

Division of Roles Between Board and Management

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Question?

- Why was your cooperative originally formed?
- Why does it continue to exist?



Common Criticism

- Cooperative businesses lack innovation and are slow to respond to (economic) changes.
 - Who is making the comment?
 - What is the context?
 - We can all think of examples where this is true, and examples where it is not true.
 - Is this due to the cooperative business structure or something else?
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My Response

- The cooperative business models can be very creative/innovative and very efficient.
 - But, they also require ***consistent maintenance***.
 - It takes more work to keep them “tuned up” and running efficiently.
- WHY?



My Response

- The cooperative business models can be very creative/innovative and very efficient.
 - But, they also require ***consistent maintenance***.
 - It takes more work to keep them “tuned up” and running efficiently.
- WHY? Dual objectives:
 - Treat members fairly as ***owners***.
 - Treat members fairly as ***customers***.



My Response

- Treat members fairly as **owners**.
 - Generate competitive Return on Investment (use assets efficiently and generate profits).
 - Well defined accounting and finance measures are used to evaluate performance.
 - Members are “passive” investors.
 - Co-ops can focus on long term returns rather than be pressured by quarterly earnings.
- However, some financial returns created by the co-op are measured on the member’s financial statements.



My Response

- Treat members fairly as ***customers.***
 - Are cooperatives held to a different standard for performance?
 - Why?
 - What is that standard?



Membership Returns

- Returns from Patronage.
 - Patronage Allocations and Dividends.
 - Service Differentials.
 - Missing or special services.
 - Price Differentials.
 - Value of existence (increased competition).
 - Risk Management.
 - Access to Information.
 - Market Intelligence for member decision making.
 - Strategic Planning for member decision making.
 - Value of Voting Control.
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Members ROI Calculation

Sum of: Dividends Received,
Patronage Refunds Received,
Price Differentials,
Service Differentials,
Value of Existence,
Value of Risk Management Activities,
Value of Improved Information

Divided by:

