accounts receivable. The board and manager should develop guidelines within which the firm will extend credit to its customers. For many farm inputs, the availability of credit has become an important method of increasing sales; but some firms in their attempts to expand sales have not used adequate guidelines to determine to whom they extend credit. As a result, these firms have increased sales but their accounts receivable and bad debts have also increased.

Fertilizer sales will serve to illustrate some of the problems that can be encountered in developing credit guidelines. Many new firms have entered the fertilizer business and, to gain customers, some firms have been willing to allow the farmers to obtain the fertilizer in the fall or winter and then pay their bills at harvest with no interest charged. If the cooperative is to maintain its competitive position, it must follow similar practices. However, if the cooperative is to treat all members the same, it should extend credit to all of them in which case it will be risking bad debts. If the cooperative does not treat all members the same, it is forcing those who pay cash to subsidize those who do not by reducing their patronage refund. The reverse of this subsidy arrangement would occur if it granted everyone credit and some did not pay their bills because those that did pay would be subsidizing those who did not. For these reasons, the board should be consulted in developing the guidelines to protect the members' interests.

As indicated in Chapter IV, Table XII, all the group B firms indicated someone developed credit guidelines; usually the board with the manager. However, less than half of the group A boards stated the exact person or group that established credit guidelines; usually this was the manager. The other group A boards did indicate that credit guidelines were developed but they could not agree as to who specifically developed them. Thus, all the firms have some guidelines for credit extension to control accounts receivable and bad debts.

The board and manager should evaluate accounts receivable both to maintain the firm's working capital and to be aware of changes that may be needed in the credit guidelines. In most firms, the boards declared that the board and manager evaluate the accounts receivable.

Protection of Capital

The boards are expected to take normal business risks in managing the cooperative. However, they should take steps to protect the capital invested by the member-patrons. These steps include reviewing the firm's insurance coverage, capital funds and financial condition.

As shown in Table XII, the board and manager evaluated the insurance coverage in half of the firms, the board in four firms and the manager in one. Therefore, most of the boards have been involved in reviewing the insurance coverage to fulfill their duties in protecting the members' capital.

To fulfill their role as trustees, the directors should be knowledgeable on the firm's capital and financial condition. Nine of the 14 boards stated that their firm's capital funds were adequate. However more than half, five of the seven, group B firms declared that capital funds were not adequate to undertake all the spending the board might want to do. On the other hand, almost all of the boards declared that their financial condition was sound. Thus, all the firms had enough working capital to continue operations but many of the group B firms lacked additional capital funds; for example, funds to retire member equities. These boards all reviewed the financial condition at each board meeting which was monthly for all but one of the boards which met quarterly. Thus, these boards are keeping informed on the financial affairs of the firm.

Financial Information

As stated in Chapter IV, almost all of the boards receive balance sheets and income statements. These statements are presented in the board meeting and used to evaluate the financial condition and in many cases, to critically review the operations. The balance sheet consists of the assets, liabilities and net worth of a firm and shows the financial condition of the business firm at a "given date."[1] On the other hand, the income statement shows the change in retained earnings in the balance sheet. It states the sources of income, describes the nature of expenses and shows the net profit or net loss of the enterprise for the period covered in the statement.[2]

A majority of the firms, 10 of the 14, indicated that comparative statements, that is balance sheets and income statements for the current period, for the immediate past period and/or for one year ago, were not presented to the board. Financial statements without comparisons are of limited value because the directors cannot determine how the firm's financial condition has changed over time. Only in the instances where the directors have and bring to the meeting their previous financial statements can they compare the statements unless they are provided with comparisons. These comparisons should be in percentage changes so the directors can see the changes clearly.

Percentages are also a convenient way to critically analyze the income statement. If the items on the statement are presented as a percentage of net sales, the directors and the manager can quickly spot items that are out of line. The directors can then ask for explanations and the manager can take steps to improve the performance of the firm. During some of the interviews, directors produced the manager's report. In no case were percentages included to help in the analysis of these statements.

Another tool to help analyze financial statements are financial ratios. If these ratios are computed over time, they give indication of trends which the firm may wish to take steps to change. Most of the boards were given margins or percentage markups on the various goods but were not presented other ratios designed to portray the condition of the firms liquidity, profitability or solvency.

In conclusion, the boards are receiving financial information and are receiving the information that they think the manager should present, in most cases. However, the boards' responses indicate that their financial analysis could be improved and accomplished more efficiently if they received comparative statements and financial ratios for liquidity, profitability, and solvency presented in graphic form both over time for their firm and also the industry ratios if these are available.

Summary

As trustees, the boards should fulfill certain duties which include evaluating important financial matters and safeguarding and approving assets. The boards are fulfilling their duties in evaluating important financial matters including enterprise additions, changing the trade area, new ventures and owning or leasing equipment and/or facilities or the boards are consulting the stockholders for larger decisions.

Part of the boards' duties in safeguarding and approving assets include decisions relating to sources of capital. Most of the boards decided upon the allocation of savings between the firm and the members based on the financial needs of the company and whether they earned any savings. More boards of group A firms stated they relied, at least in part, on internal financing than did group B firms. Group A firms were retiring member equities but generally group B firms were not. The responses given regarding the boards' philosophy on both internal financing and retirement of equities can be explained by noting that many of the group B firms did not have extra capital funds after meeting operational expenses. Most of the firms did not indicate that they were anticipating future stock retirement; thus suggesting that in this respect the directors were not adequately safeguarding the assets.

Another part of the boards' duties in safeguarding and approving assets includes decisions relating to allowances and credit. The boards stated their firms intended to take advantage of cash discounts offered by suppliers that will benefit the firm and therefore the members. The boards also indicated that they and the manager generally develop guidelines for extending credit and evaluating accounts receivable.

The last part of the boards' duties in safeguarding and approving assets includes methods of protecting capital invested by member-patrons. Most of the boards are involved in reviewing the insurance coverage to fulfill their role in protecting the members' capital. The boards of all the firms are keeping informed on the financial affairs of the firms.

In addition, the boards are receiving financial information and are receiving the information that they think the manager should present, in most cases. However, the boards' financial analysis could be improved by receiving comparative statements and financial ratios.

The next chapter concludes the discussion of the boards' duties with an analysis of the boards activities in harmonizing diverse interests of stockholders, communicating with members and perpetuating a sound board.

FOOTNOTES

[1] Richard W. Schermerhorn, _Financial Statement Analysis for Agricultural Marketing Firms_, University of Maryland, Agricultural Economics Information Series No. 24 (College Park, 1964), p. 3.

[2] Ibid., p. 8.

CHAPTER IX

MEMBERS' INTERESTS AND A SOUND BOARD

The various aspects of board management activities that can be included in the director's duties of harmonizing diverse interests of stockholders, communicating with members and perpetuating a sound board are discussed in this chapter.

