This is the beginning of ***part two***: Challenges to the Board of Directors.

You can download the file for ***part one***: Challenges to the Board of Directors at:
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Thank you.

Boards That Lead:

Policy Governance for Cooperatives

By Ann Hoyt

The board must play a meaningful and critical role in cooperative affairs. I hope this article will help clarify what the board should be doing, how the board can organize its work and what unique products the board contributes to your cooperative's success. This information is derived from the work of John Carver. If it interests you, I suggest you read his book on policy governance, Boards That Make a Difference, *Jossey Bass (1990).*

LISTEN UP! WE'VE GOT A PROBLEM

Recently a prominent cooperative manager called to talk about her board. "Our boards are destroying our cooperatives," she said. "They are keeping us from being competitive." How could this be? I've worked with and trained hundreds of directors. Overall, they are capable, well-intentioned, well-educated men and women.

On the other hand, listen to directors:

"We don't seem to be getting anything done at our meetings." "Our manager is doing a great job; there isn't much left for us to do anymore." "I'm on the board. Does that mean I have to know everything about the co-op?" "I get the feeling I haven't mastered the financials as well as I should."

These comments and hundres of other like them have convinced me that many cooperative directors and managers are uneasy with role of directors as it is being played in many cooperatives.

This problem of "poor" board performance is not unique to cooperatives. Few Americans would rush forward to defend the Congress, state legislators, or even school boards as models of "good governance." It is equally difficult to find good governance in the corporate world. In fact, only when prodded by large stockholders and shareholder legal action have boards of many investor-owned corporations questioned the quality of their performance.

What does this mean for cooperative boards? Are they a tedious and anachronistic holdover from the past? Or do they play a unique role in the organization; a role played by no one else?

BEGIN AT THE BEGINNING

It is not possible to understand the role of a board without clearly understanding the concept of governance. To govern is to make decisions on behalf of others which provide benefits for the group as a whole. By law and through members' expectations the board is given responsibility to generate four specific products. When the board produces these products it will successfully achieve its sole purpose: to use and protect the resources members have entrusted to it in order to improve their lives. The job of a cooperative director is to make decisions which benefit the co-op members.

Members recognize it is impractical for everyone to participate in all the decisions necessary to run their business, so they elect a board of directors and confer upon them the authority to make decisions. Because the board needs money, people, equipment and other resources to carry out decisions, members entrust these resources to the directors, assuming resources will be used effectively and efficiently.

In return for authority granted, the board is accountable for all cooperative activities. Board members must be able to describe what decisions have been made, how member resources have been used and what results were achieved. This is far different than being responsible for the activities. Governors are not expected to perform activities that meet the needs of the members, they are expected to be accountable for them.

In the context of decision making, the board becomes a single unit: it exercises authority and it decides. Although the board is composed of individuals, they must be able to come to sufficient agreement to make a single decision that is the board's statement on an issue. Board members hold authority only when they are acting as a board. Outside of the board room, board members have no more authority than any other member-owner of the cooperative. As a result, even though the board is often composed of very strong individual members with strong, and possibly differing, opinions, the board's decisions are made in board meetings and expressed with a single voice.

WHAT SHOULD MEMBERS EXPECT?

There are four unique results or products of the board's work. The board's first product is providing ties or *linkage to the member owners*. This means deciding who the organization serves and might serve in the future, finding out what they want or need from the cooperative, and setting up ways for the board to report to the members on its success at meeting their needs.

Earlier we said the board's decisions must be expressed with a single voice. Decisions that the board has reached and is willing to express with a single voice are the board's *policies*. The second product of the board's work is its policies, the decisions it makes that give direction to cooperative activities.

Unfortunately, decisions, however wise and well crafted, do not assure that action will follow. Often policies are buried in board minutes, directors and staff have difficulty remembering exactly what they are and whether the policy is being followed.

This leads to the third responsibility of the board: to make sure decisions are being carried out, or *assurance of performance*. This means setting up a monitoring system that establishes a procedure for reviewing each decision/policy. Only by enacting effective monitoring procedures can the board be accountable to the membership.

Directors are responsible for the security of the members' resources. Carrying out this responsibility is the fourth result of the board's work: *assurance of perpetuity* or continuing life of the cooperative. This includes the board's responsibility for the security of financial resources, for the continuity of competent management, and for its own continuity (i.e., assuring that good candidates are available and comprehensive policies are in place).

To review, the results members have a right to expect from directors and directors have a responsibility to produce for members are:

- linkage to the member owners;
- comprehensive policies;
- assurance of performance; and
- perpetuation of the cooperative.

Boards that produce these products are functioning well. Other boards have additional work to do.

DEBATE, DECIDE AND DIRECT

A policy is a written statement of the values and expectations which guide current and future decisions. In general, the board uses policies to describe *what* it wants done or *what* it does not want to happen rather than describing *how* something will be done or *how* it will be prevented. If the board understands how to make policies and what kinds of policies should be in place, it will have made major progress toward achieving the results members expect.

The key to developing policies is to start with the largest issue in each category before considering smaller issues. For example, when the board is developing the boundaries of acceptable activity, it might say management "will not conduct any activity which is illegal, unethical or imprudent." This clearly states the board's values about acceptable activity. However, most boards want to give additional and more specific guidance to management. The idea is to work in sequence, one policy level at a time, with each policy being a more specific statement than the policy that preceded it. The board stops making policies when it can accept any possible interpretation of the most specific policy. At that point, all further decisions are delegated to management. Ultimately it should be impossible for an issue not to be covered by board policy at some level. The goal is to produce a fabric of policies that effectively blankets all possibilities.

Boards are critically dependent on two people for leadership: the manager and the board chair. When all is said and done, all board decisions are directions for one or the other and, through them, to the board and staff.

Policies directed to the manager cover two broad policy areas: those that describe results the board expects and those that describe activities which are not acceptable to the board. The board says to management, "Here's what we want you to accomplish and here's what we don't want you to do unless you check with us first." Policies that give guidance to the board chair include those that describe the relationship between the board and the general manager and those that describe how the board will do its work. Virtually all of the board's decisions are made in one of these four areas: *results* (ends), *boundaries* (means), *board management relations*, and *board process*.

