

## The Importance of leadership planning for the future of your co-operative

### ***Evaluating Board Performance***

The following paper was prepared by Bob Cropp, Director, University of Wisconsin Center for Cooperatives in January 1996. It is relevant to all Boards, not just co-operatives.

The greatest threat to the survival of a cooperative is the Board of directors.

While this is a strong statement, it also emphasises the fact that boards of directors are ultimately accountable for policies, practices, and procedures that will determine whether the cooperative will live or die.

A March 1994 report by the Plunkett Foundation -- Developing Directors of Cooperatives and Other Similar Enterprises -- recommends that boards

...recognize that the success of any business ultimately depends upon the capacity of its directors to provide the vision and direction needed not only to survive, but to develop and prosper. Therefore, make a commitment to develop the capacity of the board of directors to improve both their personal and collective contributions to the overall development of the business.

What is your job as a Board member? The job of the board of directors is to improve the bottom line for members. In order to accomplish this, the board must make management of the cooperative better.

Although it may be easier for a cooperative to succeed with good management and a weak Board than with a good Board and weak management, even the best management eventually will falter without Board support.

Strong managers like strong Boards.

The Board has as its role a "change agent." This differs from the traditional judicial performance of making "go" or "no-go" decisions on management proposals. A Board can develop ideas on its own, but this requires an atmosphere conducive to change and Board members able and willing to go beyond traditional evaluative or judicial postures. Imagination, innovation, and willingness to try new concepts and ideas are attributes vitally needed in many boardrooms.



## User benefits vs. return on equity investment

User-benefits versus return on equity investment are resulting in structural changes in cooperatives:

1. Conversions to Investor Oriented Firms.
2. Move to proportionality -- capital more accordance to use; lessens equity redemption problems.
3. New cooperative structure -- new generation cooperatives:
  - value added;
  - up-front capital;
  - closed membership; and
  - appreciable and transferable property rights.

Mike Cook's review of governance of Investor Oriented Firms indicate three major issues:

1. How well are boards interacting and communicating with investors?
2. How independent and objective are the compensation and nominating committees relative to inside influences?
3. Have boards begun evaluating their own performance?

Boards need to understand each other in terms of values, beliefs, and purpose. This session is "Evaluating Board Performance," or we could refer to this as a "Board of Directors Audit."

Do you represent a co-operative that does or has done a Board evaluation?

Some of the important jobs of a co-operative Board of directors are to:

- evaluate management;
- evaluate the co-operatives financial performance;
- evaluate the membership and structure; and
- periodically step back and evaluate the co-operative's basic mission and goals.

Evaluation is a way of checking your progress against your plans and visions. For the same reason, it is important for the Board of directors to evaluate its own performance on a regular basis. After all, shouldn't the Board hold itself to the same standards it holds for all other areas of co-operative operations?

Directors could 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.

## Why board evaluation?

1. Provides the Board with a chance to reflect on and assess its areas of strength and weakness.
2. May provide the Board with an invaluable yardstick by which it can prioritise its activities for the future.
3. Can serve an educational and consensus-building function -- by clarifying and defining the overall standards of performance for the Board.
4. A formal appraisal encourages all directors to reflect on what the Board has accomplished, as well as on what it should be doing and how it works. Such a review can optimally result in all



directors contributing to setting goals of the Board. The commitment of all directors to the Board's priorities and to improving Board effectiveness makes those goals all the more likely to be completed.

5. Being a responsible board member is hard work and is often a thankless job. An evaluation which points up strengths as well as weaknesses can give a Board a sense of its own competence and accomplishment as a group. This is a good foundation on which to build positive change.

Value of time:

- less time on the weather;
- asking bottom-line questions;
- management's role in member needs; and
- board's role in member needs.

Challenges to co-operative board:

- return on management time;
- return on board time;
- political stability; and
- governance as a leader.

## **Why the increased interest in board evaluation?**

1. More accountability expected by:
  - members/stockholders,
  - government agencies, and
  - public in general is interested in business ethics.
2. Stricter enforcement of laws.
3. More lawsuits against boards of directors.
4. Great consequences for mistakes made by the board.

Board evaluation should not be a personal performance review. A board assessment evaluates the performance of the board as a whole.

## **Who should evaluate the Board of directors?**

There are a number of possible methods for evaluating the Board:

1. Board's self-evaluation: All board members participate. An internal evaluation can be a good process. As a board, you have an opportunity to know your own strengths and weaknesses better than someone who has only limited contact with the board.
2. A committee of the board does the evaluation.
3. A non-board committee does the evaluation.
4. The evaluation is done by an outside consultant. An outside consultant may be particularly useful if a board has never evaluated its performance before. The consultant can provide some objective criteria, offer a perspective on the co-operative board standards, and can help the board set up criteria on which to base future evaluations. An outside consultant may be useful



where there are emotionally-charged issues, or where the board's internal process has not been the best.

### **Should management evaluate the Board?**

Management undoubtedly has a perspective on the Board's effectiveness. However, it may be hard for an employee of the Board to objectively analyse the performance of his/her boss. If management evaluates the Board, the Board needs to recognize that they may receive a different set of answers from their own self-evaluation. A mature Board may effectively use this manager evaluation to strengthen Board performance and Board/management relations.

