



YOU AND YOUR DIRECTORS: LESSON IN COMPATIBILITY

In Germany and throughout much of Western Europe, corporate boards of directors are often composed of a group of university professors. Serving as a director is considered by these academicians to be an acceptable method of fulfilling their public service obligations. In Great Britain, on the other hand, professional directors, i.e., individuals with particular qualifications who earn their living exclusively by serving in this capacity, staff boards.

Our Directorate System

Neither the German nor the English directorate system has proven particularly suitable to American business. An analysis of the boards of directors of early American corporations would reveal strong individual or family influences. This was probably due to the fact that prior to incorporation the business was privately owned. This family influence soon became apparent in the managerial actions of the firm. Moreover, manager-director relations often became strained when the need for additional capital required expansion of public ownership, which then diluted family control.

These early attempts to widen the administrative base of a business resulted in the addition of so-called independent directors. These directors were selected by the firm's ownership to represent no special financial or business interest, paid a retainer fee for their part time service, and asked to render major policy statements on behalf of the firm.

Over time, a much improved directorate system evolved. Most American businesses now operate within a system whereby directors and managers act together as a compatible and effective group. Directors are selected on the basis of their overall abilities; their personal interests being so widely

dispersed that the general welfare of the business, as a whole, is paramount in all their considerations.

Even this system has its deficiencies, however, appearing in the form of a limited number of persons qualified to serve as productive directors. Nowhere is this shortage more acute than in our agribusiness industry. There are simply not enough individuals in the country capable or willing to spend the time required to bring sound and intelligent judgment to agribusiness boards.

Most agribusiness directors are direct representatives of the firm's ownership. This is particularly true for agricultural cooperatives, of course, where directors usually are both owners and patrons of the business. It is interesting to note, however, that many agribusiness firms are reconstituting their boards to take greater advantage of independent directors. Their addition is likely to broaden a firm's planning perspective, widen its base of managerial talent, and provide for a more objective appraisal of proposals made by either the manager or the board, i.e., they perform well as buffers between a manager and the representatives of firm ownership.

Independent Directors

Agricultural businesses are attempting to overcome the institutional barriers to the addition of independent directors. Some firms have already added independent directors to their board on a permanent basis while others have done so on an experimental basis.

A good source of independent directors is the pool of people who have just recently retired from active participation in business. Fortunately for many agribusiness firms, these persons retain their sound judgment and general capabilities long after relinquishing their formal executive activities. A retired person can sometimes be used effectively

as a director of the same business from which he retired. More often this is not the case, however, as friendships and animosities created during his active employment often create problems when they are carried into the board meeting. Men retired from an allied or related business will likely prove more acceptable as directors, particularly during periods of internal strife.

A board composed of elected ownership representatives, a retired executive and an appointed independent director may sound like an impossible consortium. Perhaps it is. On the other hand, it may provide an agribusiness firm with the initiative and ability to look beyond it, and thereby consider activities, investments, and policies, which owner representatives, alone, might not have recognized.

Manager-Director Responsibilities

The manager and directors of an agribusiness firm have responsibilities to four factions: (1) the stockholders, (2) the general public, (3) the labor force, and (4) the government. Fortunately for our agribusiness sector, there is an increasing amount of professionalism to be found among management teams. Agribusiness firms are now outwardly displaying a general sense of social responsibility. In our own State of Washington, for example, one sees the development of a type of "esprit de corps" among agribusiness managers. This feeling of mutual respect and cooperation developed first along commodity or trade lines. Later I suspect (and hope) this professionalism will permeate even the more traditional barriers in the form of cross commodity groups, agribusiness councils, marketing forums, etc.

This is not to say that agribusiness is rid of so-called pirate operations and unscrupulous managers. Nor is it to claim that agricultural businesses now operate with an idealist's disregard for the hard facts of profit and loss. However, it is to assert that an increasing number of agribusiness firms have developed or acquired managerial talent with intelligence, integrity, and ambition such that their recognition of responsibilities rises well above the urge to "make a buck" by what ever means are available. In

short, they have a longer range perspective. Along with this recognition of their responsibilities to stockholders, agribusiness managers and directors are now taking a much wider view of their social and economic obligations to the general public, labor force, and government.

