

Co-op governance

It is often said, “If you have a question on how the co-op is controlled, read the bylaws and you will probably find the answer.”

The bylaws are one of the two founding documents of a cooperative and the first place to look for information on co-op management. If a member has a question on the voting process, look in the bylaws. The same is true for questions on the definition of a member, financial controls, home sales and board and member meetings. Many provisions of the bylaws are regulated by New Hampshire law, with the Consumers’ Cooperative Association laws (RSA 301-A) the most relevant.

The most important requirement of 301-A is that a co-op must be democratically controlled, with a one-vote, one-member system. In the case of New Hampshire's resident-owned communities, this means that each member-household has one vote.

Board of directors

The bylaws state that the members will elect a board of directors to carry out the community's day-to-day operations, and clearly state the board’s duties, responsibilities and scope of authority. They also specify how board members are elected, and how a board member can be removed from office or appointed in case of a resignation.

The board appoints committees to take on the many tasks of running the co-op, including screening new members, applying for grants for repairs and planning the annual meeting.

The board and the committee members, who are appointed, must adhere to the co-op’s bylaws and rules, as well as to local, state and federal laws. They are also co-op members, and are accountable to their fellow members. They must run the co-op in a fair, consistent, democratic and businesslike manner.

The board of directors must fulfill two main duties:

- ✓ **Loyalty to the cooperative.** Members need to know that board members are not putting their self-interest ahead of the best interests of the cooperative. For this reason, precautions are taken to avoid “conflicts of interest” or even appearances of a conflict of interest that might cause concern to the members. A conflict of interest is putting, or appearing to put, self-interest ahead of the co-op’s interest. An obvious example would be paying a board member with co-op money for doing work normally done by volunteers. The board needs to take steps, such as adopting a policy and evaluating possible conflicts of interest, to assure that conflicts don’t harm the trust the members have placed in the directors.

“Loyalty” also implies “obedience,” so directors must also know and obey applicable state and federal laws, and the cooperative’s articles of incorporation, bylaws, community rules, policies and procedures. They must adhere to the budget, as well as to any binding contracts and/or agreements, including those with lenders who require reporting on a regular basis.

- 2. The duty of care in taking action on behalf of the co-op.** The standard of care that must be exercised by a board member is that of an “ordinarily prudent person.” This means the level of care that an ordinary person would exercise in an effort to be careful with co-op business. *Caution*, not a super-heroic effort, is expected.

Generally speaking, board members are protected from personal liability for the work they do on behalf of the co-op. However, they must exercise a level of caution and care on important issues such as:

- ✓ reading reports that come to the board
- ✓ conducting credit checks on new applicants for membership
- ✓ creating and following board policies and procedures
- ✓ ensuring that contracts are put in writing
- ✓ record keeping
- ✓ ensuring that the co-op is adequately insured
- ✓ practicing sound financial controls
- ✓ consulting with the co-op’s lawyer or accountant when appropriate
- ✓ following the membership-approved budget
- ✓ reviewing the budget each month
- ✓ meeting the requirements of loan agreements and contracts, as well as other corporate responsibilities
- ✓ maintaining the co-op as an entity recognized by the State of New Hampshire, by filing annual reports with the secretary of state’s office
- ✓ filing timely income tax returns
- ✓ complying with all financing terms and agreements
- ✓ researching contractors and using a bid process on large projects
- ✓ holding an annual meeting of the membership

Board members who are effective co-op leaders should

- ✓ encourage and support members to work together to achieve the mission of the cooperative
- ✓ be committed to maintaining or improving the strength of the cooperative
- ✓ be a positive role model for other members
- ✓ know or be willing to learn the cooperative’s decision-making policies and procedures
- ✓ work well with people, devote several hours per month to the cooperative, attend meetings, perform their jobs and communicate with members
- ✓ be able to support majority decisions made by the board and membership