Member's Cooperative Equity Investment

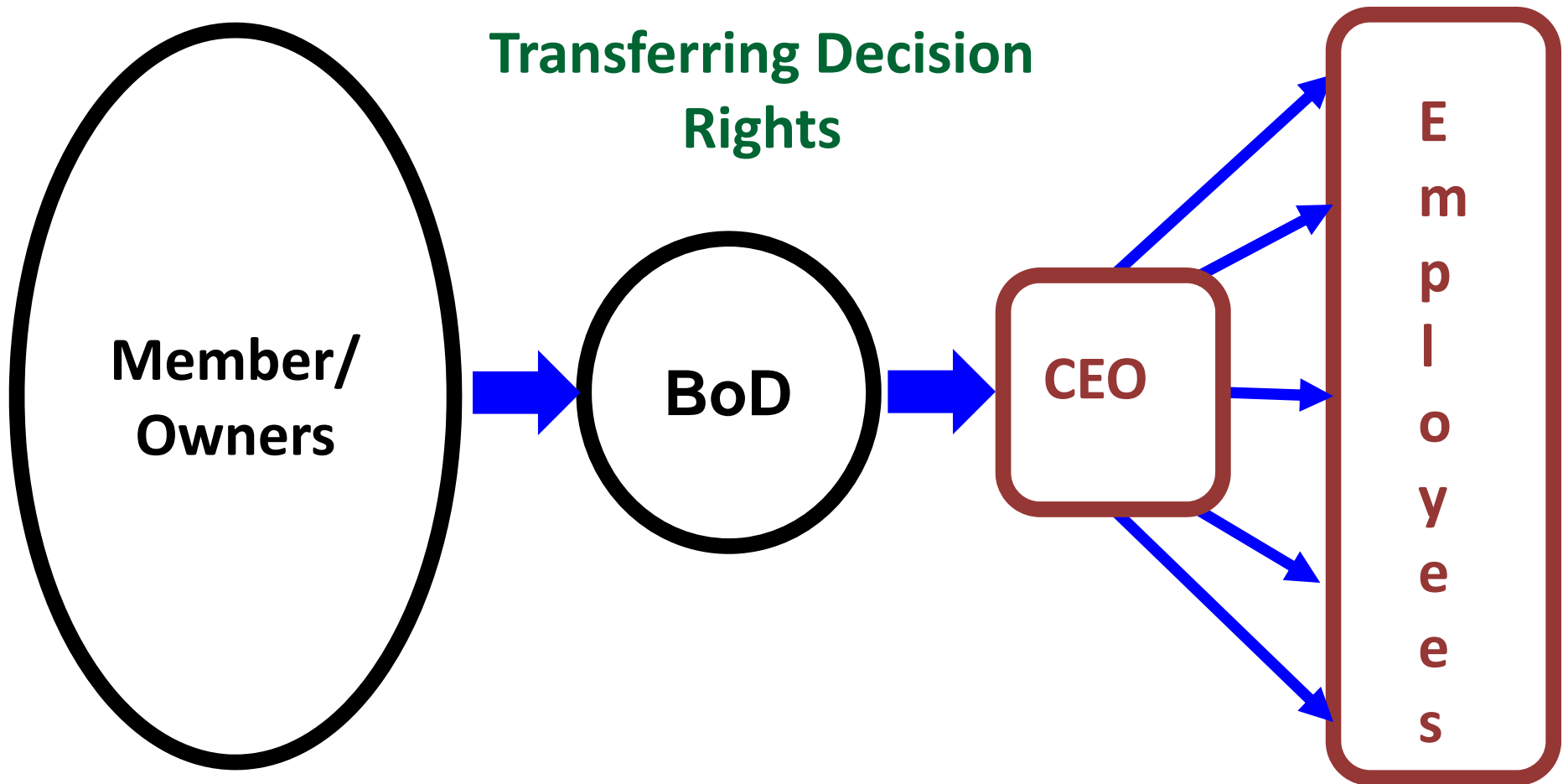


Need for Boards

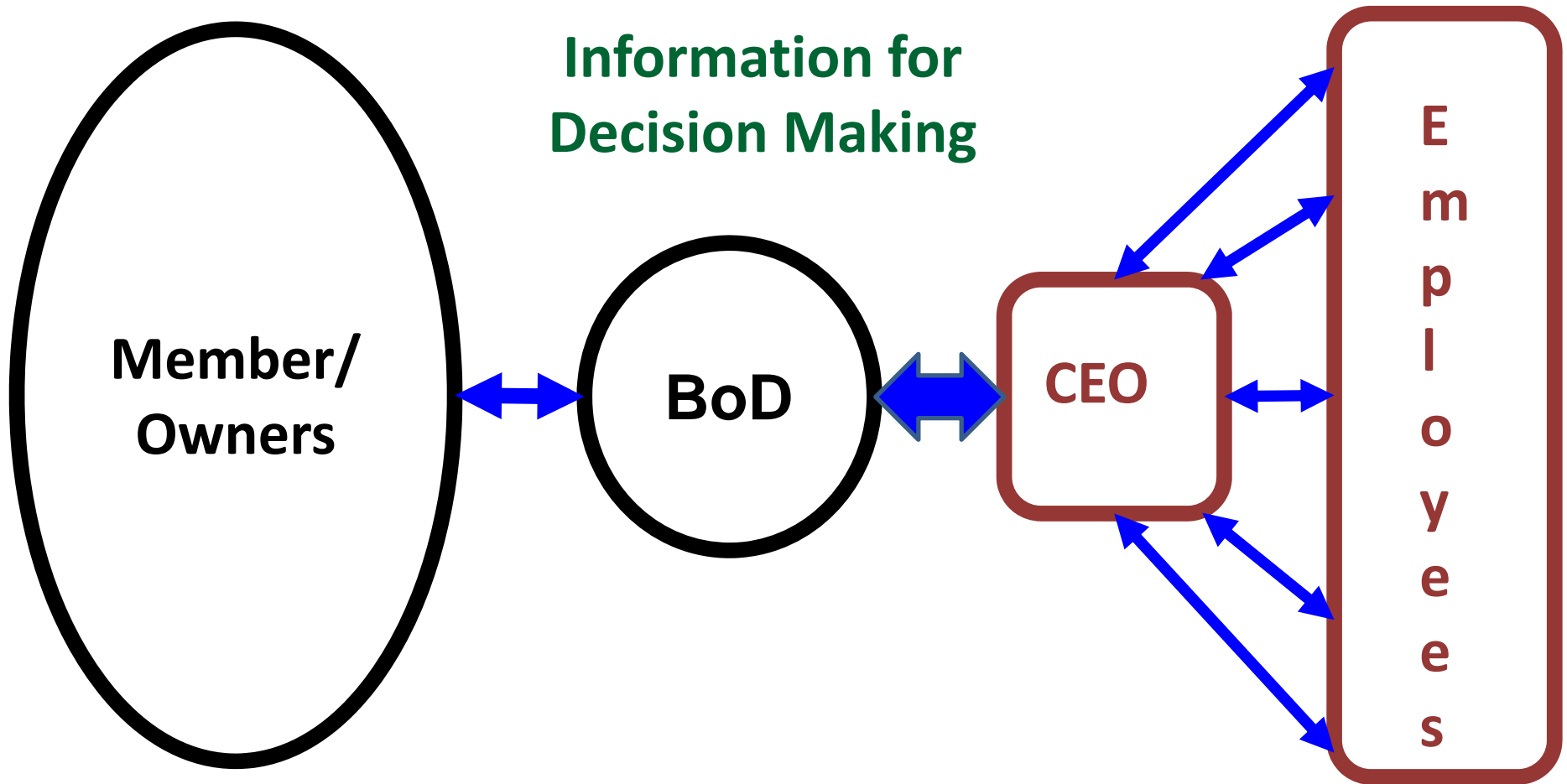
- Members, as a group, do not have the time to make all of the necessary decisions to keep the cooperative functioning at peak efficiency.
- Members delegate a majority of the decision making authority to the Board of Directors (BoD).
- The BoD is expected to bring leadership and expertise to the management team.



