Training for the Co-op Board of Directors:

Roles, Responsibilities, & Legalities

North American Students of Cooperation
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Table of Contents

Statement of Co-operative Identity

Adopted in September 1995 by the International Co-operative Alliance

Definition

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Values

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Principles

The cooperative principles are guidelines by which cooperatives put their values into practice.

Volunteer and Open Membership: Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibility of membership, without gender, social, racial, political, or religious discrimination.

Democratic Member Control: Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are organized in a democratic manner.

Member Economic Participation: Members contribute equitably to, and democratically control, the capital of the cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible, benefiting members in proportion to their transactions with the cooperative, and supporting other activities approved by the membership.

Autonomy and Independence: Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

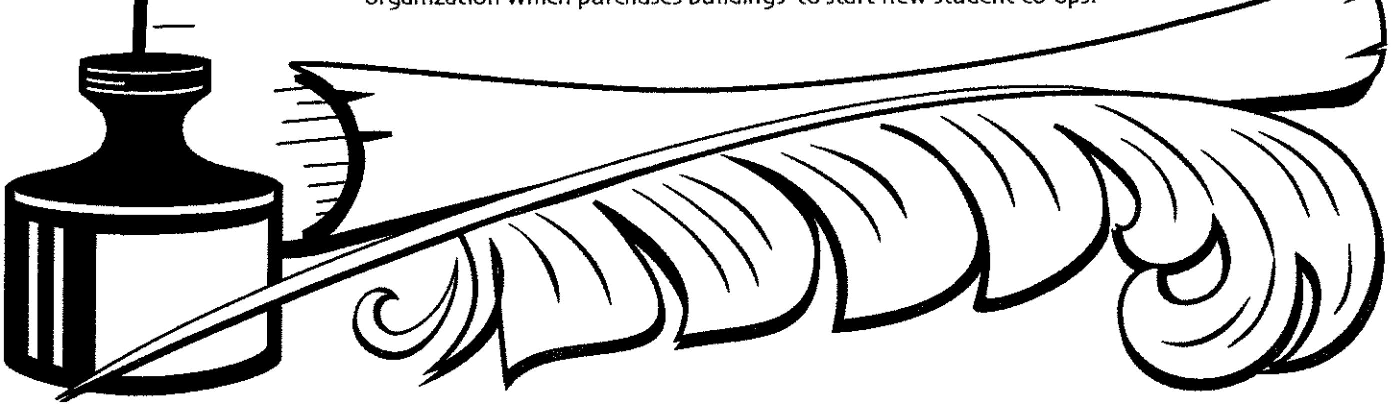
Education, Training, and Information: Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.

Cooperation among Cooperatives: Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.

Concern for Community: While focusing on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.

Campus Co-operatives - A Brief History

1844-1849:	The Rochdale Society of Equitable Pioneers was founded and codified the Cooperative Principles.
1882:	The Harvard Cooperative Society, North America's first student cooperative, was formed. The co-op originally sold textbooks and firewood; it is now a "collegiate department store."
1883-1932:	More co-op bookstores began. On a few campuses, students experimented with dining co-ops and housing co-ops. Cayahuga Lodge, one of the early housing co-ops, was begun at Cornell in 1922.
1932-1940:	The Depression. Co-ops began popping up all over both countries as a way for students to survive on as little as possible. Most student co-ops formed local associations at this time.
1940-1950:	Student co-ops started buying their houses and legally incorporating. Although a few houses had owned their property before this time, often due to a donation, co-ops did not start expanding in earnest until this period. In 1946, NASCO's predecessor, the North American Student Cooperative League (NASCL), was formed to unite student co-ops and their supporters.
1950-1966:	Some co-ops continued to expand; many did nothing or concentrated on improving their operating systems. A few co-op systems died, usually due to the intervention of the university. In 1956, NASCL ceased to exist, a victim of lack of funds, too loose an organization, and the general malaise of the period. One major co-op system, the Oberlin Student Cooperative Association, began during this period.
1966-1972:	New co-ops started up, due to interest in alternative systems generated during the 1960s, and the sudden availability of Federal funds for building student co-ops. Most student co-ops went co-ed. NASCO was begun in 1968 by a group of student co-op activists who wanted once more to join together supporters and members of student co-ops.
1972-1985:	Co-ops acted much as they had during the 1950s and 1960s. Groups that had formed during the late 1960s expanded during this period. NASCO held regional and national conferences which turned into the Institute, the annual meeting of student co-op activists.
1986-Today	Co-ops once again became interested in expanding. Three major groups added several additional buildings. Four student co-ops established the Campus Cooperative Development Corporation as a vehicle for developing new student co-ops. NASCO sponsors the creation of NASCO Properties, a national organization which purchases buildings to start new student co-ops.



NASCO Member Services

Cooperative Education and Training Institute — November 8th - 10th, 2002

The Institute is widely recognized as one of the most important training opportunities available to co-op members, directors, staff and managers. Held each fall in Ann Arbor, Michigan, the Institute attracts hundreds of cooperators from the US and Canada for two and one half days of comprehensive technical programs and discussions. Speakers, films, social events and the opportunity to meet with cooperative members and leaders makes the weekend a truly unforgettable experience. Scholarships are available through the NASCO Low Income Scholarship Fund which provides Institute participants with reductions in registration fees & travel assistance.