Harmonizing Diverse Interests of Stockholders

The boards of cooperative grain marketing firms must make decisions that will harmonize the members' interest in their own businesses and their interests in the firm. Decisions that will harmonize interests generally include the types of enterprises operated by the firm and the types of grains the firm will merchandise. For example, a few of the firm's members may have dairy farms or operate feed lots which feed beef cattle. Such members would prefer that the firm operate a feed grinding and mixing enterprise to supply them the exact kinds of feed they need whereas the other members may have beef cow herds in which case they would buy mainly supplement feeds that do not require a grinding and mixing enterprise. Similarly, some members may grow different types of crops or may be experimenting with other crops although wheat is the principle crop grown in the section of Oklahoma considered in this study. The cooperative grain marketing firms can be faced with the problem of whether they will merchandise the other grain crops and crops that farmers are trying in their trade area. Usually the cooperative grain marketing firm cannot add all the enterprises that all their members would want; therefore, the board must use some criteria to choose enterprises that will benefit the members' farming operations and also benefit the members' interests in the firm. At least half of the boards in both performance groups indicated they considered need, benefits and service to community; volume of sales; and financial information consisting of expected costs and returns before they selected an additional enterprise (see Table X, Chapter IV). Thus, the boards in this study selected additional enterprises that will serve the members, thereby harmonizing the members' interests in their own business, and yet will financially benefit the firm which will harmonize the members' interests in the success of the firm.

In general, the firms in this study are providing grain marketing services and as such they plan on providing a market for the grains grown by their members with some minor qualifications. All of the boards declared that their firms tried to provide a market for whatever was grown by their members with some minor qualifications. All of the boards declared that their firms tried to provide a market for whatever was grown in their trading area. However, seven of the firms, primarily group A, qualified this criteria that their firm will handle any grain, grown in volume, that they are equipped to handle and/or that the manager has a market for. The equipment aspect becomes important for example, in handling soybeans because the standard wheat handling equipment will split the beans thus reducing their price. The boards' responses suggest that if enough of the crop were grown to make it economically feasible to do so, the firm would not only provide a market but would install the equipment to handle the crop if specialized equipment is needed.

Member and Public Relations

The firm should keep the members informed on the activities of the firm to maintain member relations and must be concerned with its public relations to be a "good neighbor and an asset to the community." This not only encourages people to patronize the firm but also helps the firm attract employees.

Since the patrons are also the owners of a cooperative, the cooperative must maintain a close understanding between the members' interests and that of the firm. This understanding is accomplished by keeping the members informed on the operations of the firm which all of the boards stated that they did. Most of the firms utilized the annual meeting to inform the members. Some of the group A firms used additional means of informing members. For example, one firm utilized a newsletter, one sent notices of things that the members should know and one stated that members were informed by word of mouth.

Unfortunately, no information was obtained on what specific types of information were used to inform the members on the operation of the firm. Thus, the members may receive the annual audit of the firm which would inform them on the operation of the firm but not inform them on the firm's competitive situation. To understand the prices that their firm can pay for grains and prices the firm must receive for merchandise, the members must understand the limits within which their firm can set prices. For example, if the members understand that the firm can only sell its grain at the terminal price less transportation and that the firm must receive a certain margin to pay its expenses, the members may not be satisfied with the price they receive but realize that their firm is not to blame for the low prices. Therefore, when the members are informed, they should be made to realize the firm's competitive situation to promote harmonious relations with the members.

In this study, the firm's public relations includes union relations and community relations. Union relations at the board level of management would consist of formulating the firm's attitude toward unions and collective bargaining. Most of the boards indicated that they had not discussed the firm's attitude toward unions because unions have not been active in these firms. Therefore, the boards generally have not developed a policy toward unions and collective bargaining.

To be a "good neighbor," the firm should engage in some community relations activities which includes youth activities, primarily 4-H Clubs and Future Farmers of America, and community improvement projects. A majority of the boards stated that their firms sponsored local youth activities, 10 of the 14; participated in local fund raising drives, 12 of the 14; and encouraged management to become involved in local government and/or local civic organizations, seven of the 14. There were no significant differences between the size and performance groups responses for sponsoring youth activities and participation in local fund raising drives. None of the small firms encouraged their management people to become involved in local government and/or local civic organizations probably because in these firms the managers also serve as part of the labor force and might not have time for extra activities.

Further information on the firms' community relations activities are available from the mail management survey. In 41 percent of the firms, the managers indicated that key persons in the community affected by operations were kept informed. The informing was done by newsletters or letters, personal contact and news media. In addition, 83 percent of the managers indicated that their firms cooperated with other cooperative agencies in keeping the general public adequately informed regarding the objectives and benefits of cooperatives.

Perpetuating a Sound Board

The board's duties in perpetuating a sound board is discussed under the sub-headings of members of the board and board meetings. The section on members of the boards includes those activities that help elect competent board members and prepare them to function on the board. Board meetings includes a discussion of the activities that will help the board utilize their meetings most effectively and efficiently.

Members of the Board

The present boards may be somewhat restricted in the action that they can take to insure election of competent board members because the bylaws state the qualifications for directors. However, the present board can propose changes in the bylaws if these are necessary and they can directly influence the training and orientation received by new directors.

The minimum qualifications to be a director of the cooperative are given in the bylaws of the firm. The bylaws of all the firms in the study stated that the director had to be a member of the association and also, in all but one of the firms, the directors could not be associated with a competitive business. In general, to be a member of the cooperative, the person needed to produce agricultural products which were handled by the cooperative and he needed to own land, reside or farm in the trading territory. The boards of all the firms interviewed gave the same qualifications to be a director as those stated in the bylaws of the firms.

These qualifications imply that these cooperatives have no professional directors nor the so called "inside directors." An "inside director" is a member of the firm's management who is also a director. In addition, the stockholders requirement will prohibit electing directors that have a special skill or knowledge area, as law or finance, unless these people are stockholders of the cooperative.

Cooperatives may have additional director eligibility requirements pertaining to the directors' place of residence. In an attempt to gain representation for all the members, the firm may divide the trading area into geographic areas or districts and elect a board member from each district. Most of the boards, 10 of the 14, indicated that the directors are elected from specific areas or districts. Only the small sized group B firms indicated that specific area selection was not used for any of these firms. Those firms that did not select from specific areas selected their directors from the entire membership. Thus, most firms insure board representation from all sections of the trading area.

The use of a nominating committee helps organize the board election in the annual meeting by proposing individuals who are willing and eligible to serve on the board. Six of the 14 boards stated their firm did use a nominating committee, however, none of the large firms indicated they used nominating committees. Thus, the use of nominating committees to help organize board elections are not used by a majority of the firms.