WHAT WE WANT: RESULTS POLICIES

The board is responsible for determining and refining why the organization exists, what it does that is worthwhile. Before considering what is worthwhile, the board must consider whose needs will be met. Who are the members and potential members the cooperative serves? Then the board determines which member needs will be met. For example, cooperatives can exist to increase the income of their members, to make goods available at a fair price, or to build an economically self-sufficient community. The board must also determine what constitutes satisfaction. How will we know when we are successful? These questions relating to "why are we here" should be the board's primary business. It is the board's obligation to provide management with a very clear message regarding what ends should be achieved and what results are expected.

POLICY GOVERNANCE

Results policies clearly define specific results that are expected. They clarify what impact the cooperative will have on its community or what difference it makes that the cooperative exists. It is in establishing these policies that the board determines the organization's mission and provides visionary leadership. Clearly, the board will rely heavily on management to provide information and insight on which to base their decisions regarding desired results; but the responsibility to debate the issues, make a decision, and direct the manager is solely the board's.

SETTING BOUNDARIES

The board is not only concerned about what should be accomplished; it is also concerned with how results are achieved. Since the board is responsible and accountable for all of the activities of the cooperative, it must have control over the complexity and the details of operations without being consumed by them. The challenge to the board is to be reasonably sure that nothing goes wrong, while giving management as much room as possible to get the job done.

The concept of boundary policies goes to the heart of board members' legal and fiduciary responsibilities. Because there are significant penalties to the board as a whole and to individual board members in some cases, board members are entirely justified in their desire that all activities of the cooperative be legal and prudent.

By setting limits on activities, the board makes clear statements about what is unacceptable activity and what activities are "out of bounds." Management may not do these things, even if they meet board-determined ends, without prior board approval. The most important concern for any board should be that all activities are legal, ethical and prudent. The board may, however, want to be more precise and define more specific boundaries in major areas of concern. These might include treatment and compensation of employees, protection of assets, financial condition, financial planning and management succession.

Boundary policies are statements about what the cooperative will not do. They are explicit statements about what practices, methods or activities are either unacceptable or need board approval prior to taking action.

BOARD-MANAGEMENT RELATIONSHIPS

Managers and boards operate in a unique working environment. Most of us "work for a boss," a specific individual who has the authority to delegate responsibilities to us. The relationship is one to one. The relationship between a board and a manager is quite different. It is a relationship of many to one. It is the board's responsibility to establish methods by which it can speak with a single voice to establish its expectations of management. The most effective way for the board to do this is to enact specific policies that clearly define the relationship it wants with management. These policies direct the board's behavior and give guidance to the board chair. Policies in this category define how the board delegates it authority to management, how management will be accountable to the board, what the manager's role is in the organization, how management will be compensated, and how the board will measure organizational and managerial performance.

In the board-management area, the most general policy usually conveys that the board wants management to achieve the results it has defined without violating any of its stated limits on results.

CONDUCTING OUR BUSINESS

The final group of policies gives direction to the board itself. They identify how the the board gets its work done and assure that these methods will continue even though individual members will rotate on and off the board over time. These are the board's statements which describe its governance process, that is, how the board operates in order to act on behalf of the members. Board process policies include: how the board identifies member needs, represents the members and protects the interests of all stakeholders; how the board conducts its own business, its structure, the number of meetings, the use of policies, use of committees and board compensation; and how the board ensures its own continuity through director selection procedures, board self-evaluation and board training and development.

ASSURING PERFORMANCE

One of the most difficult tasks of any board member is deciding how and when he or she should be satisfied that "things are OK in the business." Boards can get completely caught up in the murky morass of micro-management solely out of concern that something might be going wrong. Conscientious board members soon learn the impossibility of out-managing management. Managers are hired precisely because directors are not able to work at managing the cooperative full time.

When policies are complete, they should be address everything that might bring concern to the board. However, the policy has little meaning unless it is also absolutely clear how and when the board will determine whether the policy is being followed. Suppose the board has a policy that followed. Suppose the board has a policy that "management will provide for a fair and thorough review of any grievance by means of a known, unbiased procedure with decision authority clearly designated." Although the board has made a decision and declared its values regarding grievance policies, to determine whether the policy is being followed, the board might want a report from management quarterly or semi-annually. That report should state the policy and summarize how many grievances had been filed, their disposition and the person who had ultimate decision authority. The policy is complete when the board has defined what kind of a report it wants on the policy, from whom and what specific information should be provided.

Information the board uses to evaluate performance is, obviously, retrospective; it reports on what has been accomplished. It is judgmental; it is clearly designed to determine the adequacy of performance. It should also be targeted; that is, it should answer specific questions regarding specific performance criteria as determined by the policies. It should also be predictable for management. If the board has unstated expectations for performance, it should not try to judge the adequacy of performance after the fact. Or, "if you haven't said how it ought to be, don't ask how it is."

The board should decide how important and how potentially damaging the violation of a policy might be and determine the frequency of monitoring that policy accordingly. For example, if a cooperative is in a turnaround situation where cash flow and use of credit might have severe financial consequences, it may want to monitor its financial condition policies monthly. If the finances of an organization are both stable and predictable, such monitoring might only be quarterly.

In general, the board has three sources of monitoring information: internal reports from management or staff; external reports generated by people from outside the organization; and direct inspection reports generated by the board or members of the board who look into a matter themselves.

Internal reports carry no additional expense to the board and are the most common source of information. However, they may be open to internal manipulation. External reports are usually conducted by paid professionals and viewed as "objectively prepared by disinterested parties." The most common external report is the annual audit prepared by a certified accountant. In some cases, the board must collect information by an on-site examination. In these cases, the inspection should be directly tied to the policy being evaluated and its monitoring procedure. The board members involved in direct inspection must limit themselves to an evaluation of whether the policy under evaluation has been successfully implemented. Most boards routinely use a combination of all three sources of information to monitor organizational activities.

WE CAN TAKE CHARGE

Boards may be putting our cooperatives at risk if they are so concerned that things went wrong in the past or might go wrong in the present that they are unable to focus. Out of the best intentions, board members may lose track of their unique job while struggling to become super-managers. To stay organized and focused, the board needs to work on the future direction of the cooperative, providing the absolutely essential leadership member owners expect.