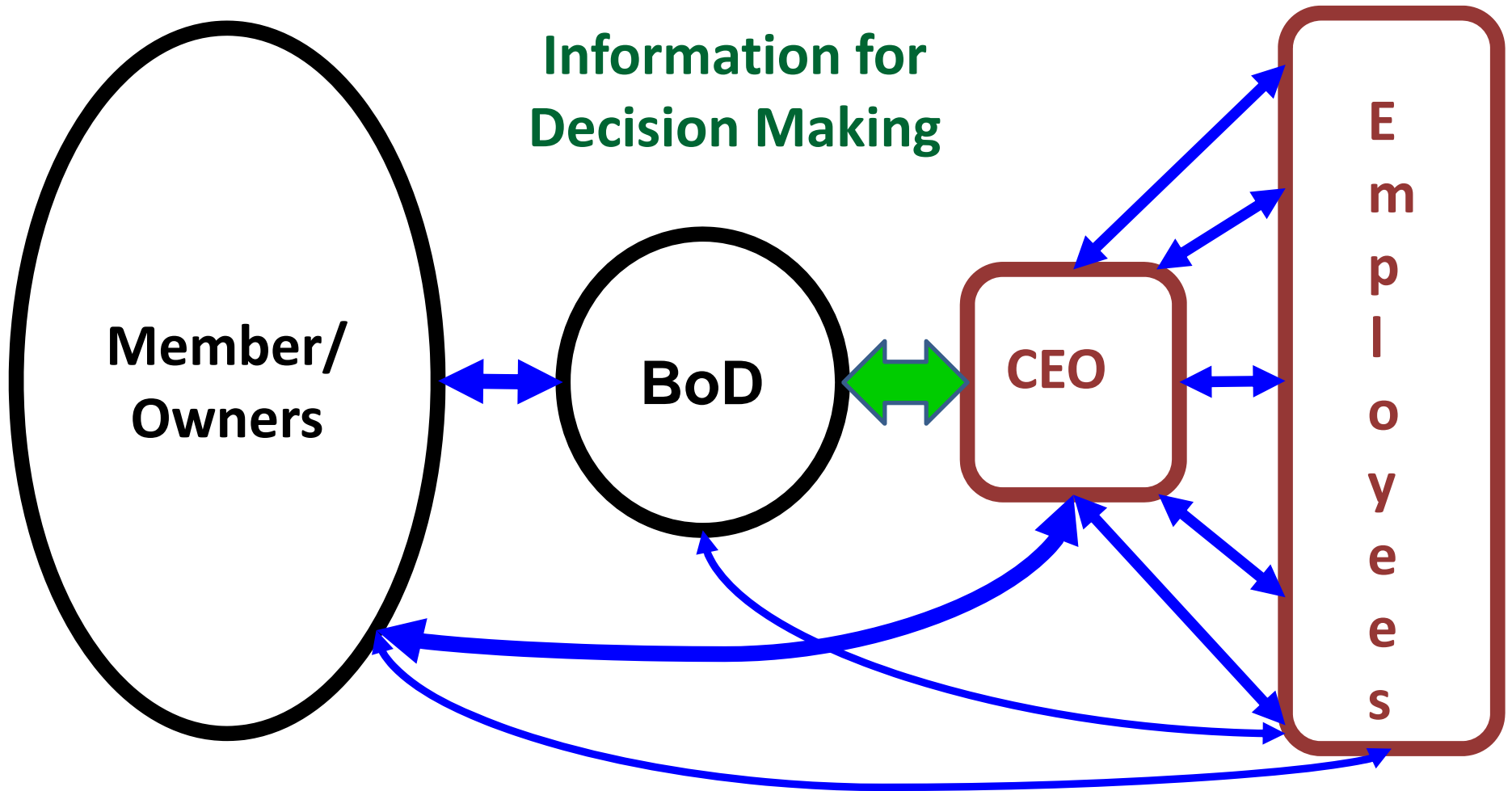
Cooperative Governance 101



Information Flow



Information Flow



Functions of Management

- Planning.
 - Organizing.
 - Directing.
 - Staffing.
 - Monitoring & Controlling.
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- These functions are shared differently within a cooperative versus an Investor Owned Firm (IOF).



Functions of Management

Function	Member	BoD	GM/CEO	Employees
Planning	<p>Provide input into needs</p> <p>Provide assessment of co-op performance</p>	<p>Define the co-op's mission, vision and philosophy</p> <p>Establish policies for cooperative</p> <p>Develop co-op's strategic plan</p>	<p>Provide input for strategic plan</p> <p>Help define management's goals and objectives</p> <p>Develop operational plan</p>	<p>Provide input for strategic plan</p> <p>Help define individual employee's goals and objectives</p>



Functions of Management

Function	Member	BoD	GM/CEO	Employees
Organizing	Approve bylaws and changes to bylaws	Determine allocation of net earnings and equity redemption	Develop organizational chart	Accept delegated tasks
	Approve mergers & consolidations	Approve long-term leases, loans or other major financial commitments	Develop operating budget	Decide how to carry out day-to-day tasks
	Approve liquidation	Practice good business ethics	Organize day-to-day use of co-op's resources	Accept responsibility for task outcomes
			Practice good business ethics	Treat members equitably



Functions of Management

Function	Member	BoD	GM/CEO	Employees
Directing		<p>Define expectations for GM/CEO</p> <p>Clarify co-op's strategic objectives for members</p>	<p>Direct co-op activities toward realizing the long-term goals</p> <p>Communicate with employees, the BOD and members</p>	<p>Communicate with GM/CEO and members</p>



Functions of Management

Function	Member	BoD	GM/CEO	Employees
Staffing		Select, evaluate, compensate and dismiss GM/CEO	Select, develop, evaluate and dismiss employees	



Functions of Management

Function	Member	BoD	GM/CEO	Employees
Monitoring & Controlling	Elect BOD Recall directors	Monitor co-op performance on regular basis Monitor and appraise the GM/CEO and BoD performance	Monitor and appraise employees Monitor day-to-day co-op performance	Monitor day-to-day co-op performance, within specific domain



Note

- The previous table provides a generalized division of roles and responsibilities.
- There are no “formal rules” for the division of most roles and responsibilities between the BoD and GM/CEO.
- Duty of Care, Loyalty and Obedience.



Note

- A variety of “best practices” have been developed, which have a common theme.
- Each cooperative refines it’s own division of roles and responsibilities.
 - These may change over time.
 - Many can be included in a Board Policy Manual.



Questions?

- What happens if one of the links in the decision making chain does not do what they are expected to do?
- What happens if expectations are not met?



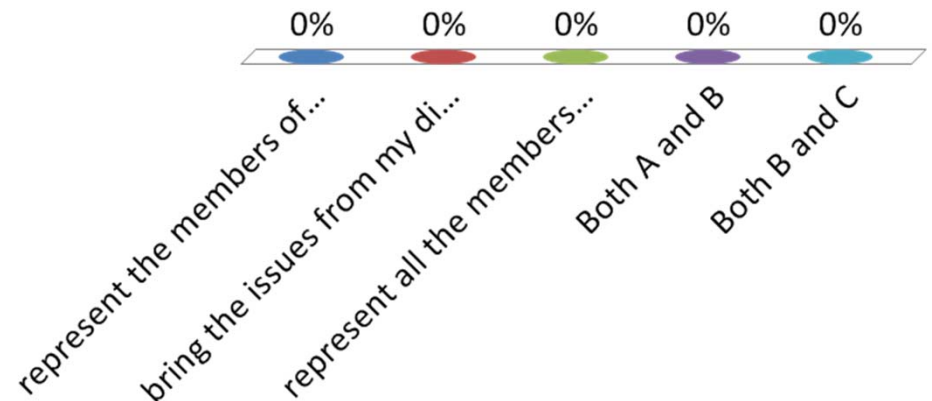
I was elected to the BoD...

- A. at-large
- B. by district



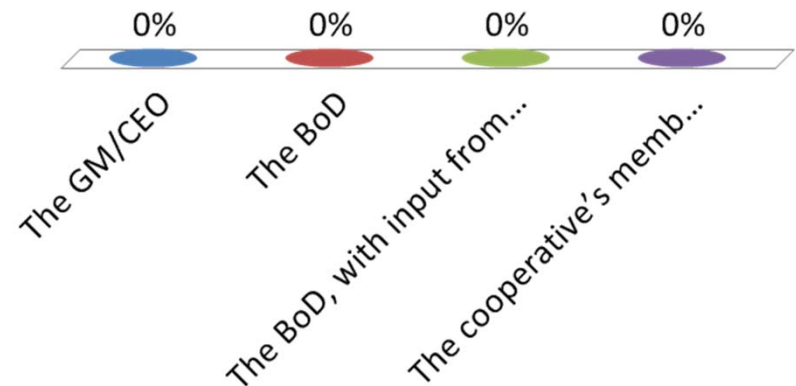
As a board member elected from a district, I...

