7.
Board Committees
III. The Organization of Club Governance

A. The Structure

1. Power, Authority, Responsibility

Organizational structures are normally set up in a chain-of-command format. They identify where the power lies for decisions at all levels. Who is accountable to whom, where authority in focused and how responsibility is designated are all pieces of the organizational puzzle.

A common organizational chart may be similar to those illustrated in Figures 1 and 2.

These two figures attempt to show the hierarchy and reporting requirements of the organization. Certainly, charts like these have value. However, by focusing on the organization from only this perspective, we may lose sight of the critical element of our business—Communication Patterns.

Remember, the members of the club are both owner/investors and customers. We need to examine the organization from a different perspective...the common interests of our owner/investor members.

Figure 1.
10. Utilizing the Committee System

**Club Committees Scope & Responsibility**

Club committees are formed so that the club members not elected to the board of directors can have input into the development of policies and programs. By selecting a broad base of members representing different views, management and the board have the opportunity to hear the opinions of the membership on issues of concern.

Committee chairmen are appointed by the president. The chairmen, with the presidential authorization, have total flexibility and authority on the following:

1. Size of committee;
2. How often the committee meets;
3. Committee agenda;
4. When the committee meets.

The president, vice president, and secretary/general manager are ex-officio members of all committees. Normally, the staff members working in the area of the committee's responsibility attend all committee meetings and make monthly reports. Staff members are responsible for reserving time in their calendars to ensure that they can attend all scheduled meetings.

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Usually a member selected to a specific committee has high interest or special expertise in the area of that committee's responsibility. Usually these members are in tune with the pulse of the membership. Occasionally, members are only representing the opinions of a small special interest group. All committee decisions need to be judged on their effect on the total club operations. Decisions to appease special interests should be made only if they do not have a negative effect on the rest of the membership.

Much has been written on the role of committees in a private club. The committee system can be a great asset to an individual club, or at the same time, a destructive force that can undermine the best aspects of governance. Gerald F. Hurley, former executive vice president of the National Club Association (NCA), offered the following insights when he authored the *Private Club Leadership Guide* in 1991:

- At times, committees need to be stimulated and, at times, they need to be held in check.
- Committees are advisory and do not have the authority to bind or commit.
- The club cannot be run by committees, but rather should be stimulated and supported by them.
- Properly motivated and supported, committees provide a vital communication link.
- Without an understanding of their authority and objectives, committees can put the club in a financial bind that can take years to defray.

He goes on to say that committee orientation should take place similar to board orientation. Committees should be given tasks and objectives, provided budget limitations and held responsible for formulating plans.

**Practice # 7**—Committees hold an advisory function and cannot set policy, make operating decisions or spend money by committing club funds.
IV. Board/Committee Duties and Responsibilities

A. Governing Board Duties

1. Specific Duties

Obviously, the purpose of the board is to govern the club. This guide has offered several examples of the responsibilities and codes of conduct for participating on the board. This section will clarify these duties in greater depth. Much emphasis today is being placed on the fiduciary responsibilities of directors and the legal ramifications of their actions. To avoid liability, each member of the board must adhere to the following three duties.

1. The Duty of Care—Board members must take the same precautions as the reasonably prudent person would take under similar circumstances. This duty can also be called “The Duty of Diligence.” This is certainly common sense and easily understood. However, as John Carroll writes, “diligent behavior … may be open to interpretation.” It is key that boards use a well-thought-out and logical approach to even the most common-sense decisions.

2. The Duty of Loyalty (or Good Faith)—Board members must put the interest of the organization ahead of their own personal interests. This duty has to do with conflicts of interest and the appearance of impropriety. Both of these issues were dealt with during our discussion on ethics.

3. The Duty of Compliance—Board members must remain faithful to the overall mission of the organization. However, duty of compliance means acting in compliance with the law. It is important that the board stay abreast of the legal issues surrounding the operations of the club. There should be some dependence on the GM/COO in this area to provide compliance requirements. However, whenever there is a question or concern, it is important to seek professional advice.

