# *ETHICS Cooperative Management*

***Ethics is that branch of moral justness and fairness, which duties that a member of a profession owes to clients, other professionals, and the public.***

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CHAPTER I

## Definitions:

**Agency:** The relationship between the principal and the agent which arises out of a contract, either expressed or implied, written or oral. The agent is employed to carry out certain acts on behalf of the principal while dealing with a third party.

**Agent:** One who represents another where authority has been given.

**Conflict of Interest:** A situation where an agent or principal has personal or financial interests that make it difficult to fulfill their duties.

**Disclosure:** A primary obligation of an agent acting as a fiduciary. The principal and agent has a duty to disclose the relationship to third parties and each other.

**Fiduciary Relationship:** A relationship in which one person trusts or relies upon another to give professional counsel or advice in business matters or to handle business matters.

**Fraudulent Misrepresentation:** A deliberate misstatement of a "material fact" at a time when the speaker knows the statement is false.

**Innocent Misrepresentation:** A statement not known to be false at the time it is made but which turns out to be false.

**Negligent Misrepresentation**: A statement believed to be true by the speaker but that could have easily been accurate with reasonable investigation.

**Scope of Authority:** An agent shall act only within the authority granted to him or her. An agent may not obtain any advantage over a principal by misrepresentation, concealment, or any other means. An agent is bound by the same prohibitions against concealment or mis-representation as the principal. An agent may not co-mingle personal funds with those of a principal.

*A person, whether an employee of the Cooperative or its management agent, is bound by the laws of agency within the means of his or her profession."*

**Chapter II**

We all face a dilemma on how to integrate ethics with the management of the Cooperative. We face day-to-day issues where right is divided from wrong by a thin line or at times clouded by circumstances that confuse or mitigate the issues at hand.

Ethical codes are made by professionals and other groups to set out how that professional deals with issues common to the profession. Although the code may differ from one professional to another, there are common principles that form the framework for all ethical codes.

**THE PYRAMID OF ETHICS: MORALITY CODES OF ETHICS GOVERNMENT LAW**

**MORALITY:** An abstract concept that may differ from person to person. In most cases it is learned during one's formative years at home, church, school, or acquaintances.

Morality is not necessarily religious. Rather is stems from results from your sense of right and wrong, a sense of fairness in treatment of others. A person who possesses attributes of honesty and fair treatment of others may find it easier to apply a professional code of ethics than a person who does not possess these attributes. A person's personal sense of right and wrong and moral character ultimately determine the ability to perform on an ethical basis. Personal discipline, organized work habits and a commitment to duty also pay a role in how ethical morality is applied.

**GOVERNMENT LAWS:** Government laws are the foundation for ethical behavior. Law is defined as that body of rule that is enforced by government. They exist to protect the basic rights of individuals and to promote the general welfare of the citizens.

Federal fair housing laws are an example of laws that protect the rights of individual citizens. By making it illegal to discriminate against individuals on the basic of protected criterial, the government has protected the rights of individuals. Laws that create minimum housing standards are an example of laws that promote the general welfare of our society. Minimum building codes and construction standards are an example.

There are three primary levels of government in the United States that make up the body of law that is enforced by the government. Federal laws are national in scope. They are passed by the Congress and executed by the executive branch of our government and apply with equal force in all states. Fair housing, contract, environmental and federal tax laws are examples. State laws apply to persons living or doing business within a state. Individual states can differ considerably from one state to another. Landlord tenant laws and state tax laws are examples that would apply with a Code of Ethics within that state.

Local laws are passed by city or county ordinances and the local government enforces them. Zoning laws, health code laws, and others are examples of local laws that affect a cooperative.

**CODE OF ETHICS:** A code of ethics can guide their cooperative membership when having to make ethical decisions. Professional groups establish codes of ethics that are enforced by a person's peers in that profession.

This level of ethics is not governed or enforced by government, but rather by "business practices" that are outlined by an entity within an industry or profession. This code of ethics sets the standard of conduct for individuals working within a profession.

*This code of ethics is a statement of professional practices which a member or craft owes to the public; his or her clients and to his or her professional brethren.*

Even though your partners, i.e. your management agent, your accountant, your attorney, and others, may have a code of ethics the Cooperative should have one as well that they have adopted and use. We provide you with a sample which you may want to use and display in your board/community room. As well, we encourage that each board member signs a confidentiality agreement, so that everyone understands "what happens in a board meeting, stays in a board meeting"!

There is a checklist for ethical conduct that you can apply. Ethical matter, though difficult, can be analyzed in a methodical way that will help guide well-intentioned persons in **the** right direction. Let's look at that checklist.

1. Is it legal? Will the decision violate any laws that are enforced by a government agency? Although this question seems to be straightforward on the surface, it can become blurred in cases where the law is not defined. What about mitigating circumstances? What if, like speeding on the highway, everybody does it?
2. Who is affected and how? The question suggests that in the decision or act does harm to an individual or group, it may not be ethical. However, that may not be true.

Will a judge benefit from his decision to impose the death penalty on a convicted criminal? The decision is justified by the law, but rendered to further (or not) the political career of the judge. So is it ethical?