- A. represent the members of my district when I vote.
- B. bring the issues from my district forward to the BoD.
- C. represent all the members of the co-op when I vote.
- D. Both A and B
- E. Both B and C



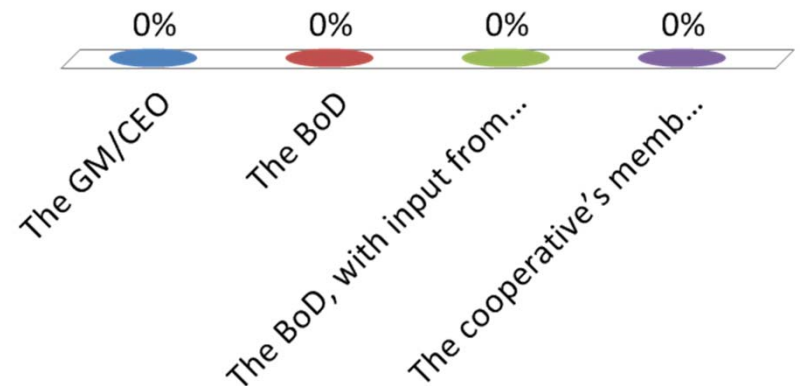
Who is responsible for adding or eliminating product lines, services or locations?

- A. The GM/CEO
- B. The BoD
- C. The BoD, with input from the GM/CEO
- D. The cooperative's members.



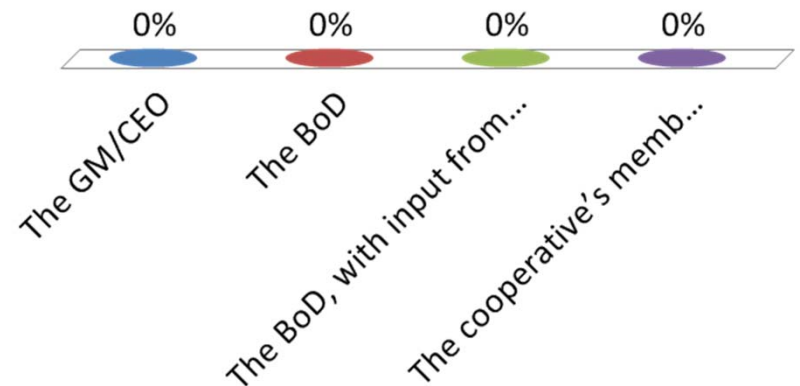
Who is responsible for selecting input suppliers or marketing outlets?

- A. The GM/CEO
- B. The BoD
- C. The BoD, with input from the GM/CEO
- D. The cooperative's members.



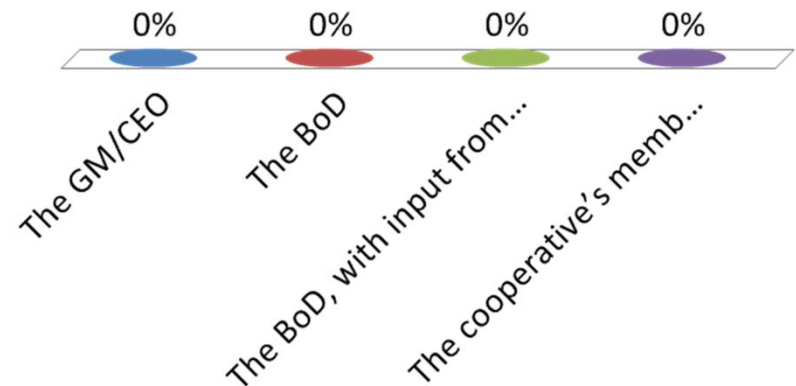
Who is responsible for receiving and acting on employee complaints?

- A. The GM/CEO
- B. The BoD
- C. The BoD, with input from the GM/CEO
- D. The cooperative's members.



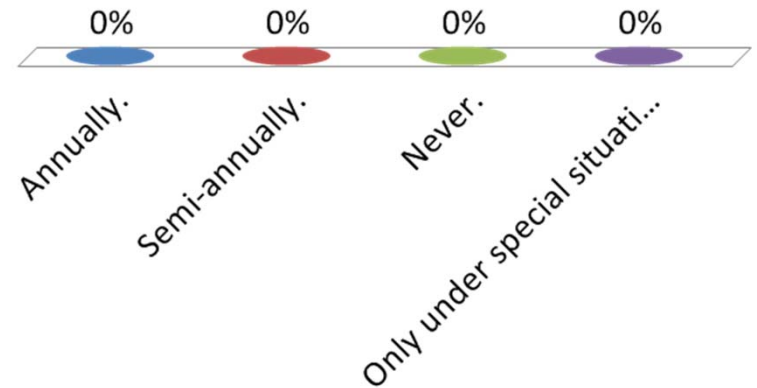
Who is responsible for developing a management succession plan?

- A. The GM/CEO
- B. The BoD
- C. The BoD, with input from the GM/CEO
- D. The cooperative's members.



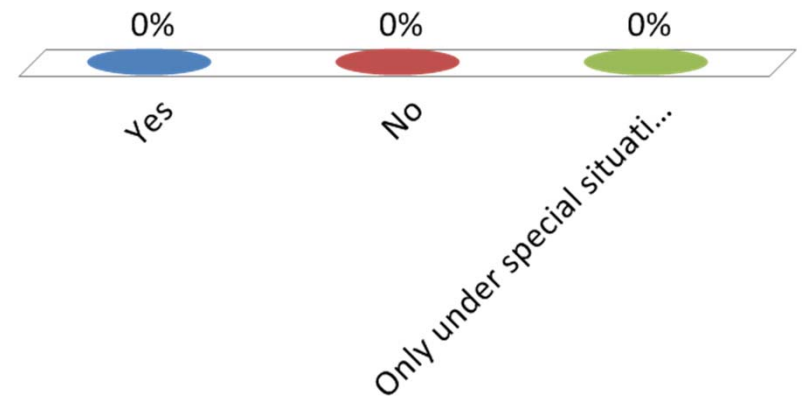
How often should the BoD evaluate the salaries of individual employees?

- A. Annually.
- B. Semi-annually.
- C. Never.
- D. Only under special situations.



Should members be able to review the salaries of individual employees?

- A. Yes
- B. No
- C. Only under special situations.

