

Roles & Responsibilities

of Boards of Directors

of Aboriginal Economic
Development
Organizations

A Guidebook

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Roles & Responsibilities

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Development
Organizations

A Publication of Kitsaki Development Corporation

with the collaboration of Universal Management Group
& Westcoast Development Group

Reproduction of parts or the whole of this publication by persons involved in aboriginal economic development is encouraged. Additional copies may be obtained from regional offices of Indian and Northern Affairs Canada.

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Chapter 1

Introduction

Who this Book is for

Many organizations involved in economic development nowadays are run by Indian, Inuit and Innu people. They are directors of Band or Tribal Council development corporations, Band co-operatives, credit unions, aboriginal capital corporations, and sectoral development institutions.

To be a member of the Board of any of these organizations is a great challenge. People who are Board members, or hope to become Board members, need to know the roles and responsibilities these positions entail.

This book is a guide to these roles and responsibilities. It also describes the skills which Board members find useful. Although this book addresses Indian, Inuit, and Innu people in particular, its principles apply to the directors of any native or non-native development organization.

The leaders of native communities face many trying problems and issues. They must deal with shortages of skilled labour, lack of capital and markets, and a lack of control over the local economy. People expect their leaders to be successful in business while remaining true to local culture and values.

To succeed in this demanding situation, native leaders require a clear vision of how to operate. They also require development organizations which are in touch with their home communities and working environment; which get things done, but use resources efficiently; which change with the times and learn from their mistakes; and which build people as well as things. In short, they need effective organizations. The information in this book will help leaders to develop these organizations.

This book deals with six main types of economic development organizations:

- Aboriginal Community Economic Development organizations
- Development Corporations
- Aboriginal Capital Corporations
- Co-operatives
- Credit Unions
- Sectoral Development Institutions

A summary of these six types of organizations, who establishes them, and the range of ventures and programs they undertake is outlined in Appendix 1.

*A guide for directors
of native development
corporations . . .*

*. . . who want to
build effective
organizations.*

How this Book is organized

For Indian, Inuit, and Innu people who are (or will become) Board members of development organizations, the book has answers to the following questions:

1. What makes a development organization "effective?"
2. What do I do as a Board Member? What are my roles and responsibilities?
3. How do I make good, informed decisions?
4. What skills should I have, or learn, or improve?
5. How are Board Members selected?
6. How can I learn more about any of these topics?

This book is divided into three parts. Part One (*Summaries and Outlines*) deals with questions 1-6 above. You can read the summaries and outlines in Part One on your own, or use them in training sessions for Board members. For people who want to know more about the things explained in Part One, there is Part Two (*Detailed Descriptions of Boards of Directors Roles and Responsibilities*). It describes in detail what Board members do, and what their job is in the eyes of the law. Examples of this work are drawn from experiences of actual development organizations. Part Three (*Appendices*) contains additional information, including checklists for venture selection, for rating Board performance, and for Board decision-making. The space in the right-hand column on each page is provided for readers to make notes or comments.

Although this book is useful on its own, it may be a good idea to have handy copies of *Take Charge: How to Make Economic Development Work for Your Band* (Port Alberni: Westcoast Development Group, 1988). *Take Charge* contains a summary of steps for planning economic development. It also describes some different ways in which your community can manage economic development.

Who else could use this Book?

Other people who would find this book useful are:

- Members of Band Councils, Tribal Councils, or Indian, Inuit, and Innu associations which work with development organizations.
- Non-native people who serve as Board members, advisors, or technical assistants to native-run organizations.
- Directors of organizations whose focus is related to economic development: Health Boards, Education Boards, Friendship Centres, Alcohol and Drug Rehabilitation Centres.

Readers who would like to review different types of development organization structures, including community-owned or shareholder structures, please refer to Chapter 3 of *Take Charge*!

Part I

SUMMARIES AND OUTLINES

Chapter 2

Effective Development Organizations

Experience over the past 20 years has shown that effective organizations (including development organizations) have a number of characteristics. We summarize this experience into the following thirteen key characteristics. Not all development organizations have these characteristics. Many organizations are working towards developing some of these characteristics.

Effective Organizations

- have a clear vision of their mandate, goals and strategy.
- understand the different environments in which they work, including the community, government policy, and business environments.
- are accountable to their community, consistent with their mandate.
- manage change well.
- have an appropriate legal structure
- undertake business ventures, programs, and activities successfully.
- seek and manage financial and other resources well
- respond well to the needs of their constituency (including shareholders, clients and customers) consistent with their mandate.
- ensure that their values are clear, explicit and consistent with those of their communities, customers and clients.
- analyze and measure risks in a way that combines standard techniques with consideration of local realities.
- create policies consistent with the organizations' mandate, strategy, goals and values.
- continuously examine their own experience with a critical eye in order to learn from it and improve their effectiveness.
- encourage innovation in all aspects of managing the organization.
- monitor and evaluate performance regularly and implement evaluation recommendations.

Effective development organizations constantly plan and think about how to build the capacity of their organization, their staff and Board members, and the people the organization serves. The Development Wheel is a useful guide for helping organizations to plan and build capacity at different stages of development. It is outlined in summary form in Appendix 2.

Effective organizations have 13 things in common.

Directors play an important role in creating effective organizations.

Chapter 3

Types Of Boards Of Directors

There are two main types of Boards of Directors:

1. Governing Boards of Directors

Most economic development organizations have governing Boards. They have the ultimate legal responsibility to ensure that the goals, objectives and activities of the organization are carried out. They have the responsibility to make decisions related to all aspects of the organization, including:

- planning
- financing and financial control
- policy development
- venture and activity development
- hiring and firing the CEO

*Governing Boards
make an organization's
major decisions*

They do not have responsibility for day-to-day management of the organization. This is the responsibility of the CEO and staff.

Examples include governing Boards of Directors of:

- business development corporations
- co-operatives
- hospitals and Health Commissions
- Social Service agencies
- Friendship Centres

2. Advisory Boards of Directors

Advisory Boards are given the authority (or *mandate*) to provide advice to either a governing Board of Directors or to an elected government officer, such as a Cabinet Minister. They provide advice or recommendations on the development of some or all of the following:

- ventures
- programs
- policy
- program implementation or delivery

Advisory boards usually do not have the mandate to make decisions for the organizations. Some Advisory Boards, however, are exceptions to this rule, and are given the responsibility to make certain decisions. An example is the Canadian Aboriginal Economic Development Strategy National Board which has the mandate to make decisions on project funding up to a certain limit of funds.

Other examples of Advisory Boards include:

- Native Alcohol and Drug Abuse Program Board - advises the Federal Minister of National Health and Welfare.
- Advisory Boards set up by some Indian, Inuit or Innu Aboriginal Capital corporations to advise them on specific kinds of technical questions (such as banking, joint venturing, forestry, etc.).

Advisory Boards make recommendations to the Governing Board or to an elected officer.



Chapter 4

Functional & Legal Roles & Responsibilities of Boards of Directors

Boards of Directors have two kinds of responsibilities: *functional* and *legal*. They are summarized briefly in this chapter. Additional detail and examples of Boards of Directors carrying out these responsibilities are provided in chapters 9 and 10.

SUMMARY OF FUNCTIONAL RESPONSIBILITIES

1. Determine the Mandate

- mandate usually determined by the community, or equivalent.
- mandate usually approved formally.

2. Enact the Constitution and By-laws

- constitution sets out scope and goals of the organization
- constitution is linked to the mandate
- by-laws govern the internal workings of the Board

3. Develop Articles of Incorporation

- also known as “letters patent.”
- they incorporate the organization and provide a limited liability.
- legal advice should be sought to prepare them.