Co-op Voices

NASCO's newsletter Co-op Voices reports NASCO's activities and features information relevant to the campus co-op community. Co-op Voices also acts as a forum for campus co-op members to share their experience with other campus co-ops and discuss issues that affect the campus co-op movement. Interested in writing for Co-op Voices? Email nasco@umich.edu with your ideas and submissions.

Campus Cooperative Development Corporation (CCDC)

Special organizing and training resources are made available to student groups interested in starting or expanding cooperatives. Working with the Campus Cooperative Development Corporation (CCDC), NASCO provides an array of development services including assistance in pre-development activities, financial assistance, and start-up assistance.

NASCO Properties (NP)

This organization provides an ownership structure and management assistance to housing cooperatives across the US, including: Chicago, IL; Athens, OH; Santa Cruz, CA; and Austin, TX.

Member Visits

The NASCO staff visits Active Member groups annually, providing consultation and training on a variety of topics. Workshop topics include meeting process, basic board training, planning, personnel, marketing, and organizational development; workshops can also be developed by special request. The staff also takes time to meet informally with co-op members, officers, directors, and staff to discuss issues facing the cooperative and to provide perspectives gained from NASCO's work with campus cooperatives all across North America.

Training and Consulting Services

NASCO works with its members and the general public on a variety of more extensive training and consulting activities. On-site consulting has included assistance with organizational restructuring, governance systems, financial controls, staff relations, member recruitment, and participation strategies. Recent service contracts have included bookkeeping services, board training programs, business plan development, and expansion assistance. NASCO provides significant discounts on these services to its members.

NASCO's Manager & Staff Conference

NASCO annually sponsors a conference for student co-op managers and staff. This conference focuses on professional development and networking. Outside speakers and special sessions are scheduled.

Co-operative Internship Program

The Co-operative Internship Network places talented campus co-opers in jobs with cooperatives and cooperative organizations. Each spring, the Network seeks to bring together applicants with Internship sponsors for summer (and sometimes fall) employment in a wide range of cooperatives and cooperative organizations. Past internships have included: a summer internship with a low-income credit union in Appalachia; an internship with the National Co-operative Business Association; and an internship with the member services department of an optical cooperative in Detroit. Internships are paid and some include room and board as well. NASCO works with internship sponsors to identify qualified applicants, assists in

Job Description - CO-OP MEMBER

General Responsibilities

- Elect competent representation to the Board of Directors
- Review the actions of the Board and management
- Actively take part in the management of the corporation
- Patronize the business (i.e. use the co-op's services)
- Contribute to the sound financial well-being of the cooperative.

Specific Duties

1) Become active in the cooperative by attending meetings, serving on committees, accepting special assignments, and genuinely backing the association.

2) Amend and adopt bylaws and articles of incorporation as well as resolutions and motions presented at general meetings.

3) Keep informed about the cooperative by reading annual reports, reading the co-op's publications, and conversing with directors, officers, and employees.

4) Vote in elections for directors, officers (i.e. Kitchen Manager, Maintenance Manager, House Representative Chairperson), and bylaw changes.

5) Require that officers, directors and employees carry out the provisions of the articles of incorporation, the bylaws, and the mandates of the membership.

6) Require that an audit be carried out, at least annually, to review the management's stewardship.

7) Actively take part in group decision making and abide by the decisions of the group.

8) Use the co-op's services, and encourage others to use them and to join.

9) Assist in financing the organization.

10) Approve major changes in capitalization and in facilities owned by the cooperative.

Job description - BOARD MEMBER

General Responsibilities
Translate the general policies of the membership into action through management of the cooperative by decisions made at board meetings. Perform duties required of committee members, represent and inform house members. Provide for the perpetuation of the cooperative, and act to improve its operations.

Qualifications
A willingness to serve and accept responsibility; loyalty to the organization; ability to cooperate with others; honesty and integrity; the ability to analyze, make decisions, abide by board decisions, be objective; firm belief in the cooperative alternative.

Specific Duties
1) Attend board meetings

2) Keep informed of issues to be discussed and the condition of the cooperative

3) Report to house, and consult with members on issues

4) Attend committee meetings

5) Perform tasks assigned by committees

6) Ensure that the decisions of the board are carried out in your house

7) Educate house members on your co-op and co-ops in general

8) Encourage leadership

9) Enact decisions to ensure the financial health of the cooperative

10) Direct management

11) Evaluate management

12) Ensure that houses are being run according to the principles and decisions of the organization

13) Ensure that the cooperative and its subsidiaries are operation in accordance with all legally binding regulations; i.e., state and federal laws, city ordinances and housing codes, the co-op's articles of incorporation, the bylaws

Duties of the Board of Directors

Duty of Care
Act as an ordinary, prudent person would in a like circumstance. This requires diligent, attentive, informed participation.

