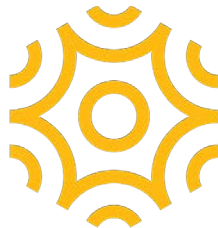


# Cooperative Board Leadership

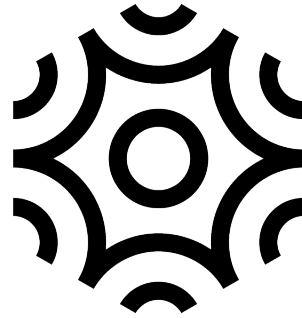


a program of



**Columinate**

**Work with people who understand your co-op  
and your business. Trusted advisers to the  
food co-op community since 1987.**



**Columinate specializes in  
providing consulting services to  
cooperatives in these areas:**

# Columinate

## **Expand & Grow**

Expansions can be risky and rewarding experiences. Minimize risk with strong feasibility assessment, organizational alignment and careful planning.

## **Improving Operations**

Strengthening your current operations is part of planning for growth. We help food retailers create great shopping environments for their customers and generate strong financial performance.

## **Develop Your Talent**

The quality of your co-op's staff and internal structure has a farreaching impact on the co-op's business success and relationships. Your co-op can be the employer of choice in your community when you develop a culture of empowerment, engagement and accountability.

## **Cooperative Governance**

Co-ops need strong leadership and governance. Boards of directors benefit from ongoing support, training and strategic conversations to enable them to do their jobs with excellence.

## **Start a Food Co-op**

Many communities that don't have a food co-op want one of their own. Starting a food co-op is a complicated and time-consuming project involving organizing, feasibility assessment and planning, but can yield great results when successfully implemented.

## **Developing General Management Talent**

The General Manager Success (GMS) program provides ongoing support and coaching to help general managers build knowledge, develop skills, and achieve competencies needed to successfully manage a cooperatively owned food store.

## **Strong Relationships Drive Growth**

The Power of Participation (POP!) Program gives co-ops the support they need to enhance owner and customer engagement, invigorate staff commitment to co-op outcomes, and positively impact their competitive position in the marketplace.



**Columinate**

**To learn more, visit [www.columinate.coop](http://www.columinate.coop)**

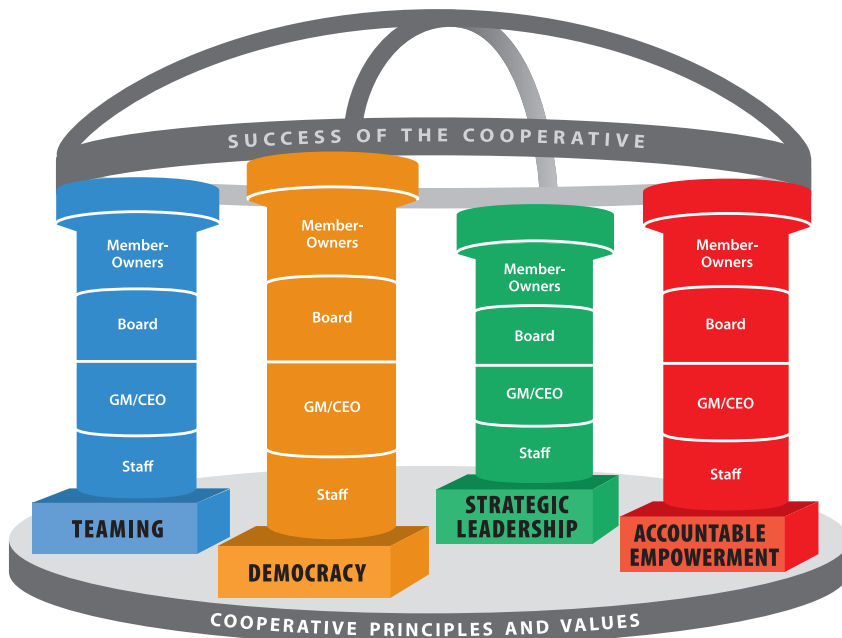
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# CBLD

## Cooperative Board Leadership Development



### Four Pillars of Cooperative Governance



*I can't imagine a more important time for co-op boards, management and staff to be working together on behalf of member-owners to deliver on the goals of the co-op. Now is the time for cooperative governance to shine! On behalf of the CBLD Team, thank you for participating in the CBLD program for the opportunity to serve you, your co-op and the community of co-ops.*

—Mark Goehring, Columinate

### Direct support

CBLD is an award-winning, innovative program designed to support your board and management team. Ongoing support is achieved by close contact with the board, board leaders and managers, through in-person regional multi-co-op events, and by continually adding useful resources to the Columinate's open access online library. CBLD support utilizes the Four Pillars of Cooperative Governance—Teaming, Accountable Empowerment, Strategic Leadership and Democracy. Support for managers focuses primarily on building and sustaining a strong relationship with the board.

About 95 co-ops are enrolled in CBLD. Participating in CBLD strengthens your co-op and the community of co-ops.

### Program features

The CBLD program includes ongoing consulting hours for regular contact with the primary CBLD consultant, planning and facilitation of a one-day board retreat, a variety of virtual and in-person sessions, and access to resources via the Columinate Library.

For more details visit the CBLD webpage at:

<http://www.columinate.coop/cblld>

### CBLD program fee

The CBLD program fee is listed on the [CBLD webpage](#) and is paid in quarterly installments in March, June, September and December. In addition, your co-op is responsible for costs associated with your retreat and attending in-person events.



## Columinate

### Related Services

**Bylaw review** support helps boards consider what bylaws will be appropriate for the future of their co-op. Our expert support allows for legal review to be most efficient, saving the co-op time and money.

**Participation** leads to success of the co-op! We can help grow your membership, raise member capital, tell the co-op story and nurture a sense of belonging to the co-op.

**For more info, please contact:**  
[CBLD\\_enrollment@columinate.coop](mailto:CBLD_enrollment@columinate.coop)



# See all upcoming in-person and virtual events

## Columinate offers education and training solutions in key competency areas tailored to your organizational needs

---

We recognize that learning is critical for attaining success and development for your communities. We can cater a training program to meet your specific needs and timeline, or join us at one of our scheduled in-person events.



**Build critical skills for starting, growing and improving your organization**



**Manage and support change in your organization**



**Engage your members and employees with a complete schedule of trainings, workshops and events**

<https://columinate.coop/events>



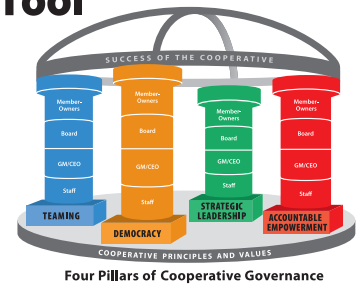
# Cooperative Board Self-Assessment Tool

Co-op name

(optional)

I am a:

- ☐ General Manager
- ☐ Board Member
- Other



## TEAMING

successfully working together to achieve common purpose

	Strongly Disagree				Strongly Agree	Don't Know
Directors have healthy and productive working relationships with each other.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board and GM have a healthy and productive working relationship.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board regularly evaluates our own board work.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board perpetuates our leadership capacity through education and training.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board has a robust recruitment, screening and nomination process.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board has an effective orientation for new directors.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Directors have a common understanding of the board's purpose in the coop.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board follows a strategic work plan.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board has productive and well-organized board meetings.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Board meeting packets contain adequate information for preparation.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Directors diligently prepare for board meetings.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board uses a clear decision-making process.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board conscientiously incorporates diverse perspectives into our work.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Every director is professional and disciplined in his/her work and follows our code of conduct expectations.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Every director participates fully and productively in board meetings and retreats.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Our board president helps the board accomplish its job.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Board committees add value and support the wholeness of the board.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board has a clear and up-to-date set of written expectations about how the board will operate.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board creates a welcoming environment.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board regularly celebrates board, management and coop accomplishments.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board invests in its ongoing education and development.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board has effective documentation and recordkeeping including minutes and board packets.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## ACCOUNTABLE EMPOWERMENT

successfully empowering people while at the same time holding them accountable for the power granted.

	Strongly Disagree				Strongly Agree	Don't Know
The board has clearly defined our expectations of the GM.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board has a clear understanding of the distinction between board and GM roles and responsibilities.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
No individual director attempts to exercise authority over the GM or other staff.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board systematically and rigorously monitors our GM's and coop's performance compared to our stated expectations.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board receives excellent information and data from the GM that provide complete accountability of the GM for the status of our coop.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board uses a rigorous process to judge whether the GM's performance meets board expectations.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Strongly Disagree				Strongly Agree	Don't Know
The board fully empowers the GM. No micromanagement.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board supports GM authority as long as the GM is in compliance with board expectations.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board's annual evaluation of our GM is based on a summary of monitoring reports we received during the year.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board holds board committees accountable for meeting expectations set in committee charters.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board holds our board president and other officers accountable for meeting expectations set in board policy.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## STRATEGIC LEADERSHIP

*successfully articulating the cooperative's direction/purpose and setting up the organization for movement in this direction.*

	Strongly Disagree				Strongly Agree	Don't Know
The board focuses our vision outward and toward the future.						
The board provides strategic leadership by articulating the coop's purpose (e.g. Ends policies).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board has an effective system for ensuring that the coop operates as it should, upholding its fiduciary responsibility to members.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board understands how the annual and multiyear business plan is connected to the board's stated expectations.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board has a plan for ongoing board education about key strategic items, such as historical and projected trends, memberowner and community needs, and internal and external forces that may affect our coop's direction.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board dedicates time to building wisdom in order to be ready to make good decisions.						
The board and GM have strategic conversations in a way that distinguishes this work from our monitoring and evaluation work.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board uses a strategic process to determine that the GM's compensation package is appropriate for the level of responsibility.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board knows that our coop has enough management depth that losing our current GM would not create a crisis.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board understands the capital needs of our coop.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## DEMOCRACY

*Successfully sustaining a culture in which people choose meaningful ways to participate for both individual and common good*

	Strongly Disagree				Strongly Agree	Don't Know
Our board uses healthy democratic practices in our work.						
The board uses good mechanisms to ensure our ability to understand diverse memberowner viewpoints and values.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The board effectively communicates board actions and decisions to our memberowners.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Our coop's bylaws are uptodate and clearly articulate memberowner rights and responsibilities.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Our coop has robust board elections.						
Our coop has informative, fun and wellattended annual meetings.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Our coop produces an informative annual report for members.						
The board understands how the Statement of Cooperative Identity (Definition, Values and Principles) provides context for our work.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Our coop's memberowners have multiple opportunities to meaningfully participate in our cooperative.						
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

# Cooperative History, Principles and Values

---

- People have been cooperating since the dawn of time and across the globe. The Rochdale Pioneers (Rochdale, England, circa 1840s) were the first to create a replicable model, complete with written guiding principles.
- The International Cooperative Alliance (ICA.coop) are the global stewards of the cooperative identity, principles and values.
- World wide, co-ops employ 250 million people and have total sales of about \$2.2 trillion.
- Common co-op “sectors” include retail, worker, producer, housing, telcom, energy and financial
- Co-ops have played important roles in US history

## Cooperative Principles (7)

The Cooperative Principles were updated in 1937 and 1995.

- 1) Voluntary and Open Membership
- 2) Democratic Member Control
- 3) Member Economic Participation
- 4) Autonomy and Independence
- 5) Education, Training and Information
- 6) Cooperation among Cooperatives
- 7) Concern for Community

## Cooperative Values (10)

Self-help

Self-responsibility

Democracy

Equality

Equity

Solidarity

Honesty

Openness

Social responsibility

Caring for others

*See page 15 for the complete Statement of Cooperative Identity, including the expanded definition and cooperative principles.*

## What Is a Co-operative?

“A co-operative 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.”



International  
Cooperative Alliance  
ica.coop



The ICA published the Blueprint for a Co-operative Decade in early 2013 to carry forward to the momentum of the International Year of the Co-operative in 2012. In it, the ICA lays out three big goals for the coming decade, and describes five key themes to focus on for the successful accomplishment of these goals.

Link to download the Blueprint:

<https://columinate.coop/the-co-operative-decade-why-participation-matters/>

# The Rochdale Pioneers' Message to the Future

BY PATRICIA CUMBIE

We hear a lot about “hope” and “change” these days, but how does our vision compare with the kind of lasting change brought about by the humble men and women of Rochdale, England, a century and a half ago? For the Rochdale Pioneers, the founders of our modern cooperative movement, cooperation gave them real tools to change a dire economic situation. Beset by indebtedness, hunger and lack of job security, they looked to principles of democracy and self-help over bailouts. They succeeded by enabling their cooperative society members the means to suffrage, economic franchise, and education. It’s impossible not to feel moved and inspired by their dedication and courage.

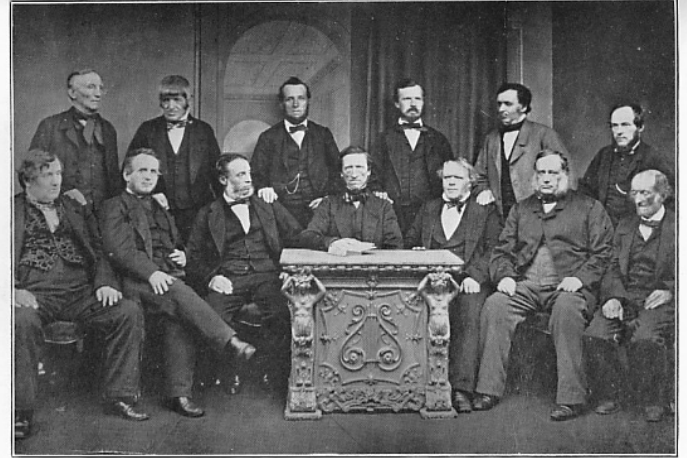
Yet 1844 seems like a long time ago and aspects of the Rochdale Pioneers story feels undeniably quaint. Times have definitely changed. But sometimes that old adage the more things change, the more they stay the same, applies. When you consider the dramatic economic upheavals of the past year, and the way we arrived at the current situation, you can imagine the Pioneers looking at us with some pity, as well as great understanding of our current problems.

David Thompson is president of the Twin Pines Cooperative Foundation, and author of *Weavers of Dreams*, a book about the Rochdale Pioneers and the founding of the modern cooperative movement. In a discussion about the relevance of the Pioneers experience to today’s cooperatives, Thompson noted that it was similar economic disruption that forced people to look at other ways of doing business, and likewise an opportunity for contemporary cooperators. Now that cooperatives today are considering the impact of recessionary times on their growth and operations, it’s a good time to consider the poignant lessons of the Rochdale Pioneers.

## Adequately Capitalize Your Co-op

“The Pioneers also knew that if they wanted to have the just society they dreamed of, they had to put every resource they had into building it,” Thompson said. It wasn’t just lip service. It took them all two years to save up the investment of two weeks worth of wages. It came slowly, a penny here and a penny there, but they were determined. Thompson said this is because they took their cooperative idea very seriously. “They felt like they had to rebuild the commonwealth, to grow those institutions that were of value to them and that they relied on.”

Thompson said this is especially relevant now when you consider all the hits to retirement and pension accounts today that are draining life savings. History has vindicated the Pioneers perspec-



**The Rochdale Cooperative Pioneers**

tive that fairness goes beyond the feel-good factor. It has long term worth. Investments made in cooperatives have proven to be of lasting value, a strong argument for cooperation during boom and bust.

## Empower Member Owners

One of the things that consumed the political thoughts of the Rochdale Pioneers was their lack of democratic power. Only people who owned land had the right to vote at that time, and the Rochdale Pioneers felt this injustice deeply. From their perspective, having a vote in the cooperative was absolutely necessary to the equitable ideals of cooperation and a step toward introducing democracy to a reluctant society. They built housing cooperatives in order to claim they were landowners and be able to vote.

In America today, it’s easy to take the idea of voting for granted, and at the food co-op elections often garner an apathetic response. So how does the Pioneers’ passion for democracy square with modern times?

“It’s a critical factor,” Thompson said. “It comes down to this: The decisions that have robbed people of their money were made in places like New York City or London. How much control did they have over that? None. While the Pioneers strove for political democracy themselves, they also wanted economic democracy. They understood what you control is what you have invested locally.” Thompson argues that the Pioneers would urge cooperatives to make local their priority. “They would say you can revitalize what you invest in locally. That’s what will rebuild our communities and give us more power,” he said.

## Invest in Education

One of the most remarkable aspects of the Rochdale Pioneer story is how much resources they put into the education of their members. Public schools didn't exist, and like voting, education was something only the well off could afford. The Pioneers believed that in order to be better business owners and citizens, they needed to be educated. Therefore, the co-op classroom was born.

In most American cooperatives today, literacy is not an issue, but ongoing education about the cooperative idea is always relevant. Board leadership consultant Marilyn Scholl notes that the benefits of cooperative ownership needs to be tangible and clearly communicated, not only to provide for the co-op's future leadership, but as a means to building community and local economies.

## Invest in Cooperative Development

As our food cooperatives look to grow and expand, this is perhaps the most important take-away from the example of the

Rochdale Pioneers. "Especially now cooperatives should put a much larger emphasis on raising capital from the membership. The less you have coming from external sources, the more control you have," Thompson said.

Together, food co-ops have a fair amount of assets Thompson noted, and it's also important to continue to invest in cooperative development in order to use a portion of co-op capital to cultivate the growth that's possible within our sector. "That's what the Pioneers did with their own cooperative bank. They wanted to foster the growth of cooperatives."

Above all, the Pioneers did not panic or succumb to doubt, even with the steep challenges they faced. They believed that by staying the course, adhering to the principles of fairness in business, their cooperative would succeed. And it did. Worldwide and beyond all expectation. The Rochdale Pioneers might not want to admit it, but their legacy to us has been one heck of a return on investment.

## What Would the Pioneers Say About Us Today?

*Many years ago, I was part of a workshop on managing growth in a recently expanded food co-op. As a warm-up exercise the leader asked participants if there were any individuals from history that you'd like to have a conversation with or ask advice. We went around the room and people threw out big names like Einstein, Jesus or Elvis. I said the Rochdale Pioneers. Honestly, I felt like a big dork saying it, but it was heartfelt. What I most wanted to ask them was how they kept the faith when things were tough.*

*That's why it was a great pleasure to discuss with author David Thompson his thoughts on what the Rochdale Pioneers might say about that to contemporary cooperators. Revisiting Thompson's book *Weavers of Dreams* and taking into account the circumstances of the founding of the modern cooperative movement, and how it applies to today's state of affairs, was a privilege and a fantastic exercise.*

*Everyone at the Columinate is inspired by the outright practicality and hope-inducing vision the Rochdale Pioneers developed. We are here to contribute our part to creating the best models of cooperation and adhering to those practices that made the Pioneers such a success. We hope that by considering anew the Pioneers example, you feel as hopeful about the future of cooperation as we do.*

—Patricia Cumbie



# Sojourner Truth and the Northampton Association of Education and Industry



In 1842, members of the Northampton Association of Education and Industry established a utopian community organized around a communally owned and operated silk mill. Those who were drawn to this community sought to challenge the prevailing social attitudes of their day by creating a society in which “the rights of all are equal without distinction of sex, color or condition, sect or religion.” They were especially united around the issue of the abolition of slavery. Most were followers of William Lloyd Garrison. Sojourner Truth was a member of the community and visitors like Frederick Douglass were regular lecturers.

“O’ God, thou art my last master, and thy name is Truth, So shall Truth be my abiding name until I die.”

Sojourner Truth, born Isabella, was a former slave who claimed the right to name herself, along with her freedom. At a time in the nineteenth century when a forceful women’s voice was rarely heard in public, Truth, lacking formal education, but endowed with a sharp wit and an unadorned but powerful eloquence, spoke with authority and conviction to audiences across the northeast and Midwest.

Truth came to Northampton in 1843 to join the Northampton Association for Education and Industry. Though living conditions at the Northampton Association were spartan, no other place, Truth later recalled, offered her the same “equality of feeling,” “liberty of thought and speech,” and “largeness of soul.” It was in Northampton that Truth came into contact with abolitionists William Lloyd Garrison, Frederick Douglass and Wendell Phillips. Through them and other members of the Association, Truth was introduced to a wider world of nineteenth century reform. Thereafter, Truth would become well known not only in anti-slavery circles, but in the women’s rights and temperance movements as well.

Though the community was dissolved by 1846, its legacy lived on in the reforms that it fostered. In particular, Samuel Hill, one of the original founders of the association lived to

become a major philanthropist for Northampton and Florence, establishing the Hill Institute, America’s first free kindergarten, which exists to this day.

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from Historic Northampton [www.historic-northampton.org/highlights/truth.html](http://www.historic-northampton.org/highlights/truth.html) accessed 9/5/17

from Historic Northampton [www.historic-northampton.org/highlights/educationindustry.html](http://www.historic-northampton.org/highlights/educationindustry.html) accessed 9/5/17

Also see [An Abolitionist Utopia: Northampton Association of Education and Industry\(1842-1846\).](#)

# The Night the Lights Were Lit!

BY DAVID J. THOMPSON

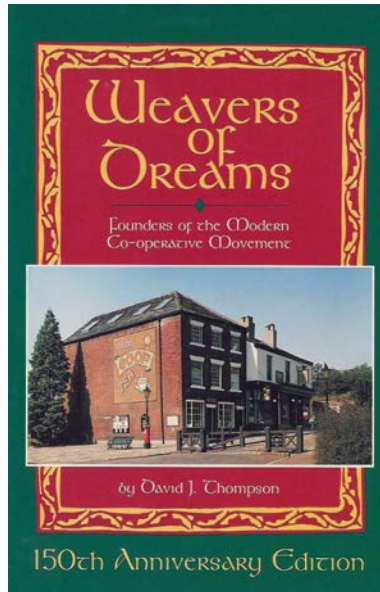
On the 21st Day of December in 1844 the Rochdale Equitable Pioneers Society opened a small store in England with five items and little fanfare. Thus humbly began the modern cooperative movement. Let's step back into that time to get a sense of how cooperative history was made.

In the summer of 1843, a thirty one year old Charles Dickens journeyed to Lancashire, to see for himself how life was lived in the industrial north of England. To feed his insatiable journalistic curiosity, he visited a workhouse in Manchester to see how the poor were surviving the "hungry forties". Dickens was taken aback by the terrible conditions he saw in the midst of the burgeoning wealth. In the bustling heartland of the Industrial Revolution he saw the two England's' of rich and poor.

The next day, speaking to an audience of well to do aristocrats and mill owners at Manchester's prestigious Athenaeum Club, he urged the audience to overcome their ignorance which he said was "the most prolific parent of misery and crime". Dickens asked them to take action with the workers to "share a mutual duty and responsibility" to society. On the train back to London, impacted greatly by the poverty and misery he had seen, he conceptualized "A Christmas Carol". He began writing the classic Christmas story a week later and completed it in six weeks. Since the book was published on December 19, 1843, Christmas has never been the same.

On the eve of revolutions throughout Europe, Dickens counseled that hearts must hear and eyes must see for society to change. In Dickens' mind, the Bob Cratchits' and Tiny Tims' of the world would have to wait for the Ebenezer Scrooges to literally go through hell before heaven could be made upon earth. Dickens later returned to the Lancashire mill towns to gather information for a later novel "Hard Times". Dickens solution in much of his writing was the voluntary transformation of the rich and powerful.

However, for Dickens, "A Christmas Carol" was semi-



autobiographical reflecting his father having been in 'debtor's prison' and the suffering within his own family. It was also a social commentary on the tremendous conflicts transforming British society from top to bottom as a result of the Industrial Revolution. However, Scrooge's peaceful transformation was not repeated enough by a self-interested industrial aristocracy. Five years later, revolutions occupied center stage in much of Europe.

In the summer of 1843, at the time Dickens visited Manchester a group of Bob Cratchits' and their spouses were meeting regularly just eleven miles away in the nearby town of Rochdale. One of the

Pioneers, John Kershaw recalled a key step in organizing the co-op, "A few days before Christmas, 1843, a circular was issued calling a delegates meeting to be held at the Weavers Arms, Cheetham Street, near Toad Lane." At that meeting, the Rochdale families decided that rather than wait for the mill owners to do something for them they just better do it for themselves. It took the determined mill workers almost two years before they had collected enough of their meager savings to open up their small co-op. Their immediate aim was to get better quality food at decent prices and give some of them jobs. Their ultimate goal was to use the co-op's profits to create their own community where working and living conditions would be better. Amongst the "satanic mills" they would build their "New Jerusalem".

December 21, the Winter Solstice, was the longest night of the year. Under the old Gregorian calendar, December 21 was also Christmas Day. The co-op opened almost one year to the day after the publication of "A Christmas Carol". However for the members of the newly formed co-op called the Rochdale Equitable Pioneers Society the holiday season would not be one of gifts or gaiety but of consternation and caution.

On that Saturday night at 8pm, a small group of the Rochdale Pioneers and their families huddled together in the shop to witness the store's opening. The temperature was below freezing made worse by the damp in the almost

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empty warehouse at 31 Toad Lane (T'Owd is dialect for the old Lane) in Rochdale. Outside on the busy lane they could hear the clattering of wooden clogs on the cobbled streets. The tired mill workers were hurrying home to find warmth from the winter's chill. As the church bells across the street struck the appointed hour, the founding members heard each chime with beating hearts. Then, James Smithies went outside and bravely took the shutters off the windows. With the final shutter removed and a few candles bravely lighting the store's bay windows the modern cooperative movement began. This little shop in Rochdale, England would be its lowly birthplace and these humble hard working families its founders.

When the co-op opened there was no ceremony or cheering to be heard, only the jeering of the "doffer boys" laughing at the silly idea of it all. The "doffer boys" were the mischievous factory lads of the era. The shop was by their account a silly dream of weavers and another idealistic experiment in brotherhood bound for bankruptcy. On the almost bare counter were proudly yet sparsely arranged the co-op's five items for sale; six sacks of flour, one sack of oatmeal, 2 qrs. of sugar, 1qr. 22lbs of butter and two dozen candles. The entire stock, worth £16. 11 shillings 11 pence (about 25 dollars), could have been taken home in a wheelbarrow. The ground floor they rented for 10 pounds (18 dollars) per year measured 23 feet wide and 50 feet deep (a total of 1150 square feet). The shop itself was only 17 deep and measured 391 square feet; the remainder was used for storage and as a meeting room. Fortunately, the staunch beliefs of the Pioneers filled the store with hope. This opening day would be difficult as would the next day and the day after, but their strength was their daring to dream of tomorrow.