4. Engage in Planning

- Boards should engage in
 - strategic planning: long- and short-term.
 - financial planning linked to the strategic planning.

5. Develop Policies

- Boards determine policy for the organization. Generally, staff develop draft policy for review and approval of Boards.
- Boards develop a range of policies depending on their needs, including
 - Human Resource policies
 - Venture Development policies
 - Financial policies

The organization's expectations are a director's functional responsibilities.

6. Make Decisions related to Ventures & Programs

- Boards generally set criteria for selecting ventures or programs.
- these criteria allow Boards to determine whether the organization should undertake or continue ventures or programs from a variety of perspectives, including
 - business perspective
 - organization perspective
 - community perspective

7. Manage the Relationship with the CEO

- Boards work closely with CEOs.
- they are responsible to hire, approve a yearly work plan, and evaluate responses.

8. Ensure an appropriate relationship with Staff (other than CEO)

- Boards should ensure that they relate to the CEO—not directly to staff.

9. Monitor & Control the Organization's Operation

- Boards of Directors should monitor all aspects of the organization.
- Boards monitor results regularly and ensure that appropriate financial controls are in place.
- Boards require controls to be put in place if financial or program problems occur.

10. Determine a Community Participation & Accountability Mechanism

- Boards decide how community members participate in the development organization.
- they also determine how they will be accountable to their community.

11. Determine a Strategy for Effective Networking

- Boards develop contacts and networks with other organizations, companies, and government departments.

12. Ensure Adequate Financing

- Boards ensure that financing is available before approving expenditures.

13. Evaluate Organization & Board Performance

- Boards are responsible to evaluate their own performance.
- they are also responsible to evaluate, or have evaluated for them the organization's performance.

SUMMARY OF LEGAL RESPONSIBILITIES

Boards should seek legal advice on an ongoing basis. The following provides a reference to some of the key concepts which govern a Board's legal rights and responsibilities.

Generally speaking, the best policy for both the community and Directors is:

- to keep communication open, so that people are aware of the key issues with which the Board is dealing;
- to ensure that the Board consults with the community on important decisions.

*The law's expectations
are a director's
legal responsibilities.*

Five Legal Obligations

A Board of Directors has five main legal obligations:

1. To act in the best interests of the organization;
2. To ensure that its decisions are within the mandate set out in the constitution and by laws. It is also desirable that Directors define their mandate as clearly as possible with the community;
3. To ensure that it uses all the powers it has to act in the best interests of the corporation;
4. To put the interests of the corporation before any personal interest of Directors;
5. To ensure that all decisions of the Board are lawful.

Chapter 5

Making Informed Decisions

A Board member's main task is to make decisions. In order to make good ones, Board members should:

1. Ensure decisions support the mandate and objectives of the organization.
2. Feel comfortable with the decision-making system which is in place whether it be by majority, two-thirds majority or consensus.
3. Ensure they have full information.
4. Resist making decisions until they understand the basis for the decision.
5. Receive a variety of data from a range of sources; including historical background, government policy, environmental impacts, socio-economic implications as well as profit and loss statements, market trends, etc.
6. Anticipate the consequences of their decisions.
7. Use technical expertise and staff wisely in making informed decisions.
8. Take informed risks or chances where they can be seen as opportunities for potential growth.
9. When called upon to make "judgment calls", understand that once they have considered as many aspects of the decision as possible, they may have to live with some degree of uncertainty.
10. Stay informed about trends and developments so that quick decisions, when required, can be made in the most informed manner possible. In addition, when faced with urgent requirements for decision, Boards should ask the question "What is the worst that could happen if we did not make this decision urgently?"

Some development organizations organize the information that Board members need for decision-making into a 1-2 page "Decision Sheet". An example of this type of "Decision Sheet" is contained in Appendix 3.



Chapter 6

Useful Skills & Knowledge for Board Members

Board members from development organizations across Canada have reported a wide variety of skills which they have found useful in running effective Boards of Directors. The following is a list of skill and knowledge areas considered most important. It is described below to provide an overview.

Readers may review them and decide if they would like to learn more about some or all of them. If so, readers may decide to seek training from an education or training institution or consulting firm.

*The most effective
Boards have 9 kinds
of know-how.*

Areas of Skills and Knowledge

1. Running and Participating in Meetings

- how to chair a meeting successfully
- how to ensure all participate in decision-making
- how to participate fully in Board meetings.
- how to ensure follow-up action is taken. (For further information, Appendix 4 outlines a condensed rules of order for Board meetings.)

2. Problem-solving

- how best to analyze problems creatively
- how to develop useful optional solutions
- how to choose effectively amongst options

3. Conflict Resolution

- Board member conflict
- conflict between Board members and staff
- conflict between Board members and community groups
- conflict between Board members and other businesses, or agencies

4. Negotiating Skills

- understanding and using techniques of *principled negotiations* which allow both parties to get what they want
- negotiating effectively with governments, lending agencies, and other businesses.

5. Strategic Planning

- identifying and analyzing current and future trends that are important to the organization
- developing organizational goals and mission statements
- clarifying important organizational values
- identifying key strategic issues
- determining short and long-range strategies
- creating action plans.



6. Analyzing Feasibility Studies & Business Plans

- understanding market analysis
- understanding balance sheets, financial statements, cash flow and projections
- understanding risk assessment.

7. Principles of Project Management & Monitoring

- understanding the project management cycle
- evaluating and monitoring projects

8. Effective Use of Technical Expertise

- identifying and selecting technical expertise
- developing terms of reference for the use of technical expertise
- evaluating the value of technical expertise

9. Understanding General Economic Trends & Analysis

- understanding principles of economic trend analysis
- applying trend analysis to development organization use

Chapter 7

Selection of Board Members & Board Committees

The selection of Board members is a highly important task. The development organization which they direct is expected to take the community's vision of development and make it a reality.

Boards tend to select their members in different ways and for different reasons. We have summarized some useful principles to think about when choosing Board members and selecting Board Committees.



Process for Selecting Board Members

1. Review the Board member selection process outlined in the organizations' by-laws.
2. Identify what groups or perspectives should be represented on the Board.
3. Identify special skills or areas of expertise which the organization requires.
4. Identify key personal values and qualities of Board members that are required.
5. *Prioritize* the requirements (arrange them in order of importance) in light of the organization's needs.
6. Evaluate the ability of prospective Board members to meet the criteria from Number 5.

*Select Board members
who can meet the
organization's
specific needs.*

Appendix 5 contains a sample evaluation chart for selecting new Board members. Appendix 6 outlines useful attitudes and behaviours of effective Board members developed by a Canadian development organization.

Principles for Establishing Board Committees

Board committees may be composed of Board members, Board members and staff, or if required, membership may be drawn from outside the organization.

There are normally two main types of committees that Boards set up: *Standing Committees* and *Adhoc Committees*. Standing Committees are permanent parts of the Board structure and are important to the ongoing operation of the Board.

Examples of Standing Committees established by development organizations include:

Executive Committee

- made up of the officers of the Board (eg. President, Treasurer, etc.) and often chairpersons of other committees.
- normally makes decisions required in-between Board meetings.

Finance Committee

- monitors the overall financial reports and systems of the organizations.
- prepares the budget for Board approval.
- makes recommendations on all expenditures.
- ensures expenditures can be justified by budget.
- alerts the full Board to any possible financial problems.
- ensures financial affairs of the organization are in a form that can be audited.
- monitors cash flow.

Human Resource Committee

- makes recommendations related to hiring, staff evaluations, training and salary scale policies.
- monitors relations with staff.

