

# MODULE 2 – PRODUCER GROUP/COMPANY MANAGEMENT

Module 1 dealt with the analysis of organizations according to the 5M-approach. Module 2 takes a detailed look at the two M's of Men and Methods. This Module was especially developed for farmer organizations without prior business experience, as well as farmer organizations that have been operating in an informal manner and need to be formalized. If your organization is already well established, you may quickly scan this Module to see if you find any useful information; if not, you may jump directly to Module 3.

## CONSTITUTION AND BY-LAWS/REGISTRATION

### CONSTITUTION/STATUTES AND BY-LAWS

#### Introduction

It is crucial for any new organization to develop a constitution (or statutes) and by-laws specifying *inter alia* the purpose of the organization, its membership rules and its method of operation. Whenever a dispute arises, the constitution will be the main reference text, providing guidance on how to resolve the dispute.

The actual drafting of the constitution and by-laws is best done by a small group with a certain knowledge of the functioning of farmer associations and cooperatives. However, the content of the constitution and by-laws should be based on discussions with all members on their expectations regarding the organization and its functioning.

#### Before you start writing

Make sure you understand the laws and regulations governing farmer organizations in your country. Some countries have standard formats for the statutes of farmer organizations and cooperatives.

If you intend to obtain certification under the Fairtrade-system, you should ensure that the constitution of your organization complies with the FLQ standard for small farmer organizations (available at:

[www.fairtrade.net/generic\\_producer\\_standards.html](http://www.fairtrade.net/generic_producer_standards.html)).

#### Contents

A constitution typically includes:

- Name and address of the association
- Purpose/objective of the association
- Legal status (e.g. association, not-for-profit, cooperative, GIC etc.)
- Membership rules:
  - who can become a member
  - how membership can be terminated
  - rights and obligations of members
- Management and governance structure (organs of the organization)
- Rules for membership representation in the governance structure (including rules for calling meetings and election procedures for the annual general meeting and executive board/executive committees)
- Rules for financial management and reporting
- Complaints procedures and rules on how to deal with violations of the constitution
- Rules for amendments to the constitution and by-laws
- Rules to wind up the association

Do not include any elements that may change frequently (e.g. the height of the membership fees, names of office holders etc.) in the constitution or by-laws; these documents should only set out the general rules on how the association will decide on such issues (e.g. by the management body, the executive board or the annual general assembly, etc.).

#### FORMAL REGISTRATION

In order to be able to conclude contracts with buyers or service providers, your organization must be officially registered and have a bank account.

Once registered, your organization will be included in the authorities' records. This may lead to certain obligations related e.g. to taxes, financial reporting or social security provisions for staff members. Be prepared to meet these obligations before you register.

Choose your legal status carefully. As a farmer association, you may be exempt from taxes, but the flip side of this coin is that you may not be able to obtain trading or export licenses. While the status of a cooperative may be better suited for your type of activities, the rules on governance and financial

Make sure your members have the chance to comment on a draft version of the constitution and by-laws (if not all members can read and write, you should make provisions to read out the draft to ensure that everyone gets a chance to voice comments). The final version of the constitution and by-laws should be approved by a general assembly.

reporting for cooperatives are usually stricter than those for farmer associations. Alternatively, a farmer association may create a separate company for commercial operations, owned by the association.

Irrespective of the selected legal status, it is important to clearly specify each party's liabilities in case of bankruptcy. For example, if the association is unable to honour its financial obligations vis-à-vis its lenders, do they have the right to seize assets (e.g. land) owned by its members?

As indicated above, your legal status will have implications upon the management and governance structure of your organization, and should thus be decided upon before the constitution and by-laws are finalized.

#### TRAINING OF EXECUTIVE COMMITTEE OR BOARD MEMBERS

The approval of the organization's constitution and the election of its office holders should be followed by an assessment of the training needs of its officials. Even with a professional management team, the elected members of the supervising bodies will need some basic knowledge and skills to carry out their supervisory role in an effective manner.

