

Role of Board of Directors in an Expansion Project

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Expansion projects highlight the need for directors to work together to ensure that the co-op has a strong governance system, that the board can do its job well, even with different directors serving on the board over time, and the need for effective, empowered and accountable relations with the GM.

With an expansion comes change and risk. As the accountability link between owners and operations, the board must understand and be satisfied with how the it controls, delegates and evaluates through its policies and monitoring process.

Expansions often symbolize a co-op's progress on a shared vision: the delivery of value to its members. In addition to providing accountability, the board also provides leadership by developing and demonstrating clear alignment with management and an increasing level of commitment as an expansion project matures.

These concepts are described in more detail. Ongoing training and support is encouraged for effective governance.

1. Learn, Listen and Lead

- a) As trustees facing an expansion, the board must be aware of external and internal issues that relate to the co-op's future and capacity for change. A program of ongoing learning, especially on topics and trends centered on the co-op's purpose, will help the board have the wisdom and knowledge to be an effective judge of expansion plans that are meant to deliver value and benefit to the member/owners.
- b) Creating ways to actively listen to members in order to better understand their diverse values and priorities prepares the board to respond to plans for the ongoing development of the co-op.
- c) Leading, with the benefit of studious learning and attentive and respectful listening, is done both by the board writing down its expectations (policies) and by acting in a manner that instills confidence in its ability to lead. Directors must see how the board is accountable for all that goes on in the co-op and its inevitable need to delegate authority to management. Careful attention to the accountability process of having expectations, assigning authority and evaluating performance establishes clear roles and responsibilities while providing an empowering opportunity for management.

2. Commitment, Engagement and Alignment

- a) Commitment to a shared vision begins with the articulation of the co-op's purpose, the results the board expects to be produced on behalf of the member owners. The board needs to be able to support expansion plans as a reasonable approach to produce those results. If agreement is established that the board's policies will be met by an expansion project then the board will and must own any project plans as if it produced them itself as the project begins and moves toward completion.

- b) Engagement with member/owners centers on leadership, accountability, and economic participation; engagement with management, whether formal or informal, dialogue or reporting, provides the ongoing support and assurance that, from the board's point of view, the project is a reasonable and a prudent use of co-op resources.
- c) Directors might consider reflecting on their own comprehension of the circumstances by imagining being asked the following questions by a member:
 - 1) Do we understand and are we comfortable with...
 - a) ...how the management-created strategies, plans and projects deliver value to members as described in board-stated policies?
 - b) ...the scope and risks of the project?
 - c) ...the dimensions of feasibility?
 - d) ...the process used to proceed with the project?
 - e) ...the level of member engagement designed into the planning process for the project?
- d) Alignment is necessary to accomplish a shared vision. The board drives this train by establishing policy providing a target for organizational accomplishment – the desired outcomes – and establishing authority and controls for operational decisions. In an expansion project it's critical that the board and management are able to maintain alignment, even in the face of ever changing circumstances. Some boards may find it helpful to affirm and record this alignment via a series of board communications to itself and the owners, marking key milestones in a project's development.

3. Control, Delegate, Evaluate

- a) The board needs to establish policies that provide clear expectations for itself and management. Within the Policy Governance model, these policies would either be formed as Ends Policies, describing the expected results and the recipients of those results, or as Executive Limitation policies, which describe unacceptable conditions and activities that are to be avoided by management. Both kinds of policies follow the "broad to specific" structure, which allows the board to decide how specific it needs to be in controlling management authority. The board stops writing policy at the point it is willing to accept any reasonable interpretation of its words.
- b) The board is in the controlling position and must give away authority in order for the manager to function. How much control the board decides to assign to the manager is reflected in its policies. In the case of the limitation policies, the manager begins his or her work at the point the board stops writing policy. If, for example, the board stops at a broad level regarding avoiding fiscal jeopardy, the manager must demonstrate how plans and conditions avoid his or her interpretation of fiscal jeopardy. If the board continues to be more specific in this area and defines a certain level of indebtedness as a boundary, then the manager must work within that pre-established limit regarding indebtedness, and must still

account for avoiding fiscal jeopardy.

“Big decision points” in an expansion process often come in the form of contract signings: leases, purchase agreements, financing agreements, and contractor and architect agreements. The board, through its Executive Limitation policies, controls who is responsible for making these decisions. If the board limits the GM’s authority in areas like these then the board has retained responsibility and must make these decisions. Whether the responsible party is the board or the GM, the board should expect and check that proper care has been given in preparation of entering into these agreements. These decisions usually build on one another, with one leading to another, then another, and often call for an increased level of commitment. It’s important that the board and GM can see the path of earlier decisions as well as anticipate future ones.

- c) If the board writes policies to provide for accountability, it must also monitor them for assurance that its expectations are being met. This is a rigorous and thorough process, and yet must be based on the fairness of applying the reasonableness test to management’s reports. Are the GM’s interpretations of board policy reasonable? For an expansion project, the board would expect to see sound rationale and third party professional support for analysis and projections. This monitoring process will provide directors with an excellent opportunity to judge using the Business Judgment Rule that allows directors to rely on the advice of those a reasonable person would rely on.

The expansion process also emphasizes the board’s need to be clear about the agreements it has made with itself about its own behavior. These agreements should be written down in its board process polices. Examples include setting the board’s overall leadership focus and tone, the board’s connection to member/owner values, how the board maintains discipline regarding doing its own work, and how it ensures appropriate handling of confidential information.

Please provide your input and feedback on this article to
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