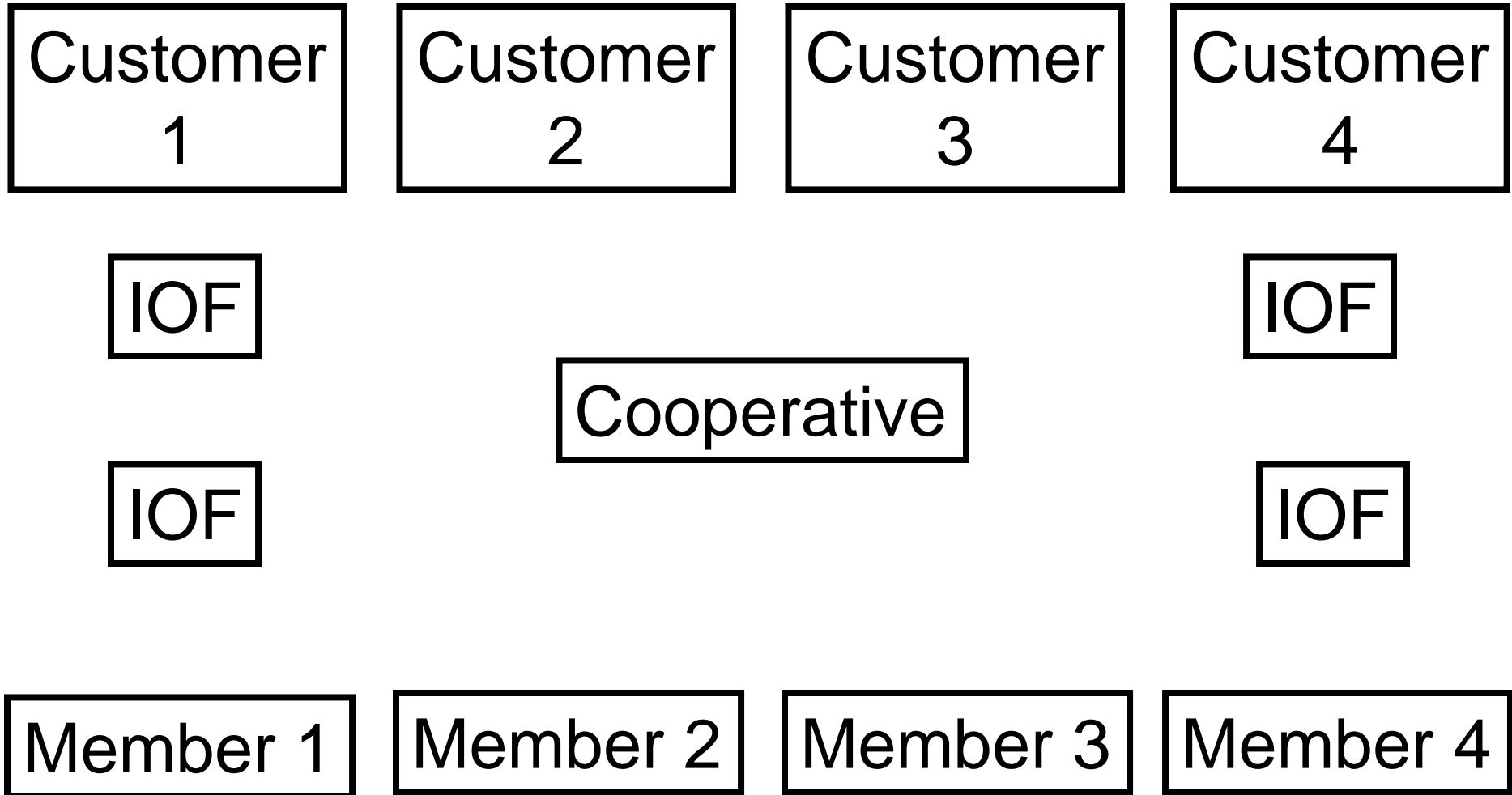


Strategic Planning

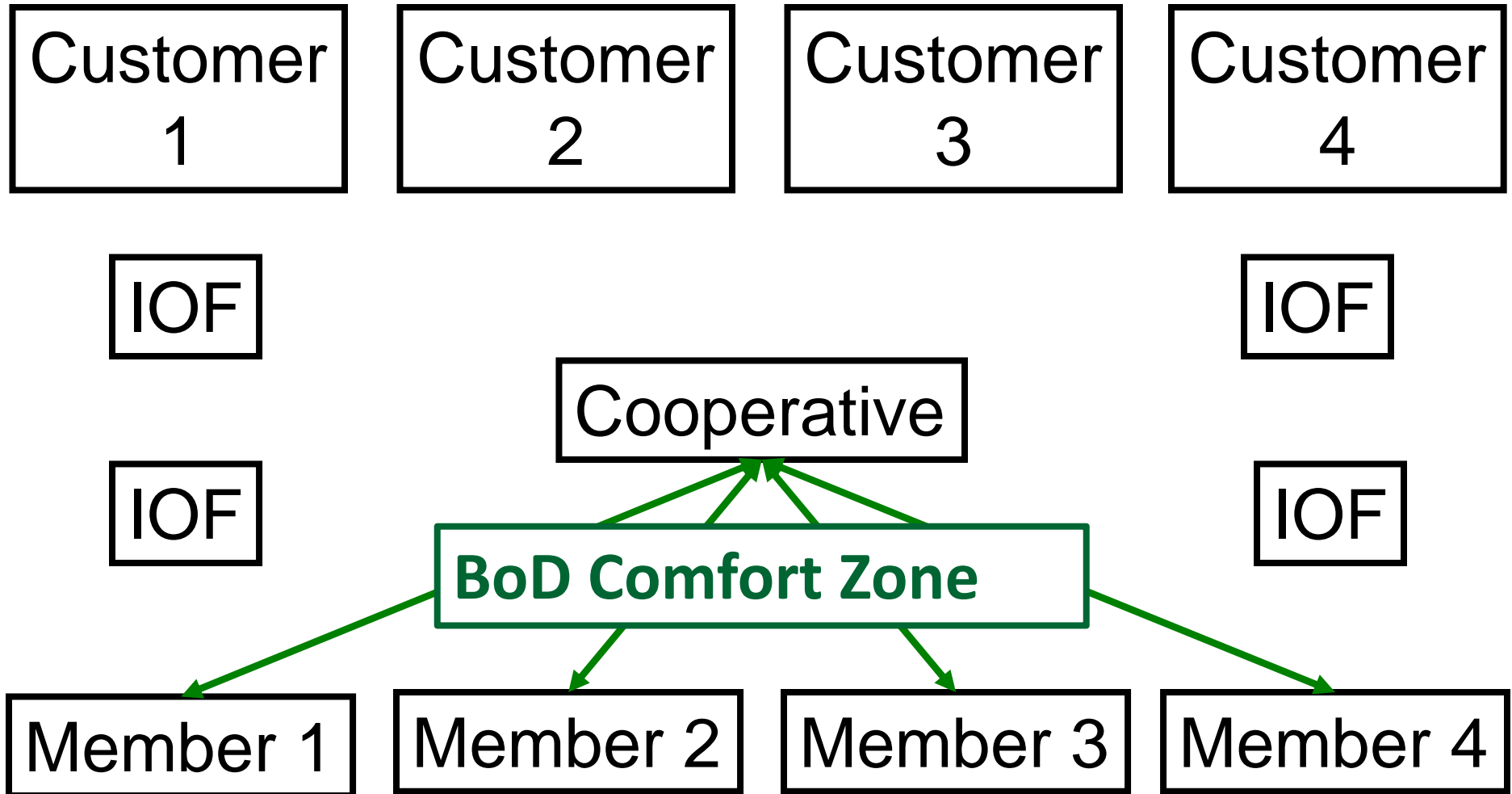
- “Heterogeneity of economic interests” is becoming a bigger challenge for co-ops.
 - Different members are looking for different things from the cooperative.
 - What is common across members and what is unique to member sub-groups?
 - Identifying and prioritizing diverse member interests is very difficult.
 - Be careful of “special interests” and/or “vocal minority”.
 - Managing cross-subsidization of business units and locations cannot be total avoided, but should be scrutinized.