Venture Selection Committee

- reviews venture proposals.
- recommends which ventures should be selected, which are high or low priorities.
- considers venture selection criteria amendments.
- monitors relations with outside organizations selected to assist organization with venture selection.

*Standing committees
are permanent.
Adhoc committees
are temporary.*

Program Committee

- monitors and reviews the organizations programs (such as the business advisory service program).
- makes recommendations related to development of new programs, or improvements to existing programs.

Nominating Committee

- recommends names of potential new Board members for appointment or election.

Personnel Committee

- recommends policies to the Board related to human resource, salary, and other personal issues.

Adhoc Committees

- are usually set up for a short period of time with a single purpose. Examples include:
- *By-law Committee*: recommends suggestions to revise by-laws of the organization.



Chapter 8

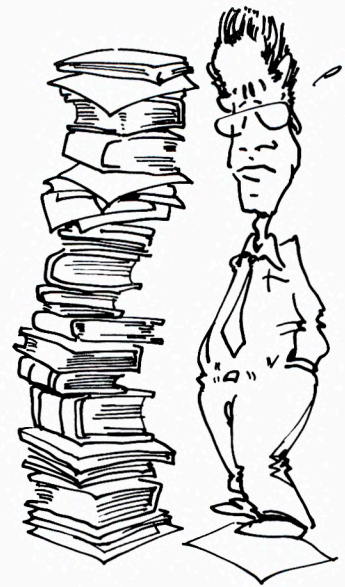
Board Member Orientation & Training

Organizations often create a handbook for Board members for their orientation as new members, and for their ongoing use.

Suggestions for Board member handbooks include the following:

- copies of mandate, constitution and by-laws
- list of current members and officers of the Board
- copy of this book and *Take Charge*
- list of current employees and their jobs
- outline of CEO's job description
- list of meeting dates (if available)
- approved budget and financial reports submitted to the Board in the last 12 months
- summary of planning documents
- outline of organization's policies
- minutes of Board meetings during the last six months
- other materials as required

Finally, for Board members who wish to identify the areas where further training is required, please refer to Appendix 7 which contains a guide for developing a Board training plan.



Part II

DETAILED DESCRIPTIONS OF BOARDS OF DIRECTORS ROLES & RESPONSIBILITIES

Chapter 9

Detailed Description of Functional Roles & Responsibilities of Boards of Directors

INTRODUCTION

The Board of Directors of a development organization is responsible for ensuring that its goals and objectives are achieved. It has broad responsibilities to ensure that appropriate policies are set, that the organization is being managed well, and that finances are sound.

Boards of Directors have a number of specific roles and responsibilities. As outlined in Chapter 4, we have organized them into two categories: *functional* and *legal*. These are outlined in the list below as a reminder. Legal responsibilities are described in detail in Chapter 10.

Functional Responsibilities

1. Determine the mandate
2. Enact the Charter and by-laws.
3. Develop articles of incorporation.
4. Plan (including strategic and financial planning)
5. Develop policies.
6. Decisions related to ventures and programs.
7. Manage the relationship with the CEO.
8. Monitor and control (including financial, venture and program activities).
9. Determine community participation and accountability.
10. Determine the types of strategic networking required.
11. Ensure appropriate relationships and systems between the Board and staff.
12. Ensure adequate financing is available.
13. Review and evaluate the performance of the organization.

*Directors have
two kinds of
responsibilities:
functional & legal*

Legal Responsibilities

1. Act in the best interests of the Organization.
2. Ensure that decisions are within the mandate set out in the organization's legal documents.
3. Refrain from limiting its powers to act in the best interests of the corporation.
4. Put the interests of the corporation before any personal interest.
5. Ensure that all decisions of the Board are lawful.

FUNCTIONAL RESPONSIBILITIES

1. Determine the Mandate

The mandate of a development organization is determined by the community or body that creates the organization. For example, a Band or Tribal Council provides a mandate to the development corporation it creates.

The mandate describes the scope or range of responsibilities of the development organization. This usually includes general goals and objectives, general responsibilities of the Board of Directors and the nature of accountability to the community.

The mandate is approved formally by a resolution (or other formal decision-making mechanisms) such as a Band or Tribal Council Resolution.

The mandate states what the organization can be used for.

2. Enact the Constitution and By-Laws

Constitution: The constitution sets out:

- the scope of activities of the organization
- the overall goals of the organization

The constitution is developed to relate directly to the mandate given to the organization but its community or constituency.

The constitution describes the organization's goals & activities.

By-Laws: By-laws govern the internal workings of the Board of Directors.

In general, by-laws include the following sections:

1. A sample corporate seal of the organization.
2. Outline of conditions of membership of the organization.
3. Description of the Board of Directors and its powers.
4. Term of office for Board Members.
5. Terms for vacating the office of Board of Directors.
6. Frequency of meetings and how members will be notified of meetings.
7. Type of remuneration for Boards of Directors (if any).
8. Outline of Conflict of Interest policy for Boards of Directors.
9. Process whereby Boards of Directors are protected from liability.
10. Role and mandate of the Executive Committee.
11. Description of officers of the Board and their duties.
12. Process by which contracts and official documents of the organization shall be signed by the officers.

By-laws explain how decisions are made, & by whom.

13. Description of requirements for an annual general meeting.
14. Eligibility for voting at a Board meeting and how decisions will be made (eg. majority vote).
15. Description of the financial year period.
16. How committees of the Board may be appointed.
17. How By-laws can be amended.
18. How auditors will be appointed.
19. How records of the Board will be kept.

The Board of a development organization has the responsibility to make sure that the Constitution and by-laws are enacted properly. These documents are the legal foundation of an organization and the process must be done properly.

However, often Bands or Inuit communities can become pre-occupied with the legal technicalities involved in the creation of these documents so that economic development gets delayed. We suggest that if this is the case, a new organization can get started by using a standard form document prepared with the assistance of a lawyer. Later, when the corporation has had some experience and is ready to think more about its long-range goals, time and attention should be spent to make sure these documents reflect the long-term needs of the organization, and the aspirations of the community.

Every Province and Territory has different laws regulating the requirements for constitutions and bylaws. If the Board decides to federally incorporate the legislative scheme is different again. For this reason we have refrained from providing samples of these kinds of documents. Boards should take care that the documents which give their development organization's life in the eyes of the law meet the legislative requirements. We strongly suggest obtaining legal advice.

3. Develop Articles of Incorporation

Articles of Incorporation or letters patent incorporate the organization and limit the liability of a Board for the consequences of its own decision and the consequences of the actions of its staff to the value of organizations assets, providing decisions and actions are within the proper legal limits. These legal limits are outlined in detail in Chapter 10.

On the other hand, Board members and staff may be held liable for decisions they make if they do not operate within these legal parameters.

Bands or Inuit communities have an interest in making sure that the Directors are legally responsible for the actions of the Board. However, to ensure that people agree to sit on Boards of Directors, there must be a limit to the extent of that liability.

*Articles of Incorporation
also serve to protect
the personal property
of the Board & staff.*

Articles of Incorporation or letters patent set out

- the name of the organization
- the purpose or 'object' of the organization
- the location of organization's head office
- the name and address of the three Board of Directors who submit the application
- the names of all those who will be on the first Board of Directors

Articles of incorporation or letters patent must be carefully prepared. We strongly suggest that legal advice be sought to draft the articles of incorporation.