Office holders may need training on:

- Understanding their role in the organization;
- Conducting meetings;
- Keeping minutes and records (and related computer skills);
- Understanding financial statements, basic accounting and bookkeeping;
- Basic understanding of the organization's business operations.

If the elected executive committee is to be in charge of the organization's business operations, the demands on its business knowledge and skills will obviously be much higher; in such cases, the executive committee will have the same training needs as professional staff members (see below).



## RECRUITING, TRAINING, MANAGING AND KEEPING STAFF

### PERMANENT STAFF MEMBERS

What are the existing skills of the staff or your organization as to market research, contract negotiation, financial management, logistics, quality management, etc.? Which computer and language skills are available within your organization? If any skills are missing, can you address these problems by providing training, or do you need to hire additional staff members (and do you have the financial resources to do this)? Permanent staff members usually constitute one of the most important cost categories for an organization. It is therefore very important to ensure that the right people are in the right place.

### FUNCTIONS AND JOB DESCRIPTIONS

In order to maximize the efficiency of the human resources within your organization, we suggest you carry out an inventory of all the tasks that need to be performed. On the basis of this inventory, you should formulate staff positions, as well as their corresponding job descriptions. In small organizations, one person will often perform multiple functions, while bigger organizations may create more specialized positions. Over time, as your business develops, you will need to review certain job descriptions. If your organization is doing well, you may be able to promote certain permanent staff members or recruit junior staff to carry out specific tasks under their supervision.

### RECRUITMENT

Many developing countries are faced with a scarcity of well-trained and experienced people, whereby well-qualified employees command high salaries – salaries a start-up business cannot afford.

Although you may be in a hurry, it is worth spending some time finding the right person for a particular position to avoid disappointments. Newly created cooperatives or export businesses typically do not have a professional personnel manager. The following section provides some information on standard recruitment practices.

### Vacancy announcement

Any vacancy announcement should clearly describe the available position to ensure that applicants match the profile your organization is looking for.

Based on the job description, define the position's "essential" and "desirable" skills and experiences. "Essential" skills and experiences are those that cannot easily be acquired on the job, while "desirable" competences can be taught on the job.

The vacancy announcement should contain a detailed job description, the essential and desirable qualifications and experiences, as well as an indication of the salary offered. It should also specify the chain of command in which the candidate will operate. A vacancy announcement for a marketing officer, for example, may specify that the officer will report to the general manager and supervise two junior staff members.

The vacancy announcement should give clear instructions as to how candidates may apply for the job, and set a deadline.

Distribute the vacancy announcement as widely as possible within those circles where you are most likely to find qualified people, including universities or institutes for higher professional education, or in newspapers and on websites that are read by the type of persons you are looking for. Business development projects may help you find a suitable candidate.

### Shortlist

As soon as the deadline for the submission of applications has passed, select three to six candidates on the basis of the letters and CVs you have received.

If there are more than six candidates meeting the essential requirements, you can make a further selection on the basis of the following criteria:

- Desirable qualifications;
- "Team fit": with the exception of job-specific knowledge and skills, the candidate's level of experience and competences should be superior to that of the staff members he or she will supervise, but inferior to that of his or her immediate supervisor.

### **Interviews**

Invite the three to six short-listed candidates for an interview, during which you verify the most important claims made by the candidates in their respective applications. It may become clear that some candidates are less qualified than originally claimed, while others have in fact more knowledge or experience than was obvious from their applications.

Ask the candidate what they think working for your organization means, and what their motivation for applying is. If their answers do not correspond to reality, you need to correct their views and ask them to confirm their interest in the position.

### **Selecting the right candidate**

We recommend that you involve at least three staff members in the pre-selection and final selection of job seekers. Everyone, including managers, tends to select candidates on the basis of personal preferences. While this usually makes for a positive working atmosphere between like-minded people, it does not always guarantee the best business results. Creativity, for example, may be desirable for a product developer, while preciseness and organization are more important for a bookkeeper. Involving several staff members in the selection of new employees will ensure the complementarity of your team members' skills and competences.