In order that more members have an opportunity to serve on the board, some cooperatives limit the number of years or terms that a director can serve. Such limitations can force older members off the board to be replaced by someone who may be more productive but it can also force a very productive experienced member off the board. Only two cooperatives, both group A firms, in this study had limits on the number of terms that a director could serve concurrently. Thus, problems associated with directors serving too long were not indicated by most of these firms' boards.

After members are selected to serve on the board, new members need training and orientation to acquaint them with their new job. Some cooperatives may train potential board members by establishing a junior board. This board consists of members that attend board meetings to become acquainted with the functioning of the board but have no voting rights. Only two firm's boards indicated they had junior boards but one was terminated for economy reasons and the other indicated attendance was poor.

In general, new board members were orientated by attending board meetings and learning as they served. The more experienced members and the manager helped orientate the new members in all the firms in the study. In two group A firms, the boards indicated that new members received printed materials which would help orientate new members. Thus, most of the firms in this study indicated that new board members were trained and oriented by the old board members and the manager during the board meetings.

Board Meetings

The board members have other full time occupations and, therefore, have limited time that they can spend in board meetings. Thus, the boards should use all methods available to utilize their meeting efficiently and effectively.

The board members were asked about the length of board meetings and how many board meetings they had per year. Since not all of the boards have the same number of meetings per year, the length of time spent in board meetings would not be comparable. To make the time spent in meetings comparable, the time spent was multiplied by the number of meetings and averaged for the board response. These figures may be upward biased because the longest length of the board meeting was used if a range was given.

In general, the group B firms' boards spent more time per year in meetings than did group A firms. The length of time spent in board meetings ranged from 22.5 hours upward to 65.5 hours for all firms. Among group A firms, the time spent in board meetings ranged from 22.5 hours upward to 47.8 hours; but for group B firms the range was from 34.18 hours upward to 65.5 hours. The group B firms' boards probably spent more time because they tended to review more types of information than did group A (see Chapter IV).

Most of the boards meet monthly to discuss the board's business. In the personal interview survey all of the firms but one held monthly meetings; the one that did not held quarterly meetings. Similarly, in the mail survey, 93 percent of the managers indicated they reported monthly to the board.

In order to utilize their meetings most effectively, substantial progress should be attained in all meetings. Most of the boards indicated that substantial progress was accomplished in all board meetings, but two of the group B firms' boards indicated it was not. Individuals who indicated substantial progress was not attained, 22 percent of all directors, were asked why not. Their answers included the following: lack of information, seven percent; additional time needed to consider information, four percent; did not concentrate on board business, four percent; or had differing viewpoints, seven percent. The statements on lack of information and not considering board business indicate the need for planning and organization of the meeting. Generally, all the information that is wanted is not available. Many times, however, more informed decisions can be made if more time is taken to secure more information. If more information were given to directors prior to the meeting, the directors should have the time needed to evaluate the information. The last comment, that the directors had differing viewpoints, is probably good provided it does not go to extremes. Differing viewpoints should lead to discussion which brings out all the issues; therefore, leading to more informed decisions. However, after the board reaches a decision, the board member should then respect and be ready to defend the board's decision. All of the boards agreed that they did respect and defend board decisions even though some directors may have voted differently.

Most writers suggest that board meetings would proceed more smoothly and accomplish more if the board members are informed on the content of the meetings in advance. Only one firm's board stated they regularly received an agenda for the board meeting. However, five additional boards indicated that they were informed if there were special things to consider in addition to the routine business. The only size and performance grouping in which the boards were not informed was the small group A category. Also in all cases the boards were informed by the manager (see Table XII, Chapter IV).

The purpose of an agenda for the board meeting is to give the directors time to consider the topics of business before the meeting. All of the boards who were informed indicated that they were notified less than a week before the meeting.* The responses ranged from one day to a week. The form of the notification was written, verbal or both; with written notification being the most common. Thus, the directors in the firms that were informed in advance should have adequate time to think about the topics to be discussed in the board meeting.

The boards of farmer cooperatives usually serve on the board for motives other than monetary considerations. All of the boards in the study were paid for their services, but the pay usually just covered expenses. The median amount of per diem paid the boards was seven and one-half dollars and ranged from three to 15 dollars. The median amount paid per meeting was lower, six dollars, for group A boards than group

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*The bylaws of these firms spell out the duties of the board officers and other details. The bylaws were checked to see if the notice for the regular board meeting must be made by any certain time. In all the cases except one, the bylaws stated that the board was to have regular monthly meetings but gave no other details. In the one that did give details on notices for board meetings, the bylaws stated: "Notice of all regular and special meetings of the directors or executive committee shall be mailed to each Director at least three (3) days prior to the day of the meeting or given in person or by telephone or telegraph at least 24 hours prior to the time of such meeting; provided that notice of any meeting may be waived in writing by all of the members of the Board or Executive Committee."

B boards, eight dollars. For the boards that were paid mileage, the most often mentioned amount was eight cents per mile.

Even though their pay just covers expenses, 89 percent of all the directors attend all the board meetings. However, relatively more of the group B directors, 93 percent, attend all board meetings than group A directors, 85 percent.

Summary

The boards in this study indicated they select additional enterprises that will serve the members thereby harmonizing members' interests and yet must financially benefit the firm. These firms are providing grain marketing services, and as such, they plan on providing a market for the grains grown by their members unless they do not have special equipment needed or do not have a market. In general, the members are kept informed on their business usually at the annual meeting. Most of the firms have not developed a policy for unions and collective bargaining. The firms in this study sponsor youth activities and contribute to local fund raising drives to maintain community relations.

The firms studied indicated a sound board was perpetuated by following the bylaws' eligibility requirements for directors and orientating new directors. The eligibility qualifications for directors imply that these cooperatives have no professional directors nor "inside directors." Most of the boards indicated that directors were elected from specific districts which would give members more representation on the board. A majority of the boards indicated that nominating committees for directors were not used. Also most of the boards indicated there were no limits on the number of terms the directors could serve.

Usually, new board members were orientated by attending board meetings and learning as they serve.

In general, the boards indicated that progress was made in the board meetings, the directors defended the decisions made and the directors usually attend the board meetings. The boards of group B firms tended to spend more time in board meetings per year than did group A firms. Finally, most of the boards indicated that they were not provided with an agenda for the board meetings, although more group B firms' boards received an agenda than group A firms' boards.

CHAPTER X

SUMMARY AND CONCLUSIONS

This study was directed toward finding ways to improve the use of management functions by the board of directors of cooperative grain marketing firms so that they could more effectively manage the cooperative. To obtain a basis for recommendations, a mail survey completed by managers and a personal interview survey for directors were used to obtain information for analysis on the types of decisions formulated with regard to basic objectives, broad policies, firm planning, decision making, personnel, finances, member relations, board training and board meetings.

