



## Cooperative Management Series

# Evaluating the Board

Phil Kenkel

Professor, Bill Fitzwater Cooperative Chair

Oklahoma Cooperative Extension Fact Sheets  
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<http://osufacts.okstate.edu>

Boards of directors are under increased scrutiny, and accountability has become a major issue after the recent scandals of publicly traded companies. Members and stockholders want to feel confidence in the businesses they have invested in, government agencies want those cheating the system to be caught, and the public in general is appalled at the general lack of ethics within businesses. Cooperatives are not immune to this kind of scrutiny and this makes it more important than ever that boards participate in annual reviews of management, financials, and the board's activities. Laws are becoming stricter and, as members become more distrustful of their cooperative, lawsuits are occurring more frequently. With the spotlight shining on the actions of the board, one mistake could have great consequences.

### Why Evaluate the Board?

It is the job of the board to evaluate management, the cooperative's financial performance, the membership and structure, as well as the co-op's mission and goals, but who will evaluate the board? Evaluation is a way of checking your progress against your mission and goals. The board should check its own progress on a regular basis. After all, the other parts of the cooperative are held accountable to the board and should not the board be held to the same set of standards as everyone else? A thorough evaluation will not only allow the board a chance to see where it is in accomplishing its goals, but will also give the members a more meaningful measure of accountability.

A board evaluation gives the board a chance to reflect on and assess its strengths and weaknesses, and allows directors to reflect on what the board has accomplished. It can provide an invaluable yardstick by which activities and priorities for the next year can be measured. It can serve as an educational and consensus building function that will help the board work to set goals together and set a standard for performance that future boards will be held to. Most importantly it gives a good board a feeling of accomplishment to review all of the accomplishments of the board in the last year. This is essential in a thankless job that sometimes seems like hard work for nothing.

### No Excuses

Boards find many excuses not to do appraisals. It is difficult to be objective when appraising yourself and your counterparts. The paperwork involved is considerable. The process tends to be awkward, unproductive, and unpleasant if improperly executed; but to avoid this responsibility is to seriously jeopardize the future of the cooperative.

### Guidelines for an Effective Board

#### Appraisal

In order to make the board appraisal effective the board should follow a few simple guidelines. The board evaluation is not a personal performance review. A board assessment evaluates the performance of the board as a whole and by singling out individuals it is not serving its function. Be honest. 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. Do not waste time. Ask bottom line questions that assess the board's role in member needs and what you have actually accomplished. Set an evaluation procedure and criteria ahead of time so that the assessment can go smoothly. By following these guidelines the board can assess their performance without the awkwardness of an unorganized review.

#### Who Does the Evaluation?

The board has several options in the party that will evaluate them.

#### Full Board Self Evaluation

The first option is a self-evaluation. If this option is chosen then the entire board should participate. The benefit of this method is that, as a board, no outside party knows what goes on inside the boardroom better than you do. Another option available is to have a committee of the board do the evaluation.

#### Board Committee Self Evaluation

A board committee evaluation has the same benefits of a full board evaluation; however, because the entire board is not involved there is the possibility of bias.

### **Non-Board Committee Evaluation**

An option to this is to have a non-board committee do the assessment. This option will provide an unbiased opinion, but the members of the committee will be looking on from the outside and will not understand the workings of the board as well.

### **Outside Consultant Evaluation**

The final option is to hire an outside consultant. This can be most effective for first time evaluations as the consultant can provide objective criteria, outside perspective, and provide a precedent for future evaluations. Other times that an outside consultant should be used is if it has been an emotionally charged year, the board has had difficulty finding consensus, or if the internal process has not worked well in the past.

### **Evaluation Procedure**

In order for board evaluation to be effective the board must select a procedure and stick by it. This procedure should include a definition of the duties of the directors and should compare the performance of the directors to these duties. The board's directors should then correct their actions to better complete their duties. The criteria used in evaluating whether the duties have been fulfilled should be simple but clear. Each question should ask about one item or aspect of performance. The rating scale should be simple as well. A numerical scale is commonly used—such as 5 being outstanding and 1 needing improvement—and it is advisable to allow directors the option to say they do not know the answer to a question. Finally there should be a written answer process for comments that directors may not feel comfortable saying out loud in the group.

