The Role of the Board of Directors

Ag Decision Maker
extension.iastate.edu/agdm

File C5-71

The board of directors, including the general manager or CEO (chief executive officer), has very defined roles and responsibilities within the business organization. Essentially, it is the role of the board of directors to hire the CEO or general manager of the business and assess the overall direction and strategy of the business. The CEO or general manager is responsible for hiring all of the other employees and overseeing the day-to-day operation of the business. Problems usually arise when these guidelines are not followed. Conflict occurs when the directors begin to meddle in the day-to-day operation of the business. Conversely, management is not responsible for the overall policy decisions of the business.

The board of directors selects officers for the board. The major office is the president or chair of the board. Next, there is a vice-president of vice-chair who serves in the absence of the president. These positions are filled by board members. Next it usually has a secretary and treasurer or combined secretary/treasurer. These positions focus on very specific activities and may be filled by electing someone who is serving on the board of directors or appointing someone who is not a member of the board of directors. The selection process is often based on who is willing and who is the most qualified, although seniority may come into play. Each board may have their own ways of handling those issues.

The seven points below outline the major responsibilities of the board of directors.

1) **Recruit, supervise, retain, evaluate and compensate the manager.** Recruiting, supervising, retaining, evaluating and compensating the CEO or general manager are probably the most important functions of the board of directors. Value-added business boards need to aggressively search for the best possible candidate for this position. Actively searching within an industry can lead to the identification of very capable people. Don't fall into the trap of hiring someone to manage the business because they are out of work and need a job. Another major error of value-added businesses is under-compensating the manager. Managerial compensation can provide a good financial payoff in terms of attracting top candidates who will bring financial success to the value-added business.

2) **Provide direction for the organization.** The board has a strategic function in providing the vision, mission and goals of the organization. These are often determined in combination with the CEO or general manager of the business.

3) **Establish a policy based governance system.** The board has the responsibility of developing a governance system for the business. The articles of governance provide a framework but the board develops a series of policies. This refers to the board as a group and focuses on defining the rules of the group and how it will function. In a sense, it's no different than a club. The rules that the board establishes for the company should be policy based. In other words, the board develops policies to guide its own actions and the actions of the manager. The policies should be broad and not rigidly defined as to allow the board and manager leeway in achieving the goals of the business.

4) **Govern the organization and the relationship with the CEO.** Another responsibility of the board is to develop a governance system. The governance system involves how the board interacts with the general manager or CEO. Periodically the board interacts with the CEO during meetings of the board of directors. Typically that is done with a monthly board meeting, although some boards have switched to meetings three to four times a year, or maybe eight times a year. In the interim

Reviewed November 2021

between these meetings, the board is kept informed through phone or video conferences, postal mail or e-mail.

5) **Fiduciary duty to protect the organization's assets and member's investment.** The board has a fiduciary responsibility to represent and protect the member's/investor's interest in the company. So the board has to make sure the assets of the company are kept in good order. This includes the company's plant, equipment and facilities, including the human capital (people who work for the company.)

6) **Monitor and control function.** The board of directors has a monitoring and control function. The board is in charge of the auditing process and hires the auditor. It is in charge of making sure the audit is done in a timely manner each year.

Governance Models

A board of directors is a collection of individuals trying to operate as a group. Functioning as a group is something many people are not comfortable with. So each board evolves with its own culture. Each culture is dictated by the backgrounds of the individuals on the board. However, there are several governance models of how a board of directors can function. Examining and choosing the right model is important because it will impact the success of the value-added business.

Below are four governance models. The board of directors must decide which model is best for them.

1) **Manager Focus –** With this model, the manager dominates the board. We can all think of situations where we have had one dominant individual in a group. In this case, the board functions as an advisory board and reacts to the views of the manager. It is essentially a "rubber stamp" for the CEO. This model often emerges when you have a charismatic CEO who is very dominant and proactive in running the organization. In most cases, this is not a good model for a value-added business.

2) **Proactive Board –** This model is of a proactive board that speaks as one voice. It speaks as one voice for the board and often has a proactive manager that also speaks with one combined voice for the organization. This is a good model because the manager and the board are on the same page and speak with a single voice. This model is proactive in taking advantage of emerging opportunities and is especially valuable for entrepreneurial businesses.

3) **Geographic Representation –** This model focuses on the members/investors whom the board member represents. With this model, the board member feels that they have been elected to the board to represent individuals in a geographic location or special interest group. To better understand this model, think of an individual running for a political office and then representing the interests of the individuals located in that geography. This is often found in large boards, typically of 24 to 50 individuals. With a large group like this there is a temptation for the directors to represent the interests of the members/investors in their geographic area or special interest group rather than the best interests of the company. This is not a model that works well for most value-added businesses.

4) **Community Representation –** In this situation the board member is representing the community rather than the organization. An example of this is a school board where an individual is elected to represent certain interests within the community.

These four models are ways in which the board and its organization function. Often there are directors who have previously been on boards where they have been chosen to represent a certain group or have been a rubber stamp for the manager. So it is natural for a director to think that this is how all boards function. But it is a good practice for boards to actively investigate and discuss the models presented above and choose the right one for their situation. This is usually a model where the directors are all active and present a single voice of what is best for the organization. What is best for the organization will usually also be good for the various members/investors and the stakeholders in the community.

Related Ag Decision Maker Files

File C5-70, Introduction to Governance, www.extension.iastate.edu/agdm/wholefarm/pdf/c5-70.pdf

File C5-72, Recruiting, Selecting and Developing Board Members and Managers, www.extension.iastate.edu/agdm/wholefarm/pdf/c5-72.pdf

File C5-73, Board of Director Evaluations, www.extension.iastate.edu/agdm/wholefarm/pdf/c5-73.pdf

File C5-74, Business Strategy and the Board of Directors, www.extension.iastate.edu/agdm/wholefarm/pdf/c5-74.pdf

File C5-75, Governance Issues Unique to Start-up Businesses, www.extension.iastate.edu/agdm/wholefarm/pdf/c5-75.pdf

File C5-76, Board of Director Educational Needs, www.extension.iastate.edu/agdm/wholefarm/pdf/c5-76.pdf

By Mike Boland, director,
The Food Industry Center, University of Minnesota
boland@umn.edu
Don Hofstrand, retired extension value added agriculture specialist, agdm@iastate.edu