



## Cooperative Management Series

# Evaluating Cooperative Managers

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Manager appraisal is perhaps one of the most challenging and necessary tasks of the cooperative's board of directors. The board is faced with the challenge of conducting an unbiased review of the manager's performance while recognizing factors outside of the manager's control. The appraisal should always be forward looking. The primary purpose of an appraisal is to provide constructive feedback that will enable the manager to better achieve the organization's objectives. A strong manager, whom understands his/her role in the growth of the cooperative, is a great asset.

Unfortunately, the performance evaluation process can also be a source of stress and discontent for both the manager and the board. The manager may feel threatened by the evaluation process, disagree with the measures of performance, or feel the process is too subjective. Developing a formal evaluation makes the process less biased and less confrontational.

### Keys to an Effective Evaluation

The board should establish a routine process for the appraisal. The process should be one that both the board and manager can understand and accept. A board that is implementing an appraisal for the first time should start with a simple system.

### Plan Ahead

Manager evaluation should not begin when the manager walks in the boardroom. The board should accumulate available facts that will be included in the appraisal. This may include sales volumes, market share estimates, adherence to budgets and financial ratios, and objectives developed during the strategic planning process.

### The Job Description

The job description can also provide criterion on which the manager will be appraised. Leadership, responsibility, knowledge, member relations, and employee relations are just some of the areas that the job description can cover. These areas may also be useful in helping the board establish a procedure for manager evaluation.

### Performance Standards

The most important and most difficult step in evaluating performance is deciding what to measure. Whatever is measured will influence the manager's behavior. The performance standard answers the question, "What will be the measurable outcomes or activities that constitute a job well done?" It is therefore important that the performance appraisal measures the most important dimensions of performance.

Performance standards should follow the duties and functions of the manager as well as personal responsibility and relationships with others. However, they should avoid personal traits and characteristics individual to that person.

Performance standards can involve outcomes (example: return on equity) or actions (example: regularly holds employee meetings). Outcome based measures are preferred when the outcome can be clearly measured. The operational and financial aspects of the manager's job are usually best measured with outcome-based standards. Action based standards are preferred in areas in which the outcome is too difficult or general to measure. For example, it would be preferable to measure the number of newsletter articles written or customer meetings conducted than to subjectively measure how well the manager communicates with members.

Standards can be positive (state the goal to be achieved) or negative (state the situation to be avoided). For example the board may state that grain shrinkage should be kept below 2%. This accomplished the board's goal while giving the manager freedom to manage the grain operations as long as excess shrinkage is avoided.

### Specific vs General Performance Standards

The level of detail and the wording in the standards is extremely important and will influence the success of the manager and the cooperative in the future. They should make it clear when the standard has been reached or exceeded. When a precise measurement is not appropriate the standard should provide a clear description of what is to be achieved. In general, there should be two categories of standards: specific performance standards and general performance standards. Specific performance standards are more exact,

but smaller in number. There should be no more than 15 to 20 of these standards giving a more detailed description of what is expected of the manager. These standards provide measurable performance goals.

General performance standards are those standards that cover such areas as planning, organizing, supervising, and development within the daily activities of the cooperative. These duties require some flexibility on the manager's part and still require them to stay parallel to the overall objectives of the cooperative.

## Preparing Performance Standards

The development of standards should be a joint activity by the manager and the board. Some cooperatives have the manager and board prepare standards independently and then discuss the lists. This process allows the manager and board to focus in on what is really important in each management area. Common categories of performance standards include:

- Manager/Board Relationships
- Marketing/Market Share
- Financial
- Coordination/Operations
- Personnel Management

## Updating the Appraisal Standards

At the annual appraisal time the standards should be reviewed. The board and manager can discuss whether the standards are too severe or unrealistic. Changes in the organization may also require changes in standards. If changes in the appraisal process are needed, this is the time to get agreement between the board and the manager. This keeps the process current and develops a consensus on the manager's goals for the coming year.