What can be done to get our boards back on track?

Managers and directors need to realize there is a problem and that behavior on both sides of the organization has to change if it is to be solved.

Boards need to dedicate themselves to achieving their sole purpose: to use and protect the resources members have entrusted to them in order to improve the overall quality of life for all members.

Boards need to understand governance and the flow of authority and accountability between them, the members and management.

Boards need to focus on producing results in the four activities that are theirs alone:

- linkage to the members;
- creation of policies that are logically consistent and encompass the values and perspectives of the organization;
- assurance of performance; and
- perpetuation of the organization.

At the minimum, policies should be in place which define the results desired; set the boundaries for acceptable organization activities, establish the board-management relationship, and articulate the board's process.

In this way, the board becomes a strong partner with management in assuring success of the cooperative. This happens because the board is conducting itself in a way that emphasizes strategic leadership that prepares for the future, assures board accountability and is more proactive than reactive. Having been on such a board, individual board members can take honest satisfaction in having provided important and distinguished service to their neighbors and their community.

How to Critique a Business Plan

By Walden Swanson

"Business plans may be great for bankers and investors, but if companies really followed them, you might never have heard of Compaq, Lotus, or Ben & Jerry's." This quote is from "The Best-Laid Plans," an article in *Inc. Magazine* (February 1987). The article takes some of America's best small businesses and examines their business plans and how useful they have been. Most business people say they haven't looked at their business plans in a long time and that their plans did not accurately forecast what really happened with the business! One may easily conclude that it's a waste of time to put together a business plan.

Another study, conducted at the University of Texas, looked at companies that had a formal business planning process and compared *actual* performance with *planned* performance. This study also measured whether or not they operated according to plan. This study, like the *Inc.* article, found that companies that had formal organizational plans did not perform according to those plans. However, the companies that did go through formal planning processes performed *better* than the companies that did not!

This study concluded that business plans are not predictive, but they are *preparatory*. If the proper methodology is used, the business planning process builds the knowledge of the industry into the management team and board, so they have a solid information base when faced with changes in the company's environment. In other words, the *product* (outcome) of business planning is not as important as the *process* of business planning.

This article's purpose is to provide cooperative board members a framework for critiquing their co-op's business plan, including the business planning process. To put together this framework, I interviewed 15 cooperative business leaders and board members and drew upon other resources and personal experience. This framework provides a system that directors can use to evalute business plans. It will help you assess the value of a plan in the following categories:

- **Strategy**
- **Assumptions**
- **Capacity**
- **Technique**
- **Vantage Point**
- **Management Capacity**

The result is a series of key questions that directors can ask about or things to look for throughout the plan.

The people interviewed were asked this question: "If you were a board member of a cooperative, what questions would you ask to help you critique the cooperative's business plan?"

Several people mentioned that even poor planning is valuable; it makes people think. The board

Business Plan Components

A typical business plan for a food cooperative has:

- A description of the business, including its purpose and stratagy
- An analysis of food industry trends
- An analysis of the market and competition
- An analysis of other key internal and external factors affecting the business, including an historical financial analysis
- A description of how the cooperative will address the major strengths, weaknesses, threats, and opportunities outlined in the analysis
- A description of the market niche the cooperative occupies and the products and services the co-op will offer to serve that niche
- A capital, cash, and operating budget, with assumptions

The *product* of business planning is not as important as the *process* of business planning. This process builds knowledge of the industry into the management team and board, so that they have a solid information base when faced with changes in the company's environment.

should concentrate on the "thinking" that went into the planning.

Overplanning can also be harmful. One of the maxims from *In Search of Excellence* is "Try it, Fix it, Do it." Many cooperatives have faced the "paralysis of analysis," or a "bias against action." The business planning process can be the perfect sanctuary for people who love inaction. John Higgins warns about thick business plans full of fluff. Be brief, he says. Also, do not spend much time studying national demographic trends and the big socio-economic trends. These are the stuff of fluff.

STRATEGY

Almost everyone interviewed suggested asking a question like: "Is this plan consistent with what we are trying to do?" or "How does it relate to the long range objectives and strategy of the cooperative?"

These questions suggest that the cooperative has already set its strategy. If your cooperative has a strategy problem or does not have a clear strategy, see the sidebar on "Strategic I.Q."

Corollary questions are:

- "With reference to our strategy, what does this plan overlook?"
- "What was considered and then left out? Why?"
- If the business plan advocates a significant change from the co-op's past direction, a board member should ask why the cooperative is pursuing the new strategy.

ASSUMPTIONS

Board members must find and examine the key business plan assumptions in order to properly critique a business plan. The board should insist that the business plan, especially the financial portion, have a clear written list of assumptions. If the board is generally not familiar with the specific industry or market niche being targeted, you may want to hire a consultant who is. For a few hundred dollars, this person could review the business plan and generate a list of questions and comments for the board.

The interviewees came up with several questions that fall into the category of questioning basic assumptions:

Your Cooperative's Strategic I.Q.

For those that have not set strategy, *Top Management Strategy* by Tregoe and Zimmerman may be useful. The book offers a test of the organization's "Strategic I.Q." This test may be a part of a board's critique of the business plan.

1. Has top management determined the nature and direction of the business over the next few years?
2. Do you know the specifics of the organization's strategy?
3. Do the key managers share the same vision of the strategic direction?
4. Is the strategy sufficiently clear so you and the key managers can readily agree upon what new products and markets your current strategy would include and exclude?
5. Is the statement of strategy used for making future product and market choices?
6. Are strategic deliberations held separately from your long-range planning efforts?
7. Is the strategy determining what you plan, project, and budget?
8. Are assumptions about the environment used for setting strategy?
9. Is future strategy determining decisions relating to capital improvements?
10. Does each department have a clear stated strategy?
11. Do the department strategies clearly support the overall cooperative's strategy?
12. Is overall performance reviewed on both strategic accomplishment and operating results?

• How successful has management been at predicting results in previous plans?
• How do the projections relate to the co-op's historical performance? How do the assumptions differ from last year's assumptions?
• How do the projections relate to industry trends?

