

The Governed Organization: Creating Value, Managing Risks

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Defining Value-Added Businesses

Value-added business is one in which the “risk taker” is rewarded for performing either of two activities

Activities that have hitherto been performed by downstream firms

Activities never performed by firms in the supply chain

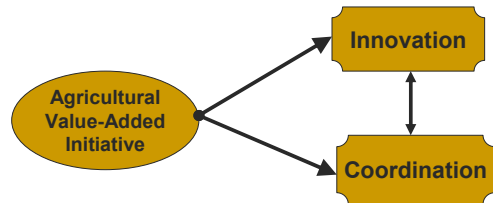
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Rewards

- Positive net return after risk which may come in the form of:
 - Higher prices
 - Higher volumes
 - Increased market access
 - Increased certainty of demand
- Every successful niche is a commodity in process
 - Maintaining rewards demand continuous improvement

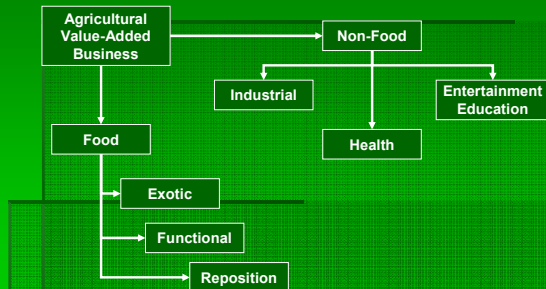
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Typology of Value-Added Businesses in Agriculture



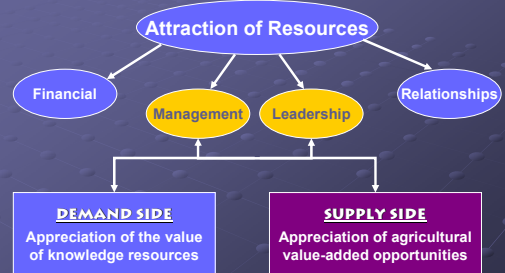
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Opportunity Slate



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Challenges



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Conversation Context

- Emerging agricultural value-added businesses have some of the main characteristics of public companies
 - Diverse ownership and interest
 - High capitalization
 - Professional management
 - Justified performance expectation by investors
- There is thus an increasing need for excellence in governance in these organization
- How should agricultural value-added businesses design their boards to ensure excellent performance?

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If the first button of your coat is wrongly buttoned, all the rest will be crooked

Great organizations depend on making sure the first things are right
And the first thing in the new business environment is GOVERNANCE

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Road Map

- The Governed Organization: An emerging concept
- The roles and responsibilities of directors in Governed Organizations
- Good governance, value creation and risk management: The case of two value-added companies



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Governance

- Whenever a group of people come together to achieve an objective (i.e., form an organization), it becomes necessary to establish governance protocols
- Governance is the process through which the organization makes decisions that direct the collective efforts of its members
- Governance encompasses the guiding processes by which human organizations – private, public or civic – steer themselves

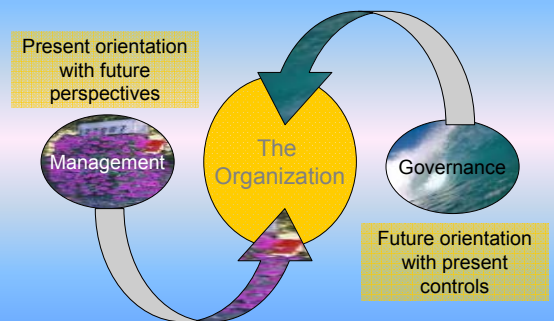
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Governance

- Governance is concerned with accountability and responsibilities; it describes how the organization is directed and controlled
- Governance is about achieving objectives through:
 - Organization – the units and structures, groupings, and coordinating mechanisms established for the management of the organization
 - Management – the roles and responsibilities established to manage business change and operational services, and the scope of the power and authority which they exercise
 - Policies – the frameworks and boundaries established for decision-making and the context and constraints within which decisions are made

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Governance and Management



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Future Orientation-Present Controls

- Future orientation about the organization
 - Products, services, value proposition (business)
 - Competitors and competitor behavior
 - Government policies (domestic and international)
 - Resources and Strategies
- Present controls
 - Decision processes
 - Management accountability
 - Transparency in shareholder and stakeholder relations