### **What should be done with the evaluation?**

A compilation of all directors' responses to questions (or outside consultants' responses) should be prepared and copies distributed to all board members. But this is not the end. One or two board members could review the data and prepare an initial analysis for the board. But more importantly, the entire board should review the data and then discuss priorities for future board work -- setting goals for the board for next year or directing a committee to follow-up on low-scoring areas.

A board evaluation should provide guidelines for effective board of director performance. It should answer the question, "Are we as a board contributing to the co-operatives ability to meet its purpose?"

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.

### **How often should the board be evaluated?**

The board may choose to evaluate itself annually or have an outside consultant conduct the evaluation annually. Rather than annually, every other year may be viewed as adequate.

Starting an evaluation procedure.

The first step in starting an evaluation procedure is to set standards for:

1. Selection procedure for directors. This should not be left to chance at the annual meeting. The selection procedure for the Board should be in the bylaws or in the policy manual.
2. Duties of directors. If the Board has no job description, one should be developed or adopted.
3. Performance of directors. Many cooperatives currently have bylaw or policy provisions covering Board attendance. The Board may wish, and the members may include in the bylaws, other performance requirements for directors such as a minimum volume of business done with the cooperative, or some other requirement.

Any evaluation system should:

1. Set standards for evaluation;
2. Judge performance against these standards; and
3. Make corrections in performance.



Steps for an effective Board assessment:

1. Obtain commitment by all Board members to the process.
2. Set performance objectives or criteria.
3. Plan the process and gather the information.
4. Discuss and interpret the data.
5. Develop a plan of follow-up; identify areas for change and set goals.

## **What criteria should be used?**

Simplicity has great value.

1. Each question should ask about one item or aspect of performance.
2. Use a simple rating scale -- such as 1 to 5 (5 for outstanding or excellent performance; 1 for performance that is non-existent or needs improvement).
3. It is advisable to allow directors to indicate where they don't know the answer to a question.
4. Allow for written comments.

## **What to evaluate?**

### **1. Membership accountability and governance.**

The Board is the representative of the members and the steward of their interests. However, it is important that an individual Board member, and the Board as a whole, does not cater to special interest groups, but considers what is best for the cooperative (membership) as a whole.

Criteria may include:

- approval of applications for membership;
- effectiveness of membership meetings (annual meeting);
- process of director selection;
- membership communication;
- membership relations program;
- annual report is presented to members; it clearly describes the co-operative's operations and financial status; and
- the co-operatives capital plan creates an adequate capital base for the co-operative's current and future needs.

### **2. Board operations.**

Criteria may include:

- an organisational chart has been established;
- Board job descriptions established;
- meeting packets that include agenda, clear written reports, recommendations or options from the general manager or CEO and committees (mailed prior to meeting);
- length of Board meeting;
- Board discussions and participation;
- policies regarding Board terms, elections, officers, meeting attendance, committee structure;



- orientations of new Board members;
- are decisions made in a timely manner?
- written record of Board policies and decisions;
- executive sessions;
- annual Board calendar;
- Board manual;
- job description for general manager, CEO;
- procedures for appraisal and compensation of general manager, CEO;
- training and development of general manager, CEO;
- procedure for Board training and development; and
- effectiveness of committee structure.

### **3. Legal responsibilities.**

To direct affairs of the organisation within the guidelines provided by the act of incorporation, articles, bylaws, and any regulations governing the organisation. Criteria may include:

- degree in which board members are informed;
- Board members are knowledgeable of articles, bylaws, policies;
- articles and bylaws are reviewed (annually) by the Board;
- Board reads and approves minutes of each meeting; and
- written policies on Board ethics and conflict of interests.

### **4. Financial overview.**

To establish financial plans and policies and to monitor the organisation's operations for soundness and stability. Criteria may include:

- financial policies reviewed and updated;
- capital and operating budgets approved annually;
- goals/policies for important financial ratios established;
- Board receives regular financial reports;
- insurance program reviewed and updated annually;
- policies established for member equity/redemption; and
- procedure for annual audit.

### **5. Planning.**

To approve the organisation's mission, the goals and objectives, major plans and programs, capital and operating budgets. Planning is a culmination of all the board's responsibilities. IT is the process that pulls all of the elements together and makes the board's vision for the co-operative become real. Criteria may include:

- Board approves mission and vision statements;
- Board approves annual business plan;
- Board reviews and approves a 3-to-5 year plan;
- Board evaluates the mechanism(s) provided for member input into the planning process; and
- Board is adequately informed about the business and market environment in which co-operative operates.



## **6. Board-management relations.**

The line between Board and management roles can be blurred at times. Board and management responsibilities (delegation from Board to management) often change as co-operatives grow and/or Boards and management mature. Established procedures and strong communication are important. Criteria may include:

- written job description of general manager/CEO;
- procedure established for general manager/CEO annual review and compensation;
- manager's/CEO's reports to the board;
- board chair or executive committee's relationship with manager/CEO;
- board and management work together to determine the direction of the co-operative;
- does the board focus on goals and results and leaves day-to-day decisions, methods, to management? and
- board provides overall personnel guidelines to management and remains uninvolved with specific personnel matters.

### **Conclusions - Good Boards of directors continually strive for improvement.**

Good Boards of directors:

- understand the uniqueness of user-benefit co-operatives;
- are mentally aggressive;
- ask good questions;
- participate in education/training;
- value time;
- are good decision makers; and
- are leaders.

