

Building Board and Management Capacity

Kentucky Center for Agriculture and
Rural Development



What is KCARD?

■ Mission

- The KCARD fosters business success and growth by developing and delivering technical assistance and by providing educational opportunities for agricultural and rural businesses seeking to enhance their economic opportunities in and around the Commonwealth of Kentucky.



**“Knowledge must come
through action.”**

--Sophocles



Board and Management Roles and Responsibilities



Board of Directors Have to Make it Happen

■ Four Board Responsibilities

- Representation to members/owners
- Policy Governance
- Fiduciary controls
- Management functions



Representation to Members/Owners

- Be an effective link to members/owners
 - Communication, communication, communication
 - Democracy?
 - Represent the whole, not cliques or subgroups
 - At least two sides to every story



Policy Governance

“If the board fails to establish cooperative policy, either someone else will establish the policy or the cooperative will operate without direction and control. In either case, the cooperative cannot be successful and disaster is likely to follow.”

--James Baarda, “The Circle of Responsibilities for Co-Op Boards”, CIR 61, USDA



Policy Governance

■ Conducting the Business Meeting

- Develop board culture to practice parliamentary procedure and conduct sound business meetings. This will develop order and structure to business meetings and help them become more productive early on.
- This encourages:
 - Confidence among members
 - Members to participate



Cooperative Policies

- Are generally reactive
- Often developed at board meetings and recorded in the minutes
- Develop a policy handbook
 - Limit getting caught on making judgment calls on the spot!



Policy Handbooks

■ Policy examples:

- When payment of fees are due? What are the consequences of late payment?
- How does the cooperative handle inferior product?
- Financial trigger points for ceasing of operations
- How to handle unruly members?

■ Policy handbooks should include:

- Board policies
- Employee policies
- Membership or producer agreements
- Bylaws
- State Statutes
- Others?



Policies are great...but without implementation they are just words on paper.



Fiduciary Controls

■ Defined

- “a person with a duty, created by his/ her own undertaking, to act primarily for the benefit of another in matters connected with the undertaking.”

■ Requires trust and confidence

□ Duties

- Obedience
- Loyalty
- Care



How Board Responsibilities should be carried out

- Duty of loyalty
 - Act honestly in good faith
 - Avoid conflicts of interest
 - Make decisions in best interest of cooperative
- Duty of care
 - Supervise management
 - Understand financial documents
 - Duty to know
- Duty of obedience
 - Conform with state laws; bylaws; other policies
 - Internal controls systems
 - Keep good recordkeeping



Fiduciary Controls

- Financial Statements
 - Cash flow
 - Balance sheet
 - Income statement
- Approve operating budgets annually
- Maintain adequate insurance and bonding
- Conduct financial audit annually
 - Compilation
 - Review



Criteria to Consider for Board Membership

- How well does the proposed board member work in a group?
- Is the individual's own house in order?
- What is the person's reputation in the community?
- Is this person capable of understanding complex and sophisticated business deals, and are they capable of understanding the business enterprise as a unit?
- Are they capable of overcoming territorial issues?



“Entrepreneurship in society—and it is badly needed— requires above all the application of the basic concepts, the **basic techniques of management** to new problems and new opportunities.”

--Peter Drucker



Management Functions

- Three core business activities
 - Production, marketing, financial measurement
 - It's a three legged stool!
- Five Management Functions within core business activities
 - Planning
 - Organizing
 - Staffing
 - Directing
 - Controlling



Management and Operations Analysis

Objective:

- provide management and the board of directors of cooperatives with information and materials that will help in planning and decision-making

Management and Operations

Analysis

■ Pre-Audit

- Written request/agreement from board
- Industry analysis
- Board organizes documents as requested
 - Articles and bylaws
 - Board meeting minutes
 - Financial documents
 - Producer Agreements
 - Loan and grant information
 - List of buyers
 - Grower lists
 - Other relevant information



Management and Operations Analysis

■ Audit phase

□ Extensive interview process

- Boards, managers, members, lenders, buyers, bankers

□ Extensive review of internal documents

- Articles, bylaws, financial documents

□ Review of processing operations

□ Oral report at end of week

- Highlights of audit; major points to address



Management and Operations Analysis

■ Post-Audit phase

- Prepare written report for board of directors
 - Confidential
- Follow-up questions/comments
- Work with group to rectify problem areas
- Use information to develop training and educational materials

Management and Operations

Analysis

- Key trends we have discovered
 - Significant need for continuous board leadership development
 - Board commitment? Time? Resources?
Educational levels?