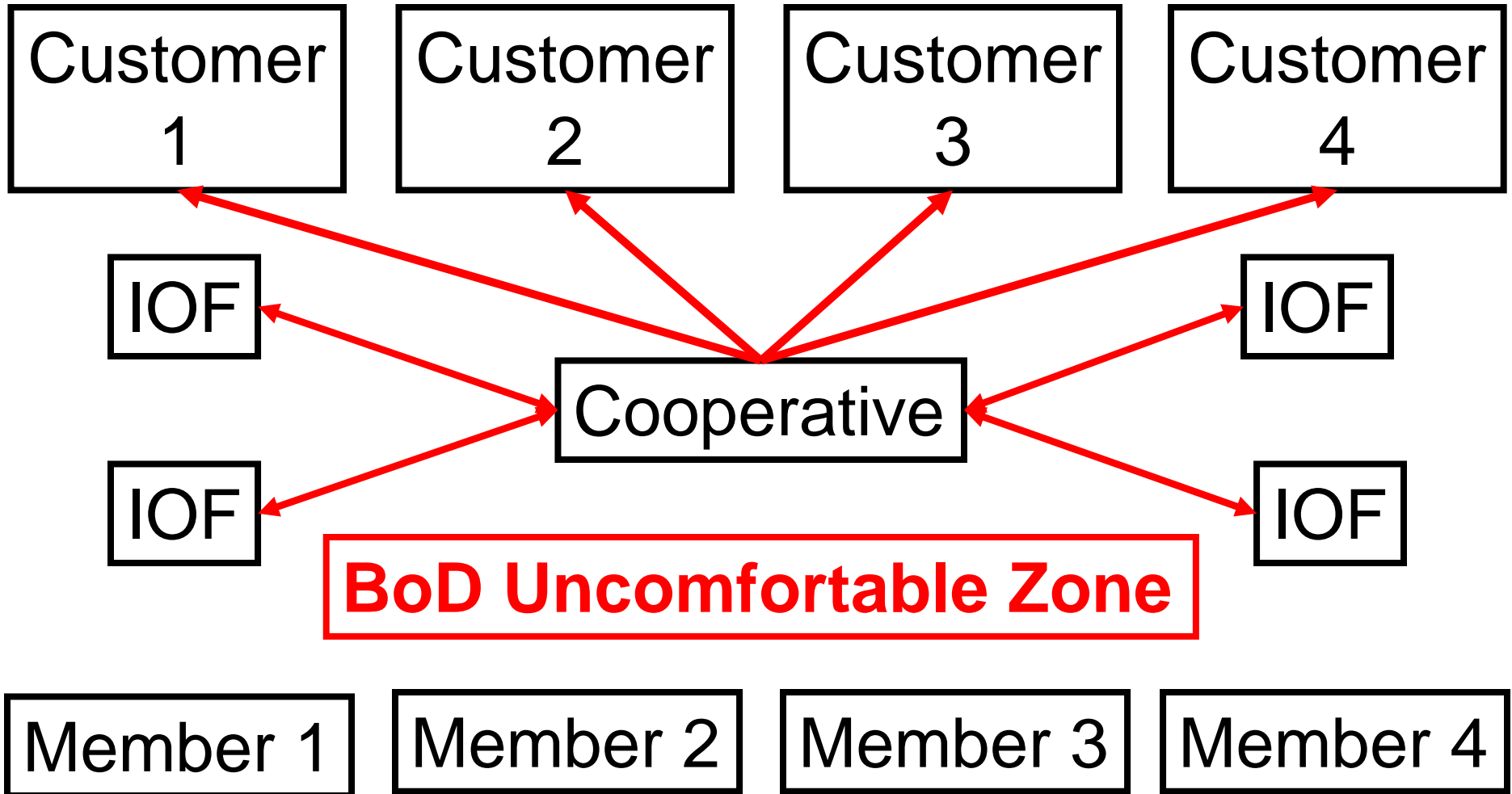
Strategic Planning



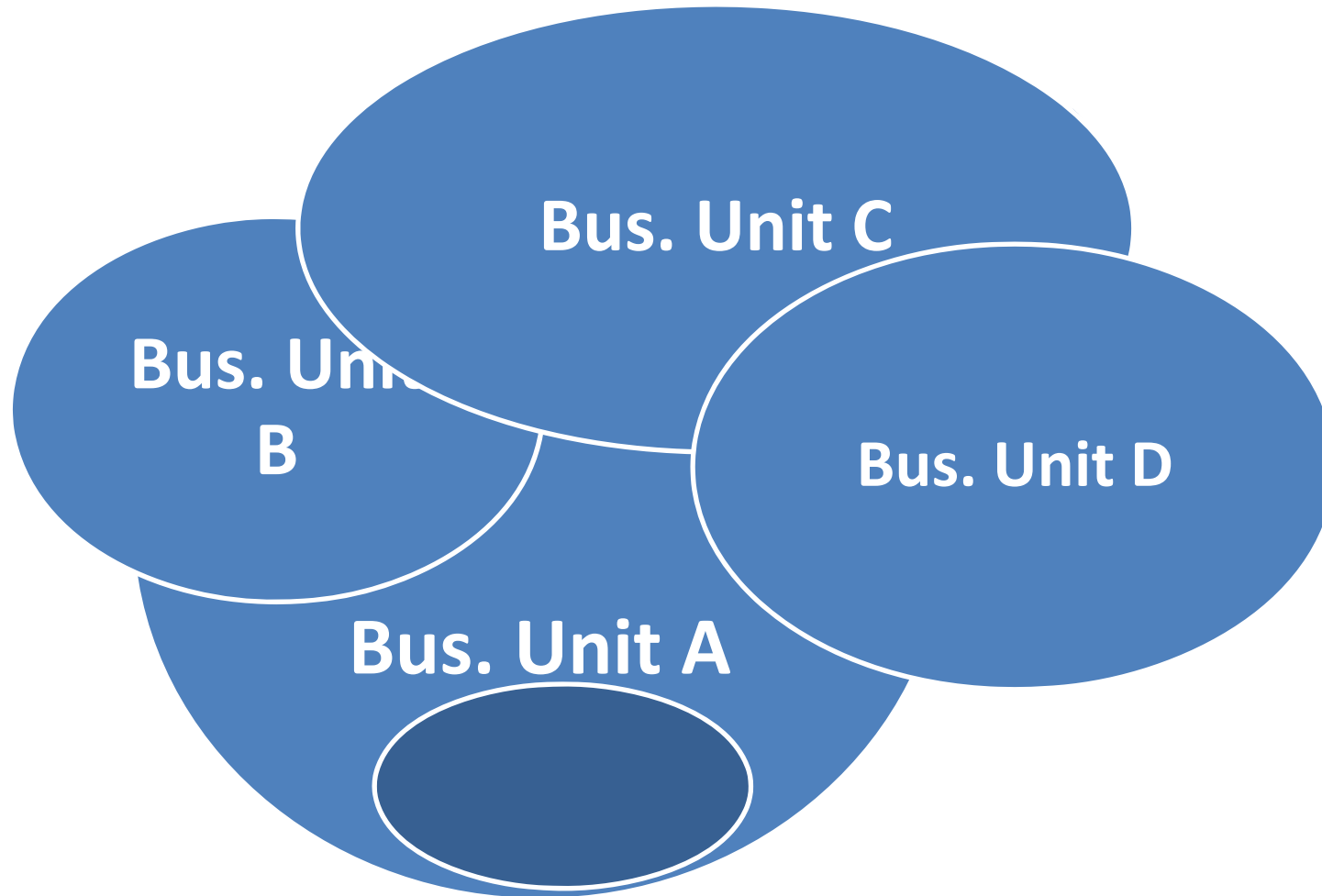
Strategic Planning



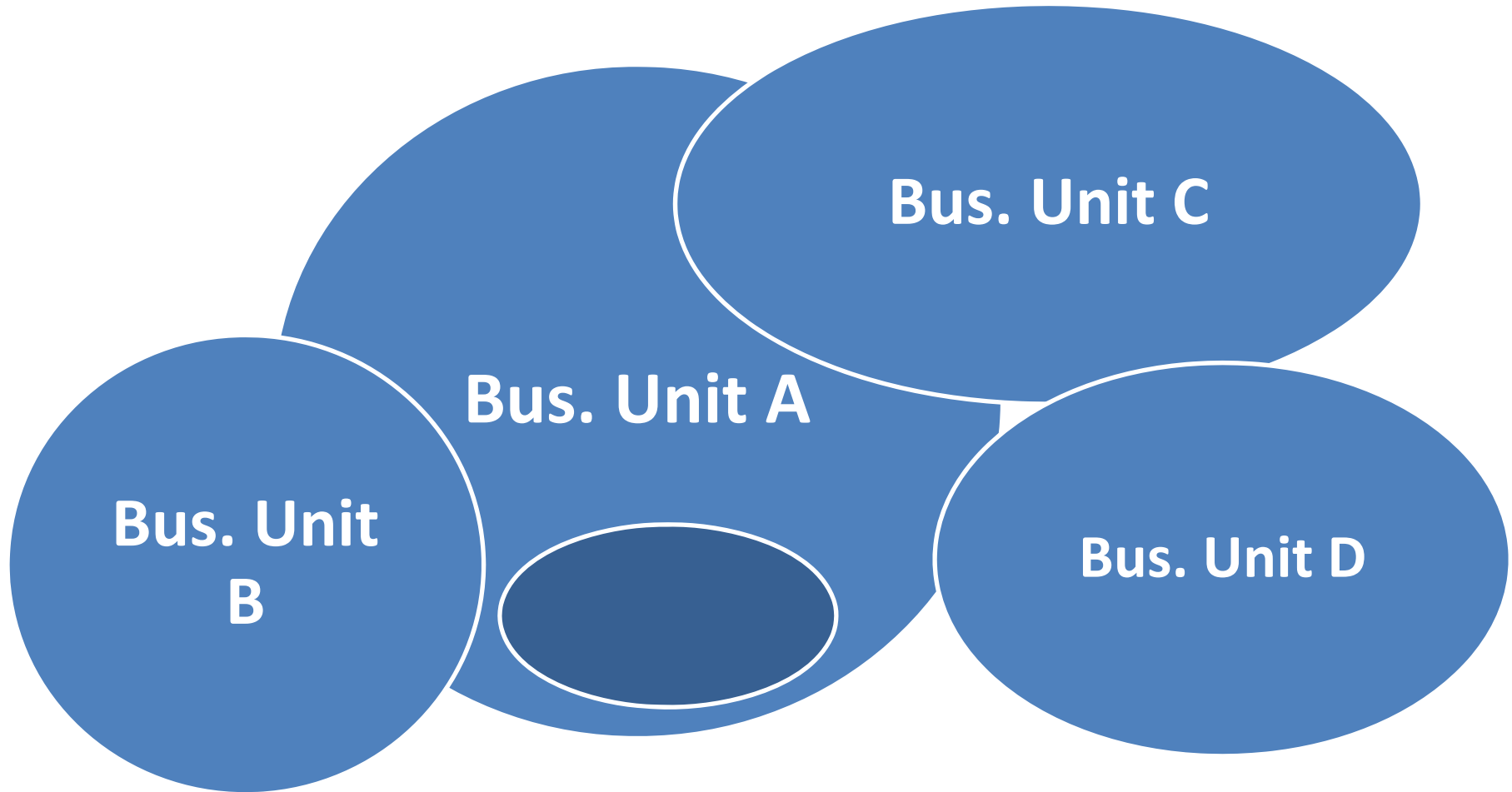
Strategic Planning



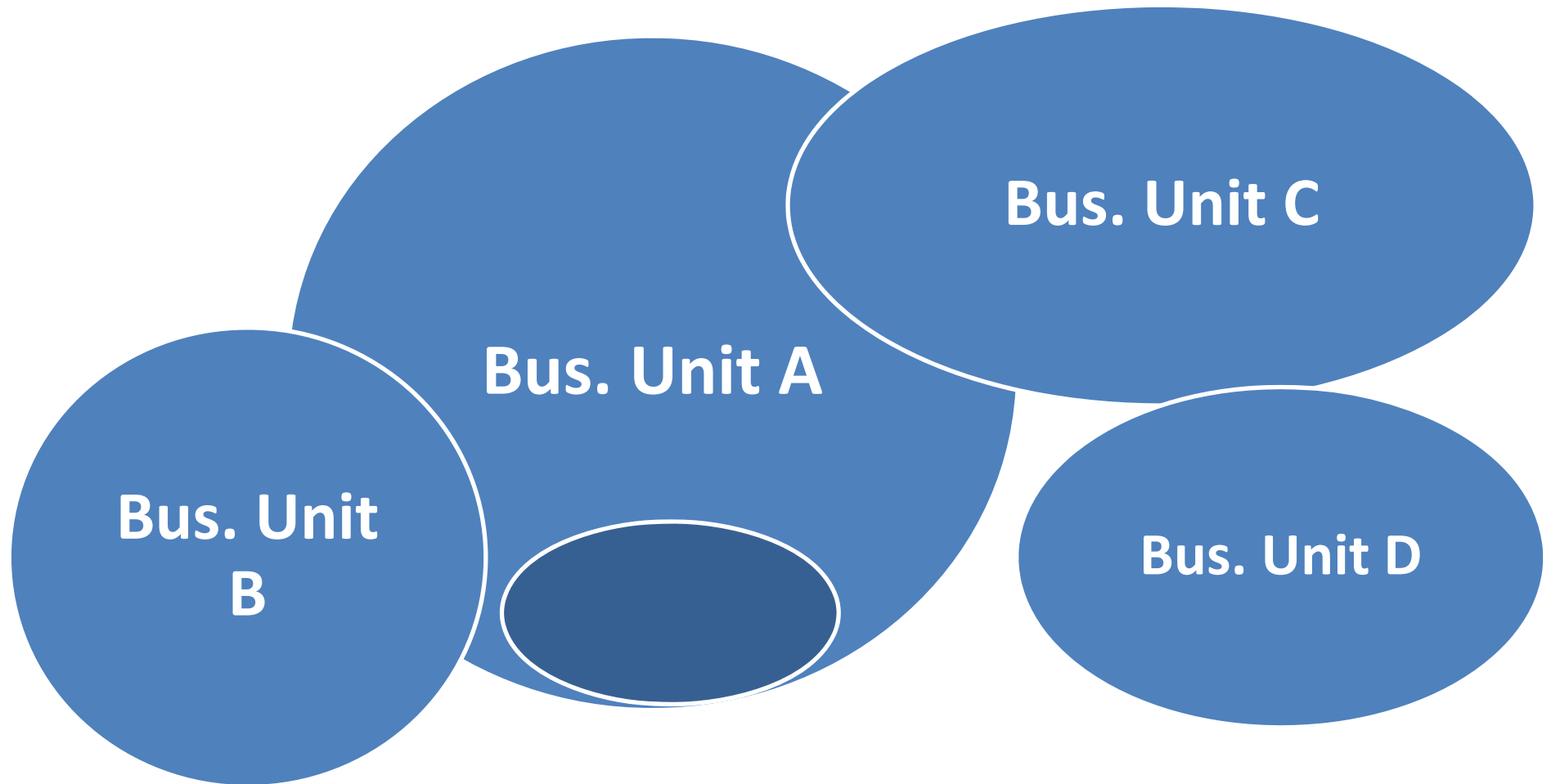
Member Diversity



Member Diversity



Member Diversity



Questions?



Theoretical Perspective

Theory	Interests	Board Function	Board Role	Model
Agency Theory	Owner/Members and Managers have different Interests	Representatives of Owner/Member	Conformance: <ul style="list-style-type: none">• Safeguard owners interests• Oversee mgt.• Check compliance	Compliance Model
Stewardship Theory	Owner/Members and Managers share Interests	Experts	Improve Performance: <ul style="list-style-type: none">• Add value to decisions and strategy• Partner and support mgt.	Partnership Model

Theoretical Perspective

Theory	Interests	Board Function	Board Role	Model
Democratic Perspective	Owner/Members have different interests	Lay or Member Representatives	Political: <ul style="list-style-type: none">• Represent member interests• Make policy• Control executive	Democratic Model
Stakeholder Theory	Stakeholders have different interests	Stakeholder Representatives	Political: <ul style="list-style-type: none">• Balancing stakeholder needs• Make policy• Control Mgt.	Stakeholder Model