3. What are the long-term consequences? Ethical decisions and actions often have a long range perspective. Unethical behavior if often short term, designed to survive the crisis or need of the day. Take stealing money, for example. It will help you get what you want today, but what about next year when the auditor begins to examine the financial records?
4. Does it comply with my professional code? How would the decision or act be viewed by others in the profession who were totally informed of all the facts as you knew them at the time? In other words, if full disclosure was made, consider what decision others would make in similar circumstances. This is not the same as seeking advice or opinion. The giver of advice may not have all the facts and may formulate advice based upon only a partial understanding of the situation.
5. How will it make me feel? This question could be the most critical of all because it reflects directly upon the person whose advice counts the most, the person you face in the mirror every day! If your decision was published would you be okay with it?

# CODE OF ETHICS

(sample)

**ARTICLE I**

A Director has a duty of loyalty to the Cooperative and its Members

**ARTICLE II**

A Director has a duty to use care and diligence when carrying out official acts on behalf of the Cooperative and its Members

**ARTICLE III**

A Director understand they can only act within the boundaries of their authority as stated in the By-Laws of the Cooperative

**Article IV**

A Director has a duty to “disclose” any and every conflict of interest to the Cooperative

**Article V**

A Director has a duty to not profit nor share confidential information that they have privilege to while sitting as a Director and conducting official business on the behalf of the Cooperative

**Article VI**

A Director understand by accepting the designation of Director of Officer, they affirm to each other Director and Officer and the Cooperative and its Membership to uphold ethic practices adopted by the Cooperative

Signature__________________________________________Date_______________

## CHAPTER III

### *The Rochdale Principles*

The discussion so far has centered around a review of the basic principles of Ethics and how it affects the Corporation business you are running. This is even more evident when you understand the "Rochdale Principles" which were established in 1844 when the first Cooperative was formed on Toad Lane in Rochdale, England. The vision was to lay out the basic principles under which they would operate and this (even after revision, the latest 1995) still stands today as the principles to follow for cooperative businesses around the world.

The Rochdale Principles are interpreted and governed today by the International Cooperative Alliance in Switzerland. The last revision was published as the "Statement on Cooperative Identity". Its members consist of national and international organizations in all sections including agriculture, banking, industry, housing, insurance, fisheries, and consumer cooperatives. All cooperatives are defined by these principles and their basic values are meant to guide and inspire entities. Let's look at these principles:

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

2. **Democratic Member Control**: Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Persons serving as elected representatives are accountable to the membership.

3. **Member Economic Participation**: Members contribute equitably, and democratically control, the capital of their cooperative……Members usually receive no or limited compensation, if any, capital subscribed as a condition

of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, setting up reserves, benefiting members in proportion to their transactions with the cooperative, and supporting activities approved by the membership.

4. **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.

5. **Education, Training and Information:** Cooperative 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.

6. **Cooperation Among Cooperatives:** Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structure.

7. **Concern for Community:** Cooperatives work for the sustainable development of their communities through policies approved by their members.

   *So in summary, you can see how their international and national principles follow along with any Code of Ethics that any Cooperative is and should be following. They have with stood for a very long time!*

## CHAPTER IV

Let's go back to the basic on the "Code of Ethics" as we work through some actual exercises.  But first let's talk about some

# EXCUSES AND JUSTIFICATIONS

I WON'T GET CAUGHT………………

IT ISN'T HURTING ANYONE………

I AM JUST FOLLOWING ORDERS…………

THAT'S HOW I WAS TOLD THEY WANT IT………….

Let's ask ourselves again as we look at the following scenarios this five question method:

1. Is it illegal?
2. Who is affected by this decision and how?
3. What are the consequences of the decision?
4. How do you feel about this situation?
5. Did you look at other alternatives?

***Ethics case studies:***

1. ***The Treasurer receives a concession from a contractor since the Board hired them for a large job. The concession was tickets to a concert that are valued over $500.00. The Treasurer did not disclose this gift to the other board members. Should the integrity be questioned? What if all the board members were offered the same concession?***


2. ***The Board President comes into the management office and asks the staff to look at a member's file to determine the number of persons living in the cooperative apartment. The President has reason to believe other people are living there. The staff refuses based on confidential information being given to a "member". The President indicates, that because of their position, they have the right to see anyone's file. How should confidential***

*information be handled? Does this fall under that? What other issue*

*might be an issue here?* 

3. *A board member has a brother that is bidding for the landscaping work. The board member asks the staff member to let them know who else is bidding and what the amounts will be. In addition, the board member does not see it necessary to tell the other board members who this person is in relationship to them. Is there a conflict of interest? What if the board member did disclose all information to the staff and the Board of Directors? Under what circumstances could this be okay, if any?*

*In summary, it is suggested that ALL board members and even committee members sign a code of ethics or at least a confidentiality form to ensure that they understand that their Cooperative is a business and the affairs of the business should stay at the business table. A member is a member only in a "duly sworn in meeting" and it is everyone's job to practice ethically regardless of any one person's morals or bias!*

*Midwest Association of Housing Cooperatives*

*Our Mission Statement: To support and champion the cause of quality housing through education, legislative actions, partnerships, and advocacy for housing cooperatives.*