## Preparing the Evaluation Instrument

Many alternate forms of evaluation questionnaires have been developed. There is no single format that is superior. Most evaluation instruments use a rating scale for the majority of the questions. These are often supplemented with open-ended questions that identify areas where the manager excels and areas for improvement.

Some cooperatives attempt to design weighing schemes so that the scores from the individual measures can be summarized into an overall rating. Because this can be a difficult process most boards use a summary question that provides the overall rating for the manager. A good compromise is to provide summary ratings for each area (marketing, financial, performance, etc.) as well as an overall rating. This helps to avoid situations where the ratings to the individual questions do not appear to correspond to the overall rating.

## The Appraisal Process

Most boards use a "sandwich approach" to the appraisal meeting. Under this format the board chair begins by highlighting areas where the manager excels before discussing potential areas for improvement. The interview ends with a discussion of goals for the coming year and areas where the board can assist the manager. This format assures that the process starts and ends on a positive note. Regardless of the format the discussions should cover the following points:

- What is the manager doing well?
- What are the priorities for improvement?
- Why were standards not met? Are these factors under the manager's control?
- What are the alternatives to correct deficiencies or further improve performance?
- Does there need to be changes in the process or standards for the coming year?

## Conclusion

Appraising the manager's performance is an important activity for the board of directors. Developing a formal process that is routinely applied makes appraisal less confrontational. The appraisal process revolves around the identification of realistic and attainable performance standards.

Standards should cover all functions of the manager's job and can involve both outcome and activities. Setting the standards should be a joint activity of the manager and board. Performance standards should be continuously evolving with the growth and changing role of the cooperative.

Each board should develop an evaluation process that they are comfortable with. The sample evaluation questionnaire attached to this document can be used as a starting point. The questionnaire can be refined in future years as the board and manager develop and change. The one thing that should remain the same is that the evaluation process is used to help the cooperative move forward.

**Management Evaluation Report**

Name of the person being evaluated \_\_\_\_\_

Answer each of the following questions by ranking them according to the scale provided at the top of each section. There is also an opportunity at the end of each section to provide additional input by answering the questions provided.

**Manager/ Board Relations**

*General Performance Standards*

How well does the manager	Seldom				Always
1. Provide information to the board on a timely basis that allows the board to make informed decisions.	1	2	3	4	5
2. Develop realistic budgets and operating plans and provide timely reports identifying progress and reasons for variations.	1	2	3	4	5
3. Make good timely decisions, identify and follow up on problems, and provide general leadership?	1	2	3	4	5
4. Advise the board on needed resources, facilities, capital, and operating needs.	1	2	3	4	5
5. Assist the board in establishing strategic plans, implementing actions to achieve strategic goals, and measure progress toward goals.	1	2	3	4	5
6. Seek new business opportunities or ideas for increasing productivity.	1	2	3	4	5

**Rate the Overall Performance of the Manager in Manager/ Board Relations.**

Poor				Excellent
1	2	3	4	5

**Marketing/Market Share**

*General Performance Standards*

How well does the manager?	Not Achieved		Met	Exceeded	
1. Aggressively pursue grain market share.	1	2	3	4	5
2. Contract grain purchases.	1	2	3	4	5
3. Seek out new business opportunities.	1	2	3	4	5
4. Market share in fertilizer greater than 25% of potential in trade territory.	1	2	3	4	5
5. Market share in grain greater than 40% of the potential in the trade territory.	1	2	3	4	5

*Specific Performance Standards (examples)*

1. Annual grain turnover should be greater than 1.2 turns.
2. Analyzed member satisfaction or sales patterns during previous year.