The day before the store opened, the Pioneers supplied the volunteer staff members with green aprons and sleeve coverings the same shade of green used by the Chartists. Many of the Rochdale Pioneers were Chartists, a people's movement for political rights and democracy in Britain. At that time, Parliament gave voting rights only to property owners. In 1840, the census showed that Rochdale had a population of 24,423. Of that only about 1000 inhabitants could vote. Two million people signed the Chartist's petition to Parliament. After the petitions were rejected, the disappointed Rochdale Chartists turned to self-help and

cooperatives. The sad ending of one democratic movement gave birth to the success of another.

On the day the co-op opened, membership in the Rochdale Pioneers numbered 28. Most of the Pioneers invested in a share of one pound each (equivalent in 1844 to two weeks wages). They had drawn up their principles and rules of operation which combined a utopian purpose and useful practicality. The need appeared so great that nothing but something powerful could change their circumstances. These weavers had dreams and what is more they were going to do something about them.

The cooperative idea soon took hold. In town after town, the Cratchits' of England joined their local co-op. The 'Bob Cratchits' of the land lent their skills, optimism and idealism to the fledgling organizations and the Bess Cratchits' lent their money management, organizational capacity and determination. For the first time in their lives the women of England had a vote of their own in a co-op of their own. Life in England changed dramatically when eight million families owned their own co-op stores, factories, houses, and a co-op bank, and insurance company just as the Rochdale Pioneers had dreamed of.

Just as in 1844, people on every continent are now using their cooperatives to meet the needs for food, credit, housing, work and enterprise. Cooperatives continue to help develop people and communities, economies and democracy.

At this time of year the candles are lit for Christmas, Chanukah, Kwanza and other festivals. Around the world, people in different languages and different faiths pause for a moment to give thanks for family, fellowship and a better life. However, no one speaks for all humanity better than Dickens' Tiny Tim, "God bless us everyone!"

The Rochdale Pioneers would be proud of their legacy of economic and social justice. The candles that gave light in Rochdale that night now shine strongly all around the world. The cooperatives and credit unions serving over 800 million families worldwide are strengthening communities everywhere. And in Rochdale during the holiday season and especially on December 21, the Victorian gas lamp outside the original co-op store on Toad Lane seems to shine a little brighter. It is on this very night that the lights were lit.

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# Cooperative Principles Updated

BY ANN HOYT | From Cooperative Grocer #62, January–February 1996

**“We have to do it this way. After all, that’s what makes us a co-op.”**

**“We only sell natural and organic foods. That’s a fundamental principle of cooperatives.”**

**“If we don’t have member labor, we won’t be a cooperative any more,”**

**“It’s against the cooperative principles to earn a profit.”**

All these statements and more are heard in food cooperatives throughout the country when members, staff and directors describe their businesses. Well intentioned? Yes. Inaccurate? Often. Confusing? Yes. What is a cooperative? Who determines the nature of cooperative business?

## The International Cooperative Alliance

Since its creation in 1895, the International Cooperative Alliance (ICA) has been accepted by cooperators throughout the world as the final authority for defining cooperatives and the underlying principles which give motivation to cooperative enterprise. Over 200 ICA members from more than 70 countries represent more than 700 million individual members of agriculture and fishery, banking, credit and saving, energy, industrial, insurance, tourism, housing and consumer cooperatives. One of the major purposes of the ICA is to “promote and protect cooperative values and principles.”

The ICA has made three formal statements of the cooperative principles: in 1937, in 1966, and in September 1995. Each statement was carefully crafted to adopt and explain principles which had relevance and value for the contemporary world. The six cooperative principles which U.S. food cooperatives generally espouse are those adopted in 1966.

In the early 1980s, cooperators began to call for a reconsideration of the 1966 principles. Substantial changes in the global economy, in international political alignments, in the economic development of Asia, Africa and Latin America, and in the world-wide human condition

brought new challenges and opportunities to cooperatives worldwide. Inevitably, the scope of problems being addressed and the extent of change throughout the world challenged some traditional cooperative assumptions, offered new interpretations of cooperative values and inspired a reconsideration of the role of cooperative enterprise in the 21st century. In its role as custodian of the cooperative principles, ICA was challenged to reevaluate the 1966 principle and determine whether they continued to provide useful guidelines for the future.

From the beginning, this remarkable international discussion and debate focused on fundamental questions. What, cooperators asked, is good, valuable, and worth striving for? At various times moral, ethical, social, cultural, economic and political motivations were each addressed. The goal was to clearly identify and achieve international consensus on what role cooperative enterprises should play in societies undergoing rapid change.

Last September, at its 100th anniversary meeting, the International Cooperative Alliance adopted a “Statement of Cooperative Identity.” The Statement defines cooperatives, identifies shared values and restates and expands the 1966 principles. The 1995 principles are intended to guide cooperative organizations at the beginning of the 21st century.

## The cooperative defined

The Statement of Identity defines a cooperative as “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.” While intentionally crafted as a minimal statement which could embrace the vast array of cooperative organizations throughout the world, the statement emphasizes some important characteristics of cooperative enterprise. These include:

**Autonomy:** The cooperative is as independent of government and private enterprise as possible.

**Association of persons:** The definition deliberately does not read “an association of individuals” and embraces any legal definition of “person,” which includes companies as well as individuals.

**Voluntary:** Members are free to join and leave at will,



within the purposes and resources of the organization.

**Meet needs:** The central purpose of the cooperative is to meet member needs, which can be purely economic or social and cultural.

**Joint ownership and democratic control:** The members

own the cooperative on a mutual basis. Decisions are made democratically by the members and are not controlled by capital or by government.

**Enterprise:** The cooperative is an organized entity that typically functions in the marketplace and engages in exchange of goods and services.

## The International Cooperative Alliance Statement of Cooperative Identity

Adopted September 1995

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### 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.

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### PRINCIPLES:

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

cooperative, and supporting other activities approved by the membership.

#### FIRST PRINCIPLE:

##### *VOLUNTARY 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.

#### FOURTH PRINCIPLE:

##### *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.

#### SECOND PRINCIPLE:

##### *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.

#### FIFTH PRINCIPLE:

##### *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.

#### THIRD PRINCIPLE:

##### *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. They 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

#### SIXTH PRINCIPLE:

##### *COOPERATION AMONG COOPERATIVES*

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

#### SEVENTH PRINCIPLE:

##### *CONCERN FOR THE COMMUNITY*

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

## Cooperative values

Traditionally, the cooperative movement has had deep ties to the world's wide array of religions and ideologies. It has continuously explored its own belief system and attempted to identify those personal ethics and social ideas, if any, that are shared by cooperators and motivate our future actions. The 1995 Statement articulates the best in our belief system, the ideals of personal and social conduct to which we aspire. In its background paper on the Statement of Identity, the ICA explains, "Any discussion of values within cooperatives must inevitably involve deeply-felt concerns about appropriate ethical behavior. Achieving a consensus on the essential cooperative values [within a rich array of belief systems among ICA members] is a complex but rewarding task."

Basic cooperative values are general norms that cooperators, cooperative leaders and cooperative staff should share, and which should determine their way of thinking and acting. They are our statement of what we think is the right thing to do. Based on a book written by Sven Ake Book for the 1992 ICA conference, *Cooperative Values in a Changing World*, the discussion assumes every generation recreates and refines its basic values so that they are inspirational to contemporary society. It is in our statement of values that we engage the hearts, conscience and loyalty of cooperative members. The first sentence of the values statement addresses our convictions about how to achieve a better society and what form that society should take. The values include:

**Self-help:** People have the will and the capability to improve their destiny peacefully through joint action which can be more powerful than individual effort, particularly through collective action in the market.

**Democracy:** Members have the right to participate, to be informed, to be heard and to be involved in making decisions. Members are the source of all authority in the cooperative. "The basic unit of the cooperative is the member....This basis in human personality is one of the main features distinguishing a cooperative from firms controlled primarily in the interests of capital." (ICA Background Paper)

**Equality:** Equal rights and opportunities for people to participate democratically will improve the use of society's resources and foster mutuality, understanding and solidarity.

**Equity:** Fair distribution of income and power in society and its economic life should be based on labor, not ownership of capital. Within the cooperative, rewards for

active membership in the cooperative will be distributed equitably, be it through patronage dividends, allocations to capital reserves, increases in services or reduction in charges.

**Solidarity:** Cooperatives are based on the assumption that there is strength in mutual self-help and that the cooperative has a collective responsibility for the well-being of its members. Further, individual cooperatives strive to create a united cooperative movement by working with other cooperatives to improve collective well-being.

The values statement also articulates values of personal and ethical behavior that cooperators actualize in their enterprises. They describe the kind of people we strive to be and the traits we hope to encourage - honesty, openness, social responsibility and caring for others -- through cooperation.

From the earliest days of the Rochdale Pioneers, cooperatives have emphasized the importance of honest dealings in the marketplace: accurate measurements, reliable quality and fair prices. Members have insisted that their enterprises have honest dealings with them. This in turn has led to honest dealings with non-members and a unique level of openness throughout the organization. And many cooperatives have manifested the values of social responsibility and caring for others, reflecting concern for the health and well-being of individuals within communities and a commitment to help them help themselves.

## The 1995 cooperative principles

Principles are guidelines for how to put ideals and values into practice. They rest on a distinct philosophy and view of society that helps us judge our accomplishments and make decisions. If successful, principles are incorporated into the organizational culture of the cooperative; they are the broad vision statement for cooperatives and cooperators individually and collectively. Shared and actualized principles allow cooperatives to be distinguished from other forms of organization. As the ICA puts it, "Principles are not a stale list to be reviewed periodically and ritualistically; they are empowering frameworks through which cooperatives can grasp the future."

Given that the ICA has adopted a new set of principles and, implicitly all of the world's cooperatives have agreed to uphold them, there is no more important visioning work for your cooperative to do than to become familiar with the new principles, discuss them and understand what impact they may have on your business and your members. They



give each of our businesses an opportunity to re-energize and recommit itself to the general goals of cooperation and to attract new people to the cooperative movement.

#### *Voluntary and open membership*

This principle has changed little from the 1966 version. It implies that individuals must not be coerced into cooperative membership. Rather, their participation as active and responsible members should be based on a clear understanding of the values for which cooperatives stand and support for those values. At the same time, while membership is open, the principle assumes the member is able to use the services provided and is willing to take on the responsibilities of membership. This language recognizes that some cooperatives may restrict membership based on ability to use the cooperative or on a limit to the number of members the cooperative can effectively serve. The important idea here, however, is that cooperatives do not discriminate against potential members based on their inherent characteristics (social, racial, political, religious or gender). Particularly important is the addition of gender as a category in the 1995 principles. The ICA Women's Committee worked long and hard to have gender added to the list and to ensure that the organization's expectations for cooperative enterprises are clearly expressed.

As U.S. food cooperatives learn to survive in intensely competitive markets, the membership principle and associated principles of education and member control take on critical importance. Members value their cooperatives only when they believe that the cooperative understands and serves their needs well. The membership cannot carry out its unique cooperative responsibilities if it is uninformed, nor if it is unable to be heard by its elected representatives. The open membership principle obligates elected leaders, managers and staff to elicit information from the entire membership body (not just a subset of organized opinion) and to understand their members and potential members fully regardless of religious or political beliefs, gender or sexual preference or cultural or social background. The special relationship between the cooperative and the people it serves is a unique characteristic of cooperative business.

#### *Democratic member control*

Building on the principle of open and voluntary membership, the principle of democratic member control defines the way in which members will make decisions. It assumes that members will participate in setting policy and giving broad direction to cooperative activities in

a way in which no member has no greater "voice" than any other member. This principle is closely related to the "one member, one vote" principle of the 1966 version. The new principle, however, gives specific attention to the potentially different voting structures that may be put in place in secondary cooperatives. When cooperatives are members of secondary cooperatives, the one member, one vote rule may result in substantial inequities for the individual members of member cooperatives. For example, if a cooperative of 1,000 members and a cooperative of 25 members each has one vote in the affairs of their cooperative distributor, the 25 members of the smaller cooperative clearly have a much stronger proportional voice than do the 1,000 members. The principle addresses the possible need for different voting procedures at the distributor level in order for voting to be democratic.

#### *Member economic participation*

This principle deals directly with the very difficult problem of capital acquisition by cooperatives in amounts large enough to compete effectively with vast global industries. Throughout their history, cooperatives have been built on the premise that capital is a servant of the enterprise, rather than the master. Cooperative activities are organized to meet member needs, not to accumulate capital in the hands of investors. In the past, the principle of capital as servant led to a belief that resources generated by profitable cooperative enterprises should be retained by the cooperative, rather than being concentrated in the hands of owners of capital, by strictly limiting returns to invested funds.

It has not always been clear what role, if any, is played by non-member capital investment, or investment by members beyond the "fair share" required. Although members own millions of dollars that they might invest in cooperatives, the previous restrictions on dividends to be paid on capital did not encourage them to invest beyond the required amounts. Consequently cooperatives have repeatedly been unable to generate equity for capital intensive projects; and they have been unable to maintain the value of invested capital during inflationary times. The strict limitation on dividends to capital has been lifted in the 1995 principles, which now imply that cooperatives compensate capital and labor fairly.

In order to retain the democratic nature of the enterprise, members of cooperatives are expected to contribute capital equitably and to democratically control the capital of the business. To retain the community centered nature of the enterprise and the belief that strength comes from

pooling resources to engage in mutual self help, there is an underlying expectation that a portion of the cooperative's capital should be owned collectively by all members. Finally, the principle also gives guidance to members on possible uses for surpluses generated by the enterprise, specifically mentioning cooperative reinvestment and reserves, patronage rebates, and other activities approved by the members.

#### *Autonomy and independence*

In the thirty years since the passage of the 1966 Cooperative Principles, numerous third world countries have used cooperatives as an intentional part of their social and economic development strategies. While there are many instances of successful development through cooperatives, the overall record is mixed at best. Even though the intent was to develop self-reliant member controlled enterprises, government initiation and support was necessary to begin the cooperative ventures. Unfortunately, many of the governments, especially in centrally planned economies, were unable to withdraw from the cooperatives. Instead, cooperatives, closely controlled by government functionaries, became inefficient and poorly managed, a haven for government bureaucrats. Independence and autonomy was often never realized.

The new principles emphasize that cooperatives must be free of intervention from governments or other sources, so that the members are able to control their own destiny.

#### *Education, training and information*

Education continues to be a priority of the cooperative movement in the new Statement of Identity. The background paper on the principles emphasizes that cooperative education is more than advertising product or distributing information. It is critical to the effective and informed participation of members which lies at the core of the cooperative definition. "It means engaging the minds of members, elected leaders, managers and employees to comprehend fully the complexity and richness of cooperative thought and action." The rewritten principle also highlights the importance of educating the young and opinion leaders about the nature and benefits of cooperation. If cooperatives are to be part of the solution to many of the world's problems, people must be not only aware of the concept, they must appreciate it and be willing to participate in it. Such active involvement will not occur if people do not understand cooperative enterprise.

#### *Cooperation among cooperatives*

This principle is virtually unchanged from the 1966 Principles.

#### *Concern for community*

Grounded in the values of social responsibility and caring for others, this new principle articulates the cooperative interest in making contributions to a better society at large. By taking ownership of portions of the economy, cooperative members are saying, in effect, "We can meet our needs and the needs of others better than they are currently being met." Because the effort is a mutual one, cooperative members understand that to provide for any member is to provide for all members.

Interestingly, much of the writing and debate that evolved into this principle was centered on environmental protection as well as sustainable development. Much of the development of the Statement of Identity was presented to the 1992 ICA Congress by Sven Book's report, Cooperative Values in a Changing World, which emphasized the tie between cooperatives and the environment, saying, "The next century needs the contributions of cooperative organizations as a people-based 'international countervailing power' for economizing the natural resources of the world and hence protecting the fundamental needs of coming generations." The background paper articulates the responsibility of cooperatives to participate in the environmental protection of their communities.

### **The beginning**

The ICA has concluded a nearly fifteen-year process of exploring the fundamental values and principles of the international cooperative movement. In spite of the vast differences in national circumstances, industry practices, cultures and ideologies, cooperators were able to identify those characteristics that describe their unique form of human enterprise. These are the values and principles which give voice to the enduring soul of the cooperative movement. The ICA sees them as "inherently practical principles, fashioned as much by generations of experience as by philosophical thought." As we join millions of other cooperators throughout the world in adopting them, we cannot but reflect on the nature of democracy, the use and control of capital, and the critical roles of members, directors, management, staff and the community in our cooperatives.

As part of an international commentary on the new Statement of Identity, M. Pax summarized the critical importance of this effort: "Our values and principles are our self-definition, our distinctive contribution to society and the basis for our practical activities. The test of our values and principles is not only in their intrinsic morality, the logic and social justice which they embody, but in our

ability to translate them concretely and realistically from social theory into social fact and to make them effective in our daily lives. It is only a courageous social movement which would dare to probe so deeply and so openly into the foundations on which it rests."

The 1995 Statement of Identity represents a remarkable worldwide consensus on basic values. Monumental as that

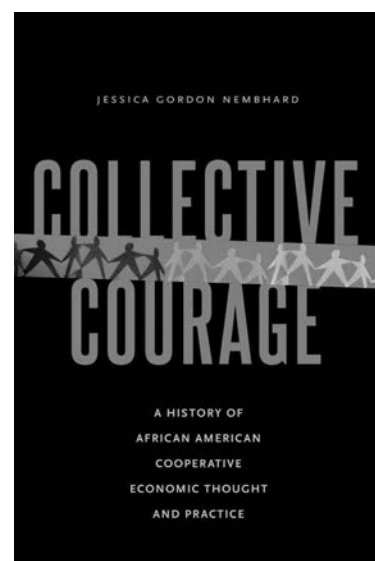
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achievement is, it is only the beginning. The profound challenge is to articulate, activate and actualize the values in our own communities. The path is clear. Now is the time to set forth.

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## Suggested Reading

In *Collective Courage*, Jessica Gordon Nembhard chronicles African American cooperative business ownership and its place in the movements for Black civil rights and economic equality. Not since W. E. B. Du Bois's 1907 *Economic Co-operation Among Negro Americans* has there been a full-length, nationwide study of African American cooperatives. *Collective Courage* extends that story into the twenty-first century. Many of the players are well known in the history of the African American experience: Du Bois, A. Philip Randolph and the Ladies' Auxiliary to the Brotherhood of Sleeping Car Porters, Nannie Helen Burroughs, Fannie Lou Hamer, Ella Jo Baker, George Schuyler and the Young Negroes' Co-operative League, the Nation of Islam, and the Black Panther Party. Adding the cooperative movement to Black history results in a retelling of the African American experience, with an increased understanding of African American collective economic agency and grassroots economic organizing.



We believe that now is a critical time to engage our cooperative community in important conversations about racism and oppression. *Everyone Welcome? Personal Narratives about Race and Food Co-ops* presents a variety of perspectives on what can be done to make food co-ops more racially inclusive. Fifteen co-operators from a variety of backgrounds—class, gender, race, ethnicity, and sexual orientation—talk about their introduction to co-ops and respond to two questions: how did food co-ops become so white and what can be done to make food co-ops more racially inclusive?

By Jade Barker and Patricia Cumbie

<https://columinate.coop/everyonewelcome>



# The Cooperative Values: Their Meaning and Practical Significance

BY SIDNEY POBIHUSHCHY, AUGUST 2002

Wisdom generated over the millennia of human experience proclaims that community is the optimal condition for human fulfillment. The co-operative movement and its business, based on the ten values proclaimed by the International Co-operative Alliance( ICA) in 1995, possesses the only contemporary social-political-economic philosophy/ideology which explicitly and practically promotes and actualizes community health and strength. The onus is on the leaders and members of the co-operative organization and its business to fulfill the objective of community. Co-operative education of the leaders and members of the co-operative is a necessary and, most likely, a sufficient condition for that to be accomplished. The foundation of co-operative education is in the ten values which the ICA proclaimed in 1995.

Each of the ten Co-operative Values discussed below has its own integrity and stands on its own merit. Yet each one of those values has an affinity to one or more of the other values. Also, each one of those values contributes a very important significance to the co-operative movement. The important message here is that while each one of those values is of critical importance to the movement, not one of them stands alone in defining the importance and integrity of the co-operative movement. Taken together, the ten Co-operative Values define, and provide the parameters for, a world view/paradigm. That world view/paradigm is a

wholesome and superior alternative to the status quo of the past and today, especially if human fulfillment and peace are important goals for any society to pursue. The clear implication of those ten Co-operative Values is that human fulfillment and peace are the only ethically and morally justifiable goals for any society.

It is little wonder, therefore, that the International Co-operative Alliance (ICA) in its 1995 Congress approved and emphasized the importance of Co-operative Education as articulated in its Fifth Principle.\* The individual ten values and the world view/paradigm which they collectively

define/articulate provide the necessary value foundation for education at least in the Co-operative Movement and hopefully beyond.

Each one of the ten co-operative values is a sophisticated and complex concept. Any brief definition of each of those ten values is not likely to adequately convey their complexity. Nonetheless, the following definitions will convey enough of the meaning of each of the ten values to serve as a starting point for further thought and deliberation.

## 1. SELF-HELP

This value has a dual referent. On the one hand it refers to the individual person "self" and on the other it refers to the collective "self" such as a co-operative, for instance. Self-help as a value obligates/encourages the individual person to satisfy her/his own needs and obligations through personal effort to the extent reasonably possible under the circumstances. An important need and obligation is the contribution to the realization of a healthy sustainable community. This is a very important element in achieving personal human fulfillment.

As a corollary, this same reasoning/logic applies to the collective "self" such as, for instance, a co-operative. This value obligates/encourages the collective to satisfy its own collective needs and obligations through its own efforts to the extent reasonably possible under the circumstances. It is from this value that the idea flows that each individual member/owner of the collective, i.e., co-operative, shares the responsibility for the success of the co-operative.

## 2. SELF-RESPONSIBILITY

This value, similar to the previous one, has a dual referent. The individual person is obligated and encouraged by this value to be responsible for her/his own well-being and to take responsibility for any consequences that flow from whatever he/she does in pursuit of personal need satisfaction. The corollary to this is that the collective

*\* ICA Fifth Principle: Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operatives. They inform the general public, particularly young people and opinion leaders about the nature and benefits of co-operation.*



"self" is responsible for its own well-being and for the consequences that flow from that pursuit.

### 3. DEMOCRACY

Democracy is a philosophy/practice of governance in which the people are collectively the repository of authority. The exercise of that authority is democratically legitimate only if the people who will be affected by that exercise are consulted openly and freely. Popular elections in and of themselves do not a democracy make. Free and open discussion, deliberation and consultation are essential preconditions to elections as democratic elements. Of course, that means that the people/members have reasonable access to all the information relevant to the decisions respecting the exercise of the authority of which they are the repository.

### 4. EQUALITY

Equality as a value flows from the traditional wisdom that each person, irrespective of talent, skill or appearance, possesses an intrinsic value and thus as a human is of no greater or lesser value than anyone else. Each person is intrinsically valuable, without the attachment of inferiority or superiority. While certain skills and talents may be of greater importance to the well-being of a collective, be it a society, community or co-operative, each and every person as a human being within that collective is of equal value. This value is particularly pertinent to decision-making and governance of the collective requiring that each person in that collective has a reasonable opportunity to participate in that decision-making and governance. This value is particularly and peculiarly relevant to *democracy* and *democratic governance*.

### 5. EQUITY

This value has two distinct but related meanings. One meaning of this value is as an END. The other meaning is that of a MEANS to that END. Equity as an END refers to FAIRNESS in the relationships between and among individuals and the manner with which authority is exercised over persons. Equity as a MEANS refers to the ownership of property/assets with which persons can protect themselves against exploitation by others, mainly corporate interests. In the co-operative, that ownership gives the owner/member the right to participate in the decisions of the co-operative which, along with the participation of all the other members/owners of the co-operative, assures each and all of them fairness in their relations with each other and the collective, i.e., the co-operative. It is the equity which provides the owners with

the right and opportunity to structure the decision-making and governance process that will assure that fairness is an essential characteristic of the co-operative.

### 6. SOLIDARITY

Solidarity as a value refers to the respect and dignity with which the individual persons of a community relate to one another. It is a relationship that grows out of each person seeing the other as valuable as the self. Solidarity also encompasses the concept of interdependency which is so critical to the health and vitality of the collective/co-operative. Community is an important product of solidarity, or as a corollary, solidarity is an essential characteristic of the successful community/co-operative.

### 7. HONESTY

This value has the quality of both *end* and *means*. Honesty is a good in itself and is a means to other goods. Honesty is an important prerequisite to continuing good relations among persons and within collectives such as co-operatives. Honesty is both a quality of, and a means to, human fulfillment. Truth is a critically important component of rewarding community and collective life. Honesty is the sine qua non for the individual and the collective of individuals experiencing and benefiting from the truth.

### 8. OPENNESS

This value refers to the structured and reasonable availability to the membership of information and knowledge relevant to the successful life of the organization/ collective. This value presupposes that the governance of the organization is a democracy, hence the membership collective is the repository of the authority exercised in that governance.

### 9. SOCIAL RESPONSIBILITY

This value is most relevant to the public image which the co-operative enjoys/suffers in the community which it serves and beyond. On the one hand, it refers to the co-operative accepting responsibility for and ameliorating the negative consequences for society stemming from its actions and operations. On the other hand, social responsibility refers to the co-operative's acceptance of the responsibility to work towards the betterment of society and towards the amelioration of oppressive conditions in that society.

### 10. CARING FOR OTHERS

"Caring for others" was and continues to be the prime mover in the establishment of successful co-operatives

the world over. This value refers to the obligation that each individual co-operator, each co-operative and the co-operative movement as a whole must act in such a way as not to cause harm or difficulty for others either of today, tomorrow or of the distant future. Additionally, this value imposes the obligation and requirement on every element of the co-operative movement to be pro-active in leadership towards rectifying the structural and social

causes of oppression and indignity. This value flows out of the ancient, but nonetheless relevant, dictum: "Do unto others what you would have them do unto you"!!!!

What follows is a modest attempt at articulating the practical implications and practices of each of the ten Co-operative Values within the status quo, for the individual co-operator and for the Co-operative Movement.