### **Direct offers**

If you are unable to find good candidates through the normal recruitment procedure as described above, you may offer the job to someone who is already doing a (similar) job for another organization or company. Obviously, this method requires you to be able to offer a compensation package that is superior to the one the candidate is currently enjoying.

## **EMPLOYMENT CONTRACTS**

Of course, your organization's employment contracts should comply with the rules and regulations governing minimum wages, maximum working hours, etc. in your country of operation. Paying bonuses is a good way to motivate staff members when your organization does

well. However, if bonuses weigh too heavily in your employees' overall compensation package, they may feel insecure about the level of their salary and even consider to be treated unfairly when sales – and bonuses – are down.

Your financial planning should include salaries plus bonuses, as well as other staff-related expenses, including costs related to insurance and social security payments.

## **MANAGING AND KEEPING YOUR STAFF**

Newly recruited staff members need to be introduced to your organization's operations; they require detailed explanations on what exactly is expected of them. While some people prefer receiving clear, detailed orders leaving little room for own initiatives, other employees will see what needs to be done and take their own initiatives, but may get irritated by direct detailed orders from the manager. Regular staff meetings are key to ensuring that your staff members are working as a team and contribute towards the development of your business. During these meetings, staff members collectively set out their work programme and divide tasks. Over time, these regular staff meetings will become part of your operations' routines and will not require much time, unless important changes need to be discussed. It is good practice to regularly enquire staff members about how they feel about their job. Are they satisfied with their actual level of responsibility? Do they feel they need more or less guidance? Do they need additional training? Such issues should be discussed with newly recruited staff members after one to three months in the job, and at least once a year with all staff members.

Offering regular training opportunities to your staff members ensures that they feel motivated and confident, and brings new knowledge to your organization. If a valued staff member has been offered a job by another organization, you will need to evaluate the costs of offering that person a salary increase or promotion, or, alternatively, of losing that staff member and recruiting someone new.



## RECORD KEEPING

### FARMER RECORDS

Every farmer association or cooperative should keep up-to-date records about its members. Meanwhile, exporting companies should maintain records about the farmers in their outgrower group(s). Each farmer should have a copy of the file that is kept on him or her.

Membership records should include information regarding:

- Registration (name, address, membership code), fee payments, suspensions;
- Participation in training sessions and meetings;
- Farm size, production area and planting dates of the export crop; any other relevant agronomic data;
- Yearly data regarding inputs used, harvested volumes, purchasing records (volumes, dates and sums paid), volumes sold to other buyers, unsold volumes.

For the organization to be able to keep complete files, farmers will need to keep records on their use of inputs, production and sales to other buyers. They may need training in order to be able to do so; if farmers are illiterate, field officers may need to visit them regularly to record the necessary information.

## EXTERNAL RELATIONS

There are essentially four types of external relations:

- Relations with your suppliers, including banks (suppliers of financial services) and certification bodies (suppliers of certification services);
- Relations with support organizations;
- Relations with your buyers;
- Relations with your competitors.

### CHOOSING YOUR SUPPLIERS

The basic principle behind choosing your suppliers is rather simple: “best value for money”. In practice, choices may be very difficult. For example, your local supplier of cartons may be cheap, but delivers bad

### Recommendations

It is good practice to keep a separate file for every farmer. Membership codes should be used only once. Renumbering members to fill gaps in the sequence of codes may cause confusion about which code denotes which farmer and create problems with certification. Once a code is assigned to a farmer, the code becomes “unique” and cannot be used for new members (if the farmer dies, the code may be transferred to his/her heir, on the condition that the farm is not divided between several heirs).

### OTHER RECORDS

- Meeting and training records: dates, minutes, lists of participants (see Module 6);
- Aggregate records of harvesting forecasts, purchases and sales (see Module 6);
- Store records, stock lists (see Module 6);
- Financial records (see Module 4).