2. Potential Liability

Directors should be aware of the potential areas of liability. The following list (provided by the National Club Association) may be the basis for allegations of wrongdoing:

- Acquiescence to the conduct of fellow trustees engaged in improper activity;
- Aiding or abetting misconduct of others;
- Failing to attend trustee and committee meetings;
- Lack of awareness of internal management controls;
- Compensation arrangements;
- Continuing a wrongful practice after learning of its impropriety;
- Failing to cooperate with regulatory authorities;
- Acquisition that would result in a loss of club assets;
- Financial delinquencies;
- Counsel's advice as to possible libel or slander;
- Dishonored club checks;
- Dissent from improper acts of board or committees and recording of dissent;
- Extending credit;
- Filing annual and periodic reports;
- Payment of bribes or making illegal payments;
- Inefficient management resulting in losses;
- Infringement of patents, copyrights or trademarks;
- Minutes of board and committee meetings;
- Misuse of electronic data processing;
- Monthly operational and financial reports;
- Receiving personal benefit or gain as a consequence of service performed as a trustee;
- Reports of the auditors;
- Not recording dissent from wrongful acts at meetings not attended, after reviewing minutes;
- Selling or transferring club assets only for adequate consideration;
- Shirking responsibility;
- Statements of club policy in areas that frequently generate litigation;
- Not consulting legal counsel, auditors, manager to obtain information;
- Decisions based on inadequate information and ill-advised judgment;
- Failure to inspect club's books and records when necessary to keep abreast of activities;
- Failure to make reasonable investigations;
- Payments made to trustees not verified for reasonableness;
- Failure to consult counsel for advice regarding corporate powers under statutes, charter and code of regulations;
- Failure to obey code of regulation provisions;
- Awareness of conflicts of interest;
- Conduct of other directors engaged in self-dealing;
- Contracts involving self-dealing with corporations;
- Failure to disclose personal interest in management transactions;
- Engaging in a competitive enterprise;
- Loans by or to trustees or members involving self-dealing;
- Preference at expense of creditors or other members;
- Transactions between corporations having common trustees;
- Transactions with other entities in which an officer or director is interested;
- Expenditure of club funds in proxy contests as subject to director's duties in loyalty, care and diligence;
- Merger of the corporation as involving trustee duties of care and loyalty to the club and members;
- Rejecting acquisition offer and refusal to submit it to members;
- Annual reports;
- Deceptive presentations;
- Delivery of securities promptly after sale;
- Disclosures insufficiently or improperly made;
- Discrimination against minority shareholders;
- Fraudulent conduct in connection with purchase or sale of a security;
- Fraudulent methods, misstatements or omissions relating the material facts;
- Fraudulent reports, financial statements or certificates;
- Material misstatements in filings, registration statements or reports to agencies;
- Conflicts of interest;
- Extent of board participation in improper actions;
- Illegal payments;
- Political contributions;
- Sufficiency of disclosures;
- Timeliness of disclosures;
- Causing the club to incur unnecessary tax liability or penalty;
- Failure to obey requirements of tax laws and regulation;
Failure to require withholding in connection with Social Security or income taxes;

- Unreasonable accumulation of surplus;

- Aiding and abetting actions of others;

- Carelessness in concluding business or legal matters;

- Commercial bribery not disclosed;

- Consenting to improper or illegal actions resulting in losses;

- Detecting and preventing embezzlement of club funds;

- Failing to see what could be seen by merely looking;


- Fraudulent interstate transactions;

- Inducing a corporation to commit breach of contract;

- Inducing intentional or careless wrongdoing by the club;

- Ignoring statutory or regulatory requirements;

- Insufficient monitoring or supervision of officers, directors or other employees;

- Nondisclosure of questionable or unlawful actions; and

- Willful wrongdoing.

As Carroll writes, "Ignorance of the law is no excuse." Smart club boards combine diligence and compliance to stay on top of changes to the law.

So, how do clubs boards stay abreast of issues? There are several regular publications that provide notice of legal issues. It is an important role of the GM to keep the board informed. The GM has the responsibility to take advantage of the resources available. Professional or business associations produce much of the critical resource information used in the industry. These associations require the GM, or club, to join and they have associated annual dues.

It is prudent for the board to ensure the annual budget provides the necessary funding to maintain the appropriate membership.

**Practice # 23**—It is a policy of the club to fund memberships in professional and business associations that provide legal updates.

### 3. Insurance Issues

It is important for clubs to protect their boards with directors and officers liability insurance. Many states have laws that drastically limit the liability of unpaid volunteer members of non-profit boards. Unfortunately, we have a litigious society where it is not prudent to think that the legislature has totally protected the club. Insurance against potential liability does not stop just with Directors and Officers’ insurance. It is not the purpose of this guide to provide an extensive discussion of types of insurance that is appropriate. The board should task the general manager to meet with the club’s insurance professional to evaluate coverage and associated liabilities, and then report back to the board for final review. This should be done annually.