The mail survey included 70 managers that had provided financial information and returns were obtained from 41 of the firms. In the personal interview survey, 14 firms were selected on the basis of size determined by gross operating income and their return on investment in the local cooperative. The firms were classified according to return on investment as group A (above average) and group B (below average) and further subclassified within groups as large, medium and small. Completed questionnaires were obtained from 73 directors and their responses, grouped into board answers, were analyzed for differences between firm performance and size.

The first sections of this Chapter will review the major findings under the above analysis and the last section will suggest methods to improve the management processes of the directors. The summary sections correspond to the analysis Chapters of III through IX.

Characteristics of Board Members and Interpretation of the Directors Job

The typical director suveyed for this study was a farmer who is 52 years old and operates a wheat and livestock farm consisting of 880 acres. He has served on the board for four years and has held one board office. The typical director has a high school education and has attended some of the director training meetings. He is also active in community activities and actively engages in two community activities.

Between the two firm performance categories, the group A directors may have more time to devote to their duties because they tended to have smaller farms and they have had more years on the board to become familiar with their duties. In addition, they tended to be slightly younger than group B directors and a larger percentage of group A directors had attended schools and short courses for directors.

In the interpretation of their job, all the directors consider analyzing financial matters as an important part of their duties. More than half of the directors of medium and large sized group A firms considered harmonizing interests and perpetuating a sound board as part of their duties but group B directors revealed less concern for this duty. Establishing objectives and policies was only considered to be an important part of director duties by the large size group A firms.

In addition to their duties, the directors should know their responsibilities. Only the responsibilities to act in good faith and with reasonable care and to represent a trusteeship can be considered important to the directors in terms of percentage responses and there were no significant findings in terms of performance or size groupings. In addition to these responsibilities, the directors of large group B and small group A firms indicated the responsibility to direct and attend board meetings was important.

The directors must receive or acquire the knowledge to perform their duties and responsibilities. Less than half of all the directors thought they had received or acquired adequate knowledge and less group A directors than group B thought they had adequate knowledge. The directors indicated that they had to serve three terms in office before they had adequate knowledge of performing their duties and responsibilities. The analysis indicated that directors of small firms felt that they needed less time to acquire adequate knowledge. It was found that for all directors that attended training schools, more of them felt they did not have an adequate knowledge of performing duties and responsibilities than those that did; except among directors of large firms where there was no effect. Thus the primary result from attending schools and short courses was to make directors realize their role is larger than they had thought. It is concluded then, that schools and short courses for directors do have some value and directors should try to attend these meetings.

Decision-Making and Decision Areas

All of the boards in this study indicated that both the board and the manager are trying to anticipate changes in agriculture that should be considered in their decision-making activities. The boards also indicated that the board and manager work well as a team. The boards indicated they were advised by the manager on their duties and the manager did not ask the board for day-to-day decisions. The boards indicated that problems associated with unclear definitions of duties did not occur. Also the boards indicated that the manager provided them with adequate information on which to make decisions.

Analysis of the number of types of information received and/or used to evaluate various decisions indicated that more boards of group B firms are receiving and using more types of information to make decisions than group A firms' boards. More boards of group B firms indicated they received more types of budgets than did boards of group A firms. Less than half of the group A firms' boards received budgets estimating the expected performance of the current enterprise operations of the firm. Very few of the boards indicated that they prepare completely a feasibility study but many of the estimates used in such a study were developed by more than half of all firms for evaluating additional enterprises. These estimates were used by more than half of the group B firms to evaluate trading area size changes and for group A firms to evaluate new ventures. All the boards are receiving financial information on the performance of the firm, which is the type of information they stated they wanted from the manager.

The boards' responses as to who actually made various decisions were compared to the expected decision-maker. In two-thirds of the decision activities, there were no significant departures from the expected decision-maker. Next, the decision areas were analyzed on the basis of whether anyone made the decision. More boards of the firms belonging to group B indicated that someone performed these decision activities than did boards of firms belonging to group A. Among the size groups, the large and small group B firms and the medium group A firms' boards indicated someone performed more of these activities than the other size-performance groups.

In the mail management survey, a significant percentage of the managers indicated that the boards made decisions on over-all company objectives, over-all company policies, over-all company goals, long-range and consequential commitment of resources and control of the over-all performance. Analysis of the results from both surveys indicates that goals are not generally formulated and that the board and manager each expect the other to make decisions on goals.

Basic Objectives and Broad Policies

Since the corporate papers contain objectives and policies, these papers should be reviewed to insure that they are compatible with the current operation of the firm. Although a majority of all firms reviewed these papers annually, more of the group A firms reviewed these papers than did group B. Also as the size of the firm increased, the relative number of firms in both performance categories that reviewed these papers annually decreased. Analysis of the time since the last change in these papers indicated that these firms change their corporate papers when they need changing and not on the basis of the board's review.

The boards' responses indicated that most of the firms had objectives. The boards gave service to members as the objective of the firm and some boards elaborated by stating that the firm should give the farmers the best return for grain and least cost for merchandise and services. In the mail management questionnaire, most of the managers indicated their firm did not have written objectives, indicating the managers were not aware that the articles of incorporation contain an objective for the firm. The relative number of managers indicating their firms had written objectives declined as firm size declined and the relative number of firms with written objectives was larger for group B firms.

A majority of the firms in the personal interview survey indicated they did not establish goals. There were three firms that had goals and used these in determining the share of the grain, merchandise and service market they would plan on securing.

In the personal interview survey, more than half of the boards indicated that they had written policies. All of these firms' boards gave responses to specific questions that indicated they had policies on personnel, marketing, engineering, members or stockholders, finances and public relations. A significant percentage of the managers indicated they had written policies on marketing, finance, employees and members or stockholders. The response for large firms was larger than for the other size firms. The percentage of all firms stating they had written policies was nearly the same for both surveys.

Planning

All the board members in this study were operating their own businesses in addition to serving on the boards of the cooperative grain marketing firms. Therefore, they do not have adequate time to spend developing elaborate plans for the cooperative. Since plans are important, the boards need to delegate authority for planning to the manager and reserve the right to approve or disapprove the final version of the plans.

In this study, the directors were asked if they had an annual financial plan, salary schedule plan, market share plan, and plans for facilities and services. Almost all of the firms' boards stated that market share plans for grain and/or merchandise and services were not developed. Most of the firms' boards indicated their firm did not develop salary schedule plans. A majority of the firms' boards declared that their firm had made plans for replacement, expansion or improvement of facilities and services. However, for the firms that said they had plans, in only four cases could the directors agree on the length of the plans. This development suggests that most of the firms really do not have well thought out plans for replacement, expansion or improvement of facilities and services. Three of the four firms that could agree on the length of the plan were in the group B category and the plans ran from five to ten years ahead.

A majority of the firms stated they had an annual financial plan when specifically asked, but only three of the 14 firms answered the four questions in the same way relating to budgets or an annual projected financial plan and knew who developed the financial plan. These were all group B firms that indicated that the Bank for Cooperatives had helped them in the preparation of the plan. Only one of these firms also had a longer range plan for facilities and services.