4. Engage in Planning

A Board of Directors has the responsibility to determine overall plans for the organization. This includes both strategic and financial plans. Strategic planning involves developing an overall long-term strategy. Briefly, it involves the following steps:

- **analysis of the external environment or context.** This includes a review of current and future market trends, government policy, key social and economic trends, and important technological changes that can have an impact on the organization. This allows an organization to identify important current or future factors external to the organization that must be taken into consideration in developing a plan.
- **analysis of strengths and weaknesses in the organization.** This assists the organization to identify areas that need attention (weaknesses) and those that can be developed further (strengths) in creating a plan.
- **determination of key organizational goals.** These goals are described at a general level and outline broadly what the organization wishes to accomplish.
- **determination of values the organization considers important.** For example, this involves a Board deciding what types of values are important to consider when it selects business ventures or chooses joint venture partners. An example of an important value the Board may have in either of these situations is an interest in supporting sustainable development.
- **development of a mission statement.** A mission statement outlines in a clear and concise way the following:
 - the business or main focus of the organization
 - the products or services the organization provides
 - the main clients of the organization
 - key values involved in the way the organization operates.
- **determination of strategic issues that the organization must address in developing a strategy.** Strategic issues are important issues that the organization decides it must consider, either immediately or in

*Strategic planning
should enable people
to work together to
achieve shared goals.*

the future, based on its analysis of the internal and external environment and based on its decision about goals and mission.

- **development of a long-term strategy** that addresses the strategic issues and takes into account the results of the conclusions from all the earlier steps. Often a long term strategy contains a number of sub-strategies.
- **development of action plans that flow directly from the strategy.** Action plans outline objectives, responsibilities, target dates and financial resources required to carry them out.

Strategic planning, if done well, provides the Board of Directors and staff of the organization with a common vision of what they want to accomplish and how it will be carried out. Most effective development organizations engage in strategic planning regularly—sometimes every year or 18 months.

Normally, strategic planning is a process that involves Board members and key staff working together to develop the plan. Staff members are often asked to prepare background documents and analysis of the external environment prior to the start of the planning process. By the completion of the planning process, the whole staff should have been involved.

Financial planning is also a responsibility of the CEO and Board of Directors. Financial plans and budgets are normally prepared by the staff, consistent with the results of the strategic plan and are then reviewed and approved by the organization's Board of Directors.

Financial plans are based on assumptions, and projections based on past experience. Boards should be satisfied that these assumptions and projections are accurate and realistic.



Example: Strategic Planning

The Kitsaki Development Corporation in La Ronge, Saskatchewan, has engaged in strategic planning to develop a clear sense of its mission, strategic goals and specific action-oriented strategies. KDC has identified its mission as the generation of wealth for the La Ronge Band. A major strategic goal is to become a significant player in the economy of northern Saskatchewan.

- It is achieving its strategic goals through the following strategies:
- It has ventures in virtually every sector of the economy of northern Saskatchewan;
- It developed a planned approach to developing businesses that integrate and support each other;
- It identifies major changes in government policy which could assist KDC in the achievement of its goals and then lobbies (often successfully) for those changes. Likewise, it identifies the policies that might hinder success and develops appropriate strategies.

A strategic approach to economic planning has also led KDC to avoid certain types of ventures and programs. For example, it has refrained from providing individual entrepreneurs with business advisory services, choosing instead to recommend to the Chief and Council that this work be handled by a separate unit of the Band.

5. Develop Policies

Boards of Directors determine policies for the organization. The Board decides which specific policies they wish to put into place. Specific types of policies vary for each organization. Generally, Boards create policies for human resource, venture development, and financial issues.

Once Board members decide which areas require policy, staff members prepare draft policy recommendations for Board approval.

Examples of policies include:

- *Human Resource Policies:* staff selection, staff orientation, staff salary, staff performance review, staff holidays, staff termination, staff and/or Board training
- *Venture Development Policies:* venture selection criteria
- *Financial Policies:* financial signing authority, travel expenditure

Example: Development of Policies

Arctic Co-operatives Limited (ACL), based in Yellowknife, Northwest Territories, was created in 1972 by local co-ops, some of which had been in business since 1959. As a federation of independent businesses, the Board has evolved considerably over the years. Today, Board members are no longer appointed, and all the directors are aboriginal people. Board members are elected from seven regions, and they meet monthly by teleconference, and quarterly in person.

The Board has recently carried out a formal strategic planning process, and a mission statement containing eleven stated objectives now formally guides many Board policy decisions. In other words, the style of decision-making has gone from an ad hoc style to one of analyzing how the issues relate to the global strategy and mission statement.

One result of this planning process was to develop a series of policy decisions related to the priority of development of human resources. This policy led to the creation of the Communications and Human Resource Development Division of ACL. The division in turn established a Board Training Program for both its own Board members and member Boards, and a support structure for management and staff in the member co-ops. Its aim is to further local control in member co-ops. Part of the mandate of the division—given as a policy directive by the Board—is to find ways to access operating funds to finance operations, so the division would not present a financial burden to the organization. The division prepares its own divisional budget and operating plan. Part of this plan involves seeking funding for the division's activities from outside sources (i.e. government programs, foundations, etc.), as well as internal sources (i.e. fee-for-service to member co-ops). These operational details—part of policy implementation—form part of the work the division carries out in response to the policy directive of the Board of Directors.

6. Make Decisions about Ventures and Programs

Since Boards of Directors are ultimately responsible for all activities of the organization they generally make final decisions about ventures and programs undertaken by the organization. In this way, Board can keep a 'hands-on' approach.

Often, Boards of Directors determine a set of criteria for selecting ventures, usually based on staff recommendations. These criteria are based

Venture selection criteria help an organization separate the best business or project proposals from the rest.

on the goals, objectives and values the Board determines as being most important in setting up business ventures.

Normally, staff prepare recommendations related to venture selection and present it to Boards for their decision. Sometimes, Boards will create a venture committee or Advisory Board (made up of people with relevant technical expertise) to review the staff recommendations and make their recommendations to the Board.

Boards also decide whether to start specific programs, such as government-funded training programs, or decide what type of advisory service to small businesses should be developed.

There are many examples of Board venture selection criteria. An example is included in *Take Charge!* An example developed by the National Economic Development Law Centre in California is included below. Other examples are included in Appendix 8.

As the venture selection criteria outlined below demonstrates, development organizations generally examine ventures based not only on profitability criteria, but also on the basis of the potential "long-range" benefits for the development organization and the community. This includes realization of long-term employment and long-term social, educational, training, and other benefits to community members.

Criteria For Considering Economic Development Ventures From A Development Organization Perspective

Does the proposed economic development venture:

- provide for organization involvement in decision making?
- promote the development organizational and staff capacity to undertake increasing economic development responsibilities?
- fit into the organization's community economic development strategy?
- lead to significant training and experience for organization staff?
- generate sufficient revenues and profits for the organization so that investment in other activities is possible?
- maximize development organizational financial benefits from rents, royalties, interest, securities, shared profits, and assets?

Criteria For Considering Economic Development Ventures From A Business Perspective

- Does the venture have a demonstrated market for its goods or service?
- Is the market growing?

- Can a sufficient share of the market be captured by the business?
- Does the venture require an initial capital investment that will require large debt financing?
- Is the organization willing to accept shared ownership of the venture if equity financing is necessary?
- In case of venture failure, will the organization be saddled with a large debt, unused and unusable buildings and equipment, and consequent unemployment?
- Does the venture have special labour or licensing requirements?
- Will the business break even within a reasonable period?
- Will the business generate a profit?
- Does the business require substantial reinvestment to maintain or expand its stability and profitability?