**Practice # 24**—The board will ensure that the insurance coverage is reviewed at least annually.

### 4. Legal Services

Carroll writes, "Having a lawyer on the board is not the same thing as having legal representation." Unfortunately, it is a common practice in the club industry to attempt to tap into free legal advice using a board member. It is a best practice to pay for services. Retaining counsel places a much higher level of responsibility on the attorney.

**Practice # 25**—It is the club policy to pay for legal and other advice when appropriate, or necessary, for use when making critical policy decisions.
B. Separation of Responsibilities

1. The Board and Staff—Who Does What

The chart titled "Who's Responsible" identifies where the responsibility lies regarding major activities within governance and operations. It provides a clear division between the board and the administrator or GM.

Another way of looking at roles is detailed in the "Director and Staff Roles" chart on page 28.

The two charts provide a blueprint of how the duties of the board and staff are separated. This delineation is critical, and neither party should cross the line. The board should have a set of policies detailing this separation regularly available at all meetings. The president should bring clarity to discussions when the lines become fuzzy or there is a distinct movement into an area that has been delegated to staff.

<table>
<thead>
<tr>
<th>AREA</th>
<th>BOARD</th>
<th>ADMINISTRATOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Goals (1+ Years)</td>
<td>Approves</td>
<td>Provides Input</td>
</tr>
<tr>
<td>Short-Term Goals</td>
<td>Monitors</td>
<td>Establishes and Executes</td>
</tr>
<tr>
<td>Day-to-Day Operations</td>
<td>No Role</td>
<td>Makes All Management Decisions</td>
</tr>
<tr>
<td>Budget</td>
<td>Approves</td>
<td>Develops/Recommends</td>
</tr>
<tr>
<td>Capital Purchases</td>
<td>Approves</td>
<td>Prepares Requests</td>
</tr>
<tr>
<td>Decisions on Building, Renovation, Expansion</td>
<td>Make Decisions That Are Responsible</td>
<td>Provides Input, if Authorized Signs Contracts</td>
</tr>
<tr>
<td>Supply Purchases</td>
<td>Sets Policy and Approves Budget</td>
<td>Purchases According to Policy/ Maintains Audit Trail</td>
</tr>
<tr>
<td>Major Repairs</td>
<td>Approves</td>
<td>Obtains Estimates and Prepares Recommendation</td>
</tr>
<tr>
<td>Minor Repairs</td>
<td>Policy Includes Amount That Can Be Spent Without Prior Approval</td>
<td>Authorizes Repairs up to Policy Limit</td>
</tr>
<tr>
<td>Emergency Repairs</td>
<td>Works with G.M. and Acts with Concurrence from Chair</td>
<td>Notifies Board Chairperson</td>
</tr>
<tr>
<td>Cleaning and Maintenance</td>
<td>No Role (Oversight Only)</td>
<td>Sets up Schedule</td>
</tr>
<tr>
<td>Fees</td>
<td>Adopts Policy</td>
<td>Develops Fee Schedule</td>
</tr>
<tr>
<td>Billing, Credit, Collections</td>
<td>Adopts Policy</td>
<td>Proposes Policy and Implements</td>
</tr>
<tr>
<td>Hiring of Staff</td>
<td>No Role</td>
<td>Approves All Hiring</td>
</tr>
<tr>
<td>Staff Deployment and Assignment</td>
<td>No Role</td>
<td>Establishes</td>
</tr>
<tr>
<td>Staff Grievances</td>
<td>No Role</td>
<td>The Grievances Stop with Administration</td>
</tr>
<tr>
<td>Personnel Policies</td>
<td>Adopts</td>
<td>Recommends/Administers</td>
</tr>
<tr>
<td>Staff Salaries</td>
<td>Allocates Line Item for Salaries in Budget</td>
<td>Approves Salaries with Recommendations from Supervisory Staff</td>
</tr>
<tr>
<td>Staff Evaluation</td>
<td>Evaluates Only</td>
<td>Evaluates Other Staff</td>
</tr>
</tbody>
</table>
PRACTICE # 26—There will be a board member or board liaison on every committee.

2. The Role of Committees

The primary method by which the board of governors extracts its oversight function is through a series of board-appointed committees. These committees are basically extensions of the board itself. Board committees have three primary functions. They are first of all responsible for developing policies especially related to the department function, which they oversee for subsequent review and approval by the board.

Second, they are also responsible for implementing the board’s oversight role related to the specific function to which they are assigned. This oversight role is limited to assuring two very specific results: first, compliance with all board-approved policies related to that department and, second, to assure congruence and consistency with board-approved strategic performance goals. Except when asked for advice by the responsible department manager or the general manager, board committees have no day-in, day-out management role or responsibilities.