Thus in some cases, the firms do not seem to have well thought out plans either in the short or longer run. The planning that they do is more of an immediate nature because a few of the directors indicated that they do things as they come up regarding facilities and services. This is also substantiated by a lack of goals for the firms.

Some firms have the important task of coordinating plans that are developed for them by other firms because these outside firms may not have the same interpretation of the firm's objectives and goals. Firms that have both five year plans and annual financial plans developed for them must coordinate these plans if the firm is to progress smoothly toward its objectives. This coordination may entail substantial revisions in the plans to achieve smooth progress.

Personnel

The board of directors' duties related to personnel include selection of the manager and development of a personnel policy statement. This statement should include statements on selection, training, compensation, promotion and personnel safety.

All of the boards indicated that the manager had complete freedom in selecting, disciplining and releasing employees. However, a majority of the firms' boards stated that job specifications describing qualifications needed to secure employment had been developed. None of the firms indicated they had an elaborate training procedure for their employees. More of group A firms had employees in training who are qualified to fill management positions than did group B firms and none of the small firms had this type of training.

Only two of the boards indicated their firms had a written organizational chart. However, almost half of the managers indicated their firms had written organizational charts. This illustrates that the directors are not fully aware of the management tools used by the manager. A similar situation occurred in regard to job descriptions. Thirty-six percent of the boards and only 15 percent of the managers indicated they had job descriptions.

A personnel policy should also include some statements on compensation. All of the firms' boards in this study indicated that wages and salaries were equitable compared to similar jobs in the surrounding area. Usually this was determined by comparing wages paid at other firms in the area. More of the group A firms' boards than group B firms' boards used this method of comparison. In addition, more of the group B firms' boards than group A firms' boards indicated wages and salaries were adjusted to individual performance. Next, most of the firms' boards indicated they provided benefits in addition to wages for workers which included vacations, accident insurance and retirement benefits. Providing merchandise discounts is not a widespread practice among the firms interviewed.

A complete personnel policy would also include the boards' thinking on promotion, appraisal and review of employees performance and schooling for employees. All of the boards indicated that they consider present employees for promotion before they consider individuals from outside the organization. Almost all of the firms indicated they appraised employee performance. Also, all of the boards indicated that their employees were encouraged to attend schools and short courses.

The boards indicated that adequate precautions are taken to provide a safe place for employees to work. They also indicated that they provided accident insurance, thus protecting the firms assets and its goodwill.

Trusteeship

In their role as trustees, the directors are charged with approving important financial matters, and safeguarding and approving changes in assets. In most instances, the boards were involved in evaluating important financial matters. In many of these decisions, the boards were helped by the manager; and for changing the trading area, the stockholders were consulted before the decision was finalized.

Most of the boards indicated that they decided upon the allocation of profits on the basis of the financial condition of the firm. More of the group A firms' boards indicated they rely on internal financing than do group B firms and most of the group B firms indicated that they were not financially able to retire member equities; but the group A firms were retiring these equities.

Another part of the financial condition includes cash discounts and credit. All of the boards indicated that their firms take advantage of cash discounts offered by suppliers. The firms are establishing credit guidelines and are controlling accounts receivable to avoid losses due to the extension of credit.

The boards should protect the firms' capital by reviewing the insurance coverage, capital funds and financial condition. The boards indicated that they were reviewing the firm's insurance coverage. More than half of the group B firms' boards indicated their capital funds were not adequate but all of the group A firms had adequate capital funds. The boards indicated they were keeping informed on the financial condition and almost all indicated it was sound.

The boards are receiving financial information, and in most cases, they are receiving the information they think the manager should present. Analysis reveals that the boards' analysis of financial materials would be more efficient if they received more comparative statements, financial ratios, charts and graphs.

Members' Interests and a Sound Board

The boards harmonize members' interests through the decisions they make regarding additional enterprises and grains merchandised. The boards indicated that they select additional enterprises that will serve the members and yet will financially benefit the firm. These firms are providing grain marketing services, and as such, they plan on providing a market for the grains grown by their members with some minor exceptions.

The firm should maintain its relations with members, community and worker groups to be a good neighbor and an asset to the community. All of the firms keep their members informed on the operation of the firm usually at the annual meeting. Generally the boards have not developed a policy towards unions and collective bargaining. Half or more of the boards indicated that their firm engaged in community relations activities consisting of sponsoring youth groups, participating in fund raising drives, and encouraging management to become involved in local government and/or civic organizations.

The boards efforts in maintaining a sound board involves the qualifications for board members, director selection, term of office, directors' training and orientation for new members. The boards indicated that the director qualifications are as stated in the bylaws; thus a director had to be a member of the cooperative. Further, these qualifications imply that these cooperatives have no professional directors or "inside directors." In addition, most of the boards indicated that geographic restrictions were used to insure board representation from all sections of the trading area. A majority of the firms' boards indicated that nominating committees for directors were not used and most cooperatives indicated that restrictions on directors service was not used implying that most firms did not have problems associated with directors serving too long. In general, training programs for potential board members were not used and the new board members were oriented by attending board meetings and learning as they served.

The boards should continually try to improve board meetings which includes time spent, board progress, agenda, board compensation and attendance. In general, the boards indicated that progress was made in the board meeting, the directors defended the decisions made, and the directors usually attend board meetings. The analysis also indicated that boards of group B firms tended to spend more time in board meetings per year than did group A firms' boards. Most of the boards were not provided with an agenda for the board meetings although more group B firms' boards received an agenda than group A firms' boards.

Summary of Board Activities

The boards of all the firms could stand improvements. They were especially lacking in the planning area and anticipating future events which is a part of planning. Another interesting thing is that some of the reviews and plans that were made were not initiated by the board but were performed for them by outside firms or trade associations. Some of the budgeting, reviews of bylaws, and five year plans were performed at least in part by outside firms.

The boards in this study indicated that they appointed personnel, reviewed the past operation of the firm and approved major financial decisions. It has been suggested that the board's largest responsibility is to appoint a competent manager and let him run the firm. This study would seem to substantiate this hypothesis.

Complete manager responsibility can work out satisfactorily for the firm until a new manager is needed. The "one man firm" causes problems in that the board has to find not only a competent manager but also one that is experienced. Since experienced managers are in short supply, the firm may have to settle for one lacking experience. Until he gains the necessary experience, the firm can have financial problems.

Differences Related to Firm Performance and Size

Throughout this study, the boards' responses to the various questions were analyzed for differences related to firm performance and firm size. This analysis revealed very few differences, especially differences that would explain the firm's performance, and the differences that were noted seem to occur because of the firm's performance or size.