Duty of Loyalty
Act in good faith, in the best interests of the organization. Duty of loyalty imposes procedural safeguards and standards of substantive fairness in situations where there is conflict of interest; when there is a director on both sides of a transaction, or when the director and the organization are in competition on the side of a transaction.

Duty of Obedience
Act to ensure the organization operates in keeping with the laws and rules governing its formation and status and in accordance with its own bylaws and mission.

Functions of a Board of Directors

Supreme Decision Center Functions
The concept of the board as the supreme decision center recognizes the fact that a cooperative must have one decision center for coordinating the whole enterprise. The board shall not abdicate its responsibilities as informed, competent directors who take responsibility for overall direction of the cooperative.

The board of directors functions as the supreme decision center by:

- proactively addressing problems
- formulating proposals to meet concerns
- establishing objectives
- formulating, approving, and adopting policies
- approving goals, programs, and plans
- selecting the managers of the co-op

Advisory Functions
The board advises members of changes requiring their action or sanction. These may be changes that will enable the cooperative to perform more effectively in a changing environment, or these changes may be required by law. The board's advisory function to members is closely related to their function as trustees (see next page).

The board's role in advising management is more difficult to specify. Alert managers will seek the advice of the board when formulating operating policies and when implementing broad policies and programs. Managers will often seek the advice of directors on possible solutions to operating problems.

Trustee Functions

The board functions as a trustee for members (past, present, and future), and the general public by assuming responsibility for the effective, socially responsible, management of the cooperative. Basically, the trustee function is the controlling of the cooperatives assets in such a manner as to protect and develop the cooperative within the general interests of society.

The board carries out its trustee function by stewardship of the resources committed to the cooperative. The board often employs outsiders to audit the financial affairs of the corporation. This provides the board with an independent check on the soundness of the co-op's business practices and management's operation of those practices.

Perpetuating Functions

A fundamental task of the board is to provide for the continuity of the co-op. The board accomplishes this by selecting, guiding, and supervising effective management and by taking other measures to ensure continuity of direction of the co-op. Other perpetuating activities include numbering board proposals to enable referral to opinions and activities of previous boards, planning processes which are built upon year after year. Boards manuals are perpetuating activities, as well as a structure which encourages board members to continue serving for more than one year.

The board's ability to provide continuity boils down to its own ability to remain a vital force over time. Its vitality must transcend the terms of members, management, and directors. The board has two primary tasks in this regard:

(a) to specify an ideal level of effectiveness for the functioning of the board, and
(b) to maintain a board at this level of performance by transferring knowledge, skills, and attitudes to new board members.

Symbolic Functions

The symbolic function goes beyond the cooperative. It permeates the community with which the co-op deals. Directors have a tradition and duty to uphold the cooperative in all private and public contracts. A directorship is a position of responsibility and trust; it is a position reserved for leaders. Directors cannot escape the symbolic function associated with their position and must learn to perform it effectively.

Legal Responsibilities of a Board of Directors

Board Authority

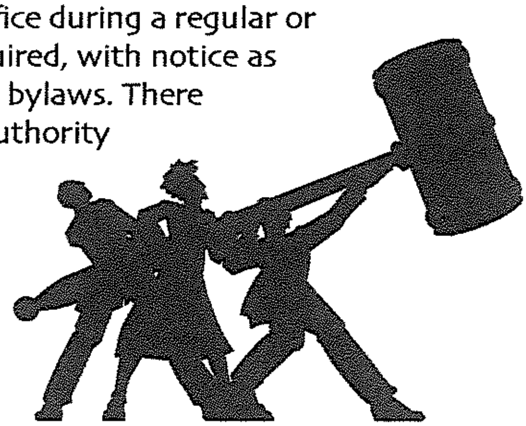
Campus co-op directors frequently make the mistake of overlooking their legal responsibilities to the co-op and its members. While to many, the co-op is a great place to hang out with friends, to a director, the co-op should also be recognized as a corporate business directed by the Board of Directors and run by members and/or staff.

When a co-op files for incorporation, it becomes an artificial entity, subject to all of the rules and regulations which govern corporations. A corporation is required by state or provincial law to designate certain individuals to act on its behalf. These individuals comprise the Board of Directors. The Model Business Corporation Act (MBCA) states that the affairs of a corporation "...shall be managed under the direction of a board of directors...." The duty of a director is therefore not to manage the daily affairs of the co-op, but to supervise and to direct the management of the co-op. The Board is the supreme decision center for the co-op, and it is legally recognized as having the ultimate authority within the co-op hierarchy.

A Board of Directors derives its authority from statutes, from bylaws, and from co-op members. Board authority is granted by the Articles of Incorporation. "Co-op corporations can function, own, and act only within limits specified in the articles" (Fisher). Boards should take care that their co-op's Articles of Incorporation neither restrict nor render limitless the authority of the Board. The co-op's purpose as stated in the articles must be limited for the protection of the members, yet must also be stated broadly enough to give the Board adequate authority to fulfill its basic purposes. "One of the limits on the authority of a Board and one of its responsibilities is the ensure the cooperative functions within the arena established by its creation" (Fisher).

