What is a Policy?

Written statement of the values and expectations which guide current and future decisions.

Why Have and Use Policies

- Critical in providing a legal paper trail
- Helps the board deal with re-occurring situations
- Established internal controls
- Helps achieve the results that members expect.
Default Policies

- In the absence of a clear written policy, the board's actions may set a precedent and become the "default" policy.

Keys for Effective Policies

- Comply with all applicable laws
- Should be consistently applied
- Be regularly reviewed and updated

Legal Implications of Policies

- Policies can provide important paper trails
- Policies are one component of important internal controls which help to prevent unauthorized actions
- Policies that are not well thought out or inconsistently applied can inadvertently obligate the board and the cooperative
Forming Effective Policies

- Start with the largest issue (example: no board member should participate in a decision in which they have a conflict of interest)
- Decide whether the broad policy addresses the situation or if more specifics are justified (example: specific descriptions of prohibited conflicts)
- Stop adding specifics when you can accept the interpretation of the policies you have developed

Types of Policies for Management

- Ends Policies
  - Sometimes called Results Policies
  - Clearly define specific results that are expected.
  - Determines the long term direction of the cooperative
  - Answers the question “What do we want.”
Example of Ends Policies

• Credit policies
• Policies for handling deliquent accounts
• Policies for handling employee absenteeism

Executive Limitations Policies

• Sometimes called “means” policies or “boundaries” policies
• Explicit statements about what practices, methods, or activities are either unacceptable or need board approval prior to taking action.
• The heart of the board’s legal and fiduciary responsibilities
• Answers the question “What will we NOT do.”

Example: Boundary Policies

• Grain marketing and hedging
• Authorization for capital purchases
• Development of operating budget
• Operation of association vehicles
• Travel authorization
Important Policy Areas

• Board operation
• Employment
• Finances
• Marketing

Board Operation Policies

• Board meeting procedures
• Conflict of interest
• Insurance and bonds
• Credit purchases by directors
• Confidentiality
• Director eligibility
• Director training and certification

Employment Policies

• Discrimination
• Sexual Harassment
• Vacation and Sick Leave
• Safety
• Personnel records
• Termination
• Employee purchases
• Classification of employees
Finance Policy

- Credit
- Borrowing policy
- Handling of deliquent accounts
- Director expenses
- Capital purchases
- Equity redemption
- Annual financial audit

Marketing/Production Policies

- Grain marketing and hedging
- Producer payments
- Operation of association vehicles
- Reporting injuries/accidents
- Purchasing policy

Adopting Policies

- Management and/or board committee should review policies annually
- Chairperson should appoint committee to draft needed policies
- Policy draft should be presented and adopted at board meeting
- Adopted policy should be recorded in the board minutes
- Directors and management team should be given complete manual of adopted policies
A policy is absolutely useless unless it is also absolutely clear how and when the board will determine whether a policy is being followed.