Finally, board committees are a primary mechanism by which the general membership is recruited to become involved in the affairs of their club. Committee work thus becomes an important method of developing and observing a broader pool of backgrounds, experiences and talents from which new members of the board can be recruited each year.

<table>
<thead>
<tr>
<th>COUNTRY CLUB DIRECTOR OF *** AND STAFF ROLES</th>
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</thead>
<tbody>
<tr>
<td>STAFF</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>General Operations</td>
</tr>
<tr>
<td>Enforce Club Policies</td>
</tr>
<tr>
<td>Finance</td>
</tr>
<tr>
<td>Human Resources</td>
</tr>
<tr>
<td>Media Contact</td>
</tr>
</tbody>
</table>

Why stick to roles? For legal reasons. We have directors and officers insurance coverage in the amount of $5 million to protect you; however, we have read of situations where directors stepped out of their roles and subjected their clubs to large exposures.
3. **Best Practices for Club Committees**

Ronda Montgomery, Ph.D., Associate Professor at the William E. Harrah College of Hotel Administration, University of Nevada/Las Vegas, identified six steps to effective committees. They are:

1. All board committees will be chaired by a member of the board of governors.

2. Committees are responsible for overseeing assigned club functions and providing assurance to the board of adherence to all approved club policies, as well as consistence and congruence with approved club strategic goals in the management of these club functions.

3. One of the functions of the committee organization is to provide appropriate observation of club members for the purpose of later recruitment of new board members. To this end, to the extent possible and where committee membership is not prescribed by club bylaws, it is the club's policy to encourage general members to volunteer for committee service.

4. Individuals will generally be limited to service on only one board committee.

5. Committee members will serve for a term of one year at the pleasure of the committee chairman and the president.

6. Committee members will be limited to three consecutive years of service.

The above three policies (4, 5 and 6 above) are designed as a matter of policy to replace some portion of each committee each year.

These policies have the purpose of extending the privilege of club service to as many members as possible. In addition, they generate the maximum potential for identifying future club leaders. Bylaw considerations preclude applying them strictly to the board itself, though, to the extent possible, board members will be assigned committee chairmanships and committee work with these goals in mind.

National Club Association's Gerard Hurley, in his commentary on club committees, writes:

"In the best of all worlds, project-orientated standing committees and their chairs work in concert with the general manager and the board of directors. Their work should be in harmony with overall club plans and placed into the budget and program authorized and implemented by the board. The club cannot be run by committees, but rather stimulated and supported by them."

Adopting the best practices for club committees, which have been listed in this section, is critical for a smooth-working system of club governance.

**Practice # 27**—The board and GM/COO will provide committees with concise goals and objectives and clearly delineate to each committee their authority and responsibilities.
Utilizing the Committee System

Club Committees Scope & Responsibility
Club committees are formed so that the club members not elected to the Board of Directors can have input into the development of policies and programs. By selecting a broad base of members representing different views, management and the board have the opportunity to hear the opinions of the membership on issues of concern.

Committee Chairmen are appointed by the President. The chairmen, with the presidential authorization, have total flexibility and authority on the following:
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Guidelines for Committees

1. The President is an ex officio member of all committees and should have the courtesy of an invitation to each meeting. He may not have time to attend every meeting during the year, however, and therefore relies on committees’ reports.

2. All committees will work through the General Manager, which channels direction through one source and fixes responsibilities. The General Manager and/or a subordinate staff executive should attend every committee meeting. They act as consultants on operational matters and provide professional continuity from year to year. Their presence can save much time and effort when questions of policy, or the effect of decisions on other facets of Club operations are raised.

3. For liaison purposes, a member of the Board of Directors should be assigned to every major committee.

4. Committees are advisors to the Board of Directors and thus have no “command” function over personnel, unless such a duty is specifically assigned by the Board.

5. All committee actions require Board approval, except in those areas where authority to act independently has been delegated. (For example, a committee may have authority to change the opening and closing hours of the pool without reference to the Board, but not the amount of the pool fee.)

6. Every committee should keep records of its meetings, its policy decisions and authorities and render periodic reports.

7. Throughout the year, following each committee meeting, every chairman must submit a report of actions and progresses to the Board for the latter’s next meeting.

8. Suggestions or complaints concerning any area of the club should be put in writing, addressed to the Committee Chairman or Board of Directors. Communicating your thoughts in writing allows the recipient time to gather the information required to answer you with more accuracy and detail.