Organizational Effectiveness Questions

The following questions are adapted from *Organizational Dynamics*, by John Kotter. The questions are grouped in key activity areas. A board member can use this list of questions to ensure that key aspects of the business have been examined.

A. The external environment
  1. Have the key success factors for the particular type of business been identified?
  2. Why are some competitors more successful than others?
  3. Have the major economic, political, and social trends been identified?

B. Assets
  1. What condition are the assets in?
  2. How well are the assets maintained?
  3. What price could each obtain if converted quickly into cash?

C. Personnel and the internal social system
  1. How do employees feel about the organization?
  2. What are the norms of the workforce?
  3. Who is in the "dominant coalition" in the cooperative?
  4. What goals and plans does the group share?
  5. How cohesive a group is it?
  6. How powerful is this group?

D. Decision making
  1. How effective is the decision making system?
  2. How conducive to adaptation are the structural elements?
  3. How large are the barriers to improving the organization's effectiveness?
  4. Is there an important conflict of interest between the organization and its dominant coalition?

According to the *Inc.* article, sales forecasts are the weakest feature of most business plans, so board members should spend considerable time examining market and sales assumptions. Some questions that may help are:
• What are the assumptions about market potential?
• Does the plan address the total market potential and have an analysis of present and future market share?
• How much of the sales growth must come by taking it away from a competitor?
• What are the market cost implications of this?
• What is the mix of sales increase in terms of 1) number of new customers, and 2) larger average transaction size?
• How carefully has the competitive environment been examined?
• Are any new competitors opening up or expanding? A large supermarket that opens a significant natural and bulk foods department can cut the co-op's volume by 10 or 15 percent.

Pricing and margin assumptions are also critical.
• If the margin is different than last year, why? Better controls? Better buying? Higher prices?
• If higher prices, how sensitive are sales to prices?

CAPACITY

Does the plan have a realistic assessment of the financial and organizational capacity to carry off these plans? Many times cooperatives have accomplished a well-planned expansion or move, only to find that no one really knows how to operate the store with its new volume. The capacity issue focuses in on financial capacity, on management skill, experience, and depth, and on organizational issues. Some questions include:
• How will the plan be carried out? Is the plan achievable?
• Will any organizational changes be needed? One food cooperative expanded by 50 percent, but left the old staffing structure in place. The structure was inappropriate for the new staff size, leading to frustration of the workers and significant cost overruns for payroll as a percent of sales.
• Are the major threats and most sensitive variables identified?
• Are appropriate financial reserve mechanisms in place?

TECHNIQUE

You should look into the technique and understand the model that was used. Look at each of those assumptions. The entire board may not look at the assumption of each line in the financial projections, but the financial committee or the planning committee should.

- Who wrote the business plan?
- Who had input and who participated?
- What data base were the figures drawn from?
- Are historical numbers used and used correctly?

VANTAGE POINT

Several of those interviewed had comments such as these: The board perspective is one the management can't get because they are in the middle of it. Management is involved with the pieces; the board can look at the whole.

Tom Condit mentioned that directors usually do not know as much about the business as management does. The directors should ask lots of questions about the areas they do know something about to determine whether the people that put together the plan know what they are talking about. Mr. Condit notes that this is a good reason to have a diverse board: someone with knowledge of marketing, another person with a background in finance, etc.

MANAGEMENT CAPACITY

Marsha Krassner looks at business plans for a living. Her first comment about business plans was "management, management, management." She mentioned that no matter how skilled the board of directors is, with poor management the plan probably will not work.

Others suggested that if management is not willing to stay through the time period of the plan, the board is in a poor position to assume that the plan can be carried off.

Ben Rosen, quoted in the *Inc.* article, says that the details and presentation of the plan are not that important to review in considering making an investment. Instead, the primary focus is to get a sense of how realistic the managers are about the problems they face, how savvy they are about the business, and whether the management team is any good. Says Rosen, "We're really investing in people."

HOW TO USE THIS INFORMATION

The following guidelines may be helpful to directors, management, and staff in preparing or reviewing a business plan:

Resources

Listed below are publications, books, and articles that would be useful for management and the board to review and use as resources when building and critiquing a business plan.

"The Best-Laid Plans," Larson, Erik; *Inc. Magazine*; Feb. 1987.

Organizational Dynamics; Kotter, John; Addison-Wesley Publishing Company, Reading, MA; 1978.

Top Management Strategy; Tregoe, B. and Zimmerman, J.; Simon and Schuster, New York, NY; 1980.

Strategy and Policy; Bates, D. and Eldredge, D.; Brown Publishers, Dubuque, IA; 1980.

Business Planning Guide; Upstart Publishing, Dover, NH; 1983.

Business Planning for Cooperatives; Swanson, W., and Myers, M.; Cooperative Development Services, Madison, WI; 1991.

- When putting together the first draft of a business plan, management and staff may want to review the questions and reference materials included in this article to make sure areas of potential concern for the board will be addressed.
- To allow sufficient time, a formal planning process should commence about six months before the board is expected to review and approve the plan.
- The finance committee should review a rough draft of the plan several months before the adoption date for the plan. The committee can use the questions from this article to examine the rough draft of the document and ask for more information from the staff. Staff would then be able to conduct any additional research required and redraft the plan, which would be presented to the entire board for approval.
- The board may want to refer to the questions and resources at this time.
- At a future board meeting the final plan would be presented to the board for formal approval.

Management Reporting

By Rick Stewart

This article deals with management reporting to the board of directors. Before I jump into specifics, however, let me establish a set of assumptions to work from. Of course, these are *my* assumptions. But in any case, articulating the assumptions in your cooperative concerning board-management relations is essential for discussing what is expected in management reports.

Your manager is your chief executive officer, whether called that or not – hence I use the term "CEO" throughout. (And since these CEOs often are women, I've used the female gender throughout.)

Assumption One: As a board member, I work for my CEO.

While it is true the board of directors hires its chief executive officer, I believe the job of an individual board member is actually to work for the CEO. If this is indeed the case, it is very important for the board to have a chief executive officer they believe in and want to work for. For this to happen, the goals of the CEO must be the same as the goals of the board, as articulated in the corporate mission statement, and the board must have complete confidence in the ability of the CEO to achieve these goals, as demonstrated by past and current performance.

