

Still Drinking Policy Governance Lite

BY HEATHER SCHMIDT ALBINGER

Several years ago, the Outpost Natural Foods Cooperative board of directors implemented changes to its use of the Policy Governance model. The president and general manager presented the work at the CCMA conference, and an article was published in *Cooperative Grocer* in September/October 2006. (Subsequent issues carried comments from readers, including one who called our version “Policy Governance Lite.”)

The modifications made to the Policy Governance model included:

- addressing the cost aspect of ends policies using strategic initiatives;
- reducing what had become an overly prescriptive limitations policy register to a single global limitation policy that addresses six limiting principles, and then adopting more rigorous monitoring of this global limitation policy through both direct inspection and external reports; and
- linking board process policies to meeting fiduciary obligations.

Outpost now has had several years of governing our cooperative under these changes. This article is designed to provide some evaluation of the changes and to share the successes and challenges to better support board leadership system-wide.

Ends: Strategic initiatives address costs

Review of Process: The Outpost board of directors continues to allocate a significant amount of agenda time each month (30–45 minutes of our two-hour meetings) to envisioning the future. The exercise centers on topics brought to the meeting by board members, the general manager or her employees, or invited guest speakers. These sessions help the board think big about where the organization is headed, how new ideas and directions feed into ends policy; they also affect the prioritization of ends policies that we determine annually through our strategic initiative discussion.

With the general manager, we continue to set three to five strategic initiatives annually that link directly to, or further define, specific ends policies. We also tie these strategic initiatives into a rubric for general manager compensation. During the year, the general manager provides frequent monitoring of these strategic initiatives through an accepted interpretation and measures that demonstrate progress toward these initiatives.

Although Policy Governance author John Carver doesn't specifically use the term “strategic initiative,” our board has treated this process as

an important part of ends development, in particular with respect to cost. Because our and many cooperatives' ends statements leave the general manager with a multitude of possible priorities, the Outpost board has found it a key part of our strategic role to further define ends annually through this strategic initiative process.

Successes and challenges

The board and general manager continue to find this use of strategic initiatives helpful: the board speaking specifically to the cost or prioritization of ends, and the general manager with a clear interpretation of what is prioritized for progress toward multi-faceted ends statements. There is a link between our “envisioning the future” sessions during the year and the initiatives set for the following year.

In addition, the increased frequency in monitoring these strategic initiatives keeps the general manager focused and the board involved in specific ways the cooperative is working toward ends. This helps the board as it links with owners.

Finally, the board has found a way to tie the governance system clearly into a compensation/bonus plan by annually linking the annual strategic initiatives to specific bonus amounts for the general manager via a balanced scorecard rubric.

The main challenge of defining strategic initiatives occurs when priorities need to change during the year, either during times of financial difficulty or when the environment changes unexpectedly. With a culture of honest and open communication between the board and general manager and a willingness to remain open to new situations, this challenge has not been a difficult issue for our board.

Executive limitations policies and monitoring

Review of Process: In efforts to reduce our lengthy, overly prescriptive policy register, the Outpost board decided to adopt a global limitation policy that speaks to six limiting principles: integrity, legality, mutual respect, sustainability, growth and accessibility. These limitation principles are monitored in various policy areas including financial condition and planning, employee relationships, and owner/shopper relationships. For each internal report on these limitations, the board monitors externally or via direct inspection. The monitoring process is illustrated in the table on the facing page. ■>

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Executive Limitations Policies and Monitoring

METHODS	TYPE	PRINCIPLES					
		Integrity	Legality	Mutual Respect	Sustainability	Growth	Accessibility
Financial Planning and Condition	Internal	X	X		X	X	
Audit of Financial Statements, including review of Internal Control	External	X	X		X	X	
Debt Covenant Review	External	X	X				
Review of growth in owners	External					X	
Asset Protection	Internal	X			X		
Confirmation of Insurance Coverage on Assets	External	X			X		
Employee Relationships and Workplace Safety	Internal	X	X	X			
Employee Survey	External	X	X	X			
Legal Review of HR policies	External	X	X	X	X	X	X
EEOC Report	Internal		X	X			X
Workers Compensation Report	External		X	X	X		
Code of Conduct Policy	Direct	X		X			
Union Representative report on Grievance Process	External	X		X			
Owner and Shopper Relationships	Internal	X		X			X
Owner Survey	External	X		X	X	X	X
Shoppers Survey	External	X		X	X		
Material values and issues presented by owners, employees and shoppers	Internal	X		X			X
Report on owner, shopper and employee contact	Direct	X		X			X
Relationships with vendors, co-op and Milwaukee community	Internal	X		X			
Local supplier purchases	Internal						X
Number of owners, market share and development of new products and services	Internal					X	
Review of growth in owners	External					X	
GM Succession Plan and Crisis Management	Internal				X		
Review GM Succession Plan and Crisis Management	External				X		
Bylaws	Internal		X				