Perhaps the single most important function of a board of directors consistent with a wider and longer range view of their responsibilities the selection of a firm's chief executive officer. When a manager must be selected, directors must act with great vigor. They must operate as an independent body, open to outside advice and counsel, but decisive enough to maintain full control. Unfortunately, it is at this early stage that manager-director compatibility first breaks down. Rarely is a particular Manager a unanimous choice of all directors. Those directors who were overruled in the selection process often tend to transform their disappointment into an early attempt to dominate the manager. All suggestions from management are subjected to abrupt and abrasive criticism by those few disgruntled directors. It is not long before the manager retaliates in kind to suggestions by directors. Finally, this manager-director incompatibility takes the form of an overt attempt by both parties to embarrass one another. By this time, internal relations are on the brink and the business has suffered irreparable damage.

Agribusiness managers should continue their pursuit of professionalism and directors should develop a broadmindedness, which will enable them to conduct a more accurate appraisal of managerial performance -- or lack thereof.

Judge, But Do Not Administer

If manager-director relations are to be maintained at a productive level, directors must learn to judge, but not administer. In other words, directors should consider it their responsibility to judge management, but not enter into it. A manager should be called upon to justify major plans and programs to directors. Directors, in turn, should be expected to render a sympathetic, yet rigorous judgment of these plans and programs. At no time should directors become

involved in the administration of these plans or programs.

This procedure not only promotes manager-director compatibility and assists in sound managerial planning, but it is also in the best interest of the manager. After all, the manager who is never asked to defend his actions, nor has his programs subjected to judgment, will find himself in a tough spot when a crisis develops. Every agribusiness manager must have a board of directors before which he can appear and present his proposals, and from which he will draw a judgment. This procedure need not be exceedingly formal, but it must exist. Once the judgment has been made, the manager, alone, must have the authority to administer day-to-day operations of the firm without interference.

This procedure is habitually violated in bureaucratic systems. Government executives for example, often find that there exists no centralized group to sit in judgment of their plans and ideas. Instead, an individual's proposals are circulated for appraisal, on a piecemeal basis through a vanguard of unrelated bureaus, some of which are hostile, all of which are too overburdened with their own work to render a meaningful judgment. Government is now beginning to recognize this as being their greatest weakness, but it will be some time before remedial action will allow government to manage itself properly.

Agribusiness firms must not allow themselves to fall into this managerial morass. Inertia, tradition, company loyalty, etc. can cover for manager-director incompatibility for a short period of time. But under highly competitive conditions, the agribusiness firm must prepare for the long pull and cannot afford the cost of bureaucratic ineptitude. The key is an effective board of directors, properly constituted, vigorously pursuing its role as a judge and ultimate authority, but abdicating any involvement in the day-to-day administration of the firm.

What About the Manager?

Whether or not a manager actually presides over board meetings is not critical, but he should always be in attendance. When special problems

arise, the manager may wish to have his assistant manager or accountant also in attendance. Beyond this, there is serious doubt that any other employees of the firm should attend such meetings (or sit as official members of the board). As firm employees become involved in manager-director relations, both the manager and the employees are likely to be placed in an uncomfortable position. For example, if asked to render a comment, the employee cannot (and should not) speak freely with the directors when such comment might adversely affect the manager's position. On the other hand, if a manager receives an adverse judgment from a director in the presence of an employee, the manager is likely to find this to his embarrassment.

For the benefit of promoting manager-director compatibility, it should be understood that except when the board requests outside counsel or guidance, all that goes before the board should come direct from the manager, either by his own initiative or in response to board request. If the directors are disappointed with the manager's performance they can discuss the matter with him privately or immediately obtain a new manager. At no time, however, should the directors enter into a manager's relations with his staff.

Directorate Committees

Departures from the manager-director line of command are few and taken only with a considerable degree of risk. In some circumstances, special directorate committees are established with the prerogative of bypassing the manager in reporting to the board. The danger of a director-composed finance committee, for example, in which the manager plays little or no role, is that the committee soon has a tendency to sway the managerial control through their fiscal recommendations. It is not long before the firm then has two administrators; the manager himself and the chairman of the finance committee. Many of these problems can be avoided by establishing a committee with responsibilities to both the board and the manager.