While the Articles of Incorporation grant Board authority, the bylaws define the powers and duties of the Board. Directors and officers are limited to what authority is needed to carry out the duties and responsibilities defined in the bylaws. Directors achieve authority only by virtue of presence and vote during tenure in office during a regular or special meeting of the Board of Directors, called as required, with notice as specified, and with quorum present, all as set out in the bylaws. There are commonly three bylaw limitations on the Board's authority which are set aside for membership action:

1) the election of the Board members;
2) the removal of Board members; and
3) amendments to the bylaws, policies, and other organizing documents of the co-op.



According to Herbert H. Fisher in "Legal Responsibilities and Authority of a Cooperative Board of Directors," the responsibility and authority of a co-op Board and individual directors are not well defined by the courts. The judicial trend has been "to uphold the contractual relationships between the co-op and the membership, including the setting of standards for the welfare of the whole community group." The courts have also shown a tendency to protect the individual from "arbitrary and discriminatory action by the Board." This means that when legal action is taken against a co-op, the Board's actions are judged "as to whether or not there is the slightest theoretical connection between the rule, regulation, or policy in question and the community's welfare or the welfare of the cooperative."

There are certain aspects of the Board's authority which have been recognized by the courts. For example, the Board's authority to accept or to reject applicants for membership, or to delegate that authority, has yet to be successfully challenged in court. A Board's authority is "complete and without limit" so long as it is non-discriminatory with respect to race, religion, ethnic or national origin, gender, sexual preference, or ability. Yet when defining membership qualifications, Boards or Board committees should establish standards "which bear a definable and reasonable relationship to the well-being of the co-op as a whole" (Fisher).

The Board also has the authority to establish and to enforce rules so long as they contribute to the sound operation of the cooperative. In creating rules, the Board acts on its own, presumably acting in the best interest of the welfare of the community. The member, in signing a contract or occupancy agreement, agrees to abide by those rules.

When developing rules, the Board of Directors should try to see that:

1) the objective of the rule is to serve the community welfare and not the whim of one or two members;
2) both the objective and the means to achieve it are clearly set out in the rule and are related; and
3) the rule does not discriminate against a single member or group of members but in fact is equally applicable to all members.

Board Responsibilities

The fundamental responsibility of a director is to act in the best interests of the corporation and its members.

> [A] director shall perform his duties as a director, including his duties as a member of any committee of the Board upon which he may serve, in good faith, in manner he reasonably believes to be in the best interests of the corporation, and with such care as an ordinarily prudent person in a like position would use under similar circumstances. (MCBA, Section 35)

This is a basic way in which the law defines the fiduciary, or trustee, duty of directors. They are expected to act in good faith, for the benefit of the corporation as a whole, and for the protection of the owners' assets and interests.

The following are some generally accepted legal responsibilities:

1) Directors cannot abdicate their responsibility to direct.
2) They must manage the business along lines imposed through the Articles of Incorporation and bylaws.
3) They are responsible for appointing officers and delegating authority to them for carrying out the functions of the corporation.
4) Directors must be knowledgeable about corporate affairs to enable them to perform their duties effectively.
5) Directors must act in good faith and with reasonable care in handling the affairs of the business.
6) They are considered in law as representing a trusteeship to stockholder or members.
7) They must regularly attend Board of Directors meetings. Absence from meetings does not equal freedom from responsibility for Board of Directors decisions.
8) Directors may be held financially responsible for losses incurred by the corporation under certain specific circumstances, principally gross negligence.

Duties of Directors

The law has traditionally recognized three categories of duties for corporate directors.

Duty of Attention

The duty of attention can be defined as both the responsibility to actively participate and the responsibility to know what the business is doing and what it should and should not be doing. Directors can be held liable for personal negligence in handling duties imposed upon her or him as a director, including reasonable supervision of officers and employees, analysis of documentation, and attendance at meetings, and are not shielded from liability if the ignorance is a result of "gross inattention". A director cannot claim her or his failure to direct (i.e. absence from a meeting, abstention from voting) or to be properly informed (i.e. not reading board packets, not asking questions) as a valid defense. Although it is recognized that directors must rely on information which has been presented or prepared by others, such as staff, the Board must at all times reasonably believe those third parties to be reliable and competent.

Duty of Loyalty

This involves behavior which is considered to be consistent with the corporation's general interest. When a director assumes office, s/he is committing her or his allegiance to the corporation over any personal or individual interests. Directors must act honestly and there must be reasonable grounds upon which the directors feel their actions are in the best interests of the co-op and its members.

Directors must be aware of potential conflicts of interest with the corporation. A conflict of interest can arise from "any contract between the corporation and an director which provides preferential terms or conditions." Such a situation would place a director in a position of liability. When a conflict exists, a director in fairness and in good faith must subordinate her or his personal interests to those of the company. Full disclosure of such instances of divided loyalty is required, including the existence of the relationship and its nature (financial or business benefit). The Board may approve of and thereby condone the conflict, yet it is advised that the director remove her/himself from the discussion and decision-making.