Duties of Care, Loyalty, and Obedience to Cooperative Owners

METHODS	TYPE	FREQUENCY	PRINCIPLES		
			Care	Loyalty	Obedience
Board Member Expectations and Discipline Policy	Written	Quarterly	X		X
Financial Statement Training	Verbal	Annually	X		
Financial Statement Analysis	Verbal	Quarterly	X		
Conflict of Interest Policy and Disclosure	Verbal	Monthly		X	
Board Member Self Evaluation and Summation Report	Written	Annually	X	X	X
Familiarization with organizational ends/initiatives/policies	Verbal	Quarterly	X		
Verification of information provided by management	Written	Annually	X		
Board Retreat	Verbal	Annually			X
New member orientation	Verbal	Annually	X		
GM Evaluation by Board	Written	Annually			X
Board Evaluation by GM	Written	Quarterly	X	X	X
Review of Board's plan for GM succession	Verbal	Annually	X		
Owner Survey regarding values with full board reviewing results	Written	'06, '08, '10			X
Strategic Linkage Plan including annual linkage events	Written	Annually			X
Annual Linkage Plan Review	Written	Annually			X
Linkage committee reports	Verbal	Monthly			X
Annual meeting	Verbal	Annually	X	X	X
Annual Calendar development and approval	Verbal	Annually	X		X
Monthly Agenda review and approval	Verbal	Monthly	X	X	X
Monthly meeting evaluation	Written	Monthly	X		X
Annual President and Secretary Evaluation	Written	Annually	X		X
Internal Report from GM on governing as a whole board	Written	Semi Annual	X		
Report on owner, shopper and employee contact	Written	Annual	X		X
Bylaw Review	Written	Annually	X		X
Ch 185 Review	Written	Biannually	X		
The board uses a consensus decision making process and a decision making rule of unanimity. If unanimity is not possible, the decision making rule is majority vote.	Verbal	Monthly	X		X
Board Budget	Written	Annually	X		X

◀ ■ Successes and challenges

Use of direct inspection and external reports has provided our board with additional evidence with which to evaluate the reasonableness of management's interpretation and the data that supports compliance. In addition to providing answers to these questions, the process has also served the organization operationally as areas of improvement are highlighted by external sources.

Finally, and perhaps most importantly, the board of directors meets its duty of care in monitoring, making sure that not all the information is coming through the lens of just one person.

The first challenge that we faced in increasing our external monitoring was identifying what we were looking for from the external reports. We needed to be clear that the general manager was the one to interpret policy, not the external source. When communicating with our externally hired consultants, we got better at defining our needs and improving our ability to assess the reasonableness of management's interpretation and/or to verify the data that supports management's conclusion.

The main challenge of the external monitoring has been one of cost. External reviews are often expensive. The board has addressed this challenge by rotating the external reviews. With the exception of the financial audit, most of the external monitoring is on a biennial or

triennial schedule.

A final challenge is increased board time needed to allocate the board budget among competing priorities. The board has to weigh benefits of rigorous monitoring with board training, compensation, and other board budget items. This is a useful exercise in keeping the board focused on its own governing process and role.

Board meets fiduciary obligations

Review of process: The board process policies are organized around the board's meeting its fiduciary obligations to the ownership. See the chart on the left for a list of monitoring methods and fiduciary obligations that they fulfill. A key item is quarterly monitoring of the board expectations policy, which provides a quarterly discussion of how well the board is doing its job.

Successes and challenges

The board continues to experience success with this framework for board process. Expectations for board members are clear and discussed frequently enough to encourage increased compliance. This policy has created a board culture where we have well-planned, efficient and inspiring meetings and smooth leadership transitions.

The challenges that we face as a board are ones of orientation of new board members and board development. Our board has progressed through multiple iterations of policy

development and use of the Policy Governance model to get where we are at now, with a very lean and powerful system. Structuring the board's organizational knowledge as long-term members rotate off the board and orienting new board members as quickly as possible are both real challenges. We are in the midst of discussing our approach to board development and are considering expanding the role of the nominations committee to one that focuses more broadly on board development overall: training, stipends, orientation, needs, nominations and election.

Conclusion

The purpose of this article is to share the successes and challenges faced in our board's utilization of the Policy Governance model. It is not written to advocate that our way is the right way. The Outpost board is committed to the concept of continuous learning and to ways to make our governance model work for our cooperative in our specific environment.

We have been open to new ideas and have had some successes, as indicated, in our implementation of these new ideas. We welcome calls and visits from other boards and have had the pleasure of talking with some of you in the past. We wish you all, in the spirit of cooperation, happy governing. ■



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