Assumption Two: If you do not like your CEO, you will fire her.

This seems obvious. In reality, many boards choose to fight with their CEO instead. You won't catch me on one of those boards. Antagonistic personal relationships are not something I volunteer for. Change the CEO or change the board member.

If your board as a whole only has wavering support for your CEO, the issue can be made clearer by giving her a $10,000 raise. I call this a win/win raise. If she is good she deserves it, she will appreciate it, and she will produce more because of it. If she is bad, it makes firing her a whole lot easier.

Assumption Three: Being a board member is a volunteer position.

Although you may be receiving money for your service, the money has nothing to do with why you are serving on this board. As a volunteer, your generosity should not be exploited. Your board work must be structured to allow you to make the greatest possible contribution with the least amount of time spent on your part. Boards are not training campuses for martyrs.

Assumption Four: My major responsibility is to assist my CEO in making good decisions.

Note that this is not the same as making good decisions myself. Since I trust my CEO, my role is simply to provide, during the decision making process, as much insight and critical appraisal as my training and experience allow. Ultimately, I let my CEO make the actual decision. If the end results of the CEO's decision are good I am glad I let her do it her way. If the end results are bad we fire the CEO.

Assumption Five: All the important decision have been made before the board meeting starts.

I am a rubber stamp proponent. A good CEO will not bring important proposals to a board meeting unless they are going to pass: why waste the time? All the passionate arguments have already been made before the meeting starts, and everyone is fully aware of the pros and cons. People have made up their minds. Now is the time to tolerate brief discussion, vote, and accept victory or defeat graciously. Board meetings can be a pleasant experience.

Once we have structured a board/management relationship we can live with, it is time to ask the question: as a board member, what reports do I need from management in order to do my job well?

MANAGEMENT REPORT CONTENTS

In order to maintain an overview of the business I want a regular management report in a standard format. Since board members are busy people and your CEO is an effective manager, our board only needs four regular meetings a year – shortly after each quarterly financial statement is released. For each meeting I want two to five written pages of comprehensive management commentary.

The contents of the written management report should answer seven fundamental questions for every key area of the business:

- What happened (during the last quarter)?
- How does what happened compare to what happened last year (same quarter last year)?
- Why was there a difference between what happened the last time and what happened this time?
- How does what happened compare to what was expected to happen?
- How does what happened compare to what is going to happen in the future?
- If results are less than projected, what is management doing today to make sure things are different tomorrow?

Directors need reports on each of several key areas. The definition of a key area is one that is critical to the successful realization of the corporate mission statement. Typical key areas of a business include financial performance, human resources, marketing activities, product or business unit positioning, social responsibilities, legal and regulatory issues, organizational structure, and industry trends.

For the method of reporting, I propose the term "Reporting by Exception." For the most part I want Reporting by Exception in each key area: If things are as they are supposed to be, please tell me in one sentence. If they are better than they are supposed to be, feel free to use two or three sentences. If they are worse, I want a paragraph – a very good paragraph.

Since financial performance is the cornerstone of the business, I prefer a separate financial report from management, written in the same style as the comprehensive management report. It should take me through the financial statement in sequential order and highlight everything I need to be aware of in order to understand the financial position of the cooperative. The financial report should consist of an income statement which includes current quarter and year-to-date figures, both compared to budget and to last quarter/last year-to-date, and a balance sheet with a comparison to budget and to one year ago.

By way of standardized management reports, I now have everything I want. With the papers in my hand, I will be able to assess the performance of the business and of my CEO. I will know what areas demand my further attention and which ones I can safely ignore for another three months. I will know how much risk is ahead and what is being done to manage it. I will be able to realistically demand that the board meeting end after two hours.

A few of my beliefs about management reporting do not fit neatly into the scenario I have presented above. One of them has to do with good news/bad news and who delivers it to me as a board member. Good news I like to hear from everyone. Any time of day or night is fine, write me a letter or give me a call. Bad news I want to hear straight from my CEO – first, in person, always. If nothing else, I want a one minute phone call: "Rick, the state inspector just found an eight-inch cockroach and chained our front door shut. I'm working on it, bye for now." Don't let me hear it from the checkout clerk first.

Another expectation of mine is for my CEO to accept full and total responsibility for everything that happens. I want explanations for why things went wrong – I want no excuses. When my CEO tells me why things went wrong, I want her also to tell me how she is gong to make them right again. In return, I never flog my CEO with past problems and I promote her in public, including at board meetings, as a leader who has my full respect and support. After all – she does, and I want people to know it.

General Manager Evaluation

By Carolee Colter and Karen Zimbelman

One morning Tim found a note in his mail box at the co-op when he arrived for work. It read, "We'll be here to do your evaluation at 4:30 today. See you then." It had been nineteen months since his last review. He was aware that his evaluation was being discussed — he knew several staff members had received a form for rating his performance and there had been some confidential meetings recently. But no one had asked him for a review of his own performance. As the time approached, he grew more apprehensive. On what criteria would he be evaluated? Who would be at this meeting? How should he prepare? He had nothing to review in advance.

How would you feel in Tim's shoes? Is this the way you want co-op employees to be treated? Does this sound to you like a working relationship based on trust and respect? As a director, would you be satisfied with a general manager who handled employee evaluations this way?

In fact, Tim is the general manager of a co-op; his evaluators are the members of a co-op's board of directors, and the scenario described is all too typical. As usual, the board of this co-op is made up of a diverse group of busy people, most of whom have very limited experience in business or as supervisors. Moreover, evaluation by committee, without leadership or oversight by one director, often leads to a less than ideal experience.

A BOARD RESPONSIBILITY

Providing feedback, informally and formally, to the general manager on his/her performance is at least as important as hiring the right person. Without a doubt, it is one of the most important functions of the board — and one of the board's responsibilities that simply can't be delegated. A good manager evaluation completes the accountability loop — a loop that begins with members electing directors to set direction and monitor the co-op for them, continues with the board hiring a manager to handle operations, and ends with the board providing feedback on the manager's performance.

Of course, managers deserve the professionalism, time, and deference you expect them to give all co-op employees. A constructive evaluation process will have clear and well-planned steps. The acid test of a good evaluation is this: would all of the directors and the manager be able to succinctly summarize the key points and agreed-upon goals from the evaluation five months later?