When the opportunity to seize business opportunity (also known as corporate opportunity) comes to the attention of a director as a result of her/his position on the Board, the director must always defer to the corporation first. It is only after the corporation considers and rejects the opportunity that the director can consider taking advantage of the opportunity.

Finally, a director must deal in confidence with all matters involving the co-op until full public disclosure has been made or it is understood that the information is a matter of public record. This duty is probably the most difficult to deal with for a co-op, for it is difficult to determine wherein lies the director's responsibility to keep the membership informed, and wherein lies the director's responsibility to keep the co-op at a competitive advantage.

Duty of Care

Duty of care is the way by which courts have come to define standards for a director's behavior. It demands the standard of care and skill which could be expected of a reasonable person. Under common law, directors of corporations are required to exercise the degree of care and skill that may reasonably be expected from persons of their knowledge and experience.

The responsibility of good faith fall under this category, and it is often considered by courts in determining if the individual is liable or has merely made an error in judgment. A court decision often hinges on whether the individual acted on behalf and for the benefit of the co-op. This does not mean that directors must give continuous attention to the affairs of the co-op. Duties can be left to those who have been hired to perform them.

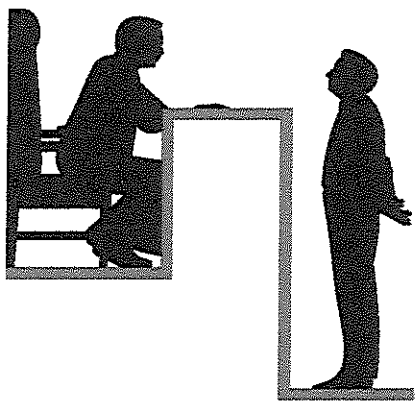
The following guidelines to directors, as detailed by Karen Zimbelman, can be drawn out of the court's interpretations of the duty of care, including:

1) know the company thoroughly;
2) research issues thoroughly, get the facts;
3) devote the time needed, be prepared for and attend all meetings;
4) honor the office — have an open mind, subordinate individual ego;
5) insist on complete and timely information;
6) allow adequate time for deliberations;
7) maintain good records of Board actions; and
8) approach the job with complete honesty and personal integrity.

Reducing Director Liability

Through incorporation, a co-op's directors avoid direct liability for the actions of the corporation - the co-op in effect becomes a legal "person" which is liable for its actions separately. As those responsible for the management of the co-op, however, Board members can be held liable for the mismanagement of the co-op in cases where illegal, criminal, or other damaging activities result from their decisions. Examples given in the Cooperative Corporations Act include:

1) Actions approved by the Board which cause environmental damage;
2) Noncompliance with the legal provisions governing member share capital & dividends;
3) Engage in unfair financial assistance to certain groups of members/staff which cause financial losses to co-op;
4) Employment of staff knowing that co-op cannot afford to pay them.



There are a number of preventative measures which a Board of Directors and individual directors can take to protect themselves from liability. An obvious way to avoid problems is through written documentation. All major actions of a Board, including documentation contributing to decisions, should be thoroughly and carefully recorded, most commonly through minutes and meeting packets. Minutes should reflect alternatives considered and Board decisions, for matters discussed and abandoned or tabled may help clarify the logic of decisions. An individual director, as well as an absent director, can avoid legal liability for a decision by having her or his dissent recorded in the minutes. In meeting packets, committees with clearly written assignments and a reporting form might make possible more thorough discussion at Board meetings. Likewise, proposals should be concisely written with as much supporting information as possible. Greater involvement between directors and management in a corporation's planning process may benefit the Board's and management's plans and increase director understanding of the activities of the corporation.

Large co-ops with complex business activities should also seriously consider retaining a "counsel to the Board", since in-house counsel is often kept busy with managerial and routine business matters.

For difficult decisions or decisions concerning matters which are not normally illegal, such as a pet policy or a quiet-hours policy, a Board can obtain stockholder-member ratification to avoid potential liability. If a Board takes precautions with its affairs and actions, it can vastly reduce its liability, for courts have made it clear that the procedures by which directors make decisions are important and indicative of the care and attention directors take in their role. A court will not substitute its judgment (in hindsight) for that of a Board, for it recognizes that business judgment involves risks, and directors are generally not involved with business on a daily basis.

Finally, a Board can reduce its liability through indemnification. Indemnification is a pledge by one group to protect another person or group from possible damage, suit, or injury. Directors can receive indemnification through language in the co-op's bylaws which states that the co-op will stand behind its directors for actions they take on behalf of the co-op. Another possibility is through insurance, commonly called D & O insurance or "directors' and officers' liability insurance". Indemnification insurance can sometimes be purchased to establish the financial support of an insurance company for an indemnification policy. However, D & O insurance, with its high premiums and high liability, is often unnecessary for campus co-ops, which tend not to be sued for director misfeasance. A co-op's best bet is through preventative steps as outlined above.

References
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Chapman, et al. 1986. The Contemporary Director. Saskatoon; Cooperative College of Canada.