Criteria For Considering Economic Development Ventures From A Community Perspective

Does the proposed economic development venture:

- provide for community involvement in decision making?
- address the unique needs and circumstances of the community members?
- achieve community ownership of resources to ensure that there is increasing control over their use and resulting income?
- create a stronger community business base?
- purchase local goods and services?
- capture social service program expenditures and income transfer payments?
- provide needed goods and services?
- provide possible links that can provide existing community businesses with new opportunities?
- improve community member employment and work skills and add to the overall availability of quality jobs?
- create a favourable impression upon outside business interests and financial institutions so that outside participation in CED is encouraged?
- have significant opportunities for community members to assume management and directorship responsibilities?
- create environmental pollution, causing problems with noise, air, odour, and health quality?

Development organizations also struggle with the need to balance economic venture development and environmental protection. Appendix

9 provides an example of a checklist for Boards to consider when examining questions of environmental protection.

Example: Venture Selection Criteria

The Dakota Ojibway Development Group (DODG), based in Winnipeg, is a development corporation serving eight member communities in southwestern Manitoba. Each community appoints a member of Chief and Council to sit on the Board of Directors. Venture selection criteria for DODG were established by receiving suggestions and guidelines from each community through a community consultation process, and then determining them on the basis of a final discussion at the Tribal Council level.

Almost all project the DODG deals with are brought forward by individuals. Projects may require financial or technical assistance, or both. DODG project officers help with background research, development of the financial proposal (with as much input from the client as possible), providing networking, on-going financial systems support, management skills, etc.

Venture selection criteria operate at two formal levels of screening: the community level, and the development corporation board level. At the community level, projects must conform to the local community economic development plan. If they do not, they must receive approval from Chief and Council. The second level of venture selection criteria at the DODG Board of Directors level consists of the following:

- project profitability in the long term must be clearly established. If proposals are similar, either the first or the most profitable project is chosen;
- project proposals which compete with established First Nation businesses will be considered only if the marketplace can absorb an additional profitable business;
- priority projects are ones which conform to local community economic development plans and have received the approval of Chief and Council.
- the local Band economic development committee's recommendation on the project proposal.

As a result of these criteria, each Band retains control of its own economic development ventures and acts in consent with the central development corporation or other financial institutions.

7. Managing the Relationship with the CEO

The CEO is the only staff person in the organization who reports directly to the Board of Directors. The Board is responsible for hiring the CEO, approving his/her annual individual workplan, (usually developed annually) monitoring his/her performance regularly and conducting an annual evaluation. All other staff in the organization report either to the CEO or other managers.

Boards of Directors usually establish a search committee when they are looking for a new CEO. Normally, the Board would agree on a set of qualifications or experience and personal qualities they want to find in such a person. The search committee would then interview and recommend one candidate with two or three alternatives. The Board would make the final decision about who to hire as a CEO.

CEOs are normally required to submit a yearly detailed workplan that indicates their priority goals and objective and how they will be achieved. Their goals and objectives should be consistent with and support the organizations overall goals and strategy. Normally, a Board and CEO would agree on the criteria for evaluating the CEO during the approval of his/her workplan.

Boards of Directors monitor the CEO's work in the following ways: through the CEO's regular reports to the Board, through regular financial reports of the organization and through other venture or program reports submitted to the Board.

Boards of Directors usually conduct an annual overall review of the CEO's performance based on the performance of his/her workplan goals and objectives. Often the Chairman and one or two other Board members will meet with the CEO to review the CEO's performance with him/her, and then present a report and recommendations to the Board for their review.

Boards of Directors also need to be concerned with replacement of the CEO should he or she decide to leave unexpectedly. Some Boards ask the CEO to ensure that others in the organization are trained so that they could take over from the CEO if required.

The CEO is responsible for ensuring that Board members are adequately aware of all pertinent information about the organization, ensuring that Board members receive required orientation and training, providing regular financial and venture/program progress reports to the Board, and ensuring that he/she builds positive relationships with Board members.

Appendix 10 provides a summary of the different responsibilities of Board members, CEOs, and staff.

*Day-to-day
management is the
job of the CEO, who
is chosen by & answers
to the Board.*

Example: Evaluation of CEO

The Yukon Indian Development Corporation (YIDC) is based in Whitehorse. Its Board of Directors consists of 14 directors representing 14 First nations, 4 members at large, and an ex-officio member from the Council for Yukon Indians. The Board delegates to the executive committee (which includes up to 5 directors and the President) responsibility for many of the issues which require attention between formal board meetings.

YIDC has established an "office of the CEO" which includes both the President and the General Manager, who share complementary executive roles.

The YIDC Board provides direction to the "office of the CEO" through a relationship of trust, a system of written evaluations and recommendations and an annual review of Yukon Indian delegates gathered at the Yukon Indian Annual General Assembly (GA).

The General Manager is evaluated annually by the President based on written objectives.

The President is selected from among the Board members for a two-year term. The position of President was designed as a salaried position to deal with the politics and ensure communication with the communities. The President is accountable to the Board and is evaluated annually at a meeting of the Board. The written evaluation is drafted by the General Manager, but it is the full Board which arrives at a consensus regarding the President's performance.

In addition, the Yukon Indian GA brings together most Yukon Indian organizations, and it is an opportunity for Band representatives to evaluate and comment on the performance of YIDC, its Board, and *the office of the CEO*.

8. Ensure appropriate relationship between Board & Staff

It is the responsibility of the Board of Directors to ensure that all Board members understand that their role does not include giving direction to staff except to the CEO. This means that if a Board member has a concern or a problem that concerns a staff member, the Board member should take it up with the CEO.

9. Monitor & Control the Organization's Operations

Boards of Directors have a responsibility to *monitor* (check up on) the ventures, programs, activities and finances of the organization. Normally, this involves reviewing regular reports presented monthly or quarterly on all key aspects of the organization. Boards regularly monitor:

- financial performance of the organization, including its ventures and programs, in relation to budgets and projections;
- accomplishments of ventures, programs and activities in relation to stated objectives;
- training program results in relation to training objectives.

The Board has particular responsibility to monitor the financial reports of the organization and, if financial problems occur, to direct the CEO to put appropriate control mechanisms in place to control expenditures accordingly.

A brief summary of how Board members can understand and analyze financial statements is outlined in Appendix 11.

Example: Monitoring and Control

Five directors representing five different communities sit on the Board of Directors of the Nicola Valley Indian Development Corporation (NVIDC), based in Merritt, B.C. The Corporation was originally formed to administer the CEIC LEAD program (now Community Futures), but has now diversified its activities into forestry, employment and training, and other socio-economic development initiatives.

The Board is an active one, meeting monthly. At board meetings, it reviews and monitors the following kinds of information:

- it reviews activity reports prepared by the General Manager in order to monitor general operations. For example, the Board might discuss the computer training project the NVIDC is carrying out for several of its staff, or the leadership training for Board members, and for members of member Band Councils.
- The Board of Directors reviews the budget by discussing a month/year-to-date report, which shows the comparison to the previous year's operations and the variance between planned and actual budgetary figures.
- Loan summaries are provided, and interest rates are reviewed for loan portfolios.

By carefully reviewing, discussing, and directing the Corporation's activities, the Board is able to effectively monitor and control NVIDC.

10. Determine a Community Participation Strategy & Accountability Mechanisms

Boards of Directors of development organizations normally have a great interest in ensuring that their organizations goals, ventures and programs are consistent with their communities' values, and responsive to its needs. For this reason, Boards should determine a community participation strategy.

A participation strategy can include some or all the following components:

- how to inform community members about what the organization has done, or what it plans to do.
- how to receive feedback from community members about how they evaluate the development organization.
- how to receive input from community members into key decisions the Board must consider.

Accountability Mechanisms

The mandate of the organization and Board normally sets out the responsibility for accountability to the community, shareholders and members.

There are many type of accountability possible. An example of accountability is that Boards are required to report annually to their community or shareholders. Another example is the requirement for community members to be consulted on important decisions.