## Co-op Values:

Value	Social Observation Often Characteristic of the Status Quo	RECIPROCAL	
		Individual Co-operator's Obligation	Responsibilities for the Co-operative Movement
Self-help	Too often organizations in society are incapacitated by their affiliations and ties to other organizations, especially including those of a less democratic nature	Need for members to re-visit, explore and assess the opportunities to stimulate co-op organizational growth and expansion in the service of persons and the community	Co-operative must draw upon the capacities of its members/owners, and must be experimental and, if necessary, take bold measures
Self-responsibility	Tendency in society to foster dependency, disillusionment and disenchantment.	The wisdom of each person must be offered heard in the collective deliberation and everyone is obliged to be an active and involved member.	The co-op must take the co-operative movement forward, just as the co-op movement must move the co-op toward sustainable community .
Solidarity	Tendency to "watch out only for one-self" prevails and injures everyone. Eg., the "Me Generation".	Each person is a "member" of a movement, and the co-operative movement is much more than a collection of disconnected co-ops and members.	Decisions must be collective and shared, and our capacity for constructive growth emerges from this shared energy. The co-op movement is an organic(living) whole
Equality	Severe inequality in society	One's strength and capacity is valued as that of any other member of the movement	All co-operative and community processes must respect the richness of every person
Equity	Many organizational and social processes are characterized by unfairness, prejudice and bias	The co-operator is obligated to "voice" concerns and ideas and entitled to be heard	Co-op has an obligation to consult and valorize ideas from all members as a collective
Democracy	Basic lack of democracy across many organizations and across society	Each person is obligated to stay informed, and is entitled to have her/his thoughts voiced and heard	The co-operative must draw upon the collective wisdom of its members both procedurally (eg. Voting) and substantively (ideas must come from the people).
Honesty	Disingenuousness and dishonesty far too common socially	Individual wisdom and integrity premised upon care and reflection are integral to the co-operative movement	Organizational practices must be open and transparent
Openness	Autocracy and obscurity far too common across society	The co-operator is responsible for "dialogue" with the co-op writ large	The capacity for a "members audit" of the co-op must be actively encouraged to maximize accountability
Social responsibility	Many organizations and businesses fail to measure and acknowledge the social costs of their activities	Each co-operator must measure the co-op on the basis of its contribution to the long-term, sustainable health of families and the community	Co-op must measure itself according to the well-being of the community and the natural world
Caring for others	We see a chronic disregard for the well-being of others in our society	One's goals and objectives must be formulated in accordance with the well-being of everyone	The Co-op is not an isolated organization, and thus bears a profound responsibility to all members of the community and to nature



# Democracy in Cooperatives

BY MICHAEL HEALY

Alexis de Tocqueville, in the first half of the 19th century, visited our still-wet-behind-the-ears nation and penned his famous treatise *Democracy in America*. In this book, de Tocqueville noted that “the American learns to know the laws by participating in the act of legislation; and he takes a lesson in the forms of government from governing. The great work of society is ever going on before his eyes and, as it were, under his hands.” As owners of locally controlled businesses, we cooperators are learning how to do the great work of society, and in doing that work for our local community, we can also affect the larger society in which we live.

Last June in Minneapolis, along with several hundred other cooperators, I was inspired by Michael Hartoonian’s keynote presentation, “Creating Wealth in a 21st-Century Market-Driven Republic: The Value of Cooperatives in a Democratic Economy.” Of the many ideas he presented, I was particularly struck by the image of democracy as an unending argument about divergent principles: whether we more highly value private wealth or common wealth, diversity or unity, law or ethics. Hartoonian did not say that democracy is the choosing of, or a vote on, either position; rather, democracy is the conversation and argument that precedes and follows the choice.

I heard a similar statement while watching “You Can’t Be Neutral on a Moving Train,” a recent documentary about the life of historian and activist Howard Zinn. In a quote from one of his many books, Zinn says that democracy is not a series of votes; it is a series of actions. Here again was an insightful and thoughtful person telling me something about democracy that I had never before considered. In light of these congruent statements from two disparate sources, I have observed and questioned the way democracy is practiced in my country and in my cooperatives. I haven’t yet figured out how to impact and improve the way we practice democracy as a nation; but I have begun to see how this ideal can come to life at a more local level in our food co-ops.

Along my journey of discovery, I also read “The Co-operative Values: Their Meaning and Practical Significance,” by Sidney

Pobihushchy. Pobihushchy, who also spoke at a recent CCMA, has taken a closer look at the cooperative values as formulated by the International Cooperative Alliance. About democracy, Pobihushchy notes: “Popular elections in and of themselves do not a democracy make. Free and open discussion, deliberation, and consultation are essential preconditions to elections as democratic elements.” The cooperative principles themselves speak of “members who actively participate in setting their policies and making decisions.” I can’t help but notice that democracy is again equated not with voting but with actively participating and discussing. Sometimes I have to get hit on the head with a hammer before I pay attention; sometimes, though, I just have to hear a good idea from enough trusted and respected sources.

Looking further at the cooperative principles, I find one about education: Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. As I look carefully at this principle, I have to ask: what kind of education contributes to cooperative development?

As a consumer-owner, I appreciate the education I receive from my co-op about consumer issues. I can learn about the hazards of pesticides, the hidden costs of big agribusiness, and how to cook using whole grains. These are all worthy topics; they just happen to miss the essence of this cooperative principle as it applies to my role as an owner.

To what could this principle be referring? I believe it refers in particular to democratic control. If we are to learn how to control something democratically, we must learn it through our participation in local self-help and self-governing organizations, specifically in our cooperatives. As consumer-owners of food stores, we must unlearn the lesson fed to us since infancy that we vote with our dollars. If we are nothing but consumers, the



ILLUSTRATION BY BANNKE

implication is that we have nothing but dollars with which to vote; and, like it or not, whoever has the most dollars gets the most votes. But in a cooperative, we are not just consumers; we are also owners. As such, we have not merely votes but our voices to add to the conversation. We have our piece of the truth to add to that grand argument Michael Hartoonian mentions. Cooperatives provide a place in society in which we can learn to use, and practice using, our voice.

Peg Nolan, in the January–February 2005 issue of *CG*, suggested that we can see a cooperative’s relationship with its members “not as a discreet function to be managed by the member relations department, but rather as the organizing principle for the entire co-op.” With this in mind, how do we make democratic control so pervasive that member-owners participate not only as consumers, but also as citizens? Can we learn, through our participation in this local organization, how democracy could function in other aspects of our society? To answer these questions, we can look to some of the tools of democracy we have already chosen to use in our co-ops.

The first and foremost of these tools is the board of directors, that small group of owners empowered to make decisions on behalf of all owners. Most aspects of owners’ democratic control emanate from and revolve around this form of representation. If, however, we believe that voting for directors is the limit of democratic control, we miss the importance of Hartoonian’s and Zinn’s words. Remember: by itself voting is not democracy. Participating in the conver-

sation about who should be a director, and why, is at least as important as the vote itself. And in order to participate in that conversation, members must be educated about the desired qualities of effective board members and the importance of those qualities.

This, then, is one of the essential duties of a board: to ensure that the members, the citizens who will elect directors, know how one choice differs from another. You know the standard joke at election time: Vote early and vote often. Well, boards that understand their duty as keepers of the democratic flame will educate early and educate often.

Long before any election, boards should inform their members about such elections by putting out an open call for candidates. Early in the election cycle, the board should encourage potential applicants to acquaint themselves with the role of the board and board policies and procedures by attending meetings, talking with current directors and reviewing the board's written documents. In addition, the board should provide an application packet that includes a summary of board structure, desired qualities of directors, and a job description. We cannot compel members to read or learn from this material. But we can make it available in a variety of formats, in a variety of locations, and over a reasonably long period of time. In this way, even members who don't run for office, or even those who don't vote in the election, have access to a succinct summary of their board's invaluable role of working on behalf of all the co-op's members.

Elections are just one small part of a board's and co-op's democratic engagement with its member-owners. If democracy is a series of actions, and if those actions are, in large part, the conversations and arguments about owner values, then a board will constantly engage the members in that ownership conversation. Robert Greenleaf, in *Servant Leadership*, illuminates the dual nature of a board's role. Just as physicists came to understand light as simultaneously a wave and a particle, Greenleaf understood and explained that boards must simultaneously serve and lead their co-op's owners.

What does this mean in the context of a conversation about democracy? Asking members to state or explain their desires as owners, and trying to incorporate those varied perspectives into policy decisions, are parts of serving the membership. Explaining to members the potential impact of certain decisions, actions, or investments—whether or not those choices were previously considered by the members—is part of leading. In both the serving and the leading, directors initiate and participate in an exciting and essential dialogue with the

members.

As an example, look to Mark Goehring's description, in the previous issue of this magazine, of the Brattleboro Food Co-op board's development of the Neighboring Co-ops idea. When Brattleboro Co-op held member meetings about moving the store, members spoke less about location and more about the value of community. The board, having initiated a conversation with their member-owners, took the stated value of community, learned more about the meanings and implications of this value, and created policy that led them to the Neighboring Co-ops project. Included in this board's long-term plan is an interactive and educational community engagement project that will encourage members and other stakeholders to participate in this visionary conversation.

Along with the conversation with the member-owners, at the board table, we should find directors having a vibrant debate and exchange of ideas over how to understand and reconcile the members' expressed desires. If, as Hartoonian suggested in that keynote speech, cooperatives really are something that a democratic culture has created to protect itself, then a board might ask: Which part of our culture should we protect? Which of our community concerns do we believe we should address through this democratically controlled business?

In earlier years, cooperators debated whether earnings (a.k.a. profit) were a good or bad thing. Today, having recognized that earnings are part of a healthy business, maybe boards and owners will instead debate what is the highest and best use of those earnings. Should all the earnings of a cooperative business return directly to the member-owners in the form of patronage refunds or discounts? Can we use our earnings, our economic capital, to address other community concerns? Could or should we pool our capital with that of other co-ops to address the needs of a regional "neighborhood"?

The answers to such questions can and will vary from co-op to co-op. In Carrboro, N.C., the member-owners of Weaver Street Market have used the wealth created by their business in an entrepreneurial manner, creating new businesses in their community that further their mission to create "a vibrant, sustainable commercial center." At Community Mercantile in Lawrence, Kansas, the member-owners have created a foundation to further their educational and outreach goals. We have the potential, in any democratically controlled cooperative business, to engage our owners in a conversation about wealth: Do we

more highly value common wealth or private wealth? How does the cooperative create and accumulate wealth? Should we use wealth to make our world a better place? If so, how?

In all such idealistic aspirations, we must recognize the necessity of the pragmatic work involved. In order to use democratic processes to change the world, we must learn to use the tools of democracy. We should make good use of our co-ops as gardens in which to germinate and nurture the seeds of democracy.

This brings me back to focus on the board itself. If our boards are to be responsible for making democracy work in our cooperatives, and our boards are composed of people whose essential qualification is their desire to actively participate in leading their democratic organization, then we must ensure that our servant-leaders receive the education and training they need to responsibly fill this role. In order to participate productively and intelligently in the types of conversations and debates our boards must have, our elected representatives should learn about their legal duties, about the world of cooperation, about the needs of their community, about how to make decisions as a group, and much more.

In essence, our boards must learn how to govern effectively and how to transmit that knowledge to succeeding generations of directors. Many boards from co-ops in the eastern corridor of the NCGA have made a commitment to such learning. And these co-ops have chosen to invest some of their common funds in this endeavor. This investment is not just intended to help the directors currently serving, though it will certainly do that. Even more, this is an investment in the future of democratic control of these co-ops; effective boards will learn how to perpetuate themselves, ensuring that the member-owners will always have an effective mechanism by which to control their cooperatives.

It's not a hammer to the head, but rather the insight of Alexis de Tocqueville that now rings in my ears: "the great work of society" is always in our hands. Here in our co-ops, with our own hands, we can govern together that which we own together. We can practice being citizens. We can learn and teach each other what it means to be an owner and a citizen. We can take action, involving ourselves and our neighbors in a conversation about that which we hold in common. And we must recognize that our boards have a singularly important role to play in making all of this happen. To ask any less of ourselves, or of our boards, is to give up on the possibility that any people can truly control



# Own, Use, Serve, and Belong

## *A new paradigm for participation*

BY MARK GOEHRING AND LESLIE WATSON



PHOTOS COURTESY OF JOEL BROCK, CDS CONSULTING CO-OP

**T**he Participation framework—**Own, Use, Serve, and Belong**—has been the focus of presentations and conversations by hundreds of cooperators at the regional Co-op Cafe series produced by CDS Consulting Co-op and sponsored by the National Cooperative Grocers Association (NCGA). In this article, we introduce the key concepts and share some of the thinking presented at the Co-op Cafes. Videos of presentations and roundups of conversations are available in the CBLD Library: [www.cdsconsulting.coop/co-op\\_cafe](http://www.cdsconsulting.coop/co-op_cafe). Additional Co-op Cafes are scheduled this fall in Albuquerque, New Mexico (10/18); Mt. Pleasant, Michigan (10/25); and Philadelphia, Pennsylvania (11/01). Find the schedule at [cdsconsulting.coop/services/in-person](http://cdsconsulting.coop/services/in-person).

- **What if co-ops are the acknowledged leaders** in economic, environmental, and social sustainability?
- **What if, when people have a choice** between shopping a co-op or a non-co-op competitor, they always choose the co-op?
- **What if co-ops are the fastest growing form of enterprise**, multiplying all their positive impacts in their communities?
- **What if we view participation as a driving force** in our co-ops that moves us forward on our goals, demonstrates the power of community-owned enterprise, and celebrates the many different ways people choose to engage with the co-op for both their own and the common good?

These were some of the questions we were inspired to grapple with soon after the International Cooperative Alliance (ICA) released

its “Blueprint for a Cooperative Decade” in late 2012 ([ica.coop/en/publications/blueprint-cooperative-decade](http://ica.coop/en/publications/blueprint-cooperative-decade)). An early epiphany was a simple one: Not all participation is alike. There are MANY ways people participate in a co-op.

This connects directly to a key concept in the Four Pillars of Cooperative Governance (see [cooperativegrocer.coop/articles/2014-02-06/four-pillars-cooperative-governance](http://cooperativegrocer.coop/articles/2014-02-06/four-pillars-cooperative-governance)): Democracy is a differentiator that sets co-ops apart from other types of organizations.

Through this work, we’ve come to see democracy in a cooperative to mean successfully sustaining a culture in which people choose meaningful ways to participate for both their individual and the common good. Rather than looking at participation as something co-ops need to convince people to do, we are inviting a shift in thinking to see participation as a strategic way to inspire innovation and leadership in our cooperatives.

## Participation's new paradigm

Building a shared understanding of the co-op's purpose is critical. Greater participation does not mean figuring out ways to prod owners to "do" or "do more" things for the co-op. Rather, the opportunity is for people to understand the strategic intent of their co-op and how they can contribute to its goals in many ways. All of us can be motivated and inspired by seeing how our participation contributes to the co-op's success.

"Democracy is an active process . . . [in which] each of us as citizens chooses how we're going to participate as opposed to a higher authority telling us how we're going to participate. There are many ways to participate, and each of us gets to choose ways that are meaningful to us. We want to be sure the doors are open and that people in our co-op and community know they are welcome."

—**Michael Healy**, CDS Consulting Co-op  
Participation: Going Further  
<http://s.coop/1uz95> (5 minutes)

This and the other videos quoted can be found through the CBLD library at [www.cdsconsulting.coop/co-op\\_cafe](http://www.cdsconsulting.coop/co-op_cafe).

## The framework: own, use, serve, belong

To help realize and manage for the full potential of participation, we developed a framework to characterize different types of meaningful relationships:

*People own, use, serve, and belong to their co-ops.*

### Own

Participation as an owner is key at certain times in the life of the co-op. It might include voting in elections, giving input on the co-op's long-term strategic direction, investing in an expansion project, and keeping informed of the co-op's performance by attending annual meetings and reading the annual report. While important, this type of participation is relatively infrequent.

"Of course, this is a critically important form of participation in that ownership is a fundamental component of cooperatives. But, it's equally important to recognize that participating in the 'owner' role isn't an everyday activity. It has much more to do with the health, direction, and movement of the co-op. Other key areas to be aware of as an owner include choosing qualified representatives to serve on the behalf of all the members, staying tuned in to information provided by the



Cooperative Cafe participants (clockwise from upper left): Michelle Schry (People's Food Co-op), Todd Wallace (CDS Consulting Co-op), Kim Coontz (California Co-op Development Center), John Sheller (PCC Natural Markets), Olufemi Lewis (Asheville, N.C.), Andrea Malloy (Daily Groceries Co-op).

co-op's leaders on shifts in society and the marketplace and how the co-op intends to and goes about meeting member and community needs."

—**Mark Goehring**, CDS Consulting Co-op  
Participation and the Cooperative Cafe  
<http://s.coop/1uzd4> (16 minutes)

"There is a great opportunity to speak to our members as owners, spending more time talking about what it means to jointly own a business together and educating owners on how USING the co-op has such impact."

—**CE Pugh**, COO, NCGA  
Why Participation Matters  
<http://s.coop/1uzd6> (6 minutes)

### Use

People help their co-op to accomplish its goals every time they buy its goods or use its services. As part of using the co-op and helping it to thrive, they can also give feedback about how their co-op can improve. Meanwhile, the co-op can provide its users with information that lets them see how their individual choices add to the collective impact and make a difference.

"Let's make the connection for our owners with the impact that the co-op can have in the community. Whether it's supporting producers, staff, or community events, our co-ops have great impact in the community, but it only is possible by using the co-op. How many of our member brochures speak to how we're counting on members to use

and serve the co-op and the resulting impact the co-op has on the community? This is a tremendous opportunity!"

—**CE Pugh**, COO, NCGA  
Why Participation Matters  
<http://s.coop/1uzd6> (6 minutes)

### Serve

People can serve their co-ops on multiple levels. Certainly, a co-op needs leaders: a board of directors, management, and staff who are willing to serve the community. But people can also serve the co-op by participating in an advocacy campaign, by supporting the direction and movement of the co-op, or simply by telling its story to the wider world. Even giving critical feedback can be of service to the co-op. This form of participation may be high or low frequency, and it may be driven both by the interests of individuals and the needs of the co-op.

"There are lots of ways to serve that don't involve putting your name on a ballot....Using the cooperative is a key way to serve it. So the next time you're in your store and you buy some ice cream, you can say, 'I really have to do this because I need to serve my co-op!'... Another way that people serve their co-ops is to tell the co-op story. When people talk about owning and using a co-op and connect it back to their own choices about the kind of world they want to be in, the kind of enterprise they want to be associ-



ated with, or the kind of values they have, that becomes a really powerful way to elevate the co-op....When a co-op identifies a broader value or reason for its existence or a component of its Ends policy and tells that out to its owners and stakeholders in a way that they actually internalize and absorb and take for their own, and then adopt and share it in the broader world....that is also a form of service."

—**Leslie Watson**, CDS Consulting Co-op  
Cracking Open the "Serve" Nut  
<http://s.coop/1uzd7> (10 minutes)

"One of the things that we do at Seward to help operationalize employees' involvement in the cooperative values is through education. We have a really strong commitment to that, like a lot of co-ops...But we also commit to having one employee every year in the master's program (in Nova Scotia). The idea is to build the basic understanding of cooperatives within the staff because, at the end of the day, the ability of for the co-op to meet the cooperative experience requirement and to have customers feel like they have had a good coop experience, is through the staff. The only way we are going to do that is through staff empowerment, so we need to give our staff the tools not just to be good grocers, but to be great cooperators."

—**Sean Doyle**, general manager  
Seward Community Co-op  
The Co-op Difference Starts with Staff  
<http://s.coop/1uzd8> (10 minutes)

## Belong

People join co-ops to be a part of a community with shared values, and to belong to an association that enhances their well-being. Their sense of belonging is reinforced and grows when the co-op meets their needs, when they feel included, and when they understand that the co-op also belongs to them!

"People still want that sense of belonging. We have in our society this yearning for the communities that we all came up in as we were growing up, or just want that affinity when we have these busy lives. How do you get that sense of community in the co-op? How do you get this huge group of people to feel like they're all on the same track?...Our strategic direction is specifically designed to help people feel that they are part of a co-op even though we are now a large entity."

—**Dale Woodbeck**, general manager, Lakewinds Food Co-op, Fostering Belonging  
<http://s.coop/1uzd9> (10 minutes)

"We're building community, we're building on the need for belonging. Certainly a great place to start is in the store itself, creating a welcoming environment with great customer service where everyone feels included, welcome, and appreciated."

"Your co-op creates a sense of community, your co-op meets people's need for belonging; co-ops do this everyday. And the world is a better place because of it. But just think for a minute about how special that is. How many businesses create an authentic sense of community for people? How many businesses offer people a way to belong? We need to celebrate how special that is. We need to innovate and be creative as we look for new ways for people to feel included, welcomed, and accepted. It's what the world needs now, and we can do it."

—**Marilyn Scholl**, CDS Consulting Co-op  
Marilyn's Hierarchy of Participation  
<http://s.coop/1uzda> (10 minutes)

"In thinking about this I found a quote from Margaret Wheatley, an author who has focused on building community: 'Belonging together is defined by a shared sense of purpose.' Staying on the work together is what transforms the tension of belonging and individuality into energetic and resilient communities. A vibrant community is possible when we see what we share...When we think about this call to participation and how we make that come alive in our co-ops, I think the first thing is to issue an invitation."

—**Pat Cumbie**, CDS Consulting Co-op  
Building Belonging, Creating Community  
<http://s.coop/1uzdb> (9 minutes)

## What's next?

We invite the entire cooperative community to continue this dialogue about how our movement can harness the power of participation as part of realizing the vision of the "Blueprint for a Cooperative Decade." Explore the many short videos created for this year's Cooperative Cafes, or come to an upcoming Cafe this fall (see page 15 for schedule).

Ask your board and staff to spend sometime considering the questions at the opening of this article. And, of course, bring your owners into the conversation as well—at the annual meeting, in the newsletter, at the cash register, and every other place where they participate in your co-op!

"There are all these different ways people can participate in our co-ops, and we want to be making sure the doors are open, that people in our community, members in our co-ops know that the opportunities exist, and that they are welcome to find a place that would be meaningful to them to participate."

"This all matters because we live in a world, a society, this country where we talk a lot about democracy and whether it's working or not. We have an opportunity in cooperatives to lead the way...in what a strong meaningful democracy could look like. That's our role in society. No one else can do that as well as we can. This is our time, this is our decade, to really put thought and energy into that. And it'll make a difference not just for our individual co-ops and our communities; I really do think it'll make a difference for our entire country."

—**Michael Healy**, CDS Consulting Co-op  
Participation: Going Further  
<http://s.coop/1uz95> (5 minutes) ■

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# Board Roles and Responsibilities

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## Legal Duties of Directors

### Duty of Care

- Show up
- Be prepared
- Protect the board's process

### Duty of Loyalty

- Disclose conflicts
- Don't compete with the co-op
- Don't breach confidentiality

## Legal Protections

### Business Judgment Rule

- Directors have a legal right to rely on the advice of those who reasonably can be assumed reliable.
- Directors making informed decisions, in good faith, using a reasonable process, will likely be protected regardless of adverse consequences resulting from the decision.

### Keep accurate and adequate records.

- Board meeting minutes are a primary source of information about how a board does its job. Be sure they accurately reflect your decisions and process.

### Ensure the payment of all tax obligations.

- Directors can be held personally responsible for unpaid taxes.

### Indemnification

- Reimbursement by the co-op for payments made by a director(s) as a result of having been a director including attorney fees, expenses, judgments, and settlements.
- Generally limited to situations where the director(s) acted in good faith. Bylaws should define its use without encouraging careless behavior.

### Insurance

- The cooperative can obtain insurance to cover payments directors may have to make.
- The board should consider terms of policies and types of behavior it wishes to insure without encouraging careless performance.

Note: The law on director duties is complex. This workshop and these materials should be seen as an introduction to director's basic duties. Expert legal advice should be sought on specific issues.



# Precautions and Protections

## Summarizing legal responsibilities of cooperative boards

BY THANE JOYAL AND DAVE SWANSON



**A**s cooperative directors, it's important that we know our jobs. Some parts of that job are personal to us: we bring interests, skills, and perspectives that make our contributions unique. It's our responsibility to use those personal attributes to participate constructively in the group that makes up the cooperative board. A key way to do this is to follow the rules that have been established by the group itself. Another key way is the subject of this article: to be effective directors, we must comply with the legal requirements that apply to us.

The good news is that the law is understandable. Although liability risk is present, common sense does have value, and there are tools to protect directors. As long as we bring our best attention and care and loyalty to our job as directors, keep good records of the board's proceedings, and follow a few other good practices, the chances are high that the law will find we have fulfilled our responsibilities.

### What legal requirements apply?

The primary sources of law that govern the responsibilities of cooperative directors are:

1. state incorporation statutes; and
2. court-established common law, which is an artifact of our legal system's English

heritage.

These responsibilities are commonly called a director's "fiduciary duties." The duties vary from state to state, but there are common principles and themes.

A cooperative is a corporation created in accordance with the laws of the state chosen for its creation. Almost all the state cooperative and corporation laws (and most co-op bylaws) mandate the formation of a board of directors, which generally has very broad authority for governing the cooperative on behalf of its owners.

The members' authority is typically limited to major decisions, including election of directors, changes in bylaws, and liquidation or sale of the cooperative. The board can be

thought of as the brain of the cooperative—it thinks and plans and decides. The state statute, then, gives rise to the basic relationship of the board to the cooperative, and many of these statutes set standards for the board's performance.

The other source of legal duties arises from the common law, which is a body of law built on standards for director liability established by courts in cases against directors.

## Fiduciary responsibility

A director is required to work for the benefit of the cooperative and all of its owners collectively. This is true even though you may have run for the board in order to represent a specific group or position within the cooperative. Once you are elected, you have a new relationship to the cooperative. Specifically, a director has a fiduciary obligation to the cooperative and its members as a whole, rather than a duty to a constituency or group of members. This is unlike a state or federal legislator, who usually represents a constituent group or set of ideals.

Thane Joyal once had an interesting argument with a board member who had lobbied in opposition to a board-generated proposal for revision of the cooperative's bylaws, with the result that the proposal failed to achieve member approval. The bylaw draft had been prepared and adopted by the board in accordance with the agreements the board had made for decision making. The board believed that these changes were needed for the cooperative to thrive. This particular board member disagreed personally with the decision the board had made, and argued that just as legislators in the U.S. House of Representatives have the right to voice dissenting views on legislation that has been adopted by House procedures, so he too retained a right he described as "free speech" to air his disagreement with the board's bylaw proposal.

This view may well be inconsistent with the nature of a director's fiduciary responsibility. In light of such a strongly held personal disagreement with the board's position, the board member may have better served his legal duties by resigning. A cooperative board is not the Legislature. Its role is to look out for the best interests of the cooperative and its members collectively, rather than the interests of a constituent group or viewpoint. In addition, directors are not given the benefit of the broad immunities and protections afforded to elected legislators.