A general manager's evaluation isn't worth the paper it's written on if it doesn't identify areas of strength and areas for improvement, set goals for future performance, and, ultimately, improve communications between the board and the manager. Furthermore, evaluations can help a board guide the professional development of a general manager they wish to retain for the long term. Just as importantly, in those rare cases where a manager is unmatched to the job, a thorough review can make clear to the board and manager alike the need for change of management.

Make no mistake – manager evaluations aren't easy. The logistics are all the more awkward because there are so many people involved. But *how* the board handles the review is just as significant as what it says; manager evaluations set the tone for the co-op's handling of all personnel. The basic bias of a board toward a manager is reflected in the way a manager's evaluation is handled. If the board doesn't trust the manager, that mistrust will be revealed in the approach used by the board in conducting a review. A wise board will recognize when it needs to get outside help to do the job right.

WHAT MANAGERS LIKE AND DON'T LIKE

In an informal survey of co-op managers, most expressed the following:

• their boards are conducting annual evaluations, though they are often several months late

• the evaluation process often includes an extensive collection of input from co-op employees

• most evaluations aren't traumatic to the manager, though uncertainty about what to expect can be stressful and distracting, and

• managers often have to ask for more specific information or written documentation in order to clarify the results of an evaluation

All managers surveyed sincerely expressed appreciation that they are getting some feedback — many remember years without evaluations and are happy that those days are past. In addition, most managers appreciate the willingness of their boards to consider suggestions for improving the evaluation process. Most are pleased that some input is collected from employees, though how these comments are used in the evaluation process and how they are relayed to the managers can be confusing or frustrating.

What managers dislike most about their evaluations are the following:

• surprises
• no synthesis or summary of comments or ratings to reflect the board's overall opinion
• apologies for sloppy evaluations
• receiving nothing in writing to review before meeting with the board or a committee
• a secretive or rigidly orchestrated process
• decisions made without any consultation or discussion with the manager
• no written summary of evaluation results, and
• too much focus on operational details instead of on meeting and setting goals

The wise board will work diligently to make sure that its review of management performance has none of these characteristics.

AN IDEAL EVALUATION PROCESS

When managers were asked to describe an ideal evaluation process, they focused on relatively simple things. Managers universally want evaluations that are in writing and materials that they can review before having to discuss or react to them. They want a dialogue, rather than just a monologue from the board. And, in addition to a procedure that is clear in advance, most managers like to be involved in preparing the forms and process to be used.

Concerning employee input, most managers find it very valuable to know what employees think and where they would like to see changes. However, many managers described forms or methods for collecting and reporting employee comments that overemphasized personal gripes and unconstructive grumbling about past management decisions. Managers would like to see employee opinions collected through some sort of regular survey process and summarized to highlight general trends, either by the co-op's personnel manager or by outside professionals.

Managers find it difficult to grasp the overall results of their reviews when all evaluators' comments are simply presented as a compilation — not synthesized to reflect the total and agreed-upon opinion of the board. To managers, seven comments that range from "this is an area of strength" to "this is unacceptable and needs improvement" don't provide much guidance. Instead, managers would prefer that the board work out the differences in opinion among directors and agree upon a clear response to items in advance — to reflect the totality of the board's perspective so that managers can make changes accordingly.

Lastly, managers consistently expressed a desire for their evaluations to be focused more on goals and objectives and less on personalities and operational details. Boards put far too much emphasis on the relationships and inner workings of the workplace and not enough on business results. Managers welcome goals or guidelines from a board and prefer that boards stay away from the daily events, operating matters, or specifics about how to achieve goals.

CONSTRUCTIVE EVALUATIONS

Fortunately or unfortunately, the manager evaluation process clearly reflects the quality of the working relationship between the co-op board and general manager. When evaluations result in surprise, suspicion, or unilateral action, the board/management relationship is almost always already weak and continues to suffer. Both directors and the manager can affect the experience and the outcome of an evaluation positively.

Constructive general manager evaluations are:

• in writing
• conducted at least annually
• focused on job performance not on personalities
• candid and honest
• planned with the involvement of the general manager
• based on a clear and agreed-upon process
• based on previously established goals wherever possible, and
• focused on future areas of action or goals for improvement.

Every director must be involved in the evaluation process, and the entire board must agree on the final overall comments and ratings to be communicated to the manager. Finally, the outcome of the evaluation process must be clear and easy for all directors and the manager to summarize.

In every co-op surveyed, the manager evaluation process concludes with a discussion of and adjustments to the manager's compensation. All managers surveyed were satisfied that a review of their performance was linked to a reassessment of their remuneration. Some boards have found it helpful when managers take the initiative to research and propose a compensation package that is based on achievement of the goals set through the evaluation process. Some even find it useful to build a performance-based compensation plan on those goals.

The experience of Sally, general manager of a nearby co-op, was radically different from Tim's. She already knew what to expect before meeting with two board members to discuss the evaluation results. She had discussed the process to be used with the board. She had completed a self-evaluation. She was given a copy of the evaluation form showing the board's rating on each item and a summary of key points in advance of the meeting. This gave her a chance to consider the suggestions the board had and to prepare her thoughts where she disagreed. She wasn't apprehensive because she knew which of last year's goals she'd been able to accomplish and was well aware what on-going concerns the board had. And, the results of a survey of employee opinions about the workplace and Sally's overall management had been reported to the board and management last quarter.

Sally and the two board members were surprised at how similar the goals proposed by the board were to the ones Sally drafted for herself. After agreeing on four major goals, the three of them reviewed a compensation proposal that Sally had drafted based on discussions with the board. The three left feeling enthusiastic about the next year as well as the report and proposals they would take back to the board.

A co-op board of directors has a critical role as the supervisor of the general manager. In the words of one co-op manager, "The board must understand the responsibility they have to help me do a better job, just like the responsibility I have to all co-op employees." This supervisory role is one that includes regular, constructive feedback as well as formal, professional annual evaluations. Boards owe it to general managers they want to retain and support to handle an annual performance appraisal thoughtfully and competently — and to get help when they need it.