### ORGANIZING YOUR RECORDS

Order your records in folders, binders and archive boxes and label them to avoid losing time looking for a particular document. Organize your electronic documents in folders, using the same classification as the one you use for your paper records.

quality. You could buy excellent quality cartons abroad, but they are extremely expensive due to the higher transportation costs. Can you convince your buyer to make do with the cheaper local cartons? It may be worthwhile to seek collaboration with your competitors. To continue with the previous example, you could team up with other local exporters and place a bulk order for cartons with the foreign supplier at a discount. Cartons will no longer represent a factor of competition between you, but you may attract business away from other exporters who still use bad quality cartons.

For information on how to choose certification bodies, see Module 6.

## CHOOSING YOUR SUPPORT ORGANIZATIONS

Export promotion councils, development projects and other support organizations often seem to be “always helping the same people”. However, this perception is often due to the fact that these organizations are unaware of the existence of other farmer organizations or exporters with promising business plans and a need for support. We therefore recommend that you draw up a list of institutions and projects active in your field of operation.

### Support services provided by the government

Support institutions and services provided by your government may include:

- Department for cooperative development;
- Agronomic extension services;
- Provision of subsidized plant material and inputs for pest and disease control (*make sure these are allowed under your certification scheme*);
- Collective mechanization programmes (e.g. renting out of tractors at cost price);
- Tax exemptions for imports of agricultural equipment;
- Export promotion council.

### Donor-funded development projects

Donor-funded projects usually have clearly defined and specific objectives. It is not unusual for these projects to be looking for credible local partners. They may contact your organization to assess whether it would be “eligible” for help. In order to assess whether a particular development project is right for your organization, you should ask yourself a number of questions:

- Do the project’s objectives match those of your organization?
- Will the donors require information that you consider commercially sensitive or confidential?

- Will the project bring real help, or will it only take up your time?

## CHOOSING YOUR BUYERS

Before engaging in any commercial transactions with unknown buyers, you should try to find some information about your potential partners.

- Ask the export promotion council in your country or your embassy/consulate in the country of the buyer if the company has been officially registered;
- Do an internet search on the company;
- Ask other players in the business if they know the company; try to find out what kind of reputation they have.

If you are in a position to choose between several buyers, some of the factors that will determine your choice are:

- Price;
- Terms of payment, possibility of obtaining prefinancing;
- Quality requirements;
- Desired volumes and times of delivery;
- Long-term business perspectives.

## YOUR COMPETITORS

Even though you compete against each other, you and your competitors share a number of interests because you operate in the same field. Common interests may include: low export taxes, good handling services at the port, good credit facilities, etc. Farmer organizations and exporters often form national bodies or “inter-professional organizations” to defend these common interests. It may be worthwhile for you to become a member of such an organization.

### ***The importance of being contactable***

Many farmer organizations miss opportunities simply because it is very difficult to contact them. If you are faced with frequent internet server problems, create an alternative email address on another server. If your primary server is down, inform your main contacts that you can be reached on your alternative e-mail address. You should have a functioning telephone number and e-mail address, and, ideally, a skype account and fax number. Contact details on business cards, brochures and websites should be up-to-date at all times. The internet is an extremely important communication tool. Many websites offer useful information free of charge. In addition, many application procedures are handled through the internet. Certification bodies, for example, often provide online application forms. If you can choose between several internet providers, choose your provider on the basis of its reliability and speed, rather than opting for the cheapest one.



### INFORMATION FOR BUSINESS SUPPORT ORGANIZATIONS

A useful trainers’ manual for agricultural cooperative development (and especially of weak or new organizations) is: FAO. 1998. *Agricultural Cooperative Development; a Manual for Trainers*. Available at: <[www.fao.org/SD/2003/IN07023\\_en.htm](http://www.fao.org/SD/2003/IN07023_en.htm)>.