Indeed, in taking on the responsibility of serving on a board, directors usually serve the cooperative most effectively by working in the framework established by the board and abiding by the best decisions the group

can reach. To effectively serve on a board, we must be confident that the integrity of the process and the diversity of the individuals participating in it will lead to the best decisions for the cooperative. And most of the time (but not always), it is best for the cooperative for dissenting directors to avoid arguing against or undermining a board decision. We will have more to say about this later.

As a practical matter, in order to meet owner needs, it is likely that the cooperative will incur indebtedness as a regular business practice. If the cooperative becomes insolvent to a substantial degree, courts hold that the duty of the directors shifts from responsibility to the cooperative and its members to responsibility to the creditors. As insolvency progresses, the exact transition point where this duty shifts is difficult to pinpoint. But for directors of a financially troubled cooperative, it is important to understand the shifting duty and get expert advice.

## Legal duties made easy

There are two ways directors can breach their fiduciary responsibility and risk liability: liability for failure to act, or nonfeasance; and liability for wrongful actions, or malfeasance. There are two broad categories of fiduciary duty—the duty of care and the duty of loyalty.

The duty of loyalty focuses on the board's deliberative process. Excellent record keeping of board deliberations and the information and process used in making decisions can be essential, especially when major decisions are being made (such as whether to expand or open a new store). Without a record of the board's proceedings, it is extremely difficult for the board to defend itself if a particular decision is questioned. A good resource about minute taking is the Cooperative Board Leadership Development (CBLD) Field Guide on Minute Taking Essentials ([www.columinate.coop/minute-taking-essentials](http://www.columinate.coop/minute-taking-essentials)).

**Duty of care:** Carry out board responsibilities competently. These responsibilities include selection and oversight of the general manager (often cited as the board's most critical function), setting strategy and direction over the manager's operation of the business, and ensuring compliance with laws and ethical standards. Make sure the board focuses its attention on these responsibilities: show up to board meetings prepared; participate actively and attentively in board processes; make sure adequate information is obtained before making decisions; and, when major decisions are involved, study alternatives. You should also make sure the board adopts and adheres to appropriate policies, including policies regarding risk assessment and management, ethical behavior, fraud risk, limits

on manager's authority and the like.

**Duty of loyalty:** Put the cooperative first, before personal or individual or constituent interests. Deal with the cooperative fairly. If you have conflicts of interest—whether personal, familial, or pecuniary (financial)—disclose them. Normally, the director with the conflict personally decides what course of action to take. This may range from disclosure with participation in the discussion and vote to participation in discussion but abstaining from the vote to removal from the discussion and vote.

## Duty of care

**Show up:** Directors should attend all board meetings and should participate in all events that the board agrees are important. If you can't attend a meeting, let your board leader know in advance whenever possible, otherwise get in touch as soon as you are able. You may be responsible for the decisions the board makes in your absence, so catch up as quickly as you can.

**Be prepared:** Before each board meeting, review all documents that will be acted on in the meeting. Many boards receive board packets in advance of the meeting, allowing directors to prepare. Work with management to make sure the information provided is useful in monitoring performance and making decisions. Set aside preparation time on your calendar—at least an hour and a half or two hours, depending on the complexity of the issues to be reviewed. Spend time as a board or as individual directors in training programs for director performance, and learn about the dynamics of your cooperative's industry.

**Protect the board's process:** The integrity of the board's process depends on YOU. When the board reaches a decision and speaks with one voice, be sure that your perspective has been heard by the group. If you don't understand something well enough to act on it, try hard to make sure the board gets the information you need before making decisions. The use of experts—management or independent consultants—to provide information and advice is an important and accepted way to protect directors from liability claims.

The board's calendar is often full, and it can feel uncomfortable to slow something down if you don't understand it fully or aren't prepared. Decide how important this issue is. If it is relatively routine, you may decide to abstain from the decision. But if it is an issue with significantly high consequences, speak up.

If you can't decide how important an issue is, consider using this SIT algorithm:

- Severity: How serious are the conse-

quences of this decision?

- Implications: What could this mean for the co-op?
- Trends: Has this come up before?

Often there's a person on the board who is, by profession, a lawyer or an accountant or a specialist in something that is relevant to the board's work. Knowing that person is going to give special attention to an issue can make even the most well-intentioned board member relax. Don't fall into this trap. Remember, when the board hires a professional to represent it, that is a special relationship where the board is entitled to rely on that expert's advice. Your friendly, competent fellow board member doesn't have that relationship to the co-op—she, like you, is simply a board member, bound by the same duties as you. Do your own thinking, and don't simply rely on your colleagues or management to tell you how to vote. In brief, all board members need to act and think independently.

### Duty of loyalty

The duty of loyalty is the duty to act on behalf of the cooperative in the best interest of the cooperative and its members as a whole. To the extent that a cooperative director is a member of the cooperative who shares in the benefits of a successful business, of course, the director will benefit from good governance and good management. But the director should not receive preferential treatment that is better than any other member of the cooperative. And in addition, the director must protect the cooperative's confidential information.

**Disclose conflicts:** It is not uncommon for a director of a food cooperative to have more than one relationship to the co-op. A board member may be a farmer/vendor, for example, or may be a store employee. Or a director may be closely related to someone who is. A conflict does not have to interfere with a director's effectiveness, and it will not interfere with the integrity of the board's decisions if it is handled appropriately.

Any potential conflict should be disclosed. It is the board's process we are protecting, as well as the integrity of its decisions. It is common practice for the board member with a conflict to describe the conflict and relevant facts, answer any questions, and abstain from voting. In some cases, it is appropriate for the director to then leave the room to ensure an open discussion. For example, directors on the staff of the cooperative would be well advised to recuse themselves from decisions relating to the compensation and employment of the general manager.

**Don't compete with the cooperative:** What if a board member knows that the cooperative is seeking a particular business opportu-



The boardroom needs to be a place where differences of opinion can be safely aired and where candid discussions can take place.

nity, and that board member just happens to be in a position to go after that same opportunity? Maybe the co-op's deli is bidding to cater a visiting national television crew, and a caterer on the board learns about the job from an informational report at a board meeting. Can the caterer/director pursue the contract? Absolutely not. Business information like this is a good example of something that belongs to the cooperative and should not be used by a director for personal gain. What if the director learns of an opportunity some other way, not at a board meeting, but knows that the co-op is bidding on it? Under many circumstances it may still be inappropriate for the board member to compete with the co-op. When in doubt, seek legal advice, or avoid even the appearance of competing with the cooperative.

**Don't breach confidentiality:** One very important rule for board members to follow is to keep the confidences of the cooperative. In cooperatives, transparency is very important, and the duty of confidentiality may seem inconsistent with a transparency policy. In practice, however, it is a relatively small universe of information that is required to be kept confidential. Personnel information, information about unannounced expansion plans or strategies or other contractual relationships, certain legal issues, and any draft documents that have not been released to the public should be held in confidence by each board member.

This is not only a matter of board integrity. In a worst-case scenario, a board member could be held personally liable if someone—an individual or even the coop-

erative—was harmed by a board member's breach of confidentiality. And it is clear that the cooperative's competitive position could be harmed by the untimely release of sensitive business information.

Aside from the legal consequences of breaching confidentiality, there is another equally important consideration. The boardroom needs to be a place where differences of opinion can be safely aired and where candid discussions can take place. Once a decision has been reached and is ready to be shared with the owners and the public, a communication strategy should be agreed upon that includes how those discussions will be shared, if at all.

Most of the time, the board should speak with one voice about decisions. In important decisions, it is helpful for the board to discuss this and reach an understanding about what will be said. In some cases, however, it may be important to communicate dissenters' views to the members. An example would be a split board recommendation asking the members to approve a merger with another cooperative. In this case, it may be important to provide the members with information about the dissenters' reasons.

### What if a decision is challenged?

Thankfully, one test that will not be used in the event of a legal challenge to a board's decision is whether the decision turned out to be "right" using 20-20 hindsight. Rather than reviewing whether a decision or strategy brings adverse results, a reviewing court would look at the record of the board's process to determine whether the decision was made properly at the time it was made.

It's worth knowing that there are two rules that a reviewing court may use to determine whether the decision was properly made. Until recently, it was assumed by most attorneys that a rule known as the "business judgment rule" would apply to decisions of a cooperative board.

The business judgment rule puts the burden on the person challenging a decision to show that the board's decision was not made in good faith or in the best interests of the cooperative. The focus is on the reasonableness of the board's decision-making process, not the decision itself. In other words, the board has the benefit of the doubt; it is not automatically liable for a bad decision.

A 2004 case (*Willens v. Wisconsin Avenue Cooperative Association*) involving a housing cooperative in the District of Columbia Court has cast some doubt on the assumption that the business judgment rule would apply to a case involving cooperative directors. There the court put the burden on the cooperative director to show that the board's decision

(rather than its deliberative process) was reasonable. This case can likely be explained by the fact that the directors were deciding on distribution of economic benefits among the members and suggests that special care should be taken by directors in making such decisions.

Directors should be particularly careful to be deliberative when making important decisions, because these decisions are more likely to result in claims against directors and may get closer scrutiny from a reviewing court. Selection of auditors and the general manager, review of financial information, expansions or new business lines, and any sort of insider transaction should be handled with scrupulous attention to record keeping, documenting that the duty of care and the duty of loyalty have been upheld.

## Protections

Directors of cooperative boards have the benefit of at least two special types of protection. Indemnification is typically permitted under state law if provided for in the bylaws, meaning that, under specified circumstances, the cooperative must pay the liabilities and legal expenses of a director who is subject to legal

proceedings for director decisions. Obviously, if the director acts illegally the cooperative is relieved of this responsibility; depending on the state in which the cooperative is operating, there may be other circumstances where indemnification is not available. A cooperative's bylaws will typically contain a provision specifying the circumstances under which indemnification is available.

A cooperative can also purchase insurance for its directors, known as D&O (directors and officers) insurance. D&O policies protect the cooperative and its directors from liability for actions taken by the board. It is worth reviewing these policies and their limitations carefully to be sure that the insurance purchased is appropriate in terms of scope and amount, including deductibles. A high deductible can be particularly troublesome when directors are sued, especially if the cooperative is insolvent and cannot cover the directors' legal costs. Insurance policies often have complicated exclusions that can limit their utility in some circumstances; for example, some policies do not cover securities litigation. It's best to be well informed.

Note that these protections may not be available if a cooperative has failed to pay

state or federal employment, income, or other taxes. Here the best protection is a good system for rigorously checking to be sure these obligations are being fulfilled.

## The bottom line

The topic of directors' legal duties is complex and, to a limited degree, subjective. But by following good practices and understanding the basic rules, and by obtaining professional advice, especially when major decisions are undertaken, directors can feel confident they can avoid liability. Show up, do your homework, participate fully in discussions, follow good procedures for assessing your cooperative's performance and obtaining relevant information in decision-making, carefully document (i.e., ensure good minutes are taken), honor decisions the board makes, disclose conflicts, and protect confidential information.

Simple, right? Remember, cooperative directors are working to make sure that their co-op meets the needs of the owners today, tomorrow, and years from now. Work that is done right is work that is fun. So have fun! See you at the co-op. ■



BY THANE JOYAL

The man in the wilderness asked of me,  
How many strawberries grow in the sea?  
I answered him as I thought good  
As many as red herrings grow in the wood.

—OLD NURSERY RHYME

**W**hen I talk to members of a board of directors about its legal roles and responsibilities, I always try to say, within the first five minutes, “You know, as a board you don’t have to be right, you just have to be reasonable.”

I think it is very important to let people know that, as a member of a board of directors, they have a number of special duties to the owners of the co-op. Sometimes people are intimidated by the concept of duty, but these are special duties that are designed to ensure the board’s success. Success in this context simply means that the board is governing on behalf of its owners by making decisions that are reasonably prudent.

Boards that use the Policy Governance model rely heavily on their review of the general manager’s monitoring reports to assure the cooperative’s owners that the board is upholding its duties. The concept of reasonability is important here too: the board must assure itself that the general manager’s interpretation of the board’s written policies are reasonable.

Deciding whether an action or an interpretation is reasonable can seem difficult. The Man in the Wilderness thinks it is reasonable to look for strawberries in the sea. Another may disagree, and indeed, we can imagine wild circumstances in which it might be reasonable to look for strawberries in the sea: perhaps a boatload of strawberries recently foundered off the coast. Thus, we can see that circumstance dictates whether a particular action is reasonable.

One of the most important duties of the cooperative board of directors is its fiduciary responsibility to the cooperative. A fiduciary responsibility generally can be thought of as a special relationship in which one group of people (the owners) places its property in the trust of another (the board of directors), requiring as a condition that board members behave in an unselfish manner and that the board as a whole is reasonably prudent in its decision-making.

Deciding whether a person has acted unselfishly is hard: how can we know another person’s state of mind? Fortunately, there are objective standards that we can look at to make this decision. Does the board member or her immediate family personally benefit economically from her decisions in a way that is unfair to the cooperative? Are there other factors present which would call the board member’s objectivity into question? It is important to look at the decision made by the board as a whole to evaluate its propriety. Does the decision meet the test for reasonableness articulated in this article?

Unselfishness is not a difficult concept for directors of cooperative entities to understand or to put into practice. The primary purpose of establishing a cooperative is to provide economic benefit to the cooperative’s owners. Cooperative directors need to understand immediately that their role is to govern the cooperative on behalf of its owners. One of the most exciting challenges of being a cooperative board member is bringing the diverse needs of the ownership into focus, while putting aside one’s own idiosyncratic self-interest.

A cooperative is a legal entity, created by a group of people using the business organization laws created by their state legislature.

## A Board’s Duty Determining what is “reasonable”



Retail food cooperatives may be established in any of a wide variety of legal forms, but many generally are organized either as not-for-profit corporations or cooperative corporations, depending on what structure was available at the time the cooperative formed. It is worthwhile for a board member to look at the cooperative’s Articles of Incorporation in order to understand the state business law authorizing its formation.

State business organization law sets forth the general duties of the board of directors, which are largely the same from state to state, corporation to corporation. These are the duty of loyalty, duty of care and duty of attention. Kathryn Sedo summarized these duties succinctly in her 1986 article, “Legal Duties and Responsibilities of Board Members,” available on the *Cooperative Grocer* website ([www.cooperativegrocer.coop/articles/index.php?id=8](http://www.cooperativegrocer.coop/articles/index.php?id=8)).

### Business judgment rule

When serious circumstances arise, however, a reviewing court will not only look to the applicable state statutes, which set forth the specific duties of directors, but it will also apply the “business judgment rule” to determine whether the board has breached its obligation. Because the United States’ legal tradition is founded on the English common law, under which judges made decisions by applying precedents in previous cases to the facts at hand, doctrines such as the business judgment rule persist as independent guidelines that overlay and inform whatever standards a state legislature may have written into its business organization law.

The business judgment rule limits a court’s scrutiny of the substance of a board’s decisions. “Broadly stated, the rule is that if the directors of a business acted on an informed basis and in good faith while making a decision, then the decision will be upheld despite any adverse consequences that resulted from the decision.” (Kathryn Sedo, *supra*.) The law is kind to directors. It recognizes that under different kinds of conditions, people appropriately use different decision-making processes. Increasingly, however, courts look closely at the board’s decision-making process, examining, in Ms. Sedo’s words:

- the time devoted to the decisions,
- the complexity of the decisions,



- the decision process itself,
- the amount of notice provided before meetings,
- the availability of written information and data, and
- the financial interests of the directors involved in the decision.

## Governance

Many boards use the Policy Governance model as a powerful tool to structure governance. In brief, Policy Governance offers a way to clearly delegate authority to a single person, typically the cooperative's general manager; and then to monitor the performance of the organization according to clearly articulated written policies. (For more about Policy Governance see John Carver, *Boards that Make a Difference*, published by Jossey Bass.)

Whether using Policy Governance or another system, boards can protect their actions from challenge and take full advantage of the business judgment rule by following three key steps:

1. Ensure that all delegation of authority to the general manager is through written policies and that all of the policies are monitored.
2. Rigorously ensure that the general manager (or other person monitoring a policy) provides adequate data to support assertions contained in the monitoring reports.
3. Maintain excellent minutes of all board actions, including decisions concerning monitoring reports creating a paper trail to the specific monitoring report received (include date and title of report), the conclusions asserted in the report (in compliance or not), and the board's action (accepted, not accepted, accepted with consequence, etc).

When monitoring the general manager's performance with respect to board policy, there are really only two important questions:

1. Was the general manager's interpretation of the policy reasonable?
2. Does the data provided by the general manager support the conclusion with respect to the policy?

Boards are often distracted by the question of compliance: Does the monitoring report show that the policy is being met? This can be an irrelevant distraction, such as the question raised by the "Man in the Wilderness" at the beginning of this article.

It is more important that the data provided by the general manager be adequate and that the interpretation be reasonable than it is to show compliance. Remember: the purpose of monitoring the general manager's performance against explicit written policies is to ensure that the board is doing its job and to hold the general manager accountable. The board must ensure that the organization is being managed on behalf of its owners, in accordance with the established policies.

It can feel uncomfortable to accept a report that shows noncompliance with board policies, but this may be wholly appropriate: it depends on the circumstances. Any monitoring report that asserts non-compliance should be on the board's agenda for discussion. The board should always expect, and the general manager should always deliver, management's assessment of severity, implications and trend, an explanation of resulting actions taken by management, a timeline for future reporting, and an expectation as to when management expects compliance will be achieved. This greatly simplifies the board's response in that it can, again, judge management's response (based on reasonableness) rather than initiating problem-solving.

Depending upon the outcome of that discussion of reasonableness, the board may decide to take action or not. Board action can range from requiring additional monitoring to, in an extreme case, replacing the general manager.

## Reasonableness

This raises another important point: What if the interpretation is "reasonable," but it is not what one or more board members intended? (I am repeatedly tempted to assume that people who disagree with me are unreasonable!) Remember: the general manager should not be expected to provide an interpretation that every director approves of, rather the interpretation must be one that the board as a whole finds reasonable. In the context of group process, the concept of "reasonability" acts as an objective standard to provide a check on arbitrariness. It may be that instead of deciding that an interpretation by management is unreasonable, the board may realize that its policy simply did not achieve the desired results. In this case, the board can revise the policy in a way that makes it more likely that the manager's next interpretation will not only be reasonable, but will also lead to more desirable results.

I once saw a picture of a speed limit sign that greeted drivers in Montana, reading as follows: Day—Reasonable and Prudent, Truck—60 mph, Night—55 mph.

I like the idea of being pulled over by Montana state trooper trying to enforce the speed limit on that sign. Suddenly the concept of reasonable is not at all abstract! At a minimum, I would need to be able to explain the reasons for my decision to travel at the rate I had chosen.

Reasonability is clearly related to reason, which is defined by Merriam-Webster as "the power of comprehending, inferring, or thinking, especially in orderly rational ways." Precedent might also help me justify my decision as reasonable: If I were able to show that successful and safe drivers traveled at the rate I had chosen, it would be an objective measure of its reasonability. I might also draw in an expert to demonstrate the reasonability of my choice.

In the same way, a board member seeking to justify a decision or a general manager supporting a particular policy interpretation might use these approaches to document the reasonability of their action or interpretation: by providing evidence that there is good precedent for their decision, that many or most of their peers do it this way, that there is a body of current research leading them in this direction. By building an interpretation around these three kinds of "reason," a board member or a general manager demonstrates that he or she is using the power delegated to them in a responsible and accountable manner.

In the final analysis, the power of the concept of reasonability is that it derives from our shared notion of reality: we intuitively understand its limits. In the context of group decision-making, the very process of having a discussion about whether a particular interpretation is reasonable ensures that it will be so. No matter how reasonable a general manager believes an interpretation to be, or a board member believes an action to be, the scrutiny afforded during group decision-making provides protection against distortion of the process by idiosyncratic self-interest.

There may be no strawberries in the sea, nor red herring growing in the wood. Yet when it comes to determining whether an action taken by a board or an interpretation of board policies by a general manager is reasonable, we need not feel at sea. Circumstance dictates what we consider to be reasonable, and group process protects the board from arbitrary decision-making. Bringing our most professional and compassionate selves to each board meeting is the most certain way to ensure that our cooperatives are properly governed. See you at the co-op! ■

# Cooperative Governance

Cooperative governance is the act of steering cooperatively owned enterprises toward economic, social, and cultural success. It consists of:

- answering key questions
- defining roles and responsibilities
- establishing processes for setting expectations and ensuring accountability.

## Four Pillars of Cooperative Governance

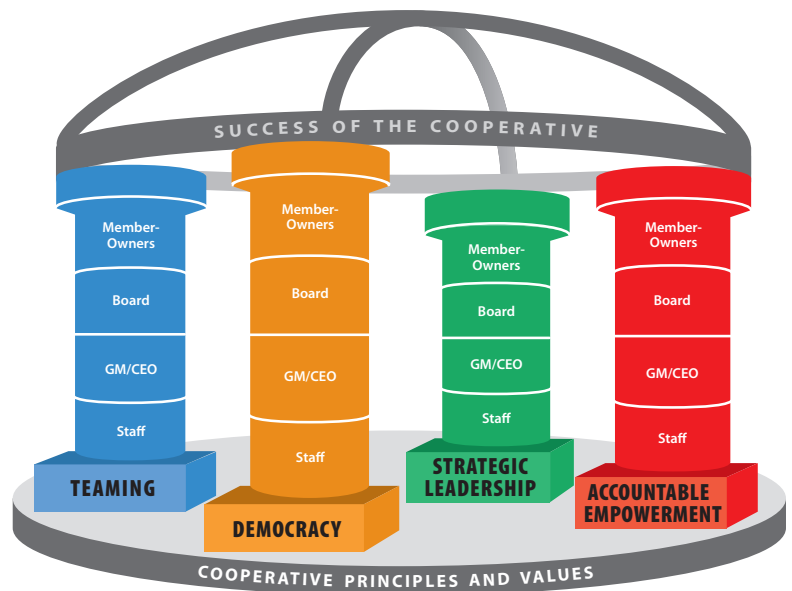
A model built on the Cooperative Principles and Values.

**Teaming:** successfully working together to achieve common purpose.

**Accountable Empowerment:** successfully empowering people while at the same time holding them accountable for the power granted.

**Strategic Leadership:** successfully articulating the cooperative's direction/purpose and setting up the organization for movement in this direction.

**Democracy:** successfully sustaining a culture in which people choose meaningful ways to participate for both individual and common good



*A larger, color version of the Four Pillars can be found on the back cover.*

## Roles

Governance happens at all levels:

- Member-owners
- Board
- General Manager/CEO
- Staff

Each role has its own:

- Responsibilities
- Processes
- Skills and knowledge
- Tools and resources

# Four Pillars of Cooperative Governance

## A new model grounded in the cooperative difference

BY MARILYN SCHOLL AND ART SHERWOOD

Great leaders demonstrate how to be a force for good in local communities and beyond. Our cooperative heroes—the Rochdale Pioneers—were striking weavers who opened a grocery co-op in 1844 in Rochdale, England, to help themselves and others get free from indebtedness to the company store.

The Pioneers asked and answered some compelling questions: Shouldn't the economy serve the people rather than the people serve the economy? What does it look like when that happens? Their belief in economic equity and fairness led to the worldwide consumer cooperative movement.

In keeping with the Rochdale Pioneers' vision, and a well-defined current global need for financial and environmental stability, the International Cooperative Alliance (ICA) in 2012 outlined a strategic agenda for cooperatives.

At the same time, the present authors had been asking ourselves whether there should be a model of cooperative governance, and if so, what would it need to look like to support and drive forward the success of our cooperatives?

### Tools for cooperatives

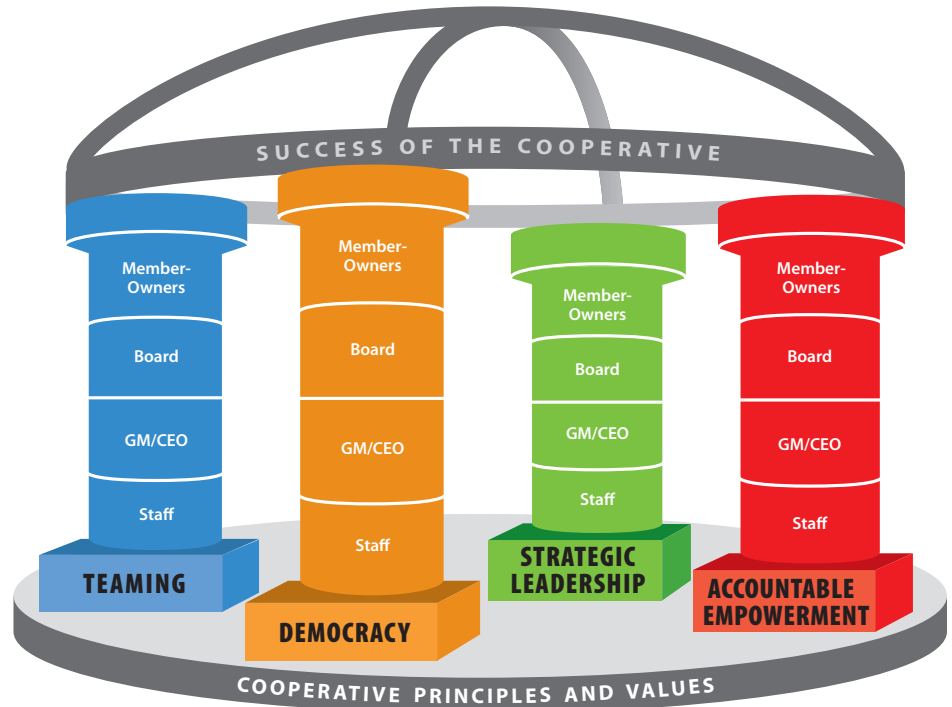
Co-ops have many governance tools at their disposal that have served them well, such as Policy Governance, a system for defining Ends and clarifying roles and structure for organizing the board's work. Over the last decade, co-op boards have been strengthened by a solid focus on Ends accomplishment and good process and systems. This has helped create positive and effective relationships with general managers. We have seen the outcome this has had on both business growth and social impact in our movement.

However, the cooperative boardroom does not share all the same purposes as the boards of investor-owned corporation or nonprofits. Co-ops are organized to benefit their owners,

and that is more important than a financial return on investment. We concluded it was time to re-create our understanding of cooperative governance.

Last spring, one of the authors, Art Sherwood, was invited to be a visiting scholar to address our questions at the world-renowned Vincent and Elinor Ostrom Workshop on Political Theory and Policy Analysis at Indiana University. Based on Nobel Prize Laureate Elinor Ostrom and Vincent Ostrom's work, Sherwood conducted research addressing the expectations we have of cooperative governors and how this might differ from investor-owned corporations.