The evaluation should cover all of the areas that the board is responsible for. This includes membership accountability and governance, board operations, legal responsibility, financials, planning, and board/member relations. Criteria should be set for each of these categories by the board ahead of time.

### **Membership Accountability and Governance**

The board is the representative of the members and steward of their interests. It is important that the board does what is in the best interests of the cooperative as a whole and is able to communicate this to the membership. Criteria for membership accountability could include the effectiveness of membership meetings, the process for director selection, and the effectiveness of the annual report presentation.

### **Board Operations**

This area should have the longest evaluation and should be the most thorough. Criteria for board operations can include: policies regarding board terms, elections, officers, meeting attendance, and committee structure; timeliness of decisions; executive sessions; job descriptions for the board members and the CEO; procedures for the appraisal and compensation of the CEO; and the effectiveness of the committee structure.

### **Legal Responsibilities**

The affairs of the cooperative should always fall in line with the guidelines provided by the articles of incorporation, by laws, and any regulations governing the organization. The criterion for this category includes: board knowledge of these governing documents, a review of the articles and by laws, and the degree to which the board is informed.

### **Financial Overview**

This assures that proper financial practices that are in line with the Generally Accepted Accounting Principles. The criterion may include the following; financial policies reviewed and updated, budgets approved, financial goals, insurance, member equity redemption procedures, and preparation for the annual audit.

### **Planning**

Planning is the process that pulls all of the goals and objectives of the cooperative together and makes them achievable. Without proper planning the cooperative will not be able to move forward. The criteria that the board must review are: mission and vision statements, annual business plan, five year plan, long-term plan, and board knowledge of the business environment in which the cooperative operates.

### **Board-Management Relations**

Although they often run together, the responsibilities of the board and the management team are very different. Strong communication and procedures are necessary to assure that the board and the manager are both doing their own jobs. Criteria for this category are: CEO job description, evaluation procedures, compensation, and reports as well as the role that the CEO plays both in and outside the board room.

### **Compiling the Data**

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-ops ability to meet its purpose?"

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## **Building 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. Imagi-

nation, innovation, and willingness to try new concepts and ideas are attributes vitally needed in many boardrooms.

Good boards of directors continually strive for improvement and encourage the employees and manager of the cooperative to do the same. If a board contains members that are good leaders, mentally aggressive, value time, and want to make the best possible decisions, an annual evaluation will be a tool for improvement.

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The Cooperative Extension Service is the largest, most successful informal educational organization in the world. It is a nationwide system funded and guided by a partnership of federal, state, and local governments that delivers information to help people help themselves through the land-grant university system.

Extension carries out programs in the broad categories of agriculture, natural resources and environment; family and consumer sciences; 4-H and other youth; and community resource development. Extension staff members live and work among the people they serve to help stimulate and educate Americans to plan ahead and cope with their problems.

Some characteristics of the Cooperative Extension system are:

- The federal, state, and local governments cooperatively share in its financial support and program direction.
- It is administered by the land-grant university as designated by the state legislature through an Extension director.
- Extension programs are nonpolitical, objective, and research-based information.
- It provides practical, problem-oriented education for people of all ages. It is designated to take the knowledge of the university to those persons who do not or cannot participate in the formal classroom instruction of the university.
- It utilizes research from university, government, and other sources to help people make their own decisions.
- More than a million volunteers help multiply the impact of the Extension professional staff.
- It dispenses no funds to the public.
- It is not a regulatory agency, but it does inform people of regulations and of their options in meeting them.
- Local programs are developed and carried out in full recognition of national problems and goals.
- The Extension staff educates people through personal contacts, meetings, demonstrations, and the mass media.
- Extension has the built-in flexibility to adjust its programs and subject matter to meet new needs. Activities shift from year to year as citizen groups and Extension workers close to the problems advise changes.

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