What is a Cooperative?

This section describes the cooperative business model and explains how the cooperative approach is different from other business models.

Cooperatives are businesses that are owned and democratically controlled by their members, who are the people who use its services or buy its goods. For most other business models, the user of the service does not also own or control the business.

There are almost 30,000 cooperatives in the United States. All are privately-owned businesses which provide goods or services for their members. They range in size from fortune 500 companies to small businesses and they operate in numerous industries including agriculture, childcare, energy and financial services, food retailing and distribution, health care, insurance, purchasing, telecommunications and others.

Nationwide, cooperatives employ around 2 million individuals. These jobs pay about $75 billion annually in wages and benefits.

One way in which cooperatives are different from other types of corporations is the business model they follow. This model is rooted in the values of self-help, self-reliance, and democratic control. The value of self-help is demonstrated when a group of people join together to form a cooperative to gain access to goods and services that meet their mutual needs.

The cooperative members embrace the value of self-reliance by agreeing to provide the financial resources to support the business. This includes agreeing to pay for the cost of operations and sharing in the benefits and risks of running the business.

The third value of the cooperative business model is democratic control. Members elect directors or trustees from the membership to serve on the cooperative board. Directors elect the board officers and hire a CEO or General Manager who handles the day-to-day operations.

Boards are democratically-elected by the co-op's membership to govern and direct the affairs of the cooperative. The board is responsible for guiding how the co-op's money and assets are used to fulfill the cooperative's mission. They must do so in such a way that protects the cooperative and the interests of all its members. Today, more than 7,000 members serve on their electric co-op boards across the nation. On average, co-op boards have nine members.

Directors are "fiduciaries," and their fundamental fiduciary responsibility is "...to prudently represent the interests of the members as a group in directing and overseeing the business and affairs of the cooperative within the law." A fiduciary is someone legally responsible for representing the interests of the cooperative and its members. In an electric co-op, this means that the board is responsible for guiding how the co-op's money and assets are used to fulfill the cooperative's mission and they must do so in such a way that best protects the cooperative and the interests of all its members.

As fiduciaries, board members must be familiar with key governing documents in order to ensure that they comply with these documents when they make board decisions. They set board policies, which are statements of board expectations as to how the electric cooperative will be governed and operated.

In their role as a trustee, boards are entrusted with the direction and oversight of a co-op's assets and resources. They approve the co-op's strategic level plans and budgets. They also retain outside experts such as the attorney and auditor.

Another role that board members have is that of an advocate. Directors must represent their members interests and concerns as they develop policies that guide the cooperative's operation. To help ensure that the board is made up of directors from all parts of the co-op's service territory, many electric cooperatives have established director districts through which directors are nominated and/or elected to the board. Directors are expected to advocate for the cooperative business model and to establish the strategic direction of the electric cooperative. In this role, directors must be able to explain cooperative issues and board policy decisions to the members, to public officials and to regulatory bodies.

In many states, board members also serve as a regulator. They must ensure that the electric cooperative meets the standards that are required of a utility that provides an essential public service. In general, these requirements are to provide reasonably adequate and dependable electric service to all consumers within the co-op's territory and to do so with fair and non-discriminatory rates, terms and conditions.

There are three duties that every director must fulfill. Otherwise, they risk potential personal liability for the violation of one or more of these duties. The first is the duty of loyalty, which requires that the directors place the interest of the cooperative and its members over other interests, especially their own when making board decisions. The second is the duty of obedience which requires the board to be obedient to the law, the bylaws and to their own board policies when acting in the role of director. Finally, there is the duty of care, which requires the directors to ask questions and to seek relevant information whenever they are asked to make board decisions or provide oversight of the cooperative's management.

The most important job the board has is to hire the CEO. Typical CEO responsibilities include: overseeing the operation of the cooperative, hiring and managing the co-op's employees, preparing financial reports and operating statements for board review, working with the board to develop a strategic plan for the co-op, and representing the cooperative in the community.

The board and the CEO work together to develop a strategic plan for the organization. It is from this plan and the co-op policies adopted by the board, that management carries out the day-to-day operations of the cooperative and meets the board's expectations and objectives. Co-op boards must have a respectful, constructive and consultative relationship with their CEO. This relationship should be based on mutual sharing of information so that both the board and their CEO can fulfill their responsibilities. To develop this type of relationship, the board must do the following: 1) Meet with the CEO on a regular basis and devote sufficient time to discussing the issues the CEO thinks are significant, 2) Clearly communicate the board's goals and priorities for the organization to the CEO, 3) Devote adequate time to studying reports and proposals provided by management, and finally, 4) Be willing to explain in detail, any disagreements that the board has with management.