ITEM 11

INTRODUCTION TO THE OPERATION OF A
CORPORATION OR A COOPERATIVE*

I. Organization Structure of a Business

A. Companies originate with stockholders or owners—be they general business corporation or cooperative corporations.

B. Stockholders (owners) of a business elect directors to represent them.

C. Directors employ management to actually run the business.

D. With the foregoing points in mind, we draw a simplified version of the organization chart of the business that will be studied by Youth Scholars at the Youth Seminar. The chart will apply both to the XYZ and the PDQ Corporations.

*Prepared by Walter Brown, President (Retired)
Federal Intermediate Credit Bank, Louisville, KY
II. Functions Involved in Operating Your Corporation

With the organization chart above as a backdrop, you should now consider questions such as these:

A. How can directors express their viewpoints and how can these viewpoints become operative? (Policy and Operating Manuals)

B. How can directors know that their wishes are being followed? (Reports and Audits)

C. How can management and employees determine how well they are fulfilling the intent of directors' viewpoints, objectives and goals? (Performance Appraisals)

D. How can employees be assured that their interests as employees are being looked after? (Personnel Policy)

E. How can assurance be given that directors stick to directing and that management sticks to managing? (Mastering the following management principles as outlined herein.)

More complete answers to the foregoing questions can be arrived at through understanding basic functions of a board of directors and functions of management.

III. Five Major Functions of Your Board of Directors:

A. Establishes and maintains Legal Entity.
   1. Your board is a guardian of the organization papers and Bylaws.
   2. On behalf of the corporation, your board can sue and be sued.
   3. Your board is the final authority for signing contracts.
   4. There is an obligation to follow legal and ethical practices.

B. Acts as Trustee of Stockholders' (Member-Owners) Interests.
   1. You look after financial interests of the stockholders (member-owners).
   2. You preserve and help build the corporation's resources.
   3. You provide the foundation for good service.
   4. You take measures to assure the maintenance of confidential information.
   5. You help create and maintain a good corporate image.
C. Your board does Planning—both short range and long range.

The planning function needs to be dealt with in some depth. It is not easy because it starts with your own viewpoints and philosophies—and your viewpoints and philosophies are not all alike. But, what do you plan?

1. You plan the objectives of the business.

2. You plan goals—How far? By when? And, at what cost?

3. You plan policies, and in planning, you are concerned with these questions:
   (a) What are policies?
   (b) What areas do they cover
   (c) Who helps influence their preparation?
   (d) How are they developed?
   (e) How do they become operative?
   (f) How is the effectiveness of policies appraised?

4. You plan resources (but only "fund" the money required—you do not spend it).

5. You plan the organizational structure of the business.
   (New positions cannot be created without your consent.)

6. You plan board and stockholder meetings.

D. Provides the basic operating requirements of the business. (But the board does not operate the business.)

1. You elect qualified officers.

2. You elect qualified management.

3. You clothe management with authority.

4. You approve operating and capital budgets.

5. You authorize and support a progressive program of personnel administration.

6. You furnish the "climate" for a healthy, spirited, progressive organization of dedicated workers.
E. Performs a Control function—to see that all goes well. You measure results against what was expected. This is done by:

1. Reports and audits—both internal and external.
2. Personal observation (but not personal action).
3. Minutes of proceedings.
4. Discerning questions.

IV. The Two Basic Functions of a Manager:

A. The primary function of the manager is to "manage"—to run the business—to administer its affairs. But what is the source of his power, his authority, his freedom to act? What kind of a foundation does he stand on? How stable is it?

1. The Bylaws refer to these responsibilities and authorities specifically.
2. Board Policies affect his job personally. In addition, these policies furnish him with guidelines by which he can exercise general supervision over the affairs of the corporation.
3. Board actions. Board actions are ordinarily reflected in minutes of meetings. The manager receives many authorizations and instructions in this manner.
4. The manager's position description. Once the position description is prepared by the manager, and approved by the board, he has a clear-cut understanding of his authorities, responsibilities and relationships.
5. Performance Standards. Performance standards set forth what is expected of the manager in key performance areas.

B. A second function of the manager is to act as an advisor and counselor to the board of directors. (This function is elaborated upon in the section which follows.)

V. The process of managing can be divided into four basic areas:

A. Working with the board of directors.

1. He advises the board and helps the board make up its mind.
2. He (or a designated secretary) documents and formalizes board decisions and actions.
3. He implements board decisions through day-to-day management of the corporation’s operations.

4. He keeps the board informed through written and verbal reports.

B. Working with his staff.
   1. Selects and hires personnel, subject to limitations imposed by board.
   2. Sets salaries within ranges authorized by the board.
   3. Prescribes employee duties.
   4. Delegates authority.
   5. Performs certain duties personally.
   6. Provides leadership (the most important part of his job.)

C. Working with the stockholders (member-owners)
   1. Keeps informed of their needs.
   2. Serves their needs.
   3. Keeps them informed about the corporation’s affairs.
   4. Keeps stockholders (member-owners) interested and enthused about the business.

D. Working with the corporation's "publics."
   (Suppliers, prospects, business organizations, educational institutions, etc.)

VII. The Importance of the Board and Management—Understanding Their Areas of Responsibility

A. What are the results of the board getting over into management?
   1. The manager becomes frustrated and discouraged.
   2. He may dodge his responsibilities.
   3. Operations will become inefficient.
4. The board would no longer be able to review the management job "objectively".

5. A good manager will not want to continue with the organization under these circumstances.

B. What are the results of management getting over into board responsibilities?

1. "One man" management directly results.

2. There becomes necessarily a narrow range of judgment.

3. He would be acting beyond his authority and thus get into trouble with the board. He could get fired over this.

4. The board would become frustrated and discouraged. Not many boards like to become "rubber stamps".

C. A consultative climate must prevail.

1. Responsibilities must be understood and accepted.

2. The board must feel that the manager is competent and the manager must have a genuine respect for the board's prerogatives and actions.

3. It must be thoroughly understood that one of the duties of the manager is to not only inform the board, but also to persuade them whenever he feels that the interests of the corporation can be best served by these actions.

4. Once board action is taken, it should be fully supported.

VII. The Fundamentals of Authority and Responsibility

It is axiomatic in business that:

A. The board can delegate authority to management and share responsibility, but the board is responsible to the stockholders (member-owners) for the results.

B. Management can, in turn, delegate authority to employees and share responsibility with them, but management is accountable to the board for the results.

C. Fundamentally then, it can be said that, in delegation, three things happen: an assignment of a job or task or function is made, the granting of permission (or authority) to act; to make commitments, use resources and take other actions necessary to perform the duties
A RESPONSIBILITY or obligation is created on the part of the one assigned the task and given the authority by the executive for the satisfactory performance of the duties. In a sense, this responsibility originally that of the delegator to his superior is now shared by him and those to whom he assigns tasks or jobs and grants or delegates AUTHORITY. Thus, RESPONSIBILITY can be shared but not completely delegated.

VIII. Summary

A good board-manager relationship is essential for the effective operation of a business. If boards and managers would strive to fully understand and practice the principles that are incorporated in this outline, they should be able to handle their businesses successfully and with a high degree of satisfaction.