Another common diversion from the direct manager-board line of command appears in the

form of a so-called executive committee normally composed of a few select directors. Insofar as the manager is concerned, relations with this committee differ very little from those with the fully constituted board. The executive committee is an administrative time saver. For example, there are points on which a manager needs a judgment, but which are not of such great importance as to require concentrated study by the full board. In another situation, a preliminary analysis by an executive committee of an important matter may assist in the final disposition of that item when considered by the entire board.

The question of the need for additional directorate committees is a complex one. Many aspects of an agricultural business require considerable knowledge of engineering and related physical sciences. Agribusiness directors, on the other hand, are generally most knowledgeable in the areas of business, finance, and marketing and have limited training or experience in these technical sciences. A special directorate committee, therefore, may be needed to judge special technical matters outside the understanding of the entire board. It is not unlikely, however, for the manager to have an understanding of some technical problems. In such cases, he should be included on the committee, thereby utilizing his talents and avoiding the impression that he is being bypassed in the committee's deliberations.

Directorate Activity

About one year ago I asked a group of agribusiness directors what their major activities were. Many of the directors agreed that their major activity was regular attendance at board meetings. To fulfill their responsibilities properly, directors need to engage in activity beyond their mere attendance at board meetings. Moreover, directors should attempt to maintain a familiarity with the normal internal operations of the firm. Yet these contacts must remain discrete and not in any way interfere with the operational management of the firm. As a general rule, such internal contacts should provide a source of information for the directors, but used only when conditions warrant, i.e., normal business and

director inquiries should continue to be handled through channels. This principle should be applied at all levels of firm management, but it is especially critical in the area of manager-director relations. Any attempt by directors to undermine a manager's authority through internal contacts and persuasion is certain to result in chaos and a complete breakdown in manager-director compatibility. Any attempt by an employee to contact board members except through management channels should be grounds for his dismissal.

There are several devices, which enable directors to establish and maintain internal firm contacts without arousing the suspicions of the manager. One such device is a so-called retreat, during which directors, the manager, and his staff conduct a semi-social gathering, preferably in a remote location, for the purpose of discussing and planning broad firm policy. This procedure has been used by large American corporations for some time and seems to work well. On a somewhat reduced scale, it may also prove worthwhile for agricultural businesses.

At no time, however, should an employee directly contact a director, or visa versa, without the knowledge and approval of the manager. Moreover, the manager should have the authority to select the employee with whom the directors may consult on specific matters.

Summary

The American system of business management functions most effectively in an environment of compatibility between firm managers and their boards of directors. Managers and directors should not represent opposing forces. Instead, each should assist the other in an attempt to control and administer a firm in the best possible manner. Manager-director compatibility will not naturally evolve from normal business activities. Both parties must actively search for it. I have proposed several means by which agribusiness managers and directors might be more successful in this search. They include:

- (1) Firms not already doing so should consider the addition of independent directors to their boards.
 - (2) Both managers and directors should develop a fuller appreciation for each other's responsibilities.
 - (3) Directors should sit in judgment of management, but never actively enter into it.
 - (4) A manager should be in attendance at regular board meetings and never reprimanded in the presence of his staff.
 - (5) Departures from direct lines of authority between directors and a manager and between the manager and other employees should be avoided.
 - (6) Directors should maintain some contact with the firm's personnel, but only through direct managerial involvement.
-

COOPERATIVE DIRECTOR WORKSHOP

Cooperative director workshops, are held in Seattle and Pullman at the end and the early part of the year. The program is designed to increase the understanding by participants of (1) modern concepts of management, and (2) the role of cooperative directors in the management of a business enterprise. Considerable emphasis is given to defining the proper functions of directors and delineating between director and manager decision areas.

We hope that managers of cooperative agribusiness firms will call these workshops to the attention of their directors and encourage them to attend. Managers are also welcome to participate.

If you wish to obtain further information about these two workshops, write or phone: [Ken D. Duft](#), Extension Marketing Specialist, W.S.U., Pullman, Wash (509) 335-2972.



Ken D. Duft
Extension Marketing Economist