Based on the results of this research (see References) and our team's deep experience with cooperative leadership, we designed the Four Pillars of Cooperative Governance model. We have since presented it at the International Cooperative Governance Symposium in Halifax, Nova Scotia, and we explain the model below.



### Four Pillars of Cooperative Governance

Cooperative governance is the act of steering cooperatively owned enterprises toward economic, social, and cultural success. It consists of answering key questions, defining roles and responsibilities, and establishing processes for setting expectations and ensuring accountability.

A model is a way of framing so that the parts and processes make sense. Our Four Pillars model is a not about changing systems but is a new way of making sense of cooperative governance. We think it addresses current gaps in strengthening owner relationships and democratic practices that are not clearly part of other business or governance models. The Four Pillars of Cooperative Governance are:

**Teaming:** successfully working together to achieve common purpose.

**Accountable Empowerment:** successfully empowering people while at the same time

holding them accountable for the power granted.

**Strategic Leadership:** successfully articulating the cooperative's direction/purpose and setting up the organization for movement in this direction.

**Democracy:** successfully practicing, protecting, promoting, and perpetuating our healthy democracies.

Within a co-op, no matter what the role, the expectation is that everyone is responsible for working together effectively, to be accountable and able to empower others, to be focused on purpose, and to participate in ensuring a healthy democracy. It is what co-ops are working to achieve, not only in the boardroom but also in the workplace and with members in the co-op. Governance—steering, making key decisions, working together for common goals—happens throughout the co-op at every level.

Therefore, the Four Pillars of Cooperative Governance is a framework for connecting the co-op's values to governance activities at all levels: staff, management, board, and owners. Each of the four pillars—Teaming, Accountable Empowerment, Strategic Leadership, and Democracy—is relevant to each constituency in a co-op. Again, Four Pillars of Cooperative Governance is not about changing systems, but a new way of thinking about the role of governance in a co-op.

### Four pillars at the board level

The remainder of this article will focus on understanding cooperative governance at the level of the board of directors. The work that co-op boards are charged with (stewardship of a community-owned asset) is being carried out, but it is currently missing a framework for directors to easily define it and have a vocabulary for it.

We need to build on what we've learned about effective governance to demonstrate with intention how boards express cooperative values in the way they govern. When the Rochdale Pioneers created structure for their ideas by shaping a set of Cooperative Principles, cooperation became a bona fide business model that allowed the idea to grow beyond one single group into a worldwide movement. What the Pioneers did is give cooperatives a framework, based on the practical application of their values. This allowed cooperation as an economic philosophy, and a business, to grow.

In our work with boards, we find that

they need to understand the big picture and also be able to home in on specific skills, processes, or tools that they need at any given time. We see the Four Pillars of Cooperative Governance as a way to do both—to have a good perspective on the whole mission and yet be able to focus in on specific needs. The Four Pillars is also a way to identify things that are working well within a particular co-op and show opportunities for areas of advancement and improvement. (We will explore these opportunities in more depth in a followup article).

### Teaming

The board is responsible for perpetuating board excellence and for organizing and managing its own work. The board must work together effectively as a team to make this possible. This includes having a common agreement about the work, clear expectations of individuals and the group itself, an effective decision-making system, and effective

leadership of the group.

The board has power as a unit. An individual director's only power, beyond that of any other co-op owners, is the ability to influence the board group. Diversity of opinion is necessary and valuable. Yet the group must have the ability to think and learn together, to come to a decision and support that decision. The board must create and maintain a group culture that supports their work. Viewed through the lens of the Four Pillars of Cooperative Governance, self-responsible teaming is the first step for board effectiveness.

### Accountable empowerment

To fulfill its fiduciary duties on behalf of owners, a board needs to be vigilant. The board also delegates power to the general manager or CEO to empower him or her to act. Power is the ability to get things done and to be effective. Power is necessary and good. The ideal situation is having both a power-

Each of the four pillars is relevant to each constituency in a co-op.



ful board and a powerful general manager. Unaccountable power is a problem, however, so boards must have effective systems of accountability.

Accountability is having clear expectations, assigning responsibility, and checking. Policy Governance is one model for ensuring accountability, and it has been an excellent method for role clarity, accountability, and focus. Because many co-op boards have effectively used Policy Governance, it is a valuable tool for accountable empowerment in the Four Pillars of Cooperative Governance.

## Democracy

The board must practice, protect, promote, and perpetuate the democratic nature of the cooperative. Democracy in cooperatives is about more than voting. A healthy democracy gives owners opportunities to meaningfully participate in reflection and change in their organization. All owners have the right to participate in the cooperative regardless of their wealth, investment, patronage, or values and beliefs. Owners are entitled to information, voice, and representation, and boards must understand the diverse needs of their owners.

Further, the board needs to build alignment and shared understanding among owners about the strategic choices the co-op needs to make. From newsletter articles and member meetings to surveys and focus groups, co-op leaders have a plethora of opportunities to build relationships with member owners. Ownership and democracy are at the heart of what makes a co-op differ-

ent from other businesses.

The Four Pillars of Cooperative Governance includes this all-important aspect of co-op governance to provide critical focus on an area that has not reached its full potential.

## Strategic leadership

Strategic leadership is about defining purpose and setting direction. How can the cooperative most effectively meet owner needs? How can it distinguish itself in the marketplace? What should the co-op achieve?

The board has a responsibility to establish direction and to facilitate movement toward the desired direction through their choice of management, ensuring adequate resources, and monitoring progress. Providing strategic leadership requires information, knowledge and wisdom. Boards need to be able to learn and build wisdom together in order to develop foresight and make informed decisions. Boards need a way to free up board agendas to focus on strategic thinking and have a process for building the knowledge pool.

## Elevate participation and governance

Over the last decade, we have observed that co-op boards have learned ways to systematically work better together and to practice accountable empowerment. Now that boards have become more skilled at that, the next phase of co-op governance is to clearly articulate democracy in how we work together with all our stakeholders and express strategic leadership in ways that demonstrate the

co-op difference. We see many opportunities and synergies for co-ops to match their efforts with those happening globally through the 20/20 Challenge and the ICA's Blueprint for a Cooperative Decade.

When we look to icons of leadership throughout history, we are struck by their abilities to speak well, be courageous, and solve problems with compassion and creativity. Yet those whose legacy will be most lasting are the ones who powerfully embody the values they champion. There is no substitute for authenticity. This is also part of the cooperative advantage.

What is more, directors of co-ops are some of the most dedicated, passionate, and dynamic cooperators out there. We can help lead the way toward answering the question of what leadership in an economic democracy looks like. The Four Pillars of Cooperative Governance is an invitation for you to participate in this emerging conversation.

In the next issue of the *Cooperative Grocer*, we will further this discussion by talking about the practical application of the Four Pillars of Cooperative Governance model. ■

Thank you to Patricia Cumbie and Mark Goehring for their assistance with this article.

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## Part 2: Practical applications of a new co-op model

BY MARILYN SCHOLL AND JOEL KOPISCHKE

In the January/February 2014 issue of *Cooperative Grocer* magazine, we introduced the Four Pillars of Cooperative Governance as a model for the co-op sector to steer our cooperatively owned enterprises toward economic, social, and cultural success. It is the culmination of many years' work with co-op boards of directors, seeking to answer this question: How can co-op governance ensure the success of the cooperative as an association and a business?

The Four Pillars model is not about changing systems; rather it is a new way of making sense of cooperative governance. We think it addresses current gaps in strengthening owner relationships and democratic practices that are not clearly part of other business or governance models.

To review, the Four Pillars (see illustration on the preceding page) are:

**Teaming:** successfully working together to achieve common purpose.

**Accountable Empowerment:** successfully empowering people while at the same time holding them accountable for the power granted.

**Strategic Leadership:** successfully articulating the cooperative's direction/purpose and setting up the organization for movement in this direction.

**Democracy:** successfully practicing, protecting, promoting, and perpetuating our healthy democracies.

Co-op boards are different from the boards of investor-owned corporations or nonprofits. Co-ops are organized to benefit their owners and are expected to manifest cooperative values and operate within the guidelines of the co-op principles. A model is a way of framing so that the parts and processes make sense.

In this article, we are going to focus specifically on how the model can be useful to the work of the cooperative board of directors.

### Using the Four Pillars of Co-op Governance

There's a lot to keep track of on a board, and the board's job can feel big and complex. The Four Pillars helps boards organize their work, and the perspective it provides helps boards put things into balance. Are there areas that could be improved or strengthened? The Four Pillars can help boards identify those matters. Conversely, the Four Pillars can also be used to demonstrate to boards their areas of proficiency, giving boards a more holistic view of their productivity, so that they can devote more time to other areas that might need their attention.

Albert Einstein said that if he had an hour in which to solve a problem, he would first spend 55 minutes determining the proper questions to ask and only five minutes solving the problem. This seems like an apt analogy

for productive board work. In order to most effectively use the tools of the Four Pillars, we think it's important to understand the underpinnings of preparation and development—allowing directors to ask the critical questions—that give this model its strength.

Three important uses of the Four Pillars model are: conceptualizing the whole of the job, planning for excellence, and assessing progress.

### Conceptualization

Conceptualization is the ability to see the big picture and how the whole connects to its parts. In group work, some people are good at envisioning the big picture, while others mostly see things in their individual parts. Some people are action-oriented, eager to dive in regarding what steps to take. Others need to see the whole path before getting started. One of the benefits of the Four Pillars model is that it helps boards get a full view of how each segment is connected to the co-op's goals, therefore better utilizing the abilities of the whole group.

People think and learn in different ways, and the Four Pillars model also allows for greater diversity of people and their approaches to the thinking process—something that is highly sought after in dynamic boardrooms—because the co-op's vision can be so easily connected to the Four Pillars. If the board's overall goal is the success of the co-op, and directors understand well their role in contributing to it, then board work adds a great deal to the organization's ability to put its values into action.

### Planning

Where do you want your board to be next year? A better question may be: What will take your board's work to the next level? If you want to excel at governance, then having a plan for how to achieve it is a good starting point. A plan will give your board a focus for its chosen intentional actions.

Planning is not just starting with a blank piece of paper and brainstorming what's next. It's certainly possible to plan that way, but a more efficient approach is to understand your current situation and build upon it. For example, within the Four Pillars, boards evaluating their democracy pillar might begin by ask-

## Blueprint for a Cooperative Decade

The Blueprint for a Cooperative Decade is the overarching agenda for the ICA, its members, and the cooperative movement. It is a five-point plan with individual strategies:

- Elevate **participation** within membership and governance to a new level.
- Position cooperatives as builders of **sustainability**.
- Build the cooperative message and secure the cooperative **identity**.
- Ensure supportive **legal frameworks** for cooperative growth.
- Secure reliable cooperative **capital** while guaranteeing member control.

The strategy intends to take the cooperative way of business to a new level. At the heart of the blueprint is the "2020 challenge" which is that by 2020 cooperatives will become:

- The acknowledged leader in economic, social, and environmental sustainability.
- The business model preferred by people.
- The fastest growing form of enterprise.

[www.ica.coop/en/blueprint](http://www.ica.coop/en/blueprint)

ing what they need to do to understand and articulate the democratic nature of the co-op. Let's say a board concludes it needs more member-owner engagement, and one piece of that is for the board to change its approach to the co-op's annual meeting, with the goal of building shared alignment and creating greater transparency. Planning with the Four Pillars as a foundation will help boards consolidate what they know, what they can do, and develop a plan to carry it out.

## Assessment

Assessment is the baseline for any strategic work, and it is closely tied to planning. Almost all good planning processes begin with some kind of assessment. What are we good at? What could be improved? Assessment is a critical part of improvement and is a necessary tool for developing plans. In order to move forward, we need to know what knowledge, capacity, and skills we have in order to fill in the gaps and get the critical tools and support we need.

The Four Pillars framework was created to give co-ops a constructive model for assessing themselves. The importance and practical usefulness of this aspect of the Four Pillars cannot be overstated.

## Tools of the Four Pillars

After we understand the organizational expediency of the Four Pillars, how is it put into practice? What follows is an overview of how different tools developed by the Columinate work synergistically—so that boards can gain greater insight, via their own process, for how to strengthen the Four Pillars within their own co-ops.

Shown above is a blank Four Pillars role worksheet, which can be used to describe the board's responsibilities, processes, skills, and needed resources for each pillar in the cooperative governance framework. On the next page, within each pillar we identify the board's roles and responsibilities, the processes to utilize to fulfill those responsibilities, skills and characteristics needed in directors, and tools and resources to assist in meeting the responsibilities carrying out the work of that pillar.

We start with Teaming, because being able to work together effectively enables the rest of the work. With good communication and board process, successful and accountable empowerment is then possible. With adequate teaming and accountable empowerment, the board has the ability to become strategic leaders and to help the co-op demonstrate robust democracy. The pillars are all interlinked on a foundation of the cooperative principles and values.

We've filled in this worksheet in an

attempt to assist boards with using the Four Pillars to improve their work. As an orientation to this worksheet, following are comments on the first column, the board's pillar of Teaming.

As it shows, if a board wants to improve its responsibility of perpetuating board excellence, it could focus on the processes of orientation and training. That might lead a board to develop its communication skills

**With adequate teaming and accountable empowerment, the board has the ability to become strategic leaders and to help the co-op demonstrate robust democracy.**

using servant leadership resources. Or if a board wants to develop its responsibilities in strategic leadership, it might use the processes of education and building wisdom using the tool of safe strategic conversation to increase its skill of foresight. To further explore the possibilities see, the full worksheet found with this article.

The board development team at Columinate will be further exploring uses of the Four Pillars over the next year in its monthly newsletter, *Connections*. (Sign up at <http://tinyurl.com/ldq27kj>.) Additionally, the Columinate is creating an assessment tool for each of the Four Pillars areas, in order to give boards a good way to evaluate where in the Four Pillars they are strong and which areas need more attention.

The Four Pillars assessment tool has multiple uses—it could be used as preparation for the annual board retreat, establishing better board communication and coaching, used as a scan for board-leadership development, or newly formed groups could use it to evaluate their skills and increase awareness of teaming expectations. The tool can be used by the board chair, the whole board, or even the whole co-op as a way to gauge the co-op's "health" or "balance."

## Boards moving forward

Boards often think of strategy from the operational point of view—how things are carried out—rather than from a stewardship or governance viewpoint. The Four Pillars model is a visual touchstone for how a concrete focus on critical responsibilities within each particular pillar touches all stakeholders, from

the board to the co-op's management and staff and the owners. Each point on the pillar recognizes a place for their participation in the process. Each group is dependent upon the others to contribute to the co-op's vision and plays a part in its success.

Co-ops are already doing a lot of this important work, often without even recognizing or naming it. We have already seen how co-op governance has been transformed by focusing on accountable empowerment and establishing better relationships with our constituencies. By applying intention and focus to these actions, our co-ops can achieve so much more.

As George E. P. Box said, "All models are wrong, but some are useful." We know that governance can seem more complicated than the simple elegance of the Four Pillars in the model. But we think the Four Pillars will be useful for cooperative leaders as they work together effectively, rooted in the cooperative principles and values, on behalf of the member-owners and while empowering management, to provide strategic leadership for the success of the cooperative.

By planning their development and governance based on the strengths of cooperative business practices, what co-ops achieve could be beyond our former dreams. Globally, this positive framework has been expressed in the International Cooperative Alliance "Blueprint for a Cooperative Decade," which intends to take the cooperative way of doing business to a new level by 2020; see: <http://ica.coop/en/blueprint>.

As our cooperatives look to extend the values of cooperation to more and more communities through growth and service, we think co-ops should be at the forefront of owner participation and economic democracy. The remainder of this cooperative decade promises to be exciting, as co-ops begin to realize more of their potential as democratic, participatory organizations. We are all connected through the values of cooperation—and that is the beauty and the power of the Four Pillars of Cooperative Governance model. ■

Thanks to Patricia Cumbie for assistance with this article.

## BOARD'S ROLE IN COOPERATIVE GOVERNANCE

	Teaming	Accountable Empowerment	Cooperative Democracy	Strategic Leadership
Definition	Successfully working together to achieve common purpose	Successfully empowering people while at the same time holding them accountable for the power granted	Successfully sustaining a culture in which people choose meaningful ways to participate for both individual and common good	Successfully articulating the cooperative's direction/purpose and setting up the organization for movement in this direction
Responsibility	Perpetuate Board excellence Be self-responsible <b>Hold and use board authority as one body(3)</b> Protect the process Create and sustain culture Maintain Board/CEO relationship (5)	Be Vigilant: Duty of Care and Loyalty <b>Hire, support, empower, evaluate &amp; compensate CEO/GM (2)</b> <b>Have expectations, assign authority &amp; check performance against expectations</b>	Practice, protect, promote and perpetuate a healthy democracy Value, facilitate and support Participation in its various forms (Own, Use, Serve and Belong) <b>Be an informed agent of owners(1)</b> <b>Be accountable to owners(2)</b>	<b>Set strategic direction – purpose (4)</b> Support and facilitate movement
Process	Recruit/Screen/Nominate/Elect Orientation & training (5) <b>Self-evaluation (5)</b> <b>Effective decision-making (5)</b> <b>Effecting meetings</b> <b>Accountable empowerment of Board leaders, committees (8)</b> <b>Culture development (5)</b> Celebration	<b>Clear expectations (policies) for board, board/CEO-GM relationship and CEO (4,5,6,7)</b> <b>Effective delegation (8)</b> <b>Monitoring using the “any reasonable interpretation” principle(9,10)</b> <b>CEO/GM Evaluation (10)</b> CEO/GM Compensation	<b>Annual meeting, report, elections (2)</b> <b>Understanding diverse needs, values (2)</b> <b>Building shared understanding and alignment (2)</b> Understand, decide Patronage Dividends <b>Transparency (5 and 6)</b> <b>Recruitment, screening, nomination of Board candidates (5)</b>	<b>Define in writing the purpose, impact (e.g. Ends)(4)</b> Education, build wisdom, cognition Communication Capitalization Building alignment
Skills/ Characteristics	Communication Honesty and integrity Problem solving Facilitation Delegation Diversity skills Gratitude and appreciation	Ability to delegate power Assess risk Interpret data Financial understanding Judgment -Reasonable Interpretation -Sufficient and appropriate data	Communication: Dialogue, Information, Listening Courage Citizenship Openness	Listening Suspending judgment Foresight Critical thinking Systems thinking Big picture and long term view
Tools/Resources <i>Examples. See CBLD Library</i>	Servant Leadership Team building Forming, Storming, Norming, Performing, Transforming Code of conduct Self-evaluation Pool of candidates Screening mechanisms Communication technology	<b>Policy Governance® &amp; Policy template</b> Monitoring report decision tree Sample monitoring reports Accountability Zone article Reasonable & Prudent article How to hire a CEO/GM toolbox Process for CEO/GM Compensation CEO/GM Evaluation Understanding the Balance Sheet	Annual meeting/report Social Media Community Conversations Health assessment of democracy Education materials Orientation to democratic leadership Pool of candidates Bylaw Template Patronage Dividend Primer	SWOT External trends analysis Growth roadway article Safe conversations <b>Ends to Ends process</b> <b>Ends development process</b>

The complete Cooperative Governance Model consists of four pillars of Cooperative Governance (Democracy, Accountability Empowerment, Teaming and Strategic Leadership) that apply to each of four roles (Member Owners, Board, CEO/GM, and Staff). Each role has related responsibilities, process, skills/knowledge and tools/resources.

**Direct connection to Policy Governance® principles indicated in bold italic.**

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Feedback Welcome: CooperativeGovernance@columinate.coop

# Appreciating the Diversity of Member Needs and Motivations

BY MARILYN SCHOLL

In my work with food co-op boards and staff over the past 30 years, one of the questions I have often encountered is this: How can we get more people more involved at the co-op? The question has prompted a lot of soul-searching and hand-wringing. Co-op leaders intuitively believe that member involvement is vital to the health of the cooperative, but what's not so clear is what member involvement really means. Involvement in what? How much is enough?

I believe that a member's involvement depends as much on his/her own needs, motivations, and desires as it does on anything the co-op does or doesn't do. Our lives have abundant opportunities for involvement in a wide variety of organizations and pursuits. Many of us have been drawn to become deeply involved in our cooperatives. Others are drawn to other interests. Our communities are richer because of this diversity. Along with those deeply involved in the co-op, who will take care of our public libraries, rape crisis centers, and environmental protection organizations—to name just a few? Food co-ops need some involvement from some members, and so do other valuable community organizations.

## Co-op psychology 101

As I've thought about members' needs and motivations, I have been reminded of Maslow's hierarchy of needs, something I first learned in Psychology 101. Maslow conducted a career's worth of research to develop his theory, and while not a perfect fit, it can offer useful ways of thinking about member involvement in a food co-op.

Maslow believed that human needs are arranged in a hierarchy from the most pressing to the least. A person will try to satisfy his or her most pressing needs first. If one need is satisfied, a person will try to satisfy the next most important need. (See Figure 1.)

Applying this hierarchy of needs to a food co-op, a person's most basic need is the store itself. To be successful, a co-op must offer products and services that meet specific people's needs and interests. Satisfying people at this level is a co-op's first priority, and the co-op's economic survival depends on doing it well. Note that the International Cooperative Alliance "Statement of Cooperative Identity" defines a cooperative as "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations."

If someone isn't satisfied by a shopping experience, he or she will not seek a higher level of involvement—people will not typically join a co-op if the co-op's services do not meet their needs. However, if the store is a great place to shop, some customers will seek a higher level of involvement by joining the co-op.

Some of the people who join the co-op will be interested in more than a great store with great member benefits. They want to belong, to feel connected with something bigger, something positive in their community, and to make a difference with their purchases. Some people want a sense of community with their food. In Maslow's third level of need, people have social needs and desire a sense of belonging. Some people will seek to satisfy this need for belonging at the

## Levels of Co-op Involvement— Category Definitions

**Customers** are people who shop at the co-op but are not members. They may or may not be aware of the membership option. They like shopping at the co-op but may leave if a competitor offers more convenience, better selection, or lower prices.

**Shopping members** like the store and join primarily because of the economic benefits. Their primary interest is "what's in it for me." They do not necessarily think of themselves as owners or easily understand the difference between the co-op and other stores.

**Social members** like belonging to the co-op, though they may not experience the connection as "ownership." They care about what the co-op stands for in the community. They are more likely to attend a co-op dance than the membership meeting.

**Member owners** are people who understand that the co-op has a different ownership structure and that the member is a part owner. They are interested in the governance of the co-op and are willing to be more involved when this is convenient. They feel that they should go to the annual meeting and vote in elections, and occasionally they do so.

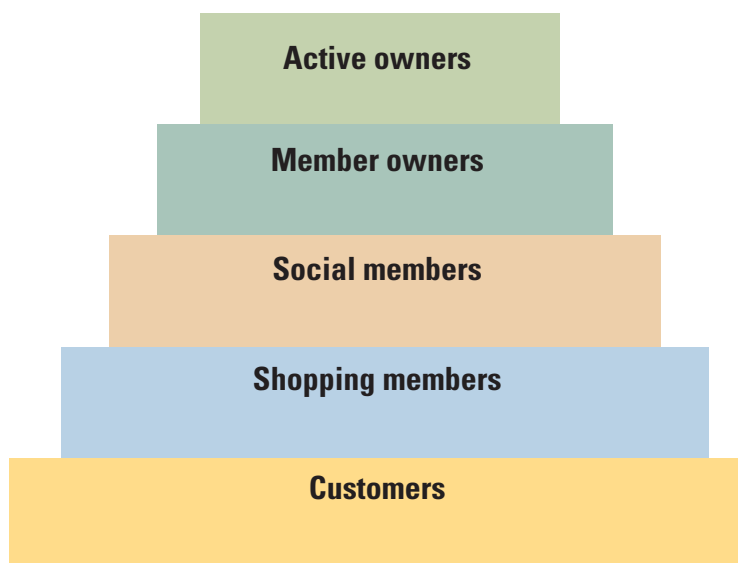
**Active owners** are actively involved in the co-op. They are the leaders and decision makers who serve or have served on the board or committees. They pay close attention to what the co-op does and what decisions are made. They take ownership responsibilities seriously. They usually vote in elections and regularly attend co-op functions.



Figure 1. Maslow's Hierarchy of Needs



Figure 2. Levels of Co-op Involvement



co-op.

Finally, if the co-op meets people's needs for a great place to shop and provides them with a sense of belonging, some will become even more engaged in the life of the co-op—offering suggestions, participating in decision-making, running for the board of directors, or applying for a job. A co-op needs enough people participating at this level to ensure effective democracy and responsiveness, but it's realistic to expect that only a very small percentage of customers will choose this deepest level of involvement.

People have a right to choose the activities they want to pursue and their own level of involvement in the co-op. There are no "wrong" levels of member involvement. At whatever level people choose—even if all they do is shop—they feel they are involved and participating, and we should think so too! The co-op's job is to serve people's needs rather than to try to change them. We should welcome and be grateful for all levels of participation. People's needs frequently change over time, and if the co-op has been successful and nonjudgmental at meeting basic needs, it will be there for people as they change. The co-op can support people by making it easy and inviting to change their level of involvement (whether more or less) without guilt or pressure.

Using Maslow's hierarchy of needs and my experience with food cooperatives, I've developed a model of member involvement in food co-ops that can be useful for boards of directors and managers in thinking about the diversity of people's needs and how to satisfy those needs and benefit the co-op at the same time. (See Figure 2.) This member involvement model highlights three key categories of needs—economic, belonging, and engagement.

## Fueling the economic engine

A co-op will not survive as a business if it isn't successful in the economic relationship with customers. A co-op needs to be well attuned to what its members and customers want and to provide them with a great shopping experience that meets their expectations. Both the co-op and its members can prosper if products and services are closely aligned with member needs. It might sound simplistic, but sales growth is probably the clearest indication that members are involved in their co-op and contributing to its ability to thrive.

The vast majority of customers, including both members and non-

members, are involved at this economic level, so it's vital that a co-op carefully and astutely address their needs to ensure success and business survival. It is especially important to appreciate consumers for their participation as shoppers, to show how the co-op, the members, and the community at large benefit from patronage of the co-op. It is good reinforcement and a very powerful message.

The economic level of involvement includes both member and nonmember customers. Research conducted by membership organizations from retail clubs to churches suggests that as many as 60% of the population are non-joiners. Many people will partake in an organization's offerings but choose not to join.

For food co-ops to attract those people who are joiners, the benefits of membership need to be tangible and clearly communicated. The co-op benefits from members' patronage as well as from the member equity investment. In exchange, members receive some tangible benefits. However, they are also contributing something more difficult to quantify but just as important as the financial bottom line, and that is the means to building community.