Board/Management Relations

Introduction
One of the functions which the Board of Directors must fulfill is its role as the supreme decision-making body for the co-op. The Board is expected to serve as a proverbial nerve center, sending out directives to the management and setting operational goals for the organization. It is the job of management to translate Board's directives into tasks for the staff. Unfortunately, campus co-op board often make the mistake of going beyond their scope of authority and "micro-managing" co-op business affairs. This is not a good thing, for not only does it constrict management's ability to do an effective job, thereby rendering the organization inefficient, but it also irritates the manager and strains relations between her/him and the Board. In order to avoid such heady problems, the Board must understand the nature of the relationship between the Board and management and recognize Board and executive decision areas.

Authority
In most cooperative organizational structures, the scale of authority is like this:

most	membership	Board	management	staff	least
authority					
authority					

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While the most authority is dictated to the membership, it is impractical to expect the membership to give its attention to or to be well-informed about every major situation facing the co-op. The membership therefore delegates certain functions and responsibilities to the Board, which is consequently responsible directly to the membership. The Board in turn delegates certain operational responsibilities and day-to-day decision-making to the manager, who is in the next position of authority. Finally, the manager delegates tasks to the staff, which holds the least amount of authority. Director, therefore, are not expected to give directions to members of the operating staff. The director in fact has no executive function in the business organization; legally, s/he has no power except at properly convened board meetings.

Boards must be careful to recognize that authority is not equivalent to information. In fact, if we were to take the above scale and use it to measure levels of information, the exact opposite would hold true:

least membership Board general manager staff most
information
information
<————————————————————————————————>

The staff holds the most specialized information in the organization. The manager is responsible for coordinating the specialized information and taking it to the Board, who then passes it on to the membership. The Board must recognize that it is in the nature of the organizational structure that the Board receives its information from staff and management, and that there is little reason to distrust this relationship. Management and staff have been hired specifically for their expertise and knowledge, and it is counterproductive for the Board not to take advantage of such resources.

The Manager's Role

The manager is the focal point in the operations of the cooperative. The manager has operational knowledge and management skills. S/he holds the role of an advisor to the Board of Directors. The manager must educate the Board on the operations of the business and provide good communication between the Board and the management.

The manager is a paid employee. S/he is held accountable for the operations of the business and the implementation of operational policy passed by the Board. The general focus of the Board is on results, while the manager's focus is on methods and details. If policies established by the Board do not seem to be carried out by the staff, the Board should re-examine the particular policy for its realism, and the adequate provision of resources. If warranted, action regarding the staff is to be directed to the manager. This is more appropriate than any attempts on the part of the Board to "tinker with the workings" of the staff. If the manager's credibility breaks down, the efficiency of the business will suffer. The manager must retain authority over areas for which s/he is held accountable and over her/his staff.

The basic relationship between the individual Board members and the General Manager is one of utilizing each other as resource people, as information sources, and with dealing with specific ward or cooperative concerns. No individual Board member is authorized to supervise the manager, or interfere in the operational aspects of the cooperative.

Board & Executive Decision Areas

There isn't really a fine line of distinction between the executive's and the Board's authority, but there is a list of...

TOP TEN CRITERIA TO HELP DISTINGUISH BETWEEN BOARD AND EXECUTIVE DECISION AREAS

10. Ultimate accountability to stockholders/members is vested in the Board, who may subsequently grant certain authority to officers, agents, and employees as permitted under the corporate charter, bylaws, and applicable laws. The executive, or General Manager, in turn is accountable to the Board and initiates action within the boundaries of authority granted by the Board.

9. The Board is primarily concerned with idea decisions; executives are primarily concerned with action decisions.

   The distinguishing feature is the scope and focus of responsibility within each function rather than the functions themselves. An action decision authorizes specific behavior. An idea decision tends to form organizational character and prepares an organization for action within specified behavior patterns. It tends to have long run implications and consequences.

8. Decisions on overall objectives, policies, and goals of the company are the responsibility of the Board.

7. Decisions related to attaining objectives and goals are the responsibility of executives.

   Successful business management requires adequate consideration of objectives, policies, and goals of the company. These are idea decisions which would be made by the stockholders or members, if possible. Since this is not practical, this function is delegated to the Board.

6. Decisions involving long range and consequential commitment of resources, which include facilities, finances, or man-power, are the Board's responsibility.

   Decisions can be distinguished on the basis of time, as well as type.

5. Decisions involving intermediate and short range commitment of resources, and the organization and control of these resources, are the responsibility of executives.

4. Decisions related to the assurance of capable executive succession by providing for executive depth and training are the Board's responsibility.

3. Decisions specifying the ideal pattern or model of Board behavior and performance, and the review of and perpetuation of this ideal through indoctrination and training of director, are the Board's responsibility.

2. Control over the executive and of Board performance, decisions involving long range and substantial financial commitments and financial structure, objectives and policies, and public and member relations are the Board's responsibility.

1. Control over operations and over subordinate managers and employees, decisions involving budgets, procurement, production, and marketing plans, and industrial and employee relations programs are the responsibility of executives.