Steps for Manager Evaluation

These steps, beginning about three months before the evaluation process is to be completed, will help guide a board through a clear and constructive process.

1. Review the procedure to be followed and outline the basic steps. Refer to notes from previous evaluations. Plan administrative details (such as who will compile evaluation comments, who will meet and discuss the results with the manager), and prepare a timeline for the whole process.

2. Discuss the upcoming evaluation steps and forms with the General Manager. Prepare materials. If forms or specific steps need to be revised or developed, ask for the manager's input or for the manager to draft something for the board to adapt or approve.

3. Distribute evaluation forms to all directors with clear instructions regarding when and to whom they must be returned. Provide a form to the manager to complete as a self-evaluation. Give directors 2-3 weeks to complete the forms. If the board wants input on aspects of operations with which it's unfamiliar, collect such comments from department managers using different questions.

4. Compile comments and ratings from all directors and the manager (done either by one director or by an outsider). Include the manager's ratings and comments – marked so all can identify those items.

5. Copy and distribute to all directors a compilation of all directors' verbatim comments and the manager's self-evaluation. Compile management team comments and ratings. All directors review this compliation and prepare to discuss what the overall ratings and primary comments in each area should be.

6. Directors meet in executive session (all directors, and only directors, present) to review the compilation. Directors discuss and reach agreement on the board's overall statements and ratings, including general goal areas. (Optionally: Ask management team members to meet, discuss their ratings, and reach agreement on all items as well.)

7. Prepare written materials that provide the board's overall ratings and comments and summarize key points. Give a copy to the general manager.

8. A board committee or designated directors meets with the General Manager and reviews all materials. Discuss and agree on specific goals for the next year.

9. Prepare final agreements and documentation of the evaluation results for reporting to the board. Make sure that copies are included in the manager's file.

10. Note improvements to form and process for future years.

Assessing Board Performance

By Karen Zimbelman

Without a doubt, a co-op's board of directors plays a key role in the co-op's success. Yet too often, an assessment of the board's performance is overlooked or ignored. Why is this? What can conscientious boards do about this lack?

It was the end of a long day of board training. Everyone had worked hard — with good results. Though discussions had been wide ranging — from board liabilities to conducting management evaluations, from assessing member benefits and capital requirements to planning the co-op's future — there was one clear theme. What is the co-op board's responsibility and how does a board conduct its business effectively? As the day proceeded, a clearer picture emerged of the complex yet vital leadership role that boards play in co-op governance.

But one director still wasn't satisfied. As the session entered its final hour, she asked, "What about us? How do we measure our performance as a board?" After all, she reasoned, shouldn't the board hold itself to the same standards it holds for all other areas of co-op operations? Wouldn't the same pattern — planning, goal setting, implementing, and then evaluating — apply to the board's work? Couldn't directors provide members with a more meaningful measure of accountability and bring the governance process full circle if the board's performance were subject to some sort of formal appraisal?

This director is not alone. Many responsible co-op board members have wrestled with the question of how a board can effectively gauge its performance. Unfortunately, a formal process for assessing board performance is very rarely included on a board's workplan. However, conscientious board members need not bypass the idea of a review of the board's systems and scope of operations.

WHAT IT DOES AND DOESN'T DO

The arguments in favor of some sort of regular, formal assessment of board operations and activities are compelling. To begin with, such an appraisal provides the board with a chance to assess its areas of strength and weakness. Additionally, a review of this type can provide a board with an invaluable yardstick by which it can prioritize its activities for the future. The results of a board evaluation can also provide worthwhile information to the co-op's nomination committee for recruitment purposes. Finally, such an assessment can serve an educational and consensus-building function — by clarifying and defining the overall standards of performance for the board.

In other words, a formal assessment provides the board with a structured means to review its work. The discipline of a formal appraisal encourages all directors to reflect on what the board has accomplished, what it should be doing, and how well it operates. Beyond just producing data on a board's relative strengths and weaknesses, such a review can optimally result in goals for the board.

Some directors are uncomfortable with the idea of evaluating a board's performance. After all, directors are voluntarily contributing their time and efforts to the co-op. Let's clarify from the beginning what is and isn't involved. A board assessment evaluates the performance of the board as a whole — whether the board is fulfilling its responsibilities, providing members with meaningful accountability, and spending its time effectively.

A good board appraisal will, in general:

- review the board's systems (e.g., committees, meetings, officers, written documentation, etc.);
- measure the quality of its basic functions (e.g., setting basic standards of performance without interfering with operations, evaluating management performance, analyzing financial reports, monitoring key membership functions, etc.); and
- assess its overall role in the organization (e.g., effectively dealing with controversy, communications with members, overseeing elections, etc.).

BOARD EVALUATION

While such a review may provide directors with a chance to reflect on their own performance as board members, it's inadvisable for a board evaluation to be a personal performance review. Directors should not be asked to assess the performance of other individual board members; better for directors to reflect on the overall performance of the board as a whole. A few questions asking directors to comment on their own contributions to the board (e.g., being prepared for meetings, working to improve one's understanding of the co-op, being impartial in considering issues) are appropriate. However, the primary value of those questions is the personal reflection they encourage of all directors.

WHAT CRITERIA TO USE

A written evaluation form will provide the board with the best method for conducting a comprehensive board appraisal. Simplicity has great value when collecting a lot of input. Keep the questions simple and clear. Each question should ask about one item or aspect of performance. Most similar questionnaires use a simple rating scale — such as 5 to 1 (5 for outstanding or excellent performance; 1 for performance that is non-existant or needs improvement). It's also advisable to allow directors to indicate where they don't know the answer to a question.

Depending on how much detail you want to collect in such a review, directors can also be allowed to write in comments on individual questions or in topic areas. While comments can be very insightful and can provide directors an opportunity to expand on an area, they can also be very time-consuming to compile and to review. Be sure you will be spending the time reviewing comments if directors take the time to write them.

Perhaps most significantly, the specific questions on an assessment form should be based on the best practices of an effective board. They should comprehensively cover all areas of board responsibility and outline the most productive systems a board can employ. It's OK to ask one or two questions about improvements in the board's systems and activities. However, directors should be focused on rating the board's performance against the ideal, not against past practice and not against other board's activities. This will also mean that reading the form will provide directors with an idea of what the board should be doing — how it would optimally use its time — as well as a tool for measuring the board's current practices.