If the mandate does not include a reference to accountability then Boards themselves must determine the most appropriate kind of accountability and mechanisms to carry it out.

*The relationship
between development
organization &
community is crucial.
Be sure to pursue a
strategy which builds
that friendship.*

Example: Community Participation & Accountability

The mandate of the Saskatchewan Indian Agriculture Program (SIAP), based in Regina, is to increase the participation of Saskatchewan Indian people in viable agricultural activities. Over the past five years, SIAP has diversified its activities into a number of areas, including wild rice, alfalfa farming, ethanol production, game ranching (deer, buffalo, elf), and fish farming. They operate three subsidiaries: a loan company with six million dollars of capitalization; a marketing company which markets about 90% of wild rice production in the province, and a newly created investment association which makes strategic investments in agriculture with other Indian investors.

SIAP encourages community participation and accountability in several ways:

1. Through its Board membership:

- SIAP Board members include representatives from all Saskatchewan First Nations or Bands. Each Band has one seat on one of the seven district Boards. The provincial Board, in turn, is made up of the chairperson from all seven district Boards, the executive member in charge of economic development of the Federation of Saskatchewan Indian Nations (FSIN), a senator (elder) from the FSIN, a civil servant from the provincial department of agriculture, and two members at large.

2. Through development of a communications strategy:

- A communications sub-committee was set up consisting of Board Members from both SIAP and its subsidiaries. The committee is developing a complex communications strategy which involves determining how the subsidiaries will reach their audience or publics (they have identified 25 publics, each requiring a different message and method of communication), and then finding ways to evaluate the effectiveness of the strategy.

3. Through the composition of subsidiary companies' Board of Directors:

- The subsidiaries' Boards of Directors formerly included representatives from each of the districts, but were restructured so that directors would be chosen on a basis of merit. To maintain accountability, the SIAP chairperson chairs the subsidiaries' Boards, and the SIAP CEO acts also as the CEO of subsidiaries.

Being a large organization with diversified operations has forced SIAP to understand that accountability requires not only setting up a well-designed board structure, but also continually explaining what the company is about to members, clients, joint-venture partners, financial institutions, and other publics. SIAP has come to understand that being accountable to members means doing good business with all the players who are important to the organization.

11. Determine a Strategy for Effective Networking

An important function of a development organization is to develop *networks*, or connections and contacts with other organizations, companies and agencies, including:

- government
- commercial financing or lending institutions
- other non-Native corporations
- other Indian/Inuit or Innu development organizations

The Board of Directors determines a strategy for each group that sets out:

- person/organization to be contacted
- objectives for each contact (including short and long-term objectives)
- methods to initiate and maintain contact

The Board of Directors would also need to determine who in the organization should develop and maintain the contacts and networks. In some situations, the Board may determine that it is important for Board members and staff to meet certain people such as potential venture partners, funding agency or bank representatives, and other development organizations. In other cases, Boards may decide to delegate this function to the CEO or other staff.

Networks enable an organization to co-operate with others which have similar intentions & interests.

Example: Strategic Networking

The Kingsclear Development Corporation's Board of Directors is made up of the Chief and five councillors, a General Manager from the Kingsclear First Nation, plus four non-Band members. The corporation's major project, a multi-million dollar hotel resort located on-reserve just outside Fredericton, is currently nearing completion. Three other related businesses complement the hotel resort: a human resource development corporation, a recreation development corporation, and a leasing company. These other companies all "feed" the core business of developing a hospitality industry for the Kingsclear Band.

Kingsclear's strategy for effective networking is straightforward. It invites onto its Board people with established networks and expertise in business matters. The general manager is a key operational player, bringing to the corporation previous management experience, past political experience, and a balanced, First Nation approach to socio-economic development. He represents the Corporation at all national and provincial meetings.

The four "external" directors ensure that their experience and expertise is represented at board meetings. An ex-bank manager brings the financial skills, knowledge of the financial world to board meetings. A past president of the Atlantic Salmon Federation brings knowledge of the fishery and its proper management, as well as an extensive international network in matters concerning the fishery. A retired C.A., an ex-vice president of McCains, also brings knowledge of the international marketplace, and a lifetime of experience in corporate finances. A corporate lawyer brings the necessary expertise regarding legal and corporate issues, contracts, etc. All five of the above board members have their own extensive networks, are involved in many other committees, boards and organizations. These contacts with lending agencies, a variety of government officials, the business community, and other Indian organizations are a key factor in having an effective board.

This board structure and composition allows the Kingsclear Indian Band to maintain a majority voice in all developments, while taking advantage of an important range of talent and information.

12. Ensure adequate Financing is available

Boards of Directors have a responsibility to ensure that adequate financing is available before authorizing specific expenditures.

Normally, the CEO and staff will outline specific strategies for seeking funds, which must be approved by the Board members.

13. Evaluate the Performance of the Board & Organization

Boards of Directors have a responsibility to evaluate their organization's performance. Boards can choose to do this in a variety of ways:

- they can evaluate themselves by examining and analyzing their organization's performance in relation to the targets set as part of the strategic plan. In this case, the CEO and staff usually prepare reports and analysis for the Board's review.
- they can evaluate the organization's performance by hiring an external evaluator. The method and scope of the external evaluators work would normally be determined by the Board of Directors and the CEO. Some funding agencies require evaluations carried out by external evaluators every three to five years and provide funding to carry them out. Effective Boards see these requirements as an opportunity to learn from the past and to plan for the future. The CEO and Board would normally review any evaluation report before it is made final.

Evaluation is the Board's opportunity to figure out what worked, what didn't, & what improvements to make to itself & the organization.

- they can ensure that community members are consulted as part of the evaluation process.

Whichever way the Board decides to evaluate its activities, it is important that they examine how effectively they achieved the objectives and carried out the activities set out in the strategic plan.

Consequently, Boards of Directors may want to design an evaluation process that demonstrates to new Board members how an organizational evaluation is planned and conducted. This would involve helping Board members to understand how evaluation questions are determined, how data is gathered and analyzed, and conclusions made.

An organization evaluation would normally focus on the following issues:

- *Effectiveness*: Is the organization achieving its objectives? (including financial, venture and program objectives)
- *Efficiency*: Is the organization operating in an efficient manner?
- *Effects and Impacts*: What have the effects or impacts of the organization been? e.g. on the creation of wealth? on the number of jobs created, on the dollars retained in the community?

In addition to evaluating the performance of the organization, a Board should evaluate itself. It is easier to do this if there is a clear and shared understanding of what the community expects its board members to do. At the beginning of each planning period, a Board should set out what it wants to achieve and evaluate its performance based on the degree to which it actually succeeded.

Board members should address the following types of questions in evaluating their performance.

1. Constitution, By-law, and Letters Patent

- Are they in place?
- Are they adequate?

2. Planning-Are the strategic and financial plans developed?

- Have they been implemented?
- What should be changed in either plan in the future?
- What new information is available to indicate there is a need to redraft the plans?

3. Policy Development

- Are adequate policies in place?
- Are they being implemented?
- What additional policies are required?

4. Venture & Program Development

- Are ventures and programs in place?
- Are they successful?
- Are they still consistent with the selection criteria?
- What can be learned from each of the ventures/programs progress to date?
- Are there needs for new ventures or programs?

5. Managing the Relationship with the CEO and Staff

- Has the Board approved the CEO's workplan?
- Has the Board monitored and reviewed the CEO's reports, and evaluated his/her performance?
- Is the Board's relationship with the CEO satisfactory?
- Do staff have an appropriate working relationship with Board members?
- -What are the administration's weaknesses and strengths?

6. Monitoring & Controlling

- Does the Board monitor key aspects of the organization?
- Have controls been established where required?