Improving The Odds Of Success with New Ventures

Idea / Wish / Value Proposition

Define the Opportunity

Market Assessment

Business Feasibility

Business Plan

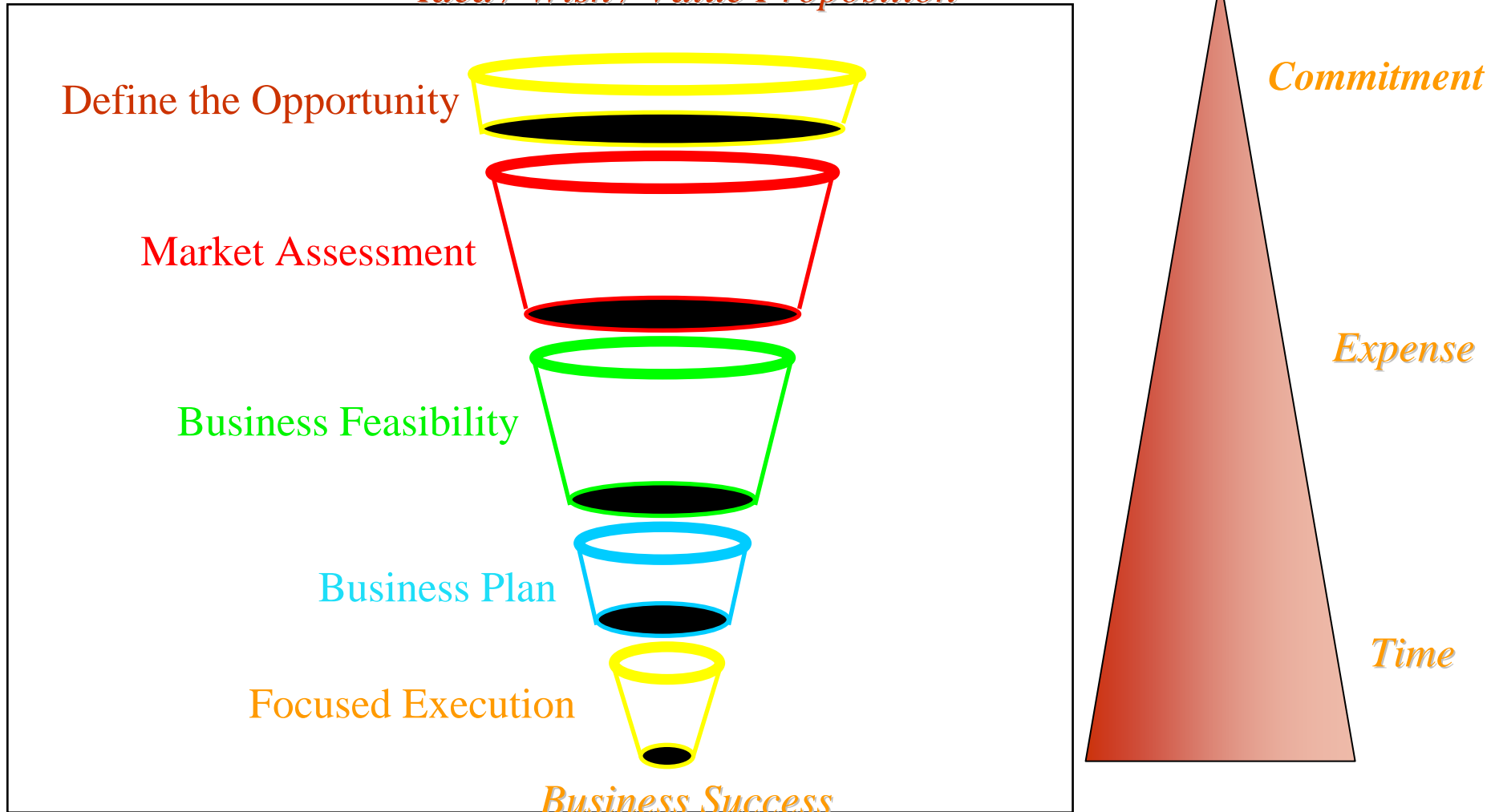
Focused Execution

Business Success

Commitment

Expense

Time



Management and Operations

Analysis

- Key trends we have discovered
 - Significant need for continuous board leadership development
 - Board commitment? Time? Resources?
Educational levels?
 - Lack of business plan development/implementation
 - Includes: financial, marketing, production



Defining Value Added Business



Producer



Consumer

returns

Opportunity to create higher economic returns by better integrating potential of production with needs of the marketplace

Products

Process

distribution

Management and Operations Analysis

■ Key trends we have discovered

- Significant need for continuous board leadership development
 - Board commitment? Time? Resources? Educational levels?
- Lack of business plan development/implementation
 - Includes: financial, marketing, production
- Internal controls/financial management
 - Cost measurement/management
- A true understanding of industry



“The significant problems we face cannot be solved at the same level of thinking we were at when we created them.”

-- *Albert Einstein*



“We can’t improve the quality of our prisons until we get a better class of inmates.”

--Ex-governor of Georgia