The group B firms' boards spent more time in board meetings, received and/or used more types of information, seemed to make decisions on more activities, did not delegate as much authority, and more used goals, budgets and comparative financial statements. These differences occurred because the firms were not performing as the boards would prefer and therefore, the boards were attempting to improve the performance of the firm by using the accepted procedures in management to change the financial status of the firm. However, the group A firms' managers may also be using these management practices but the boards may not be aware of their use because they are satisfied with the firm's performance and are willing to give the manager almost complete authority to operate the firm.

The only real differences directly related to performance occurred in the area of capital funds where group B firms stated capital funds were not adequate. Since funds were limited these firms generally were not retiring member equities on a regular basis. The firms' capital funds may also be related to the planning horizon for replacement, expansion and/or improvements in facilities and services and also firms having employees in management training. Some of the group B firms gave their planning horizon as five to ten years which could be explained in terms of their capital funds. In other words, they expected to have funds available in the future whereas group A firms could undertake projects at the present time. In addition, firms that have limited capital might cut some expense by not having employees in management training.

Smaller firms' boards performed more decision activities and did not encourage managers to become involved in local government and/or civic organizations. These differences may be related to the fact that in smaller firms, the managers probably have a smaller office force and may perform more of the tasks usually delegated to other workers in larger firms. Therefore, the manager would not have time to engage in outside activities and may ask the board for more decisions. Also since directors of smaller firms tended to be younger, farmed smaller farms and more of them have attended training meetings, they may have more time to review corporate papers and serve on board nominating committees. There were some other differences between the size classifications in the mail management survey but these were not observed in the personal interview survey and may be explained by the manner in which the question was worded. These differences included a greater number of larger firms using ratio analysis, charts and graphs, and having written objectives, long-run plans and job descriptions.

Suggestions for Improvements

The examination of the questions asked directors shows that the directors are generally content to let the manager run the firm with little board supervision until the firm has financial trouble. At that point, the board begins to follow the accepted procedures in management literature to change the financial status of the firm. The principles of management applied to the board are therefore appropriate and should be used.

The board should start at the beginning by reviewing the articles of incorporation to refresh its memory on the purpose of the firm. It should then develop written objectives for the firm. The objectives should be more specific than "to provide service" but not so specific as to restrict economic growth of the firm by limiting the type of enterprises or restricting termination of outdated enterprises. A typical set of the objectives for a cooperative grain marketing firm would be:

To buy and sell all marketable grains grown in sufficient quantity to make merchandising economically feasible.

To actively promote the production of grains adaptable to the trading area by providing a market for such grains.

To provide grain storage services for member-patrons.

To provide farm production inputs which are of a higher quality and/or at a lower cost than would be otherwise obtainable.

To actively promote the wise and proper use of these inputs.

To actively promote new production methods and provide new inputs if needed by the farmer-members.

With these objectives in mind, the board of directors should have the manager develop realistic goals to reach these objectives in both the short and the long-run. The manager should develop the goals because he will be responsible for reaching the goals and he is most familiar with the strengths and weaknesses of the firm. For example, the firm may have a strong competitive position in grain receipts and be receiving 80 percent of the grain produced in its area. In this situation, a goal to expand market share might invite severe retaliation from a competitor. Hence, the firm's short-run and long-run goal may be to simply maintain present market share. However, the firm's feed department may be obtaining a small share of the market and the board may set an objective of increasing the firm's share of this market from its current five percent to 50 percent within the next five years. In this case, the manager may set a goal to increase feed sales by obtaining an additional five percent of the market next year, and 10 percent in each of the following four years. The other farm supplies would be evaluated in a similar manner considering the firm itself, its competitors and the changes that may occur in farming and/or farm purchases and sales. The board must then review the goals to insure that the goals will lead to the objectives and to insure satisfactory progress toward the objectives.

After the goals are developed and approved, these benchmarks should be used to develop plans that will enable the firm to attain the goals. Since the board members have limited time, they should delegate the responsibility for developing plans to the manager or the manager assisted by a board committee. However, the full board should review and approve or modify these plans to insure proper direction from the plans.

Plans should be developed for each year for at least five years and should include sections for each department plus projected capital requirements. Thus, the plan would include departmental plans for the firm's departments which may include grain, feed, seeds, petroleum and miscellaneous inputs. The departmental plans would include projected changes in facilities, changes in the trading area, repairs and maintenance, new equipment, personnel and personnel training. For example, to attain the feed goals used earlier, the firm might plan on sending the present feed department personnel to school to obtain training the first year and adding equipment for bulk delivery of feed requiring the hiring of a new man. To attain the goals for the third, fourth and fifth years, the firm will have to modernize the feed facilities by adding new, more efficient equipment and training those who have not had training in the second year. With new, more efficient equipment, personnel needs should remain the same even though the firm adds more bulk feed delivery equipment in the third year which will allow the firm to attain its goals. In the fourth and fifth years, the firm will only need to maintain the equipment and train any new employees resulting from personnel turnover.

In the capital requirements section of the plan, the firm must estimate the sources and uses of capital for the next year and the following years. This plan for the first year should be specified for each month with estimates of sales, expenses and capital improvements. These estimates can be made by projecting past sales and expenses into the future and adjusting for expected changes. For example, in January farmers may normally sell their wheat and move it out of storage thereby reducing storage revenues; however, feed sales may be high due to winter feeding and there would be little activity in other departments unless the firm sells home heating oils which would account for most sales in the petroleum department. The 12 months would be analyzed in this manner with dollar estimates made for each department then these estimates combined into estimates for the total firm so that an estimated income statement is developed for each month. These monthly plans provide a basis for comparing the actual performance of the firm with the expected performance of the firm.

The capital requirement plans for the next four years would not be as specific. The revenues and expenses can be estimated based on the goals and the plans for each department. These plans should also contain plans for management personnel not specifically included in the departmental plans and plans for retiring member equities. Stock retirement should definitely be considered an important part of the plan because the average ages of farmers has been increasing; thus, the firm could be faced with large amounts of stock to retire. The firm should make estimates of the number of stock holders who will be retiring in each of the next five years and make definite provisions to retire this stock.

Each year these plans and goals should be extended for another year and the current year's plan projected for each month. In this manner the firm always has a five year plan that is up to date and the yearly review will familiarize new directors with the plans. If the plans are developed in this manner, a longer-term view will be attained that should help the firm survive and grow.

Most of the boards in this study have developed some policy guidelines but usually these were developed in response to particular problem situations and the guidelines recorded in the board minutes only. These guidelines in many cases should be further developed and refined. Further, policies should be developed for all phases of the operation of the firm, including guidelines for personnel, marketing, engineering, members or stockholders, finances and public relations. A suggested set of policy guidelines appropriate for cooperative grain marketing firms is included in Appendix A. After the board, or the board with the manager, develops these guidelines to fit their requirements, the policies should be placed in policy manuals which would be available to all those who make decisions, not just to those who read the minutes of a board meeting. Certain policies, for example, personnel policies, should be made available to those who are affected by the policy.