7. Community Participation

- Is there a strategy for community participation?
- Is it adequate?
- Are there accountability mechanisms in place consistent with the mandate?

8. Strategic Networking

- Are strategies for strategic networking in place and implemented?
- Are they adequate?

9. Adequate Financing

- Are financial resources adequate for the organization's needs?
- Have adequate finances been in place before expenditures were authorized?
- Are there additional operational economies that can be made?

Some Boards develop checklists to evaluate their performance in a less comprehensive way than the list above describes. An example of this type of checklist is outlined in Appendix 12.

Example: Organization Evaluation

The Manitoba Aboriginal Resources Association Inc. (MARA), based in Winnipeg, is an umbrella organization that acts as a co-ordinating body for a wide range of subsidiary companies, projects, investments, and services. They own and operate an aboriginal capital corporation, a profit-motivated investment corporation, and they are well diversified in agricultural activities. In order for the Board to monitor and control operations, they require a strong management information system so that all corporate operations follow the five-year corporate strategic plan.

MARA carries out major evaluations on all its activities every five years. This evaluation examines: financial results, performance of management and staff, and achievements of corporate plans and activities. All findings are analyzed by the Board so that a comprehensive evaluation can be made of the Corporation's success in fulfilling the strategic goals and objectives.

The Board of Directors' role in the evaluation process includes:

- review of the individual activity/program performance reviews;
- review of the full five-year evaluation results;
- discussion and agreement on the evaluation results;
- agreement on an implementation plan to deal with evaluation recommendations.

In addition to the utility of the evaluation study as a management planning and monitoring tool, the evaluation process is a satisfying one for directors, management and staff. It gives people a sense of both past accomplishments and a plan for future directions.

Chapter 10

Detailed Description of Legal Responsibilities of Boards of Directors

Boards of Directors of development organizations have many legal responsibilities. They also have legal protection. Their legal responsibilities are, in general, to act in the best possible interest of the development organization, and its shareholders.

When a community selects someone to be their representative on a Board of Directors, they convey a lot of responsibility. They trust the Board shares their vision of the future and will work in ways compatible with this vision. Communities trust Directors to deal with money and property, to make policy and enter into agreements which will affect the communities' residents for many years to come.

Because of the potentially large impact Directors can have, the legal system provides some protection for communities who do not exercise quite enough care in selecting their Board representatives. Also, because Directors have such large responsibilities, there is some protection for Directors providing they act with the best interests of the community in mind and not out of self interest.

Generally speaking, the best protection for both the community and Directors is:

- to keep communication open, so that people are aware of the key issues with which the Board is dealing;
- to ensure that the Board consults with the community on important decisions.

This section is written with the expectation that Board members will seek legal advice on an ongoing basis. If the lawyer the Board chooses shares the understanding of the Board's relationship with the community, and the Directors make their decisions carefully, there should not be any cause for concern.

A Board of Directors has a large number of specific responsibilities that have been set out in statutes and regulations and confirmed in case law. We have summarized all of these into what we consider the five main areas of legal obligations for Boards of Directors:

1. To act in the best interests of the organization;
2. To ensure that its decisions fall within the mandate described by the documents which give the organization life in the eye of the law. Directors should also define their mandate as clearly as possible with the community;
3. To ensure that it does not limit its powers to act in the best interests of the corporation;
4. To put the interests of the corporation before any personal interest.
5. To ensure that all decisions of the Board are lawful.



1. Act in the best interests of the organization

Board members must take care with their decisions. They must work hard to ensure that the interests of the organization are protected. Board members should:

- make all decisions with the same degree of care as they would if the decision affected them personally.
- develop criteria and standards for key decisions which they are called upon to make frequently. For example, Boards could develop carefully thought-out criteria for selecting senior staff, or for choosing joint venture partners. This will assist in making good decisions, particularly if those criteria are discussed and debated in the community.
- ask for advice from neutral outsiders often as is needed. This can ensure greater clarity of thinking. In the end, however, the Board itself will have to make its own decision. To do otherwise would be to bypass the wish of the community that the Board members they selected make the decision.
- keep themselves informed as to the business, policies and affairs of the organization;
- be aware of the work in which staff is engaged;
- be aware of all decisions which are made by other Board members;
- be sure they have enough information to make good decisions;
- if they become aware of an improper decision made by another Director, they should take steps to protect the organization from the impact of that decision. This may mean reporting the impropriety to the authorities or to the community.
- be as aware as possible of the impact of decisions on the organization, the community and third parties. It is often hard to judge the impact of decisions. For example, sometimes a short-term profit objective may jeopardize long-term viability. This could happen with a high risk business venture which is potentially highly profitable but might have a long-range negative impact on the development organization. The Board will be required by law to examine the investment from both perspectives. This can be a difficult dilemma because if the board never takes any risks, it may limit the organization's future.

*The best protection
for both community &
Directors . . .*

*is open communication
& consultation.*

Example: Acting in the Best Interests of the Organization

Board members of the Makivik Corporation, based in Kuujuaq, Québec, have many experiences of meeting the challenge of balancing various interests in order to ensure that they act in the best interests of the corporation. Recently, the board of one of Makivik's subsidiary companies, Air Inuit, sought the guidance of its parent company's board on the question of whether to keep an unprofitable air route between Québec City and Radisson open. The management of Air Inuit was divided. Some argued that the service should be terminated for lack of profitability. Others argued that the route represented a strategic link between northern and southern air travel which could be an essential component of a possible future expansion strategy. Thus, the long-term interests of the corporation would be protected.

Air Inuit conducted both internal and external studies on the viability of expanding into full north-south service. It was unable to resolve the difficulties presented by the competitive environment, the regulatory climate and the prevailing economic conditions. During discussions between the boards of Makivik and Air Inuit, the suggestion arose that Makivik consider the purchase of an existing airline which would work in partnership with Air Inuit to provide the service in question. This led to the purchase of AirSiol Inc., which now in turn owns Bradley Airservices, carrying on business under the name of First Air.

By balancing the long-term interests of Makivik in having the Radisson-Québec City route maintained as a strategic base for the future, against the need to maintain profitability, a creative solution was designed which expanded the profit base of the whole corporation. If the Air Inuit Board or that of Makivik had simply insisted either upon the closure of the route in question, or on keeping it open no matter what the cost, an important growth opportunity would have been missed.

2. Exercise only the authorized powers

When a Band or Tribal Council or Inuit group sets up a development organization they give it a specific mandate. For example, if a Band council establishes a community development corporation, it may give it a mandate to develop the economy of the community. While this is a large responsibility, it is not an unlimited mandate. The Band is not giving the Board of this organization the power, for example, to govern the political affairs of the Band, or to run the school system. In other words, the development corporation cannot make decisions which it was not mandated to make.

- The full description of the mandate which the community gives the development organization is included in the following documents: the

A Development Corporation cannot act beyond the limits set by its mandate.

constitution, the by-laws and the minutes of the meetings which were held to discuss the establishment of the organization. Board members should be familiar with all these documents.

- Board members should examine the constitution and by-laws to determine what limits exist on their mandate in the eyes of the law. They may not act outside the terms of these documents. Often however, the community's understanding of the purpose for which the organization was established will not be clearly reflected in these documents. It may also change over time. Consequently, it is often desirable that Directors consult regularly with the community to ensure their mandate is appropriate.
- However, it is the responsibility of Directors to act in the best interests of the organization even if the community does not agree. If there is ever any doubt as to whether a Board has the authority to make a decision, legal advice should be sought.