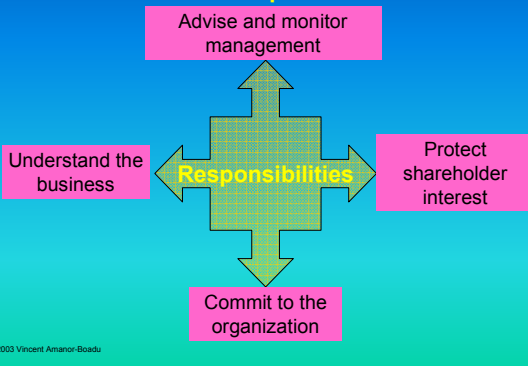
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Directors' Role: Good Governance

- Good governance is not about grabbing power or settling scores
- Good governance is about ensuring effective decisions-making
- With the overarching objective of achieving the organization's mandate, vision and mission
- The role of the board is to foster effective decisions and reverse failed policies

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Directors' Responsibilities



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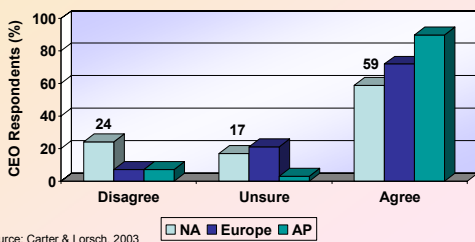
Designing the Governed Organization

- Structure
 - Size
 - Number of directors on the board
 - Committees
 - Audit
 - Nomination
 - Compensation
 - Finance
 - Leadership
 - Chair position and lead directors on committees

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Size and Effectiveness

Smaller Boards (< 10) are More Effective



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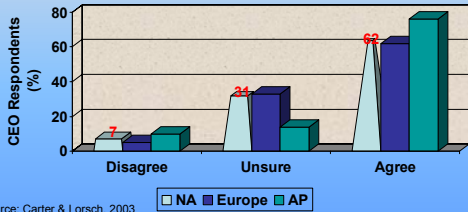
Designing the Governed Organization

- Composition
 - Diversity
 - Knowledge and skills
 - Experience
 - Insiders v. Independent
 - Insider directors
 - Traditionally those who are executives/managers
 - Increasingly being defined to cover all who do business with the organization – suppliers, customers, accountants, attorneys, etc.
 - Independent directors
 - Those who do not receive, other than for board service, any consulting, advisory, or other compensatory fee from the organization and being unaffiliated in any other manner (Sarbanes-Oxley Act, 2002)

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Diversity of Board

Boards need directors from more diverse backgrounds

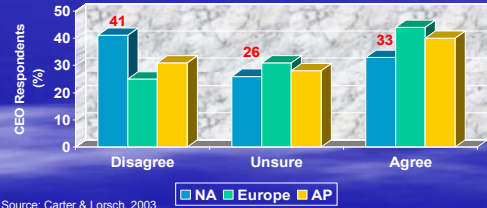


Source: Carter & Lorsch, 2003

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Independent Directors and Understanding of Business

Independent directors struggle to understand the business



Source: Carter & Lorsch, 2003

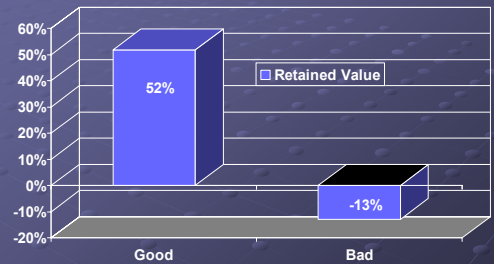
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Designing the Governed Organization

- ◆ Processes
 - Information collection and analysis
 - Knowledge development and dissemination
 - Decision-making, communication and implementation
 - Oversight, controls and risk management

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Good Governance and Crisis Management



Source: Business Week, 10/7/2002 "Best and Worst Boards: How Corporate Scandals are Sparking a Revolution in Governance"

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Good governance does not insure the business against crisis. It insures it against irrational decisions in times of crisis