Theoretical Perspective

Theory	Interests	Board Function	Board Role	Model
Resource Dependency Theory	Stakeholders and organization have different interests	Chosen for influence with key stakeholders	Boundary Spanning: <ul style="list-style-type: none">• Secure resources• Stakeholder relations• External Perspective	Cooperation Model
Managerial Hegemony Theory	Owner/Members and managers have different interests	Owner/Members' representatives	Symbolic: <ul style="list-style-type: none">• Ratify decisions• Give legitimacy (mgt. has real power)	"Rubber Stamp" Model



Responsibilities of BOD

- **Representation** – BOD brings the needs of the members forward for discussion and prioritization.
 - Board members may be elected from a district, but must represent all members.
- **Strategic Planning** – This is one of the most important functions of the board.
 - Setting a long term direction for the co-op.
 - Communicating strategic plan to members and employees.



Responsibilities of BOD

- **Policy** – Research on corporate governance suggests that boards should spend most of their time setting policy and reviewing performance, for company and CEO.
- **Budgets** – The BOD is responsible for reviewing and approving operating and capital budgets. The CEO, along with the management team, is responsible for preparing the budgets.



Board Policy Items

- **Credit** – Aging of A/R, interest rates, application forms, cash cut-offs, etc.
 - **Personnel** – Benefits, training and development, etc.
 - **Grain Marketing** – Market limits, hedging, spreads, required reporting, etc.
 - **Equity Redemption** – Process, estates, financial reporting, etc.
 - **Member Relations** – Types of meetings, number of meetings, financial reporting, etc.
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Board Policy Items

- **Director Training.**
- **Involvement in Community Affairs.**
- **Evaluating & Compensating Management** – Criteria for evaluation, criteria for salary adjustments, etc.
- **Annual Audits** – Choice of auditing firm, choice of legal council, timing of audits, etc.



Representation

- When a board member enters the board room, they must take their “member hat” off and put their “director hat” on.
- Even though many directors are elected from districts or regions, they must represent all members and do what is in the best interest of the cooperative.

