

four times a year, or maybe eight times a year. In the interim between these meetings, the board is kept informed through phone conferences or postal 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 are 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 he/she has 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 you have 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 AgDM files

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- Recruiting, Selecting and Developing Board Members and Managers – C5-72
- Board of Director Evaluations – C5-73
- Business Strategy and the Board of Directors – C5-74
- Governance Issues Unique to Start-up Businesses – C5-75
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