

2004 FARMER COOPERATIVES CONFERENCE

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SUBJECT: LEADING THE WAY: HOW TO FOSTER INNOVATIVE AND EFFECTIVE COOPERATIVE LEADERSHIP

First, I want to make it clear that I have not been as close to the U.S. agriculture and food system as I was prior to my retirement in 1991, 13 years ago. So, while some of my observations today will be broad in scope, I intend for them to be accurate and specific with respect to what I consider to be the major challenges facing cooperative board innovation and effectiveness.

Much has already been identified during this conference, and much has been written, about the dramatic and exponential rate of change effecting American agricultural production and cooperatives. Therefore, the question as I see it is how well are local and regional cooperatives positioned and organized to effectively and innovatively address needed changes in the systems they serve? Obviously, the answer to that question varies between individual cooperatives and systems.

I believe that one of, if not the most challenging issue in today's cooperative world is achieving and maintaining an effective and innovative relationship between the management and the board.

I believe that addressing this must begin with the institutionalization of **BASIC MANAGEMENT DISCIPLINES**. I view these, as related to any business, in this order of priority:

- **Accountability Management**
- **Financial Control, Accounting & Finance**
- **Human Resource Management**
 - Administration of Objective Setting/Performance Appraisal Process
 - Compensation Administration
 - Labor Relations
- **Strategic Management/Planning**
- **Management of Change**
- **Safety and Environmental**
- **Management Development**

- **Credit and Collections**
- **Marketing (including supply & distribution)**
- **Manufacturing and Processing**
- **Research & Development**
- **Asset Management**
 - Fixed Assets
 - Receivables
 - Inventories
- **Purchasing**

For the purposes of this presentation I am going to focus my comments on **Accountability Management, Strategic Management/Planning and Management of Change**. The reason for this focus is because “fostering innovative and effective cooperative leadership” is not even a remote possibility in the absence of a commitment to these three critical business disciplines.

ACCOUNTABILITY MANAGEMENT

It is absolutely essential that a carefully prepared objective setting and performance appraisal system be in place which makes it possible for the board of directors to periodically evaluate the performance of management. This can be done effectively quarterly or semi annually, but the evaluations should not be a full year apart.

To put an effective objective setting/performance appraisal system in place, it is best for the manager to bring a time line plan to the board for discussion, changes and board approval. Objectives should be reasonably measurable, and a performance ranking methodology for each of the objectives is essential.

There must be a clear understanding between the board and management that management will report effectively to the board, not less than monthly, on the progress being made on accomplishing the board approved key objectives. Done properly, the quarterly, semi-annual and annual performance evaluation will not be a subject for debate, because the comparative facts will speak for themselves. When this process is in place and being managed effectively for the top manager in the organization it

becomes possible to effectively put in place the same process throughout the management structure of the organization.

It is also extremely important for there to be in place a clear understanding that it is the responsibility of the board of directors to clearly understand the detail of how the company is being managed, and potential legal, financial and audit exposures.

Unfortunately, several recent examples of inadequate commitments by boards to clearly understand the activities and practices of management have made possible the prevalence of unethical practices by management. One of the most outstanding examples of this unfortunate failure to adhere to basic management disciplines and responsibilities is the Enron case. Here is what appears to have been missing from that company:

The board was obviously not demanding a continuing broadening of detail with respect to how management was spending their time. The board was obviously not putting in place any methods to insure that the board would be properly informed with or without the consent and approval of management. The board was not taking steps to encourage direct, confidential communications between employees and the board with respect to questionable activities.

I served for eleven years on the board of a major, global engineering firm, until I reached the age limit included in the by laws. I was especially impressed by the continuing efforts of management to make certain that the board members understood the management methodology and operational detail. This required several special sessions per year when the board met with corporate departments and employees for open presentations and forum discussions. The process encouraged employees to make recommendations, observations about operational concerns, and to establish a relationship with board members.

Following the Sarbanes Oxley Act approved by Congress, the company's management got board approval to put in place an internal audit committee which reported to the board and management. The committee had clear instructions to operate independently and to determine on their own how they would spend their time to satisfy themselves that financial management of the company was being dealt with correctly. These actions brought a high level of comfort to the board of directors.

STRATEGIC MANAGEMENT/PLANNING

Proper and effective development and implementation of an objective setting/performance appraisal system is dependent upon the carefully orchestrated development of a long term plan, i.e. **Strategic Management Planning**. This, of course, must include a time line action plan which clearly defines the most important actions to be taken which will facilitate achievement of the near term and long term elements of the **strategic plan**.

This is often done best with outside assistance in determining “where we are, where we must go, and how we are going to get there”. In order to do an effective job of developing a long term plan, there must be developed a good, agreed upon analysis of the likelihood of changes in the company’s business environment, driven largely by forces over which the business management has no control. Many of the planning decisions requiring change will be discomfoting, and when the plan is in place, it becomes very important to communicate effectively to the owners and employees what the long term changes are likely to be, and the driving forces which are bringing about the necessity to make changes. What is the alternative?

Unfortunately, all too often the alternative used is to stay on track in hopes that it won’t be necessary to change. But, it is important to remember, and be reminded, that we live in a period in which the rate of change is exponential and is likely to continue to be such.

When the board and management have agreed to and adopted a long-term plan, which recognizes the importance of uncomfortable change, the plan becomes a commitment, which can be effectively communicated to all participants as part of the preparation process.

An effective strategic plan must recognize that carefully identified critical changes in the company’s management methodology will be made if the identified changes outside our range of authority do occur. None of this is easy to accomplish, but if the need to put a long term plan in place, revise it annually as necessary, and be guided by it as a commitment is ignored, the board and management can expect that they will spend a high per cent of their time reacting to what is going on within their sphere of influence as opposed to proactively taking carefully organized action steps to respond effectively to the changes viewed as inevitable. I view this as one of the most important weaknesses and vulnerabilities of cooperative systems.

MANAGEMENT OF CHANGE

Finally, designing and managing change proactively is an important need in the cooperative systems, and I believe can be considered to be the most important element of innovative and effective cooperative leadership. To manage important strategic, operational, capital and customer relations changes it is imperative that management and the board become fully committed to recognition that survival will depend upon proactive change. Once that commitment is clearly in place, the key players need to begin to communicate effectively the needs of the organization, and in general terms, the steps which will be taken to accomplish the changes effectively over an extended period of time. This makes it possible to reduce the chances of negative surprises and resistance to changes by everyone affected. These are the most important methods needed to avoid resistance to needed changes in the cooperative systems.

I am often reminded of one of my favorite sayings going back many years, the author of which I have never known for sure, “if we don’t know where we are going, any road we choose will take us there”. Again, I strongly believe that the management of critical change is one of if not the most important challenges that cooperative systems face today and will be facing in the future.