## Creating a sense of belonging

Many people want something more from their involvement in the co-op. They want to be part of an organization that shares their values and makes a difference in the community and in the world. I call these social members. They have a more personal relationship with the co-op; they like the sense of community they get from the co-op and will participate in the co-op's social activities. These are folks who will show up for the harvest festival or Earth Day events. The visibility of the co-op in the greater community is important to them.

Social members may be more interested in what band plays at a co-op social event than in who serves on the co-op board. If so, it is unlikely that cajoling will inspire any further interest in board elections. However, those members who love to dance have something to offer their co-op. Good spirit and celebration shouldn't be underestimated. An inspired gathering can do a lot for spreading the co-op's message of community-building.

Another way members strengthen the co-op is by spreading the word, telling their friends and neighbors about the co-op. Because they feel they are part of something more than a store, their loyalty is critical. Because our co-ops aspire to being a link in a sustainable and



more just society, cultivating this ambassador relationship with our members is significant to our cooperative mission.

The best part about being conscious of meeting these members' needs is that it is a lot of fun! Photos of local farmers, kids' art exhibits, festive events, and so much more all are part of creating a store atmosphere that is personal and enjoyable. Provide these members with opportunities to be involved and to respond to issues they care about.

Find effective tools for measuring and communicating the difference that the co-op makes. This assessment and communication is important to satisfy social members' needs and to reinforce their involvement. Commitment to our community is demonstrated in many ways, but through member participation a cooperative can manifest a sense of belonging that strengthens the co-op as well as the movement as a whole.

## Engagement

Naturally, fewer members are found at the higher levels of involvement. I've identified two types of members who are engaged in the co-op. People in the category I call member owners are aware that the co-op's ownership structure is different. They understand that their membership is ownership, and they pay attention to what the co-op does and the decisions it makes. Active owners, on the other hand, are those who will become involved in those decisions. They are people who will consider running for the board. They'll take the time to attend the annual meeting and read reports.

Both member owners and active owners are motivated by the philosophy and values of the cooperative. They care deeply about the co-op and want to share their opinions. Provide these people with clear and accessible information about what the co-op is doing, what it is thinking about, and how to give feedback. The co-op needs at least some people to be involved at a high level of engagement, people who not only see themselves as part of the community but who identify as a co-owner of a community business.

Co-ops need to find ways to provide recognition and tangible benefits for these leaders; they are critical to prudent and responsive decision making. At the same time, these decision makers need to remember that their perspective is not necessarily representative of the majority of members.

## Goals of member involvement

The idea is not to push members along a predetermined continuum of involvement, but for cooperative leadership to understand, mindfully, that the essence of adequate member participation is seeing people engaged and satisfied with the co-op in ways they choose. We don't need to dream up more ways for people to contribute to their co-op. It is our job to invite member participation at all levels and to provide meaningful outlets for those who want to contribute more.

The following set of goals illustrates the desired outcomes of this approach:

- Each person has a high degree of satisfaction with his or her level of involvement.
- There is easy access for members and shoppers to change their level of involvement if they choose to.
- All levels of involvement are welcome and appreciated.
- Members have positive feelings about the co-op.
- The co-op has strong and empowered leadership. The board's job is not to empower members but to be servant leaders on behalf of a diverse group of members and customers.

While we may desire more member involvement, it would be nearly impossible to make decisions if all members were actively involved. Members elect the board of directors and empower them to make decisions on their behalf and in their best interest. The board and management of the cooperative must take steps to improve their knowledge of the needs and opinions of members and potential members in order to provide more satisfaction to members at all levels.

Directors can use this model of member needs to increase the board's understanding of different types of members. By imagining the variety of needs and motivations, you can "hear" perspectives that may not otherwise become audible. Remember that directors are the most involved members and do not represent all perspectives in the membership base, especially around the issue of member participation. Directors are wise to think about the needs of other types of members before making decisions. Whatever the issue, it's critical to find a balanced perspective.

The board of directors is empowered to make decisions on behalf of all members and, with diligence, would prefer to know more about what all members need. However, the board cannot fall into inaction because we don't know and never will know what "all the members" want. We'll never have all the information we need. At the same time, take care not to assume that all members want or should want what directors want.

Develop co-op communication, activities, and opportunities that recognize this model of diversity. Individuals at different levels of involvement have different needs, interests, and motivations and require appropriate communication strategies. Accordingly, the cooperative must provide relevant information, meaningful opportunities, and valued activities for each level of participation. If the co-op actively asks the membership what it wants and gives them opportunities to participate at meaningful levels, then the co-op will hear from a much greater cross-section of its members.

What we intend to say to our members by valuing their participation is that "you belong here." This is part and parcel of the cooperative difference. Having members engaged at all levels is vital to the ongoing survival of any co-op—both as a co-op and as a business—and to success beyond our current generation. ■

# The Board's Leadership Challenges and Policy Governance Simplified

## The board's leadership challenges

How can a group of lay people be responsible owner-representatives, exercising authority over activities they will never completely see, toward goals they cannot fully measure, through jobs and disciplines they themselves don't have?

How can they fulfill their own accountability while, at the same time, not infringing unnecessarily on the expertise, creativity and prerogatives of management?

How can a group of peers do so when with themselves they disagree, there is a limited time for the task, and there is an unending stream of organizational details demanding inspection?

## Why have a governance system?

- Allows for clear responsibility and accountability
- Clarity of group values
- Empowerment
- Promotes Servant Leadership
- Provides integrated and comprehensive structure

## What Policy Governance is

Policy Governance is a comprehensive set of integrated principles that, when consistently applied, allows governing boards to realize owner-accountable organizations

According to John Carver, boards exist for one reason:

*To ensure on behalf of the organization's owners that the organization performs as it should.*

### Policy Governance, *simplified*:

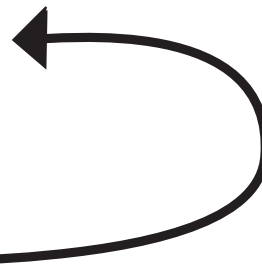
#### 1. Have expectations

(and write them down)

#### 2. Assign authority

#### 3. Check

(we're going to need some information here)



# Policy Governance Quick Guide

## A Columinate / CBLD Field Guide



**This Policy Governance Quick Guide (a Columinate / CBLD field guide) is available in the Columinate Library at:**  
**<https://columinate.coop/policy-governance-quick-guide/>**

Policy Governance is an operating system for boards of directors. As with operating systems for computers, the system itself is not the point of the board's work; the system simply provides an underlying framework on which boards can build further agreements and activities. Policy Governance does not mandate specific decisions, but does highlight the kinds of decisions a board should make. These decisions include agreements about how the board will work together, how the board will empower and hold accountable the cooperative's management, how the board will articulate the cooperative's purpose and set up the cooperative for movement in that direction, and how the board understands the role of member-owners and others in the governance of the cooperative.

The Policy Governance operating system is essentially an integrated set of principles – principles that gain their power when used together. Key to the principles is the meaning of the word "policy." Within the context of Policy Governance, policies are the proactive articulation of values or principles that guide action.

### **Policy Governance principles:**

#### **1. Ownership**

The cooperative is owned by its members. The board exists to act and make decisions on behalf of and in the best interest of the owners.

#### **2. Position of Board**

The board is a distinct link in the chain of empowerment and accountability within the cooperative. The owners empower the board through the bylaws, and the board is accountable to owners for the success of the cooperative.

In turn, the board empowers and holds management accountable, delegating authority to management through Ends and Executive Limitations policies.

#### **3. Board Holism**

The authority of the board belongs to the whole. To say that the board "speaks with one voice" means that the board's authority is a group authority. The "voice" of the board is expressed through the written policy decisions. Directors can work to persuade and influence the board in its deliberations and decision-making; beyond that, individual directors or subsets of the board have no authority to instruct staff.

#### **4. Board Means Policies**

The board defines in writing its own job and how it operates. These decisions are agreements about the board's means, categorized as Board Process policies and Board-Management Relationship policies.

#### **5. Clarity and Coherence of Delegation**

The board unambiguously identifies the authority and responsibility of any person (e.g., GM or board president) or committee to whom the board delegates. No individual director, officer, or committee can be delegated responsibility that interferes with or duplicates responsibility delegated to the GM.

#### **6. Ends Policies**

The board defines in writing the cooperative's purpose in terms of: intended effects/benefits to be produced, intended recipients of those benefits, and (if desired) the intended cost-benefit or priority of those benefits. (Any decisions about issues that don't fit the definition of Ends are means decisions.)

#### **7. Executive Limitations Policies**

The board defines in writing its expectations about the means of the cooperative. Rather than prescribing board-chosen means, Executive Limitation policies define limits on operational means – essentially, defining boundaries on

the GM's authority. Executive Limitation policies describe means that are not allowed even if they are effective. The board retains the authority to make decisions that are outside of the GM's authority.

### **8. Policy sizes**

The board decides the four types of policies first at the broadest, most inclusive level. The board can then further define each policy in further levels of detail until reaching a point at which the board can accept any reasonable interpretation of the written policy.

### **9. Any Reasonable Interpretation**

More detailed decisions about Ends and operational means are delegated to the GM, who has the right to use any reasonable interpretation of the board's written policies. A reasonable interpretation will include more detailed and/or clarified meaning of the board's policy, along with operational definitions (the metrics and benchmarks

used to gauge accomplishment). More detailed decisions about board means (and the right to use any reasonable interpretation of those written policies) are delegated to the board chair – unless part of the delegation is explicitly directed to another officer or committee.

### **10. Monitoring**

The board must check to ensure that the cooperative has achieved (or made progress toward) the Ends while operating within the Executive Limitation boundaries. The board judges the GM's interpretation and operational definition for reasonableness, and judges whether the data demonstrates accomplishment of that interpretation and operational definition. The ongoing monitoring of Ends and Executive Limitations policies constitutes the GM's performance evaluation. The board must monitor its own performance according to the stated board means policies.

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Policy Governance is a registered service mark of John Carver.

For further information, see:

- Carver, John. *Boards That Make a Difference: A New Design for Leadership in Nonprofit and Public Organizations*, third edition. San Francisco: Jossey-Bass, 2006.
- Policy Governance Source Document, International Policy Governance Association, [policygovernanceassociation.org](http://policygovernanceassociation.org)
- [carvergovernance.com](http://carvergovernance.com), the authoritative website for the Policy Governance model
- Policy Governance FAQ in the Columinate Library, [columinate.coop/library](http://columinate.coop/library)
- Goehring, Mark. "Taking Policy Governance to Heart," *Cooperative Grocer*, March 2009



# The Ten Principles of Policy Governance

Looking for a precise description of the 10 principles of the Policy Governance model?

This official document lays out what IS and IS NOT Policy Governance.

## POLICY GOVERNANCE® SOURCE DOCUMENT

### Why a Source Document?

A "source" is a point of origin. A source document is a "fundamental document or record on which subsequent writings, compositions, opinions, beliefs, or practices are based." (Websters)

Without a simply expressed clear point of source, interpretations, opinions, writings and implementations may intentionally or unintentionally diverge from the originating intent and ultimately be undifferentiated. The point of source ("authoritative source") is John Carver, the creator of Policy Governance, with Miriam Carver his fellow master teacher.

Without a simply expressed clear source document, Policy Governance is not reliably grounded and not transferable as a paradigm of governance. It is left vulnerable to interpretation, adaptation and impotence. This document has been produced by the International Policy Governance Association and approved by John and Miriam Carver as being true to source.

### What Policy Governance is NOT!

1. Policy Governance is not a specific board structure. It does not dictate board size, specific officers, or require a CEO. While it gives rise to principles for committees, it does not prohibit committees nor require specific committees.
2. Policy Governance is not a set of individual "best practices" or tips for piecemeal improvement.
3. Policy Governance does not dictate what a board should do or say about group dynamics, methods of needs assessment, basic problem solving, fund raising, managing change.
4. Policy Governance does not limit human interaction or stifle collective or individual thinking.

### What Policy Governance IS!

Policy Governance is a comprehensive set of integrated principles that, when consistently applied, allows governing boards to realize owner-accountable organizations.

Starting with recognition of the fundamental reasons that

boards exist and the nature of board authority, Policy Governance integrates a number of unique principles designed to enable accountable board leadership.

### Principles of Policy Governance

#### 1. Ownership:

The board exists to act as the informed voice and agent of the owners, whether they are owners in a legal or moral sense. All owners are stakeholders, but not all stakeholders are owners, only those whose position in relation to an organization is equivalent to the position of shareholders in a for-profit-corporation.

#### 2. Position of Board:

The board is accountable to owners that the organization is successful. As such it is not advisory to staff but an active link in the chain of command. All authority in the staff organization and in components of the board flows from the board.

#### 3. Board Holism:

The authority of the board is held and used as a body. The board speaks with one voice in that instructions are expressed by the board as a whole. Individual board members have no authority to instruct staff.

#### 4. Ends Policies:

The board defines in writing its expectations about the intended effects to be produced, the intended recipients of those effects, and the intended worth (cost-benefit or priority) of the effects. These are Ends policies. All decisions made about effects, recipients, and worth are Ends decisions. All decisions about issues that do not fit the definition of Ends are means decisions. Hence in Policy Governance, means are simply not Ends.

#### 5. Board Means Policies:

The board defines in writing the job results, practices, delegation style, and discipline that make up its own job. These are board means decisions, categorized as Governance Process policies and Board- Management Delegation policies.

## **6. Executive Limitations Policies:**

The board defines in writing its expectations about the means of the operational organization. However, rather than prescribing board-chosen means -- which would enable the CEO to escape accountability for attaining Ends, these policies define limits on operational means, thereby placing boundaries on the authority granted to the CEO. In effect, the board describes those means that would be unacceptable even if they were to work. These are Executive Limitations policies.

## **7. Policy Sizes:**

The board decides its policies in each category first at the broadest, most inclusive level. It further defines each policy in descending levels of detail until reaching the level of detail at which it is willing to accept any reasonable interpretation by the applicable delegatee of its words thus far. Ends, Executive Limitations, Governance Process, and Board-Management Delegation policies are exhaustive in that they establish control over the entire organization, both board and staff. They replace, at the board level, more traditional documents such as mission statements, strategic plans and budgets.

## **8. Clarity and Coherence of Delegation:**

The identification of any delegatee must be unambiguous as to authority and responsibility. No subparts of the board, such as committees or officers, can be given jobs that interfere with, duplicate, or obscure the job given to the CEO.

## **9. Any Reasonable interpretation:**

More detailed decisions about Ends and operational means are delegated to the CEO if there is one. If there is no CEO, the board must delegate to two or more delegates, avoiding overlapping expectations or causing confusion about the authority of various managers. In the case of

board means, delegation is to the CGO unless part of the delegation is explicitly directed elsewhere, for example, to a committee. The delegatee has the right to use any reasonable interpretation of the applicable board policies.

## **10. Monitoring:**

The board must monitor organizational performance against previously stated Ends policies and Executive Limitations policies. Monitoring is for the purpose of discovering if the organization achieved a reasonable interpretation of these board policies. The board must therefore judge the CEO's interpretation for its reasonableness, and the data demonstrating the accomplishment of the interpretation. The ongoing monitoring of board's Ends and Executive Limitations policies constitutes the CEO's performance evaluation.

All other practices, documents, and disciplines must be consistent with the above principles. For example, if an outside authority demands board actions inconsistent with Policy Governance, the board should use a 'required approvals agenda' or other device to be lawful without compromising governance.

Policy Governance is a precision system that promises excellence in governance only if used with precision. These governance principles form a seamless paradigm or model. As with a clock, removing one wheel may not spoil its looks but will seriously damage its ability to tell time. So in Policy Governance, all the above pieces must be in place for Policy Governance to be effective. When all brought into play, they allow for a governing board to realize owner accountability. When they are not used completely, true owner accountability is not available.

Policy Governance boards live these principles in everything they are, do and say.

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Produced by International Policy Governance Association in consultation with John and Miriam Carver, 2005-2007-2011.

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# CBLD Sample Policies

## Table of Contents

(The CBLD Team maintains a set of sample policies, which is available in the Columinate Library <http://columinate.coop/cbld-policy-template> )

<b>Ends</b>	<b>A – Ends</b>
Executive Limitations	B – Global Executive Constraint B1 – Financial Condition B2 – Planning and Budgeting B3 – Asset Protection B4 – Membership Rights and Responsibilities B5 – Treatment of Consumers B6 – Staff Treatment and Compensation B7 – Communication to the Board B8 – Board Logistical Support B9 – GM Succession
Board Process	C – Global Governance Commitment C1 – Governing Style C2 – The Board's Job C3 – Agenda Planning C4 – Board Meetings C5 – Directors' Code of Conduct C6 – Officers' Roles C7 – Board Committee Principles C8 – Governance Investment
Board- Management Relationship	D – Global Board-Management Connection D1 - Unity of Control D2 – Accountability of the GM D3 – Delegation to the GM D4 – Monitoring GM Performance
Appendices	Suggested appendices include: Bylaws Board Annual Calendar and Monitoring Schedule Committee Charters Monitoring Decision Tree Policy Governance Source Document

# Monitoring the Manager

## An Episode of “The Accountability Zone”

BY MARK GOEHRING

There is a fifth dimension beyond that which is commonly known to directors and managers. It is a dimension open to interpretation—potentially as vast as space and as timeless as infinity. It is the middle ground between too much and too little, between knowing and doing, and it lies between the pit of a director’s fears and the summit of her aspirations. This is the dimension of expectations. It is an area we call...THE ACCOUNTABILITY ZONE.\*

### Picture this

An average member of your cooperative, now serving on the board of directors, is at home, pulls on a T-shirt that reads, “I am accountable for everything that goes on in my co-op,” and heads to the cozy chair in the study for one of the most important readings of the month: the monitoring reports from the general manager. The director adjusts the light and begins reading—not for entertainment, not because she wants to manage (or micromanage) a cooperative, and not even to be “well-informed” about what’s going on at the co-op, but rather to determine whether the board’s expectations are being met.

Rod chimes in again: “You’re traveling through another dimension, a dimension not only of sight and sound but of mind—a journey into a wondrous land whose boundaries are the pre-established, written criteria of the board followed by the irrefutable interpretations of the general manager. With a co-op board meeting coming up in just a few days, this director has just entered... The Accountability Zone.”

What questions will the director be asking? Will there be interpretations by the general manager? Will they be reasonable? Will they be irrefutable? Will there be data? Will the director be placed in the position of wondering if it is the right data? Just what are the decisions being made tonight, alone, right here in the study, by this co-op director?

In order to truly appreciate these probing questions, it’s important that we first see things on the broadest level. For example, what exactly is going on here?

It seems that the director is preparing for a board meeting by reading the monitoring

reports submitted in advance (excellent!) and in writing (way to go!) by the general manager (our hero!). We are also working under the assumption that the board has articulated in writing its expectations (smart!). In addition, noting the co-op T-shirt statement of accountability, we understand that the director is not just reading the reports for personal fulfillment, but to satisfy her job of being accountable for everything that goes on in the co-op—a big job!

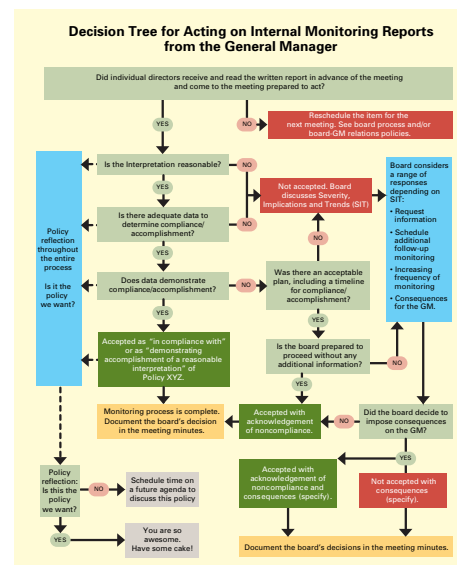
Pulling out of our dramatic context, we could summarize it this way:

- 1) **The board has expectations for the general manager** and has written them down—also (but not part of this episode) for itself, the board of directors, and for the cooperative as an organization.
- 2) **The board has assigned authority** for accomplishing these expectations.
- 3) **The board checks to see if its expectations** have been met. Directors are going to need some information in order to know this.

### Just how good do these reports need to be?

This director is focusing on the last part of the sequence—the “checking” part. By reviewing the general manager’s monitoring reports, the director hopes to answer the question: Have the board’s expectations been met? We will watch the director answer other, smaller questions, but this is the finale. An answer of “Yes” here—and these typically come one expectation at a time—means she is done checking.

Lucky for the director (and the general manager), this board has an annual calendar, spreading a variety of monitoring reports out over a year. Tonight’s work won’t be dealing with all the board’s expectations, just the



See inside back cover for a full page, color version of the decision tree.

ones that are scheduled to be checked now.

The first thing the director looks for is an acknowledgement that the document is, indeed, a monitoring report for a specific set of expectations. A simple and direct statement such as the following clarifies the purpose of the document:

*I hereby present my monitoring report regarding accomplishment of your expectation \_\_\_\_\_ according to the schedule set out. I certify that the information contained in the report is true.*

*Signed \_\_\_\_\_, general manager of \_\_\_\_\_, on this date \_\_\_\_\_.*

In fact, this statement is so simple and powerful that when it is read, the lettering on the director’s T-shirt (see above) glows: “I am accountable for everything that goes on in my co-op.”

The report follows a certain pattern that is familiar to the director. Earlier episodes focused on helpful concepts: for example, that expectations come in sizes; that it’s helpful to work from broad to specific when setting expectations and from specific to broad when reporting on them; that it is essentially human and quite natural for words to be



interpreted; that an interpretation just needs to be deemed reasonable and not necessarily a director's favorite; and that it is part of the general manager's job to figure out how to demonstrate accomplishment of the board's expectations.

The distinct pattern is the same in all reports and looks something like this:

- an exact restatement of the board's expectation;
- the general manager's interpretation of the board's expectation;
- data to determine accomplishment as determined necessary in the general manager's interpretation;
- a statement of compliance or accomplishment;
- if out of compliance, an explanation, plan, and timeline.

## What questions will the director be asking?

The pattern of the report shapes the questions the director will be asking. Since the director has limited time available to fulfill her role of being accountable for everything going on in the organization, the reports focus solely on written, pre-established criteria as set forth by the board.

She knows which expectations this report is responding to and that the information in the report is true. By including the exact language of the board's expectation, the general manager is helping the director stay focused on what the board has said. (The director is, in the background, always asking, "Is this the policy we want?"—not so much as it relates to the monitoring report in hand, for that is about stuff that already happened, but in light of the board's expectations for the future.)

The first question: *Is the interpretation reasonable?* (This is a Yes/No question.) In The Accountability Zone, once the board has assigned authority to fulfill an expectation to the general manager, then everything flows from the manager's interpretation of those expectations. In the interpretation, the general manager clearly establishes what data will demonstrate accomplishment of the board's expectation. The director simply wants to know if the interpretation is reasonable. Can she answer "Yes" based on the written report?

Knowing this, the general manager has taken great care to craft the interpretation so that:

■ **The interpretation makes the board expectation measurable.**

How does the GM know if an expectation has been accomplished? What data will be used to demonstrate accomplishment of the specific board expectations being reported on?

■ **The interpretation uses third party support whenever possible.**

Why choose that interpretation, methodology and data? Is there support for this measurement approach?

■ **It is irrefutable.** Will this interpretation stand the tough test of scrutiny by a diverse set of directors concerning what is reasonable? This is particularly meaningful to our director who, like the other directors, wants to determine reasonable accomplishment at home, alone, in the study with a written, compelling monitoring report.

The next question: *Is there adequate data to determine compliance/accomplishment?* (This is a Yes/No question.) This section of the report directly follows from the interpretation. The interpretation specifies that certain specific and measurable data will determine accomplishment, and here is where the director is presented with that data. Nothing more, nothing less. In The Accountability Zone, the lights flicker if director has to wonder whether it is the right data.

The last question: *Does the data demonstrate compliance/accomplishment of the board's expectations?* (This is a Yes/No question.) If the interpretation posits that certain specific data qualifies as accomplishment of the board's expectations, and if the data presented meets or exceeds those qualifications, then the case has been made for accomplishment. The general manager has presented a statement

## After having defined its expectations, the board must monitor.

of compliance or accomplishment of the board's expectation.

If the data demonstrate that the expectation has not been met, which the general manager is aware of as the author of the report, the manager dutifully includes an explanation and a plan with a timeline that shows when the expectation will be met. Consistent with the whole process, the point of this plan is to forecast accomplishment of the

board's expectation by a certain date in the future. And since board expectations are subject to intense scrutiny during this process, it's also possible that the general manager might suggest the expectation be revised.

*Just what decisions were made, alone, in the study, using a report?*

Our director concludes her review of the monitoring report by deciding whether she is in agreement with the general manager's conclusions regarding a reasonable accomplishment of the board's expectations. (The shirt is glowing.) But she is not really alone in The Accountability Zone: all of the directors begin the next board meeting knowing how they answered these same questions, and they are prepared to act on the report. A group decision followed by documentation in the meeting minutes concludes the accountability loop on the expectations being monitored.

The room glows when, moments later, the directors whip out their nifty co-op caps that boldly state, "Our board has time to define the future" and begin work on another aspect of accountability.

## The Accountability Zone in the co-op landscape

Directors live in the vast middle ground between too much and too little, between knowing and doing. A monitoring process that reports to pre-established expectations, that relies on any reasonable interpretation, and that insists on measurable data to determine accomplishment allows each director to enter The Accountability Zone and emerge with fulfillment of her responsibilities as a director.

Individual directors and managers are not alone in this work, for across the country hundreds of co-op directors enter and emerge from the Accountability Zone on a regular basis. To work with directors system-wide on effectiveness governance, the Cooperative Development Services Leadership Team (Marilyn Scholl, Peg Nolan, Linda Stier, Michael Healy, and I) ran a pilot program with 24 co-ops in the eastern corridor in 2005. This year, the program, now called Cooperative Board Leadership Development (CBLD), includes more than 40 co-ops in the central and eastern corridors

As part of this program, newly elected directors are encouraged to attend Cooperative Board Leadership 101 (CBL 101) a board orientation class. In 2005, 41 directors from 20 co-ops attended one of these co-op group sessions. In January 2006 alone, 47 directors from 18 co-ops attended CBL 101, and several more sessions are scheduled for later in the year.

Accountability presented itself during the first year of the program as a theme worthy of focus and development. Two Cooperative Accountability Conferences will take place in the east so board leaders and general managers can begin working on the topic together. The first one took place in late January with 16 co-op board leaders and 10 general managers. The second one will be in April in the northeast.