   The Board does not engage in operations or direct management of the business. By delegating and approving executive programs and actions, it plans and controls the overall course and performance of the corporation in line with members' desires.

Okay, so now what? We have the criteria, but there is a difference between theory and reality. It is one thing to have instructions on how to perform a vasectomy, but it is another thing to have the scalpel in hand. To repeat what was written above, there is no fine line of distinction between Board and executive decision areas. While it is difficult to separate the two realms, practice and experience in consciously judging differing situations can make the distinctions more evident. But until you get to the point that you can put your brain aside, there are a few handy-dandy lists which illustrate the decision areas.

Board decisions only

1. Definition of corporate objectives, policies, and goals (but with opportunity for management participation and recommendations for setting goals).
2. Long range financial commitments, including sources and type of financing.
3. Selection of chief executive (manager) and her or his salary.
4. Definition of the duties of the chief executive.
5. Filling Board vacancies.
6. Employment of a corporate auditing firm (unless bylaws provide for membership approval).
7. Retaining Board legal counsel.
8. Basic changes in financial structure.
9. Approval of major plans and commitments.
10. Matter where member decisions are due.
11. Selection of banking, insurance, and related entities.
12. Approval of employee retirement and benefit programs.
13. Basic affiliations with suppliers.

Management decisions primarily

1. Definition of operating- or management-level objectives, goals, and policies within constraints of corporation-wide decisions.
2. Short run commitments of resources.

3. Preparation of budgets, production plans, and market plans for approval by Board.
4. Definition of the duties of division and department heads.
5. Administration of employee benefits program and salary determination (consistent with salary scales approved by Board for key management people).
6. Selection of employees.
7. Short run decisions on sources of supply that do not modify basic Board decisions.
8. Selection of management's legal counsel.
9. Employee working conditions.
10. Measurements of employee performance.

Maintaining Effective Board-Executive Relations

One way to foster good relations between the Board and management is by understanding why such relations can break down. There are five common sources of difficulty in maintaining effective and productive relationships between the Board and management: differences in objectives and values between directors and the manager; inadequate definition of Board and executive roles; inadequate training and indoctrination of new Board members, due in part to the lack of an organizational ideal; the tendency of some directors to attempt to manage operations; and conflicts inherent in the directorate position.

Although the sources of difficulty listed above seem monumental, they are, in fact, quite easily surmountable. The first problem can be addressed by clearly establishing goals for the organization through visioning and planning. Board and executive roles can be clarified by developing job descriptions and by specifying functions and responsibilities. The Board should provide the initiative in orienting and training each new director. S/He should be briefed on the scope and operations of the co-op; on the use of the director's manual, which outlines key control and planning areas; in the distinction between executive and Board responsibilities; and on the identification of sources of further information on specific responsibilities. Board members should recognize their dependency upon the executive to raise the issue on which advice and counsel are sought. Finally, directors must accept the fact that during their term, they are likely to encounter situations in which they are asked to take actions on which they hold conflicting values. An example of such a conflict is between Board dependence and independence. Should directors persuade members to agree to the Board's decisions or should the Board make decisions that reflect the members' wishes?

Several years ago, a study focused on the effectiveness of corporate Board of Directors was conducted among chief executive of corporations. In the opinion of many chief executives, Boards were ineffective because of poor role definitions. One of the conclusions of the study was that:

> Most boards do not deal in depth with fundamental matters of long-term direction and overall management of the company; many simply provide a superficial review of operating performance and specific management proposals. Very few boards plot the course of the company by setting objectives, evaluating alternative strategies,

and establishing specific business policies for the corporation. Furthermore, most boards play a role which is generally passive; they lend unequivocal support to operating management or, at best, make critical appraisals of management's proposals and ask probing questions. It is extremely rare to find a board that raises issues or innovates.

Corporate boards tend to be highly conservative in their attitudes toward the chief executive and operating management. The primary concern of many board is merely the prevention of financial disaster. Conversely, many boards — particularly those that function as a sounding board — view their influence over management as "corrective" rather than "preventive". If the situation really gets bad, the board may depose management, but usually not until severe damage has been done. In either case, the focus of the board seems to be on averting or counteracting disaster, rather than initiating or encouraging success. In this sense, many boards restrain management, but very few drive management.