The problem in improving the efficient analyzation of information presented at the board meetings is that more time must be spent in preparation for the meeting. The manager should be preparing this information to be used to make management decisions so really all that needs to be done is to put it in a form suitable for presentation to the directors.

Generally a balance sheet and an income statement are presented to the board at each meeting. In a few firms comparative statements are also prepared and presented to the board. Instead of presenting comparative statements, per se, the board may find percentage changes from the previous month and for a year ago more valuable. Also in addition to the regular income statement, an income statement that shows the percentages with sales as one hundred percent pin points for management and the directors the items that are out of line. The percentage changes and percentage income statement can be discussed in the meeting leaving the actual figures for independent study by the directors. Charts and graphs of financial ratios can provide rapid analysis of the operation of the firm and indicate areas for improvements. These financial ratios should include the ratios of: current assets to current liabilities, liquid assets to current liabilities, inventory to net working capital, net sales to average net working capital, total liabilities to tangible net worth, fixed assets to tangible net worth, net savings to tangible net worth, net savings to net sales, net savings before taxes to net sales, operating savings to net sales, gross savings to net sales, accounts and notes receivable to net credit sales and cost of goods sold to average inventory. In addition to ratios for the entire firm, the ratios of: net savings to tangible net worth, net savings to net sales, net savings before income taxes to net sales, operating savings to net sales, gross savings to net sales and cost of goods sold to average inventory should be computed for each department or enterprise in the firm. These should be computed over time to have a basis for comparisons and also compared to the industry average when possible.[1]

Although the meeting will proceed more efficiently by preparing this financial information, less meeting time would be taken if these materials were presented to the directors in advance of the meeting. Therefore, the directors should receive the financial information well in advance of the meeting so these statements can be compared to the plans for the month. Then the actual meeting can be devoted to reviewing the charts of ratios and discussing financial statements. Utilizing these methods, the current affairs of the business can be handled quickly and efficiently.

The directors should also receive an agenda well in advance of the meeting. This agenda includes the topics that will be discussed so that the directors can be prepared to make decisions in the meeting without requiring additional time to consider the topics. In this manner, the current business of the board can be accomplished in each meeting and not necessarily put off until a future meeting.

The members should recognize the importance of a sound board to the successful operation of the firm. The board should use a nominating committee to suggest potential candidates for the members' selection. Also, the notice of the meeting could include the characteristics that an ideal director would have. The members should also consider increasing the compensation for directors so that they are more adequately compensated for their service. A higher level of compensation may encourage some qualified members to accept the position who would not otherwise do so.

The use of management processes will not become widespread until the directors are familiar with them and how to use them. This training process should be developed both for new directors and for directors who have served on a board. Since the directors that have served on a board are familiar with some of the things directors should do, their needs are different.

The directors who have not served on a board need to understand the responsibilities of the directors. In particular they need to be made aware of their role in looking past the immediate needs of the firm and to view the firm in more long-term context. In this manner, they can see the role and usefulness of plans and planning to the firm. They need to understand that the board or the board and manager needs to establish and review objectives and policies. The manager and his assistants need to develop the goals and yearly budgets that the board would then review. The board needs to make sure that the short-term plans are consistent with the long-term plans during their review.

The new directors need to understand their role in maintaining and enforcing corporate papers, electing board officers to provide leadership and organization and in electing a sound board. The responsibility of the directors in appointing key personnel deserves special attention. The directors must be able to recognize competent managers when appointing new managers and to be able to recognize those with management potential to be appointed to lower level management positions. The appointment of a new manager is probably one of the most important decisions that the board must make. And unless special efforts are made to have a capable assistant ready to step in by having the manager train his replacement, the board will have to secure a manager that has some experience from another firm.

The new board member also needs to become acquainted with the financial statements he will need to evaluate. He needs to understand the various financial ratios which allow a rapid analysis of the firm's operation and changes in the firm's operation over time.

Finally, the new directors need to realize their responsibilities in approving changes in the firm's assets. Many of the changes in assets should be considered in the planning activities. For example, a plan calling for the addition of a sideline may involve additional facilities and new equipment.

The directors of the cooperatives both new members and those that have served should receive a director's manual. Such a manual will serve as an aid in providing continuity of thought and action and will help directors understand their responsibilities, save time, keep deliberations on important matters and aid in making consistent decisions. The directors' manual can be a looseleaf notebook containing copies of the law under which the corporation is organized, its articles of incorporation and bylaws, a copy of the policy statements, a brief history of the corporation including its successes and failures, current minutes and agendas of the board meetings, the yearly plans and budgets comprising the long-run plan, executive proposals and feasibility reports, current comparative balance sheets and income statements, and historical and current financial ratios for the firm's liquidity, solvency, and profitability.

The directors who have served on the board mainly need to improve their skills in planning and in reviewing financial matters. The other responsibilities are being performed already.

The improvement of director skills cannot be accomplished by bulletins and books alone. The directors need to attend formal training sessions to improve their skills. These training sessions would be for all directors the first year and then yearly for new directors from then on. It would be most helpful if mandatory attendance at these meetings could be accomplished.

FOOTNOTES

[1] R. E. "Gus" Page, R. W. Schermerhorn and B. D. Romine, Financial Analysis of Grain and Supply Cooperatives in Oklahoma, Stillwater: Oklahoma State University, Department of Agricultural Economics and Extension Agricultural Economics, E-813, (Stillwater, 1970).

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APPENDIX A

SUGGESTED POLICY GUIDELINES

Personnel

The firm recognizes the need for hiring and retaining capable productive employees. Therefore, prospective full-time employees should have completed high school and should be mentally and physically able to perform the tasks involved. The firm will not discriminate among employees because of race, color or age.

The starting salaries and wages shall be equitable compared to salaries and wages in the area. Annually, the workers' performance shall be appraised by the board and manager and the appraisal used to adjust salaries and wages and to promote employees. The firm shall encourage employees to attend schools and short courses and reimburse employees for their expenses incurred. In addition to wages and salaries, each employee shall receive a two week vacation after one year of employment, health insurance and retirement plans shall be available for employees.

The firm shall provide a safe place for employees to work and a safe place for farmers to patronize. Therefore, personnel should report any hazardous conditions to their supervisors who shall report to the manager. The manager shall have the responsibility to take immediate action to remedy the condition and in addition, he shall inspect the plant and equipment not less than annually to determine hazardous areas.

The organizational chart could be as shown in Figure 2.