**Rate the overall performance of the Manager in Marketing.**

Poor				Excellent
1	2	3	4	5

**Financial**

*General Performance Standards (each board should develop their own standards)*

How well does the manager	Standard	Actual	Achieved		Met	Exceeded	
1. Local income/Sales.	1.5%		1	2	3	4	5
2. Return on Local Assets.	7%		1	2	3	4	5
3. Working Capital.	\$		1	2	3	4	5
4. Days' Sales in Accounts Receivable.	45		1	2	3	4	5
5. Total Expenses/Gross Margin.	90%		1	2	3	4	5
6. Personnel Expenses/Gross Margin.	45%		1	2	3	4	5
7. Debt/Total Assets.	35%		1	2	3	4	5
8. Farm Supply Sales/Average Inventory.	2.5		1	2	3	4	5

*Specific Performance Standards (examples)*

1. Not more than 15% of accounts receivable should be more than 60 days old.
2. Met or exceeded all of lender's financial covenants.

**Rate the overall performance of the Manager in Financial Management.**

Poor				Excellent
1	2	3	4	5

**Coordination/Operations**

*General Performance Standards*

	Seldom				Always
1. Uses an effective chain of command, delegate effectively maintain current job descriptions, and conducts regular performance evaluations.	1	2	3	4	5
2. Maintains grain shrinkage at below 2%.	1	2	3	4	5
3. Manages controllable costs.	1	2	3	4	5

- |  |   |   |   |   |   |
|--|---|---|---|---|---|
| 4. Maintain compliance with policies and standard operating procedures | 1 | 2 | 3 | 4 | 5 |
| 5. Appropriately administers the cooperative's credit policy           | 1 | 2 | 3 | 4 | 5 |

*Specific Performance Standards (example)*

1. Grain shrinkage at or below 2%

**Rate the overall performance of the Manager in Coordination/Operations** Poor    Excellent  
1 2 3 4 5

**Personnel Management**

*General Performance Standards*

How well does the manager

- |  |      |   |   |   |           |
|--|------|---|---|---|-----------|
|  | Poor |   |   |   | Excellent |
| 1. Aggressively seek out people to fill key positions in cooperative administration. | 1    | 2 | 3 | 4 | 5         |
| 2. Train personnel to assume a greater level of responsibility.                      | 1    | 2 | 3 | 4 | 5         |
| 3. Apply policies and practices to the daily activities of the cooperative.          | 1    | 2 | 3 | 4 | 5         |
| 4. Encourage individual initiative and teamwork.                                     | 1    | 2 | 3 | 4 | 5         |
| 5. Enforce corrective action in a direct, but fair, manner when necessary.           | 1    | 2 | 3 | 4 | 5         |

*Specific Performance Standards (examples)*

1. Performance evaluations of all employees should be conducted at least once a year.
2. Conducted meeting of all employees once per quarter to discuss board actions, policies, plans, benefits, or other employee related topics.

**Rate the overall performance of the manager in Personnel Management.** Poor    Excellent  
1 2 3 4 5

**Member Relations**

*General Performance Standards*

How well does the manager

- |   |      |   |   |   |           |
|---|------|---|---|---|-----------|
|   | Poor |   |   |   | Excellent |
| 1. Plan for growth in volume and number of patrons in relation to market potential.   | 1    | 2 | 3 | 4 | 5         |
| 2. Make and maintain contacts with members, the overall community, and organizations. | 1    | 2 | 3 | 4 | 5         |
| 3. Inform membership of changes in cooperative policy.                                | 1    | 2 | 3 | 4 | 5         |
| 4. Project a positive image to the patrons.   | 1    | 2 | 3 | 4 | 5         |
| 5. Respond promptly and effectively to patron concerns or complaints.                 | 1    | 2 | 3 | 4 | 5         |

*Specific Performance Standards (examples)*

1. What was the rate of growth in patrons and volume relative to the area's overall market potential and cooperative objectives?
2. Is the growth reflective of servicing all potential customer areas?

**Rate the overall performance of the Manager in Member Relations.** Poor    Excellent  
1 2 3 4 5

**Additional Written Comments**

*Please respond to these questions:*

1. What are two things the manager does most effectively?

A.

B.

2. List two specific ways, not mentioned previously, the manager could be more effective.

A.

B.

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