## Ends: notes

It's true that the word "expectation" shows up 40 times in this article. Hmmmm, maybe boards should have expectations and write them down (smile). In this case, the word is nearly always synonymous with the word "policy." I do believe that reading "policy" 40 times would have been more painful than reading about expectations. The point is that having policies is the same as having expectations. You take it from there... See you in the Zone. ■

# Financial Understanding

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## Common Indicators of Financial Condition

Growth (top line)

Profitability, net income (bottom line)

Solvency – debt to equity

Liquidity – current ratio, quick ratio, working capital

## Understanding Financial Statements

Balance Sheet

- Describes how much the co-op is worth, the owners' position in the business

- What the co-op has and where it came from

- A picture of where a business is at a point in time

Income Statement

- Also known as profit and loss statement or statement of operations

- Tells the story of what happened during a period of time

- Shows if the co-op made or lost money and how much

Sources and Uses/Cash Flow

- Tells how cash is generated and used

- Describes cash implications of financing activities, investing activities and operating activities

## Steps to Fiduciary Responsibility

Have expectations

- Policies to Guide Fiscal Planning

- Policies to Safeguard Financial Condition

- Policies to Ensure Asset Protection

Assign responsibility

Check

- Monitor Compliance with Policies

**Policy Type: Executive Limitations**

**Policy Title: B1 – Financial Condition and Activities**

**Last revised: CBLD Template: May 22, 2014**

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With respect to the actual, ongoing financial conditions and activities, the General Manager must not cause or allow the Cooperative to be unprepared for future opportunities, the development of fiscal jeopardy, or key operational indicators to be below average for our industry.

**The full set of sample policies are available in the Columinate Library, at:**

**<http://columinate.coop/cbld-policy-template/>**

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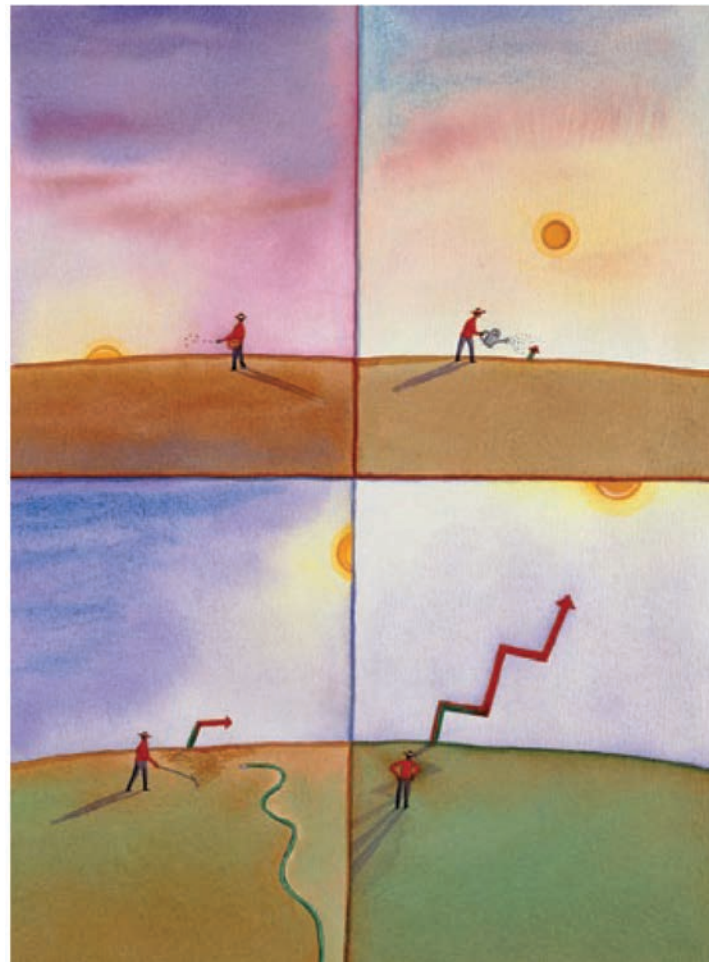
**The GM must not:**

1. Allow sales growth to be inadequate.
2. Allow operations to generate an inadequate net income.
3. Allow liquidity (the ability to meet cash needs in a timely and efficient fashion) to be insufficient.
4. Allow solvency (the relationship of debt to equity) to be insufficient.
5. Allow growth in ownership and owner paid-in equity to be insufficient.
6. Default on any terms that are part of the Cooperative's loans.
7. Allow late payment of contracts, payroll, loans or other financial obligations.
8. Incur debt other than trade payables or other reasonable and customary liabilities incurred in the ordinary course of doing business.
9. Acquire, encumber or dispose of real estate.
10. Allow tax payments or other government-ordered payments or filings to be overdue or inaccurately filed.
11. Use restricted funds for any purpose other than that required by the restriction.
12. Allow financial record keeping systems to be inadequate or out of conformity with Generally Accepted Accounting Principles (GAAP).

# Balance Sheets

## Getting the picture of your co-op's financial position

BY MARK GOEHRING



Cooperatives aim to provide value on behalf of member owners and often take a wide-ranging approach on how to express and demonstrate that organizational accomplishment. When it comes to managing and reporting financial performance and condition, traditional financial statements do quite nicely. Financial statements are not good places in which to exercise “local control” in the form of creativity and uniqueness.

This article will focus on the **Balance Sheet**, one of the three reports that combine to make up what is commonly known as “financial statements.” To consider balance sheets within their proper context, it’s helpful to have a general sense of the different, yet related, roles of the three types of reports.

**Income Statements** (also referred to as Profit and Loss, or Operating Statements) are meant to capture all that is necessary to get to the bottom line—net profit or net income. This report shows sales, cost of sales, expenses and profit for a period of time (week, month, quarter, year, etc.) and then starts over for the next reporting period. A separate **Cash Flow Statement** is used for the management or reporting of cash flow, showing sources and uses of cash flowing through the organization. The “bottom line” of each of these statements is linked to and appears on the **Balance Sheet** (ending cash becomes cash on hand, and net income becomes or is added to current earnings). Hence, the balance sheet shows the co-op’s overall financial condition at a given point in time. The income statement and cash flow statements tell important parts of the story of how that condition came to be.

Income statements and cash flow statements are necessary tools if you are responsible for managing those systems. But, if you need to understand the co-op’s overall financial health, get a picture of its past success or failure, and or have an eye toward future financial condi-

tion, the balance sheet is your tool. For board members, then, understanding a balance sheet is a basic a need. This is why we focus on building an understanding of balance sheets in the Cooperative Board Leadership 101 and in this article. (See [www.columinate.coop/cbld](http://www.columinate.coop/cbld) for more information.)

### Stuff and where it comes from

To build an understanding of the usefulness of the balance sheet, start with this idea: *The balance sheet shows what the co-op has and where it came from.*

In the CBL101 sessions, we call what the co-op has, “stuff.” Can you picture all the stuff the co-op has? Everything is included, from cash to inventory to fixtures, maybe properties, trucks, supplies... everything. In balance sheet language, **“Stuff” = “Assets.”**

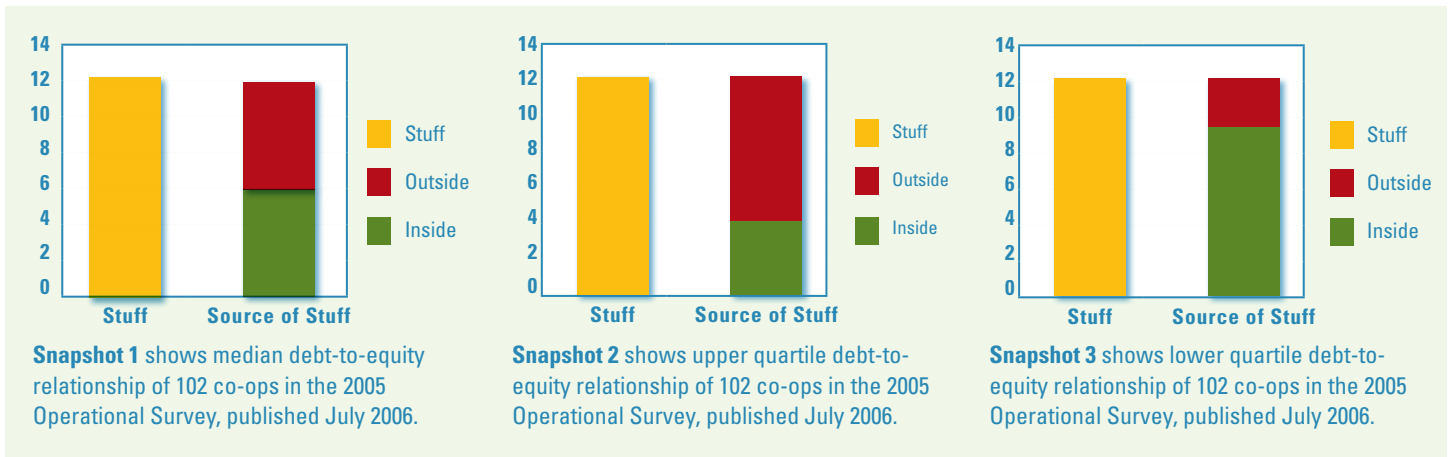
All stuff has to come from somewhere. In this case, it only comes from one of two places: inside the co-op, or outside.

- “Inside” is what the co-op owns. It is generated through earnings of the operation or is contributed by its members. On a balance sheet, the “inside” category is called **“Equity.”**
- “Outside” is money that the co-op owes and needs to pay back. On a balance sheet, this is called **“Liabilities.”**

As you can see in Snapshot 1, all our stuff came from somewhere. In this example, it came from equal parts outside and inside.

You may have heard of this rule: **Assets equal the sum of Liabilities plus Equity.** Another way to say the same thing is that we have a bunch of stuff, we owe money for some of it (liabilities), and the rest came from money the members paid plus money the co-op earned (equity).





## Balance sheet: a snapshot in time

The balance sheet is a snapshot taken at a moment in time. The information presented is cumulative, in that it summarizes all financial activity since the co-op began. Usually a balance sheet is produced at the end of a reporting period so that it corresponds to the other two types of reports produced at that time.

In the balance sheet you can easily see the relationship between debt (liabilities) and equity. In the sample above, these are equal—for every dollar of debt we have a dollar of equity. This would be a 1:1 debt to equity ratio. Where did all the stuff come from? Half from the outside and half from the inside. But we can say that only for the one moment when the balance sheet was produced, i.e., when the snapshot was taken. Look for the single date on a balance sheet to see when the snapshot was taken.

It's handy to think of balance sheets as a sequence in a photo album that enables you to compare pictures over time. Think of a photo album of a child growing up with pictures taken once a year. If you compare the photos from year 1, 3, 5, 10, and 20, it's easy to see that things have changed! It's the same with a balance sheet: financial conditions changes over time, and you can see the change by comparing balance sheets.

Before we look at such comparisons, let's look at just one snapshot. In Snapshot 2 we have "stuff" totaling 12. Where did the stuff come from? What is the debt-to-equity ratio (Expressed as \_\_\_\_ part debt to 1 part equity) in this example? (Quiz #1—see answer at end)

How about this example, in Snapshot 3? Again, how much stuff do we have? Where did it come from? What is the debt-to-equity ratio? (Quiz #2—see answer at end)

When we do this lesson using Legos in the CBL101 training, sometimes we hold up towers like the ones in the illustrations. Frequently someone will ask, "Is that okay?"—meaning is the relationship between debt and equity okay. The answer is, "It depends." What's the story, what's the plan, the context?

## Comparing balance sheets: a photo album

Both past history and plans for the future will help you understand and assess what you're looking at in a single snapshot or balance sheet. To the right are three albums. Each one is a collection of snapshots and tells a different story. Take a look, asking these questions:

- How much stuff do we have? What's the trend?
- Where did it come from? What are the trends?

What patterns did you see in each of these sequences? Take a look at Year 2 in each of the three comparisons. Each co-op has the same amount of stuff at that point. Then what happens? How would you describe the difference between Comparisons 1 and 2? How would you describe what you see in Comparison 3?

To do this exercise at home, look for total assets (stuff), total liabilities (out), and total equity (in) and see what patterns emerge. "Is it okay" is a good question, especially if you connect it to the larger patterns that emerge AND the overall aspirations of the co-op.

### SAMPLE BALANCE SHEET

[From 2005 Operational Survey, representing 102 co-ops with 128 outlets.\*]

#### ASSETS

Current Assets 40%  
Other Assets 60%

**Total Assets 100%**

#### LIABILITIES

Current Liabilities 20%  
Long term Liabilities 30%

**Total Liabilities 50%**

#### EQUITY

Member paid-in 25%  
Earnings 25%

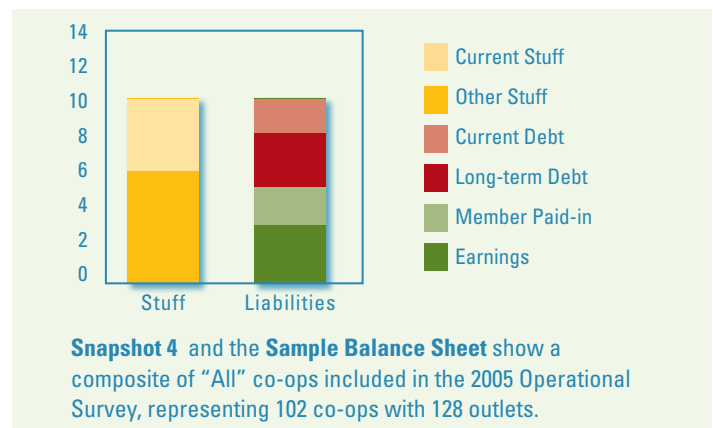
**Total Equity 50%**

**Total Liabilities and Equity 100%**

*Totals rounded\**

## Adding detail

There is a bit more detail on a balance sheet. For example, in the comparisons above we can't tell whether equity grew because we got a lot more members but made no profit, or because member paid-in equity stayed the same while earnings increased. Let's break each of the three main



categories—assets, liabilities and equity—into their next biggest pieces.

#### LEFT SIDE

*Stuff/Assets:* Current, Long-term, Other

#### RIGHT SIDE

*Outside/Liabilities:* Current, Long-term

*Inside/Equity:* Member equity/capital, Earnings

## What is Current?

“Current” is generally defined as the next 12 months. “Current assets” would be cash, inventory and any other assets that would ordinarily be or become liquid, or cash-like, in the next 12 months. What we owe is not all due at the same time, or even in the current fiscal year. “Current liabilities” is typically defined as what’s due in the next 12 months. What’s not “current” is in the next account, long-term liabilities. (Note: adjustments between current and long-term liabilities might only be made at year-end.)

## The Current Ratio

This compares current stuff/assets to current debt/liabilities. The current ratio is handy because you can easily see the relationship between stuff you have that will be used to pay the bills in the next year, and how much is owed in the next year. The current ratio as shown in the graph above would be a 2:1 current ratio: for every dollar of current liabilities, there are two dollars of current assets. The higher the ratio, the stronger the relationship between current assets and current debts.

Where did our Equity come from? Equity for our food co-ops comes primarily from earnings and member paid-in equity. On the balance sheet, both numbers track the cumulative totals since the beginning of the co-op. “Earnings” may be broken into two categories: All earnings from the beginning of the co-op (retained earnings) and profits during the present reporting period (earnings). With the album of snapshots you can see how all types of equity have varied from snapshot to snapshot.

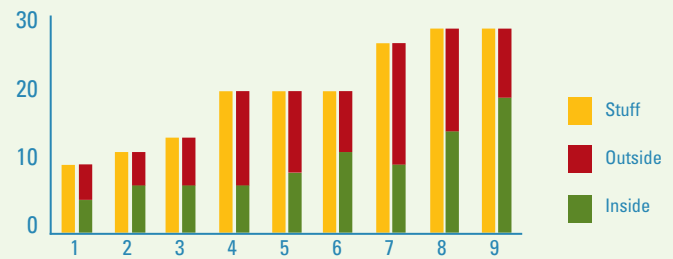
## Getting the picture, seeing relationships

With a balance sheet you can ask good questions about key relationships that make up the co-op’s financial position and trends: What’s happening with our assets—going up, down, or staying the same? Why? Are we profitable? Why or why not? Can we meet our obligations? How much capital have members invested? How do we think about our level of indebtedness?

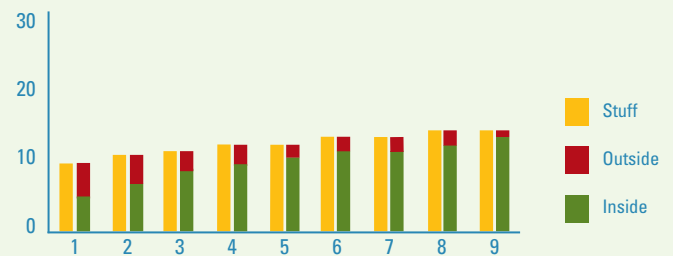
Coupling the balance sheet with plans for organizational accomplishment can bring in another level of questions: Are we on track? Is there a match between the co-op’s aspirations for the future and its financial readiness? What do the key balance sheet trend lines look like when extended into the future?

These questions ought not be just the territory of the “numbers people” or accounting types. Anyone should be able to see how much stuff the co-op has and where it came from. Once you get that picture you are ready to engage in meaningful conversation about the co-op’s past, present and future. Give it a try! ■

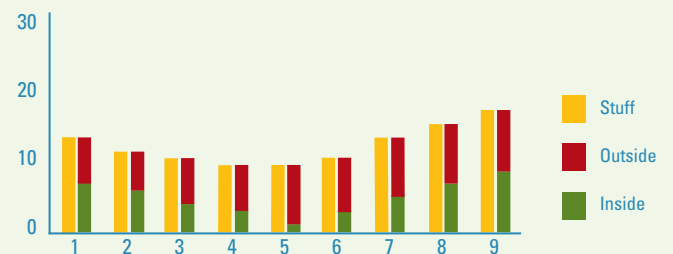
(Quiz Answers 1: 2:1, Quiz 2: .33:1)



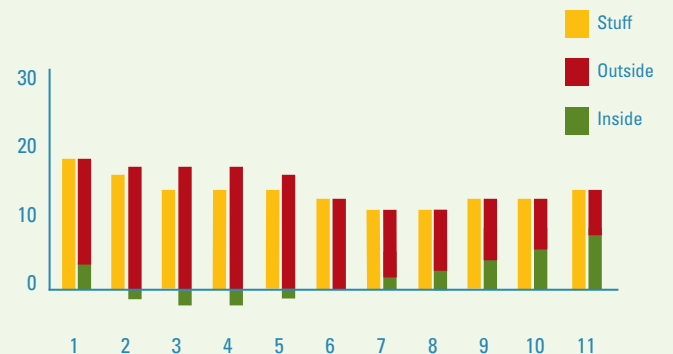
**Comparison 1** shows a co-op that has three times more stuff (assets) eight years after the first snapshot. First there is a steady rise, followed by two significant jumps, maybe expansions. Those new assets were financed primarily by debt (out). After the spurts, there is a decline in equity (in)—maybe due to post-expansion losses.



**Comparison 2** shows a co-op with comparatively little growth in assets. The existing debt is being paid off. This co-op might be getting poised to take advantage of an opportunity. It may be failing to leverage its members’ assets, or perhaps the co-op is looking forward to possibilities that will serve members and others better.



**Comparison 3** shows a downward trend in assets followed by an upward trend. Liabilities have remained relatively stable; what has changed is equity. Perhaps this co-op wasn’t profitable for many years, and lost most of its equity (green). But it has been turned around and now looks strong.



**Comparison 4** shows a sample startup co-op the year before opening followed by 10 years of operating a store.

# Context Matters

## *Using trends and comparisons to monitor the financial health of your cooperative*

BY MICHAEL HEALY

**W**hen it comes to numbers and data, context matters. The context in which we place particular numbers helps us make meaning of those numbers, and this is particularly important when we are talking about financial data.

Over many generations, managers and accountants have developed financial reporting tools that help them do their jobs. Balance sheets, income/expense (aka profit/loss) statements, and cash-flow statements are all excellent tools that can help managers manage. These financial statements put many numbers into a coherent whole so that a manager can see how various decisions about one line item (“How much can we spend on occupancy?”) affect the range of options for other line items (“After paying our expenses, how much money is left over to pay interest on a new loan?”).

But these same financial statements do not necessarily help the elected board of directors understand the overall financial health of their business. This article introduces some critical analytical tools that help boards understand the state of their business—an understanding that then becomes the basis for making sound governance decisions.

### Providing context

If the co-op’s income statement showed that first quarter sales were \$X, is that good, bad, or neither? It is hard to say, if we don’t have a context for our judgment. One context that commonly shows up on income statements is a comparison to the previous year—so the income statement might also tell you that sales in the same quarter last year were \$Y. What does that tell us about this year’s sales? If this year’s number is bigger, is that good, bad, or neither? Well, it depends on how much sales grew, how much we expected them to grow, how much of that growth can be attributed to inflation, and on how much it can be attributed to other internal or external factors.

Boards need more context than a simple comparison to the previous year in order to judge whether the number they’re looking at is good or not. For board-level decision-making, context is provided by several factors.

**Relevance.** Each director may be interested in different numbers, but interests alone are not the best criteria to use to provide context for the board’s work. Particular information is useful for making particular decisions; either too much or too little information tends to obfuscate rather than illuminate the truth. Boards should have a shared understanding of which information helps them do their governance work, and they should expect the manager’s monitoring reports to focus on that information.

**Expectations.** The board should have stated expectations about certain financial indicators, and it should look at data in relationship to those expectations. In the Cooperative Board Leadership

Development (CBLD) Library, [cdsconsulting.coop/cbldlibrary](http://cdsconsulting.coop/cbldlibrary), you can find a Financial Conditions policy template that demonstrates an effective way for boards to set expectations.

**Trends.** Boards who want to see the “big picture” need tools that help them gain that perspective. Looking at charts that show trends over time for certain indicators can tell us a lot about where our business has been—and might help us understand where the business will go if we make certain decisions.

**Plans.** How did the actual performance compare to the plan? It is not essential for the actual and the planned performance to be identical, but comparing the two helps the board understand both the current operational reality and the manager’s planning skills.

**Peer comparisons.** Along with comparing one indicator to itself over time, boards should compare certain aspects of their business’s performance to that of similar businesses. This comparison can help us understand what is possible, what might be subpar, or at least what needs explanation or improvement.

### How can we do this?

How do boards get the right amount of the right information that helps them carry out their leadership work? Along with the Financial Conditions policy template, in the CBLD Library you can find a Monitoring Report template that reflects the approach outlined in this article. The CBLD team has based our work on what we have learned by observing and supporting many co-op boards and managers over many years.

The depth of a board’s knowledge about their cooperative business, and the quality of the conversation among the board and manager, appear to be directly related to how much this leadership team makes use of clear trend and comparison information about the right financial indicators. The report template in the CBLD Library suggests how a presentation of charts reporting trends for 11 different indicators can provide critically important information to a board.

Below are a few examples of these charts, along with a few insights about the value this information provides.

### Sales growth

This chart (illustrated below) provides insights by clearly presenting actual performance information (the green line) within a proper context. Instead of only looking at the total sales number on this quarter’s income/expense statement, what if a board looked at this chart? What might they learn?

Maybe the board would remember (and new directors might learn for the first time) that their co-op experienced very strong sales growth for about a year, between mid-2011 and mid-2012. Maybe they would see the connection between the actual historical performance and the business plans and budgets: the co-op had planned for and

**We can get better at planning for and creating the future that we want.**

# Minimizing the Risk of Fraud

BY THANE JOYAL AND MARK GOEHRING

Loss prevention is a key piece of the retail grocery business. Co-op managers are aware of this at their level and manage against it every day, but everyone in the cooperative needs to pay attention to the possibility. Board members: don't be complacent.

There are myriad ways to steal from a grocery store: at the register, at the loading dock, at the safe, and at the computer. It's important that directors of retail food co-ops educate themselves about the basics of loss prevention and implement basic best practices to ensure that their co-ops are not vulnerable to fraud. Chance favors the prepared mind: fraud can be extremely difficult to discover, and many frauds are discovered only by chance. There's no way to actually make a business "fraud-proof"—but there are plenty of ways to limit the likelihood of it happening and to limit the impact if it does.

## Be prepared!

**Have a financial review** or an audit every year. Have an audit every three years at minimum.

**Regularly request and review information** about the financial condition of your co-op. Ask questions until you understand the financial information presented to the board.

**Educate yourself** by asking the general manager for board training on grocery retail basics:

- cash handling practices at your co-op.
- inventory practices at your co-op.

**Verify financial information** occasionally and when a trend develops. If the explanation for a trend references a sector-wide cause, ask for source data.

**Look for the following practices** within the store:

- bonding for key employees
- criminal background check for key employees
- a realistic and practical whistleblower policy
- an accounting manual that outlines the duties of people handling assets and how those assets are safeguarded

**Be a good employer** and a professional board—be worthy of respect. Use best practices in hiring your GM. Be timely and fair compensating your GM.

Listen to everyone: don't overreact, but don't ignore rumors either.

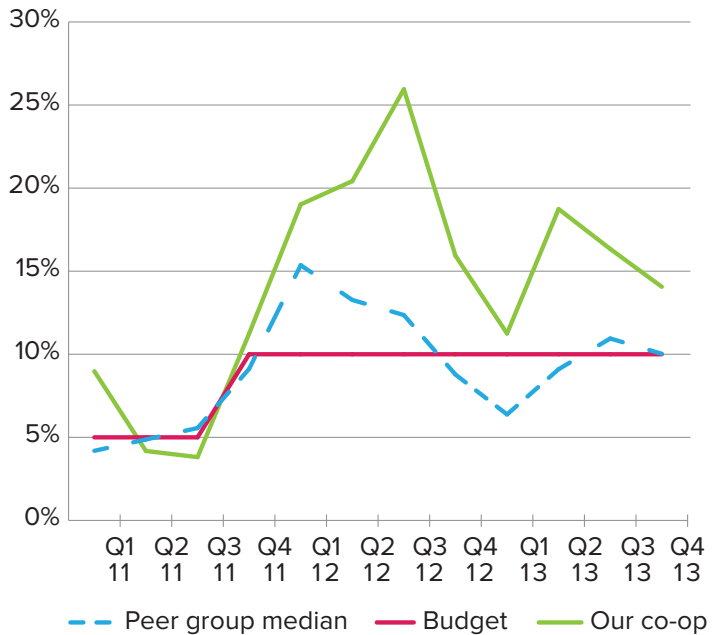
## What if we suspect fraud?