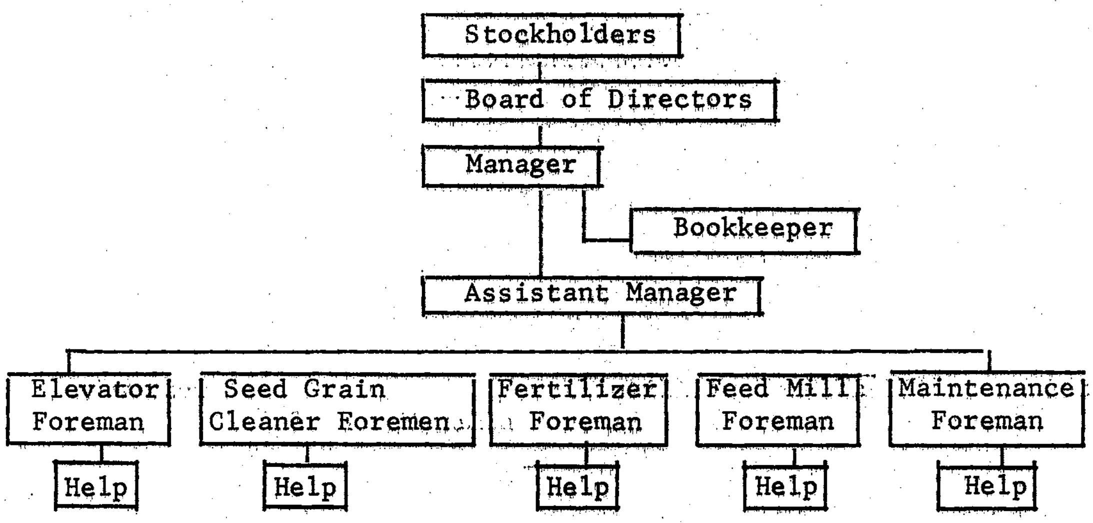

Figure 2. Suggested Organizational Chart

The duties and responsibilities of personnel positions shall be as follows:

Manager

Will be responsible to the board of directors and have the responsibility for:

1. All employees and actions of all employees.
2. Selection, disciplining and releasing employees.
3. Insuring that new employees receive adequate on-the-job training.

4. Training the assistant manager so that he can take over the manager's duties.
5. Setting wages and give raises to personnel below the level of assistant manager.
6. Presenting a review of personnel to the board for their appraisal.
7. Preparing comparative balance sheets, income statements and financial ratios for presentation to the board members at least two days prior to the meeting.
8. Preparing and updating annually short and long-range plans and goals for the firm.
9. Preparing feasibility studies for expansions of the present enterprises or for adding additional enterprises.

<u>Assistant Manager</u>

Will be responsible to the manager and have the responsibility for:

1. Assisting the manager in his duties.
2. Making sales tickets, waiting on customers, and operating scales.
3. Keeping office clean at all times.
4. Assisting in other departments, if needed.

<u>Bookkeeper</u>

Will be responsible to the manager and have the responsibility for:

1. Keeping all records.
2. Performing the clerical work.

3. Assisting with making tickets, waiting on customers, and running the scales, if needed.

Elevator Foreman

Will be responsible to the assistant manager and have the responsibility for:

1. All employees working in and about the elevator.
2. Supervising all the elevator's operation and repairs.
3. Insuring that the grain is properly stored.
4. Making sure that elevator equipment and elevators are serviced and maintained.
5. Keeping elevators and premises clean at all times.
6. Assisting in other departments, if needed.

Seed Grain Cleaner Foreman

Will be responsible to the assistant manager and have the responsibility for:

1. All employees working in and around cleaner plant.
2. Making sure that cleaner equipment is serviced and maintained.
3. Keeping cleaner premises and buildings clean at all times.
4. Assisting in other departments, if needed.

Fertilizer Foreman

Will be responsible to the assistant manager and have the responsibility for:

1. All employees in and about the fertilizer plant.
2. Making sure that fertilizer equipment is serviced and maintained.

3. Maintaining the fertilizer inventory by keeping the assistant manager informed on reorder needs.
4. Keeping the fertilizer premises and buildings clean at all times.
5. Assisting in other departments, if needed.

Feed Mill Foreman

Will be responsible to the assistant manager and have the responsibility for:

1. All employees in and around feed mill.
2. Supervise all the feed mill's operations.
3. Making sure that feed mill and equipment is serviced and maintained.
4. Maintaining the feed inventory by keeping the assistant manager informed on reorder needs.
5. Keeping the feed mill building and premises clean at all times.
6. Assisting in other departments, if needed.

Maintenance Foreman

Will be responsible to the assistant manager and have the responsibility for:

1. Maintaining and keeping all the company equipment in proper working order.
2. Assisting in other departments, if needed.

Marketing

As a grain marketing cooperative, the purpose of the firm is to buy and merchandise grain. However, specialty crops or for crops that will not move in the normal grain channels, the manager may refuse to purchase the crop but shall assist the member in marketing his crop. The manager shall determine the price to be paid for grain and shall decide to whom the grain will be sold. However, unusual competitive situations, as the introduction of a competitor, should be discussed by the board and the manager.

The firm shall provide farm production inputs in which it can supply a higher quality and/or at a lower cost than presently available. The manager shall determine the prices for these inputs and the firm's supplier. The manager shall also determine the amount and type of advertising undertaken.

Engineering

The firm must operate as efficiently as possible. Therefore, the manager shall bring to the board's attention any new technological developments that can be utilized by the firm to reduce its costs. These improvements shall be included in the firm's short and long-run plans if they are economically feasible.

The manager shall develop short and long-run plans which include changes or improvements in facilities and equipment and shall evaluate the use of personnel to carry out the operations of the firm. Plans for facilities and equipment shall be reviewed yearly and updated. Also, the grounds and facilities shall be kept neat and in good repair.

Members or Stockholders

The firm shall operate in the best interests of the members as a group. Therefore, the board and manager will determine the amount of patronage refunds considering the desires of members for refunds and the needs of the firm as determined by the plans for the firm. The board and manager shall annually review the firm's insurance coverage to insure that members capital is adequately protected. The board shall meet monthly and review the financial condition of the firm along with other board business. To promote member understanding, the members will be informed on the operation of their firm at the annual meeting and the manager should inform the members on business conditions at other times as the need arises.

Finances

The firm shall prepare as a part of its short and long-run plans a financial plan that specifies sources and uses of capital. In carrying out these plans, internal financing shall be used as long as growth of the firm is not hindered. All proposed capital expenditures such as new facilities or equipment shall be evaluated on the basis of their economic feasibility.

The manager shall develop credit guidelines which the board will review then modify, if necessary, and approve. These guidelines should take into consideration the competitive conditions and make clear the terms and conditions under which credit will be extended.

Public Relations

The firm recognizes that it must be a good neighbor in the community. Therefore, the firm will sponsor or help sponsor youth group activities and participate in local fund raising drives. The management is also encouraged to participate in local civic organizations.

VITA

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Candidate for the Degree of

Doctor of Philosophy

Thesis: MANAGEMENT PROCESSES IN COOPERATIVE GRAIN MARKETING FIRMS

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