Exercise: Board & Management Roles & Responsibilities

Indicate the group with primary responsibility for each of these functions

Duty/Function	management	board	members
1. Change articles and bylaws.	____	____	____
2. Hire and fire employees.	____	____	____
3. Prepare operating budget.	____	____	____
4. Hire and fire manager.	____	____	____
5. Set operational objectives.	____	____	____
6. Hire auditor and receive audit report.	____	____	____
7. Analyze new regulations affecting co-op.	____	____	____
8. Evaluate manager.	____	____	____
9. Set employee compensation (pay & benefits)	____	____	____
10. Plan and execute annual meeting.	____	____	____
11. Establish advertising policy.	____	____	____
12. Select banking institution.	____	____	____
13. Prepare business plan.	____	____	____
14. Select/approve employee retirement plan.	____	____	____
15. Set manager's compensation.	____	____	____
16. Set amount and source of debt financing.	____	____	____
17. Define corporate objectives and goals.	____	____	____
18. Conduct employee evaluations.	____	____	____
19. Approve annual operating/capital budgets.	____	____	____
20. Handle affiliations with associations.	____	____	____
21. Determine educational activities of co-op.	____	____	____
22. Allocate contributions to groups/causes.	____	____	____
23. Negotiates/signs legal documents.	____	____	____
24. Maintain morale of personnel.	____	____	____
25. Recruit and train new directors.	____	____	____
26. Determine when member decision is needed.	____	____	____
32. Evaluate corporate performance.	____	____	____
33. Determine need for expansion/consolidation.	____	____	____
34. Set board compensation.	____	____	____
35. Make annual reports to members.	____	____	____
36. Approve goals/objectives of departments.	____	____	____
37. Prepare and analyze market plans.	____	____	____

Board Performance Evaluation

This is a tool to help Boards of Directors assess areas of their performance which can be developed. Each Board member should fill out a copy of the survey, and the results should be discussed openly in a planning session. The results should be used to help prioritize areas for policy and procedure development.

A. Director Training

1. Is there a board orientation program?
2. Are directors required to attend board training?
3. Do directors have up-to-date board manuals?
4. Is some kind of board training held at least once per term?
5. Indicate what areas board members receive training in:

    - Director Roles & Responsibilities
    - Co-op Policies
    - Meeting Procedure
    - Planning Skills
    - Financial Skills
    - Committee Use
    - Board/Staff Relations
    - Personnel Management

6. Has the board reviewed the director job description within the past year?

B. Meeting Preparation

1. Do directors receive materials at least two days in advance of a meeting?
2. Are meetings publicized well?
3. Do minutes include the following:

    - Date/Time/Place?
    - List of Present/Absent?
    - Agenda with revisions?
    - Exact wording of decisions?
    - Written reports presented?

4. Are minutes distributed prior to the next meeting?
5. Are written reports prepared when appropriate?
6. Is there a policy on whether reports should be written or oral?

C. Meeting Attendance

1. Do all board members attend at least 90% of meetings?
2. Is there a policy to remove directors for non-attendance?

D. Meeting Participation

1. Do all members contribute to the discussion in meetings?
2. Does the chair minimize unneccessary discussion?

3. Does the chair solicit input from quieter members?
4. Do all directors understand the proposal before voting occurs?
5. Do votes regularly carry with more than one-third of the directors abstaining?
6. Is the agreed upon meeting process used properly?

E. Committees

1. Are committees appointed in a timely manner?
2. Do committees meet as necessary? Are meeting times regular?
3. Do committees provide the board with written reports?
4. Are committees given clear objectives and assignments?
5. Are individual committee members effective and useful?

F. Legal Issues

1. Is each director furnished with a copy of the co-op's articles of incorporation, bylaws, and standing rules (board policies)?
2. Are minutes approved at each meeting?
3. Are directors aware of what would constitute a conflict of interest?
4. Does the co-op consult its attorney when necessary?
5. Does the co-op use in-camera sessions when necessary?

G. Financial Planning & Policies

1. Has the board thoroughly reviewed the co-op's financial policies in the past year?
2. Does the board approve the operating budget each year?
3. Is the board provided with information to understand the budget before approval?
4. Has the board established financial objectives for the year?
5. Does the board receive reports detailing progress toward these goals?
6. Does the board regularly receive variance reports?
7. Does the co-op regularly review its insurance coverage?
8. Does the co-op regularly review its employee bonding program?
9. Is the audit presented to the board by the co-op's auditors?
10. Does the finance committee develop policies based on the audit's suggestions?

H. Planning

1. Has the co-op updated its mission statement in the past five years?
2. Does the co-op review its standing policies at least every three years?
3. Does the co-op have a business plan or three-year plan?
4. Does the board have an up-to-date planning calendar?
5. Does the board review progress toward plans on a regular basis?

I. GGeneral Manager

1. Has the job description been updated within the past year?
2. Has the board approved the manager's quarterly objectives?
3. Does the board conduct an evaluation of the GM each year?
4. Does the board follow-up on evaluations to assess progress?
5. Is the employee compensation packet reviewed each year?

Notes

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NASCO, the North American Students of Cooperation, is a non-profit educational organization dedicated to strengthening and expanding the cooperative movement on college campuses across the United States and Canada.

NASCO was founded in the spring of 1968 by a group of student co-op leaders and supporters who wanted to create a common voice for cooperatives in campus communities. NASCO was conceived to help educate new generations of co-op members about the principles and practices of cooperation, to forge alliances between existing co-ops, and to act as an advocate of the movement.

Since its inception, NASCO has provided comprehensive programs and services aimed at building the campus cooperative movement. Those programs and services include an annual conference, a career development program, educational publications, development services for groups who wish to start new co-ops, and more.

All of NASCO's programs are ultimately aimed at developing the potential of students co-ops to provide affordable services and to encourage cooperative leadership. By strengthening the campus co-op movement, we can strengthen the future of all cooperatives.

www.nasco.coop