HOW TO PROCEED

Once a form is prepared, it should be distributed to all board members. While there are some who advocate having management complete a board appraisal form, others feel it is not appropriate. The directors are elected by members to direct the co-op's overall operations, including hiring management. While management undoubtedly has a perspective on the board's effectiveness, it is arguably not a suitable forum for management comment on board practices. Management involvement as the board sets goals for the future — including goals for improving its own performance — can be valuable in the right situations.

Every director should complete a form and every effort should be made to collect input from all directors. If such a review is to be of value, 100% participation by all directors should be the goal. Even for larger co-op boards (with 11-13 directors), full participation is neither unrealistic nor onerous. For such an exercise to be fully useful, boards will want the benefit of all directors' perspectives.

Next, someone should compile all the data and copies should be distributed to all board members. But this is not the end. Indeed, the true value of such a review depends a lot on what happens to the data generated by such a survey. The entire review process is useless if it ends with the collection of data. One or two board members should review the data and prepare an initial analysis for the board. Then, the entire board should spend time reviewing the data and use it to discuss priorities for future board work — setting goals for the board for the next year. A committee (probably the Executive Committee) will also want to follow up on particular low-scoring areas.

In summary, six steps for an effective board assessment are:

- Gain commitment by all board members to the process.
- Plan the process — including data analysis and follow-up.
- Create the form and the criteria for appraisal.
- Gather the information — distribute, collect, and compile forms.
- Discuss and interpret the data.
- Follow-up: develop a work plan for the board, identify areas for change, set goals.

WHERE TO GO FOR HELP

Naturally, some boards find that it can be valuable to use outside assistance for such a review. This is especially helpful if there are tensions among board members or controversy about the assessment process. Such help can range from reviewing board systems and practices directly, to just analyzing the results of the appraisal. An outsider can also help a board from being hypercritical and can make sure an assessment highlights accomplishments and strengths, as well as areas for improvement.

Sample board appraisal forms can be found in a variety of resources — from books on boards (especially those on non-profit boards) — to those used by other co-ops. *The Contemporary Director* has a short sample specifically for co-op boards, but it is not very comprehensive, and most others will require some adaptation.

Perhaps the best resource for boards interested

How Would Your Board Be Appraised?

Here is a sampling of the questions included in the new board appraisal form developed by the Cooperative Grocers' Association of the Northeast.

BOARD ORGANIZATION AND MEETINGS:

- An annual calendar of board activities and key decisions is established and followed.
- The board has an active and effective committee system with charters for all committees.
- Meeting packets include written agendas and clear written reports with recommendations or options from the General Manager and committees.
- Board meetings are the right length and generally accomplish what needs to be done.
- Board discussions allow for all views to be aired and deliberated thoroughly and respectfully.

BOARD/MANAGEMENT RELATIONS

- A written job description for the general manager has been approved and is reviewed regularly by the board.
- The GM evaluation provides clear feedback from the board as a whole, and results in goals for the GM.
- The board provides overall personnel guidelines to management and remains uninvolved with specific personnel matters.

PLANNING

- Board decisions are made consistent with the purpose, values, goals and objectives of co-op.
- Each director has an understanding of the market forces affecting the co-op.

The board monitors operational and organizational performance against goals, budgets or key indicators.

FINANCES

- The board ensures that capital and operating budgets are established annually and in a timely fashion.
- The board selects an outside auditing firm to conduct an external audit or review each year.
- All board members are able to read financial statements and analyze basic trends.

MEMBERSHIP ACCOUNTABILITY AND GOVERNANCE FUNCTIONS

- The board has established goals with respect to membership (e.g., the percent of sales to members, number of new/terminating memberships, levels of membership investment, percent of members voting in an election, etc.)
- The co-op's capital plan creates an adequate capital base for the co-op's current and future needs.
- The board actively solicits member input on decisions which are the board's responsibility but which affect the long term direction of the co-op (such as through meetings, surveys, focus groups, etc.)
- The board ensures that an annual report is presented to members that clearly describes the co-op's operations and financial status.

BOARD LEADERSHIP

- A written code of ethics for the board has been established and is approved annually by the board.
- Once the board has reached a decision, all directors stand behind and support that decision.
- Annual board elections present members with more well-qualified candidates than there are vacancies.
- All directors regularly use the co-op's services.

INDIVIDUAL DIRECTORS

- I am thoroughly familiar with the background material sent to me prior to board meetings.
- I openly and impartially consider all issues being considered by the board.
- My views have had adequate airing and respect during board deliberations.

in board assessment is a form developed by the Cooperative Grocers' Association of the Northeast (CGANE). With the support of the NCB Development Corporation, CGANE prepared a standardized board appraisal form and system. This form offers 85 questions in eight sections (*see previous page*). Directors rate board performance on a numerical scale, and CGANE then provides the board with averages and standard deviation scores on all questions and in all topic areas. Boards can also elect to have an analysis provided with the data — a report highlighting areas of strength and weakness. Eventually, the group hopes to develop a data base that will also provide boards with some comparative statistics.

HOW ABOUT IT?

A formal board assessment is an excellent way for a board to reflect on its achievements and the fulfillment of its overall responsibilities. Such a review can also help a board identify areas of weakness and set goals for improving its own systems and work. And, a comprehensive evaluation process can help focus directors' attention on appropriate areas of responsibility and priority board actions. That is, it can be instructive in reminding all directors of what the board needs to accomplish and how it should be going about its job.

Ideally, a board appraisal can be a valuable exercise each year, as retiring directors' terms expire and just before new directors begin their service. Most importantly, a board assessment should provide guidelines for effective board *and* director performance. A board appraisal should answer the question, "Are we as a board contributing to the co-op's effectiveness?" A constructive review process goes beyond just collecting data on a questionanaire. An honest and frank assessment of board performance and practices should serve as a starting point for discussions about how to improve the board's systems and overall effectiveness.

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Ordering Information:

Copies of *Challenges to the Cooperative Board of Directors* may be ordered from Cooperative Grocer for $10.00 each, discounted to $8.00 each on orders of five (5) or more copies. See address below.

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