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# Board of Director Educational Needs

Education is very important for successful boards of directors. For greater follow-through, it is important for a board to have a formal education process. Some boards go through a certification process but this is not a wide spread practice. Education should be structured so that boards receive training annually. Board training is conducted by some state cooperative councils (Kansas, Nebraska), regional cooperatives (CHS, Growmark, etc.), land grant universities (Iowa State and Kansas State), the Ag Marketing Resource Center and other organizations and agencies. There are many resources available for the value-added businesses that seek board of director education.

It is important for new directors to know their roles and responsibilities. A common board practice is to provide a “new board member training” that newly elected board members participate in to “get up to speed” with the existing board members on governance issues.

The board also has a duty to educate the company’s members or investors. Boards often use an electronic or hardcopy newsletter to educate and communicate with the company’s stakeholders on a monthly, quarterly or annual basis. The board chair will often provide a report on the company’s activities and performance as part of the newsletter. The individual directors may provide reports during various times of the year.

Boards need educational training on a wide range of topics. However, the major education focus areas are governance, strategy, and finance. Boards usually have a lot of information available to them in these areas but may not fully understand the materials they receive.

## Governance

It is the duty of the board of directors to construct a system for governing the business. State articles of incorporation and company by-laws (operating

agreement in the case of LLCs) provide a basis for governance. This is usually complemented with a book of board policies the have been designed by the board of directors. Educational training provides an important foundation for properly structuring business governance. This training can apply to any of the topics included in this series of fact sheets on governance. An example is “board evaluations” ([Information File C5-73](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-73.pdf), [www.extension.iastate.edu/agdm/wholefarm/pdf/c5-73.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-73.pdf)). Traditionally, the board recruited, interviewed, hired, and evaluated the CEO or general manager. However, the board has traditionally neglected to evaluate itself. Many boards would like to pursue board evaluations but find that they don’t know how to go about it. Board training and education on this topic are important for properly conducting the evaluation.

## Strategy

“Business strategy” ([Information File C5-74](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-74.pdf), [www.extension.iastate.edu/agdm/wholefarm/pdf/c5-74.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-74.pdf)) is an area where boards need to be involved. Traditionally, the CEO or general manager would design the company strategy (including its vision and mission) and bring it to the board for ratification. The board would then align itself with the strategy and move the company forward. However, most boards since the passage of the Sarbanes-Oxley Act of 2002 recognize that the board must be actively involved in designing company strategy.

Increasingly, value-added businesses recognize that farmers have good insight into the supply issues important for the value-added agricultural business. It’s very important that the board be a part of the process for developing a strategy business. However, many directors of value-added agricultural businesses are puzzled by the concept of strategy. Educational training on strategy and strategy development are important topics for successful governance.

## Finance

Boards often struggle with finance and numbers because, like many people, they are uncomfortable working with numbers. But understanding finance is critical to the success of the business. This includes understanding and interpreting “[financial statements](http://www.extension.iastate.edu/agdm/wdfinancial.html),” [www.extension.iastate.edu/agdm/wdfinancial.html](http://www.extension.iastate.edu/agdm/wdfinancial.html), such as net worth statements, income statements, cash flow statement, statements of change in financial position, etc.

Financial ratios are also important for the board to review and discuss. The board doesn’t necessarily need to know how the ratios are calculated.

But it needs to know what the ratios mean, how to interpret them in the context of their business, and how they have trended over time. Knowing how to benchmark their performance against themselves as well as others like them is important. Also the board needs to understand items like loan covenants with their lender, why they are important, and the consequences of being in violation.

The board needs to understand the context within which the financials are derived. When a value-added agricultural business has a year or several years of low production (e.g. poor crops), the financial performance of the business may fall below standard guidelines. Yet the directors need to know that the CEO may be managing the company to the best of their ability.

## Related Ag Decision Maker Files

File C5-70, [Introduction to Governance](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-70.pdf), [www.extension.iastate.edu/agdm/wholefarm/pdf/c5-70.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-70.pdf)

File C5-71, [The Role of the Board of Directors](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-71.pdf), [www.extension.iastate.edu/agdm/wholefarm/pdf/c5-71.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-71.pdf)

File C5-72, [Recruiting, Selecting and Developing Board Members and Managers](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-72.pdf), [www.extension.iastate.edu/agdm/wholefarm/pdf/c5-72.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-72.pdf)

File C5-73, [Board of Director Evaluations](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-73.pdf), [www.extension.iastate.edu/agdm/wholefarm/pdf/c5-73.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-73.pdf)

File C5-74, [Business Strategy and the Board of Directors](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-74.pdf), [www.extension.iastate.edu/agdm/wholefarm/pdf/c5-74.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-74.pdf)

File C5-75, [Governance Issues Unique to Start-up Businesses](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-75.pdf), [www.extension.iastate.edu/agdm/wholefarm/pdf/c5-75.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c5-75.pdf)

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