**Get expert assistance early.** Consult your co-op's attorney first. Forensic accountants specialize in detecting fraud.

**What if it happens to us?** Have a communication plan. Know what you can say and what you cannot say. Control information flow to protect confidential information. Practice answering owner questions.

**Learn from the experience:** institutionalize practices that will prevent a reoccurrence.

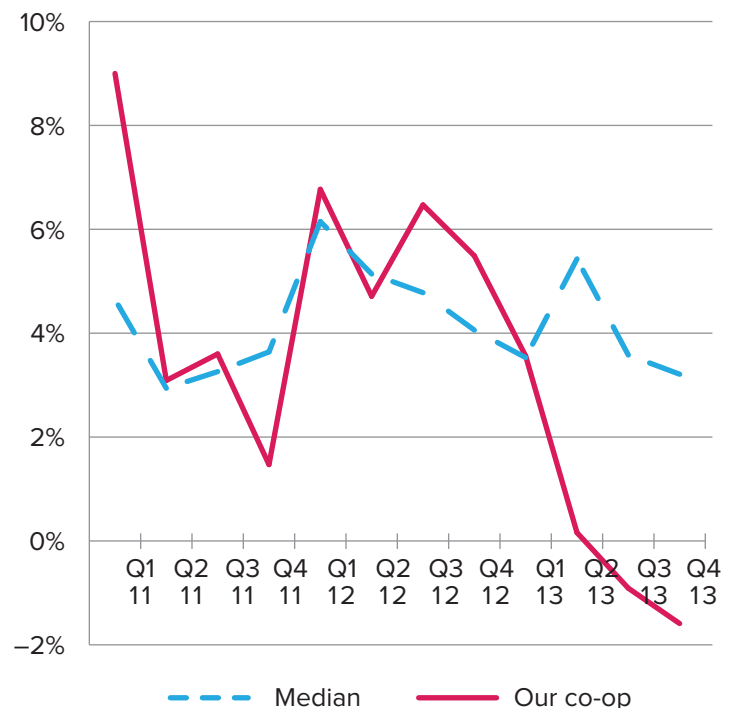
## SALES GROWTH



achieved a big jump in sales in 2011, perhaps as a result of an expansion project.

Adding in the peer comparison here might also encourage the board to ask more about the external economic factors that might be driving the common pattern of ups and downs. None of this larger context is apparent if the board sees only an income/expense statement.

## EBITDAP

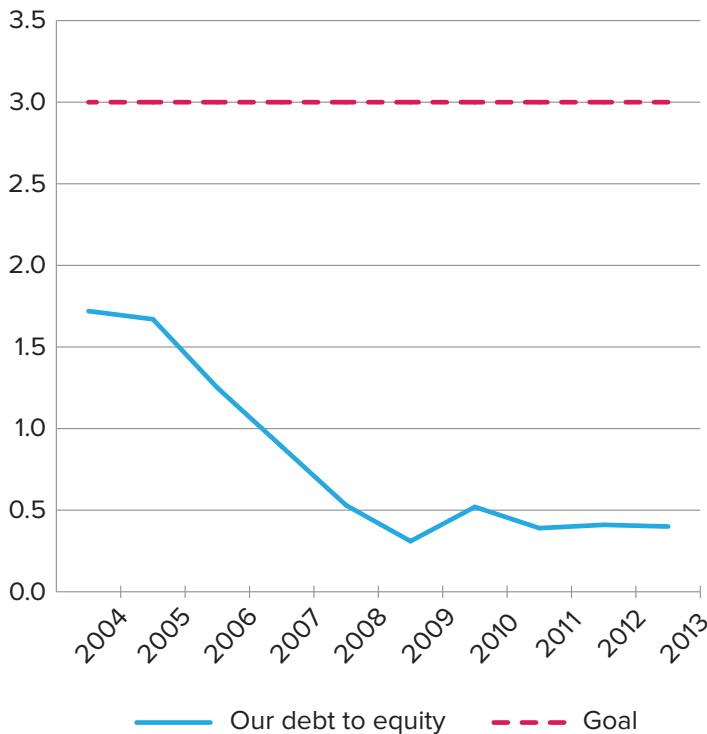


## EBITDAP

EBITDAP (Earnings Before Interest, Taxes, Depreciation/Amortization, and Patronage Refund) is a ratio that reflects core earnings of the business; it is sort of like an EKG, a way to analyze the body's beating heart.



## DEBT TO EQUITY



By filtering out the effects of financing and accounting decisions, EBITDAP offers a useful way to compare your co-op's profitability with that of its peers.

In this case, the board of "Our Co-op" might have a stated expectation that EBITDAP should be above the median for the co-op's peer group. This chart tells the board that their business is seriously underperforming both in relation to what's possible and to their expectations. In addition, the board knows that the downward trend in EBITDAP began in 2012, with serious decline in performance beginning in the 1st Quarter of 2013.

Probably the board has been asking their manager some important questions: What's happening? Which aspects of this trend are common to all of our peers, and which are specific to our co-op? If you tell us there is a common cause, what is it, and how do you know? How are you managing this situation? What's your plan?

The answers to these sorts of questions will then tell the board how particular business decisions have affected their co-op's health, and about whether they have the right manager. If the board members had only looked at the income/expense statement and had never stated an expectation about this indicator of financial health, they might have never asked the important questions or heard the answers.

### Debt to Equity

The debt-to-equity ratio is an indicator of how much money a co-op owes (things such as accounts payable and bank loans) in comparison to how much it owns (paid-in equity, retained patronage dividend, and retained earnings). Co-op leaders can use this ratio to understand and make decisions about the co-op's ability to take on and pay back debt.

In the case of the example at the top of page 25, the board can see that their co-op has relatively very little debt, and this has been true

for a decade or more. If the board had only been looking at an annual balance sheet each year, they likely would not see this trend. And this 10-year trend presentation allows both new and veteran directors to have the same level of awareness of where the co-op has been.

Perhaps this co-op's board and manager have been talking about the very low debt load. Does it indicate that the co-op has been preparing for its next big expansion project after paying down the debt on the previous one? Or does it indicate that the co-op has been drifting, with no plan for the future? Or does it indicate that the board and/or manager have been very conservative, perhaps risk-averse?

By asking each other these questions about the past, and also by asking for impartial outsiders' opinions and analyses, the leaders of this cooperative can perhaps begin to build alignment about its future direction.

### Annual and quarterly reporting

It is a fairly standard practice to monitor a financial conditions policy on a quarterly basis. This sort of quick cycle of monitoring offers a way to see the seasonal variations that occur every year, as well as a way for a board to be aware of changes in financial conditions and operational issues before those changes become long-term trends. Charts showing a three-year picture of quarterly data make sense as part of a quarterly report.

Boards and managers should also step a little further back in order to gain a wider perspective; looking at these financial and operational trends over 10 years on an annual basis helps us make and understand the implications of long-term decisions. Charts summarizing 10 years of annual data make sense as part of an annual report.

You may have noticed that two of the sample charts in this article show three years of quarterly data, while the third chart shows 10 years of annual data. Both reporting cycles matter. The report template that you will find in the CBLD Library offers guidance for both quarterly and annual reports.

### Making governance-level decisions

So, if you hear that one co-op did \$1,000,000 (\$1M) in sales last quarter, and another did \$10M, which would you say performed better? Maybe we know now that the answer to that question requires different information, a different context. We know that we would ask of each: What did you expect? What does your sales growth trend look like? Did you perform as well as your peers?

We know that, in order for us to decide whether sales of \$1M is good or bad, we need context. And we know that a handful of clearly presented charts can provide the information and context we need in order to assess our co-op's financial and operational health.

Once we have made that assessment, then we can do what our co-op's leaders need

to be able to do: make decisions about what to do next. For a board, those decisions might be about whether to support or fire a manager, about whether we can agree to undertake a major expansion in order to better serve our community, or how to communicate with our member-owners key information about where we have been and where we are going.

Each of us wants our cooperatively owned business to make a positive difference in our community, and that is what this analytical work is all about. Let's get good at understanding the trends and implications of past performance, so that we can get better at planning for and creating the future that we want. ■

**We know that a handful of clearly presented charts can provide the information and context we need in order to assess our co-op's financial and operational health.**

# Cooperative Acronyms

**4-in-3** — Four Cornerstones in Three Stages : A development model for food co-ops.

**4PCG** — Four Pillars of Cooperative Governance : A governance model for co-ops.

**Capital Impact** — Development arm of the NCB; handles "riskier" loans, new ventures, and start-ups.

**CBJ** — Cooperative Business Journal : Trade publication of NCBA available online at <https://www.ncba.coop/cbj-online>.

**CBLD** — Cooperative Board Leadership Development : An integrated program that supports the continual development of food co-op boards of directors.

**CCMA** — Consumer Cooperative Management Association : Annual conference held every year in June for food co-op managers and directors from around the country. (Note: not an association, as the name might imply.)

**CDF** — Cooperative Development Foundation : Foundation located in Washington DC to support cooperative development. Funds managed include the Howard Bowers Fund established in memory of long time manager of Hyde Park and Eau Claire food co-ops dedicated to supporting education for managers and others in food co-ops. Also sponsor of the Cooperative Hall of Fame.

**CDS (US)** — Cooperative Development Services : CDS provides organizational and developmental guidance to communities seeking to start new co-ops in all sectors of the economy and planning assistance to existing co-ops seeking to expand.

**CDS CC** — CDS Consulting Co-op : A shared services co-op whose members are independent consulting professionals experienced in supporting and developing food cooperatives. Re-branded in 2019 as Columinate.

**CGN** — Cooperative Grocers' Network : Non-profit association of U.S. and Canadian food co-ops that runs a website and, several listserves for cooperative grocers, and publishes Cooperative Grocer magazine. Formerly Cooperative Grocers Information Network (CGIN) and Cooperative Grocer.

**CoCoFiSt** — Common Cooperative Financial Statements : Project of CoMetrics to help food co-ops develop common financial statement database and formatting to facilitate comparisons, benchmarking, and analysis tools. Formerly CoopMetrics.

**CUNA** — Credit Union National Association : National trade association for business services and advocacy for credit unions

**CWI** — Cooperation Works! : A national network of cooperative development centers

**DFTA** — Domestic Fair Trade Association : The Domestic Fair Trade Association is a collaboration of organizations representing farmers, farmworkers, food system workers, retailers, manufacturers, processors, and non-governmental organizations. Internationally, the Fair Trade movement has united farmers, workers, traders and consumers with a message of fairness, equity and environmental stewardship in trade with producers in marginalized countries.

**FCI** — Food Co-op Initiative : A non-profit organization dedicated to supporting the development of new food co-ops (Formerly Food co-op 500 [FC500])

**FSC** — Federation of Southern Cooperatives : FSC works to develop self-supporting communities with programs that increase income and enhance other opportunities and assists in land retention and development, especially for African Americans, but essentially for all family farmers.

**ICA** — International Cooperative Alliance

**LEAF** — Local Enterprise Assistance Fund : LEAF's mission is to promote human and economic development by providing financing and development assistance to cooperatives and social purpose ventures that create and save jobs for low-income people. Since its founding over 30 years ago, LEAF has invested and leveraged over \$91 million, resulting in the creation or retention of more than 6,600 jobs.

**NAHC** — National Association of Housing Cooperatives : NAHC represents housing cooperatives, mutual housing

associations, other resident-owned or controlled housing as well as professionals, organizations and individuals who work with and advocate for housing cooperatives.

**NCB** — National Cooperative Bank : Provides financing of all types for cooperatives and their members

**NCBA CLUSA** — National Cooperative Business Association : Founded in 1916 as the Cooperative League of the United States of America, the National Cooperative Business Association (NCBA) is a National trade organization for all types of co-ops in the U.S.

**NCG** — National Co+op Grocers : National business services association for food co-ops; organized as a cooperative NCG services include joint purchasing, training, peer support and advocacy. (Formerly NCGA)

**NCG DC** — National Co+op Grocers Development Co-op : A wholly owned subsidiary of NCG dedicated to supporting cooperative growth and development.

**NFCA** — Neighboring Food Co-op Association : A cooperative of co-ops in the Northeast working together for a thriving regional economy

**NRECA** — National Rural Electric Cooperative Association : NRECA is the national service organization for more than 900 not-for-profit rural electric cooperatives and public power districts providing retail electric service to more than 42 million consumers in 47 states and whose retail sales account for approximately 12 percent of total electricity sales in the United States.

**NSAC** — National Society of Accountants for Cooperatives : Professional association for co-op accountants and financial professionals

**NTCA** — National Telecom Cooperative Association : NTCA – The Rural Broadband Association is the premier association representing nearly 900 independent, community-based telecommunications companies.

**OBM** — Open Book Management : Open-Book Management is a way of running a company that gets all employees focused on building a better business through transparency, alignment, accountability, engagement, and culture.

**P6** — Principle Six : The Principle Six (P6) Cooperative Trade Movement exemplifies just and equitable trade relationships between farmers, producers, retailers, and consumers rooted in cooperative principles and values. P6 is owned by and designed for grocery co-ops and cooperative food producers.

**POS** — Point Of Sale : Typically refers to the computer software system used to process sales to customers.

**UNFI** — United Natural Foods Inc. : National natural foods wholesaler

**USA CYC** — USA Cooperative Youth Council : The purpose of the USA Cooperative Youth Council is to initiate, coordinate, promote, and participate in educational efforts and programs that empower youth to engage in the philosophy and practices of cooperation, especially as they relate to leadership development.

**USFWC** — US Federation of Worker Cooperatives : the national grassroots membership organization for worker cooperatives. Our membership also includes democratic workplaces, cooperative, developers and organizations that support worker cooperatives.

See more at:

<http://columinate.coop/cooperative-acronyms/>

# The Cooperative Solution

*How the United States can tame recessions, reduce inequality, and protect the environment*

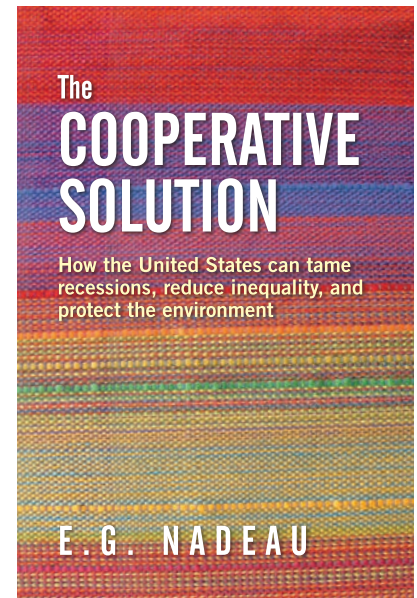
By E.G. Nadeau

The Cooperative Solution illustrates the potential for cooperatives—organizations that are owned and democratically controlled by the people they serve—to infuse the US economy with the basic value of democracy and to provide citizens with a means to effectively address the shortcomings of the market-driven economy.

The book makes the case that cooperatives are the solution to many of the major economic, social, and environmental problems in the United States today. The basic tenet of the essay is that co-ops are democratically controlled and are motivated primarily by the goal of providing services to their members, not by generating profits for their owners and investors.

E. G. Nadeau, the author of *The Cooperative Solution*, has a PhD in sociology from the University of Wisconsin-Madison and has spent the last 40 years researching, developing, teaching and writing about cooperatives in the United States and in 20 other countries.

The retail price of the book is \$10. It can be ordered through local and online booksellers. For more information on the book and on discounts for bulk orders, go to: <http://egnadeau.org>.



# Weavers of Dreams

*Founders of the Modern Cooperative Movement*

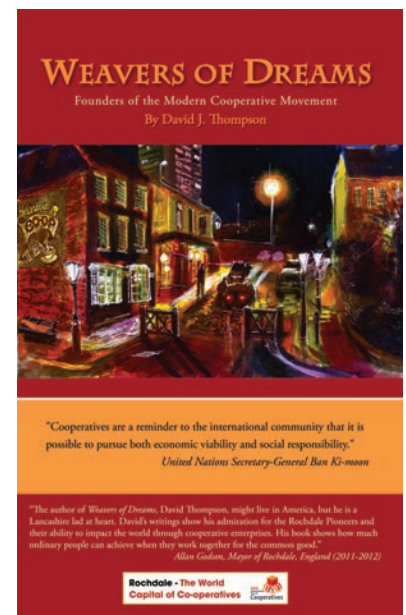
By David Thompson

In honor of the United Nations International Year of Cooperatives, cooperative organizations in Great Britain, the United States, and Canada have sponsored publication of a new edition of *Weavers of Dreams: Founders of the Modern Cooperative Movement* by David Thompson.

The book tells the story of the pioneering of the modern cooperative movement in Rochdale, England. The new *Weavers of Dreams* includes a newly designed cover with a painting by British artist Xavier Pick, along with new essays from several national and international co-op leaders.

The author will donate a portion of the sales from each book to the Twin Pines Cooperative Foundation.

To order, contact David Thompson: 503-757-2233 or [dthompcoop@aol.com](mailto:dthompcoop@aol.com), or visit [www.community.coop/twinpines/weavers](http://www.community.coop/twinpines/weavers).







## Reason #65 You Are the Co-op Difference

You help fund grassroots change through our giving programs. As a percentage of revenue, co-ops give to charitable causes at a rate 44% higher than other retailers.\*

\*Based on aggregate data from food co-ops nationwide



## Reason #328 You Are the Co-op Difference

You create a market for local, supporting an average of 185 area farms and producers.\*

\*Based on aggregate data from food co-ops nationwide



## Reason #498 You Are the Co-op Difference

When you buy local products, more money stays right here in our community. Local products make up 21% of the average food co-op's sales.\*

\*Based on aggregate data from food co-ops nationwide



## Reason #79 You Are the Co-op Difference

When you buy organic items, you are helping to drive the growth of sustainable agriculture. Organic products make up 42% of the average food co-op's sales.\*

\*Based on aggregate data from food co-ops nationwide

"You Are the Co-op Difference" Posters courtesy of NCG.





## Reason #86 You Are the Co-op Difference

You create a market for healthy, fresh food. Fresh produce, baked goods, meat, eggs and dairy account for about 35% of the average food co-op's sales.\*

\*Based on aggregate data from food co-ops nationwide



## Reason #402 You Are the Co-op Difference

You are helping to reduce food waste. The average food co-op donates 24,100 pounds of healthy, edible food to food pantries annually.\*

\*Based on aggregate data from food co-ops nationwide



## Reason #107 You Are the Co-op Difference

You are helping to build and nurture community! The average food co-op offers 92 nutritional classes and/or community events a year.\*

\*Based on aggregate data from food co-ops nationwide



## Reason #201 You Are the Co-op Difference

With your support, food co-ops offset our carbon footprint by growing Co+op Forest in Peru. Currently home to 1.4 million trees!

"You Are the Co-op Difference" Posters courtesy of NCG.

# What's Next?

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What is one thing you want to remember from today?

What is one thing you intend to do before your next board meeting to follow up from today?



Prefer to fill out the  
evaluation online?

1. Please rate each topic by circling the response that best describes your opinion.

## a. Cooperative Values and Principles

	Don't know/ Not applicable	Not at all effective					Very effective	Comments (if any)
Content	DK/NA	1	2	3	4	5		
Leaders' presentation	DK/NA	1	2	3	4	5		
Printed materials	DK/NA	1	2	3	4	5		
Overall	DK/NA	1	2	3	4	5		

## b. Board Roles and Responsibilities

	Don't know/ Not applicable	Not at all effective					Very effective	Comments (if any)
Content	DK/NA	1	2	3	4	5		
Leaders' presentation	DK/NA	1	2	3	4	5		
Printed materials	DK/NA	1	2	3	4	5		
Overall	DK/NA	1	2	3	4	5		

## c. Cooperative Governance

	Don't know/ Not applicable	Not at all effective					Very effective	Comments (if any)
Content	DK/NA	1	2	3	4	5		
Leaders' presentation	DK/NA	1	2	3	4	5		
Printed materials	DK/NA	1	2	3	4	5		
Overall	DK/NA	1	2	3	4	5		

## d. Understanding Financial Reports

	Don't know/ Not applicable	Not at all effective					Very effective	Comments (if any)
Content	DK/NA	1	2	3	4	5		
Leaders' presentation	DK/NA	1	2	3	4	5		
Printed materials	DK/NA	1	2	3	4	5		
Overall	DK/NA	1	2	3	4	5		



## e. Workshop Features

	Don't know/ Not applicable	Not at all effective				Very effective	Comments (if any)
Amount and Use of Time	DK/NA	1	2	3	4	5	
Start and end times	DK/NA	1	2	3	4	5	
Assistance with your board being more effective	DK/NA	1	2	3	4	5	
Materials available online	DK/NA	1	2	3	4	5	
Meeting room	DK/NA	1	2	3	4	5	
Food and refreshments	DK/NA	1	2	3	4	5	

2. The best aspect of the session was:

3. The most disappointing aspect of the session was:

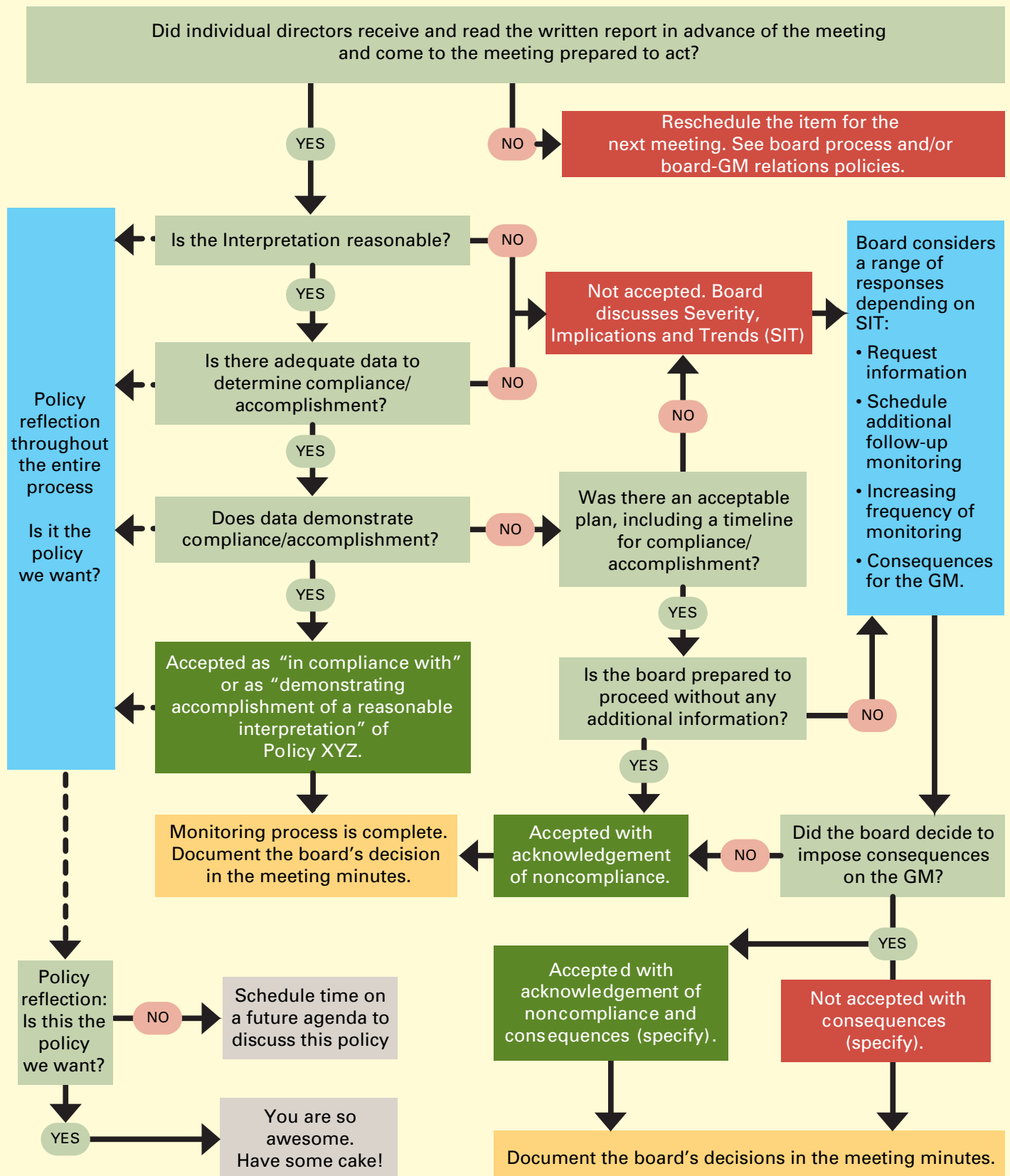
4. The most valuable thing I learned was:

5. The greatest benefit to the co-op from this session will be:

6. The session would have been better if:

7. Do you have any other comments that would help us evaluate and improve this session?

# Decision Tree for Acting on Internal Monitoring Reports from the General Manager



The decision tree is downloadable as a PDF in the Columinate library

# Four Pillars of Cooperative Governance

## What Is Cooperative Governance?

Cooperative Governance is a model that clarifies different components and roles of cooperative organizations. Cooperative Governance identifies **Four Pillars** that define distinct roles and responsibilities to achieve the combined social and economic success of cooperatively owned enterprises.

## Four Pillars of Cooperative Governance

The Four Pillars of Cooperative Governance are:

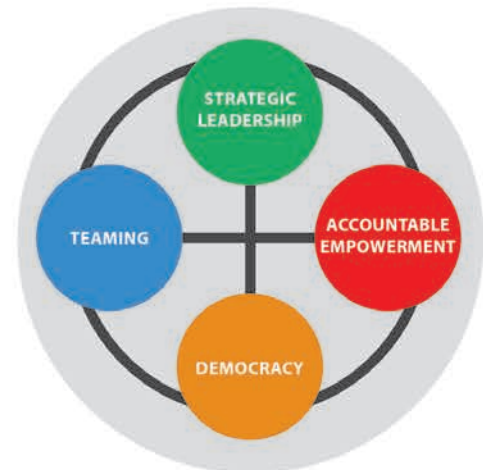
- **Teaming**
- **Accountable Empowerment**
- **Democracy**
- **Strategic Leadership**

The pillars are built upon a foundation of the **Cooperative Principles and Values** and are all interconnected.

## Roles

Governance happens at all levels of the organization—**member-owners**, the **board**, the **CEO/GM**, and **staff**. Each level within the cooperative has a relationship to governance and responsibilities within each of the four pillars.

Each role has its own set of responsibilities, process, skills, and knowledge, as well as related tools and resources.



## Four Pillars of Cooperative Governance