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A Tale of Two Organizations

The Managed Organization

The Governed Organization

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The Managed Organization

- The managed organization model emerged as a result of disparate small shareholders characteristic of public companies in the 20th Century
- Is characterized by processes that
 - Define the board's role as hiring the CEO, monitoring management, and, when necessary, replacing the CEO
 - Support the development of strong CEOs and passive boards
 - "Board members have only one of two decisions to make – agree or resign"
- Relationship in managed organizations is about power and damage control
 - Board fires CEO if performance is disgraceful
 - Shareholders fire the board if performance is disgraceful

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The Governed Organization

- The governed organization is fostered by:
 - Effective leadership
 - Clear definition and implementation of roles
 - Committed people with aligned values
 - Effective governance model
- Institutes processes that integrate performance with:
 - Setting strategic decisions
 - Maintaining key relationships and
 - Safeguarding the health of the organization

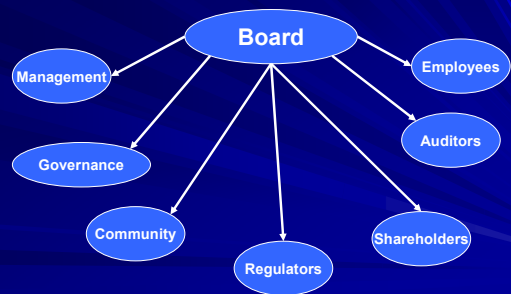
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The Governed Organization

- Exceptional performance results when the board and management collaborate on decisions and both regularly seek shareholder and major stakeholder input
- The role of the board in a governed organization is to foster effective decisions and reverse failed policies

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Board Domain in a Governed Organization



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The Case of Two Companies



Welch Foods, Inc.
and National Grape
Growers Cooperative

Ocean Spray
Cranberries, Inc.



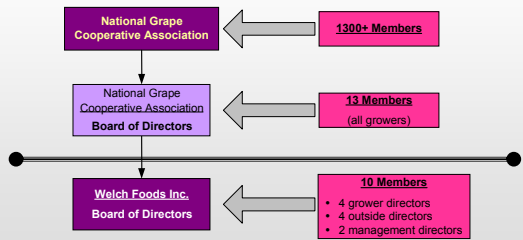
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National Grape and Welch



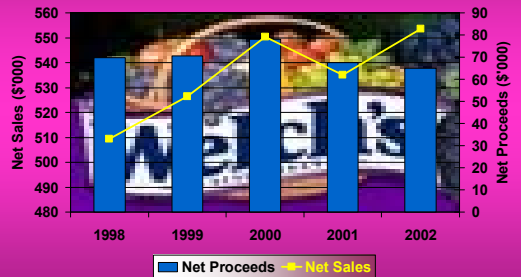
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Welch's Board Structure



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Welch's Financial Performance



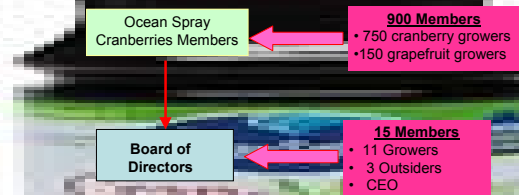
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Ocean Spray Cranberries



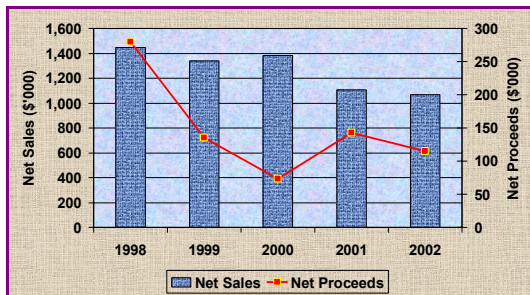
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Ocean Spray Board Structure



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Ocean Spray's Financial Performance



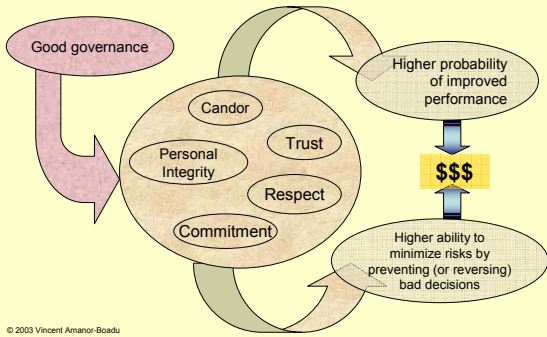
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The Governed Organization and Stability



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Conclusion



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Thank You

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