Example: Exercise Only of Authorized Powers

When the members of the Siksika Nation, based in Gleichen, Alberta, established their development corporation, they gave it a specific mandate to plan for and ensure the implementation of economic development. After engaging in planning and consultation with its member communities, the Corporation decided to provide seed capital to establish a service station as its first project while continuing to plan towards the construction of a mall and administrative complex. Because the mandate of the Siksika Economic Development Corporation is broad, it was clear that it had the power to set up such a service. However, for the sake of efficiency, it was decided to set up a subsidiary corporation, Siksika Service Station Limited, to run the new business. This organization has a much narrower mandate than its parent, which restricts it to the business of operating a gas and service station.

When the need arose for seed capital to launch a clothing manufacturing outlet, a separate corporation, Siksika Fashion and Contract Sewing Limited, was established with its own narrow mandate. Like Siksika Service Station Limited, this company is a subsidiary with reporting obligations to the parent and interlocking Board membership. This has helped all concerned to keep the mandate and mission of each organization clear.

Eventually, one of the communities approached the Development Corporation asking it to set up a food and vegetable co-op for the purpose of providing employment and cash income from the sales of the produce. Although such a project did not fall within the overall plan of the Development Corporation, the Chief and Council, to whom the Board of Directors reports, insisted that it be included. As it was clearly within the mandate of the company to establish such an entity, the co-op was set up in line with the wishes of the community in question.

3. Exercise fully the powers granted under the mandate

When a community establishes an organization to carry out economic development activity, it wants it to succeed. Board members must work as hard as they can to make the organization the best it can be. They have been selected because the community values their ability to make decisions and represent the community. Boards must not limit the extent of that decision-making authority.

- Boards must be satisfied that they have carefully considered all the information which may reasonably be available before making decisions.
- Board members must avoid making decisions ahead of the time that the Board sets for discussion of the issue.
- Board members should attend meetings so they are present to make decisions. Whether or not a director is present, he or she may still be liable for all decisions of the board.
- Boards must keep to themselves the ultimate responsibility for the decision itself. While Board members may have respect for the opinions of staff and advisors, in the end the Board itself must make the decision.

Example: Exercise Fully Powers Granted

The Meadow Lake Tribal Council (MLTC), based in Meadow Lake, Saskatchewan, is the political and service organization of nine Indian Bands in northwest Saskatchewan. It offers programs and services to Band members in education, economic development, health and social development, and technical services. The economic development program is operated on behalf of the chiefs by an Economic Development Commission made up of Chiefs and Councillors.

The Tribal Council's Economic Development Commission has corporate and service arms. The former oversees the Tribal Council's business interests. The latter provides advisory services and a contribution program to individual Bands and Band members on an application basis. The Economic Development Commission meets regularly to review project applications. Technical Advisors to the Economic Development Commission have developed a format for providing the required information and analysis for project submissions to the Commission. This format was developed with the direction of Commission Members.

Commission members receive information on all aspects of projects including: projections related to financial viability, markets, benefits to the communities, training and human resource development, management, financing and technology. This enables them to make informed decisions concerning contributions to projects. These contributions are usually utilized to lever additional contributions from other economic development programs.

4. Resolve issues on the basis of organizational—not personal—interests

It is often easy to state this and hard to practice it, particularly in small communities where the interests of many individuals will be directly affected by the decisions an economic development organization makes. Because of the difficulties in proving intent these kinds of conflict of interest situations the law has made some concrete rules.

- A Director should not benefit from decisions made by the Board in any ways which is distinct from that in which the whole community benefits. If a Board member does benefit financially in any such ways, he or she may have to repay that benefit. This is the case even if the Director did not intend to create a personal benefit.
- Therefore, Board members who stand to gain anything more than the community as a whole from a particular decision should refrain from making it or from influencing the decision.

Example: Conflict of Interest

Yinka Dene Investment Corporation, based in Vanderhoof, B.C., serves the Carrier-Sekani Tribal Council in the northern part of that province.

When the Corporation's Directors met to begin planning their future, one of their first decisions involved potential conflict of interest. They agreed that there are often difficult decisions to be made in this area because the purpose of the corporation is to make life better for all members of each of the member Bands. The situation involved a decision by the Board of the Investment Corporation to award a contract for local development activity. The Board realized that one of the contract bidders was the brother of a Board member.

Consequently, the Board decided to develop objective criteria for decision-making. They agreed to develop objective criteria before beginning the selection process to ensure that their decision would make the family relationship irrelevant. Some of these criteria included:

- the track record in terms of business sense and trustworthiness;
- the bidder's financial stability;
- the ability to work with native people in supporting their values;
- the ability to deliver a specified product or service on time and on budget.

In addition, they agreed that they would place a priority on those bidders who would build the community's capacity for academic development and would prefer to award contracts to those companies who would return the profits to the community.

They also agreed that there would be times when the application of the criteria would mean that the best qualified person was a family member but they could feel sure that the contract was going to that person because they were the best qualified and not because they were related to a Board member. They also agreed that, while the contractor's sister, a Director, should contribute to the decision about the appropriate criteria, she should refrain from the discussion regarding the award of the contract, and abstain from the final vote.

5. Ensure that all decisions of the Board are lawful

Ignorance of the law is no excuse. Board members may be personally liable for any decisions they make which contravene any law.

If Board members have any doubt or question about what is lawful, they should seek legal advice.

Part III

APPENDICES



Appendix 1

Types of Economic Development Organizations

APPENDIX 1

Types of Economic Development Organizations & their Type of Board Of Directors

Organization Type	Established by	Typical Types of Ventures or Programs	Types of Boards
1. Commercial, Development, & Sectoral Institutions	<ul style="list-style-type: none"> • Band • Tribal Council • Province-wide organizations • Inuit & Innu communities or organizations 	<ul style="list-style-type: none"> • advisory assistance to small businesses to plan, establish, or expand their operations • joint marketing initiatives • investment in businesses • equity investment or loans to business • repayable contributions in business • joint venture negotiation and brokering 	<ul style="list-style-type: none"> • Governing Board of Directors
2. Aboriginal Capital Corporation	<ul style="list-style-type: none"> • Tribal Councils or associated Bands or Tribal Councils • Associated Inuit Communities or organizations 	<ul style="list-style-type: none"> • loan and/or loan guarantee programs to businesses • equity investment in businesses • joint ventures • entrepreneurial training • advisory services 	<ul style="list-style-type: none"> • Governing Board of Directors
3. Cooperative	<ul style="list-style-type: none"> • Bands • Tribal Councils • Inuit Communities or organizations 	<ul style="list-style-type: none"> • investment in businesses • equity investment in businesses • loans and/or loan guarantees to business 	<ul style="list-style-type: none"> • Governing Board of Directors
4. Credit Union	<ul style="list-style-type: none"> • Band • Inuit Community 	<ul style="list-style-type: none"> • loans and/or loan guarantees to business • equity investment in businesses • mutual fund/pension fund development 	<ul style="list-style-type: none"> • Governing Board of Directors
5. Community Economic Development Organizations (CEDOs)	<ul style="list-style-type: none"> • Band • Tribal Council • Inuit & Innu Communities • Inuit & Innu Organizations 	<ul style="list-style-type: none"> • advisory assistance to Bands, Inuit communities and to individual businesses to assist in planning, establishing, expanding and operating their operations 	<ul style="list-style-type: none"> • usually a CEDO is part of the Band, Tribal Council or Inuit organization structure • sometimes the CEDO can have an Advisory Board

Appendix 2

Introduction to CED & the Development Wheel

Appendix 2

Introduction to Community Economic Development & the Development Wheel

Community economic development represents an approach to economic development which puts communities first. It measures success in terms of the strength, health, and self-reliance of communities—as well as jobs, income, and investments.

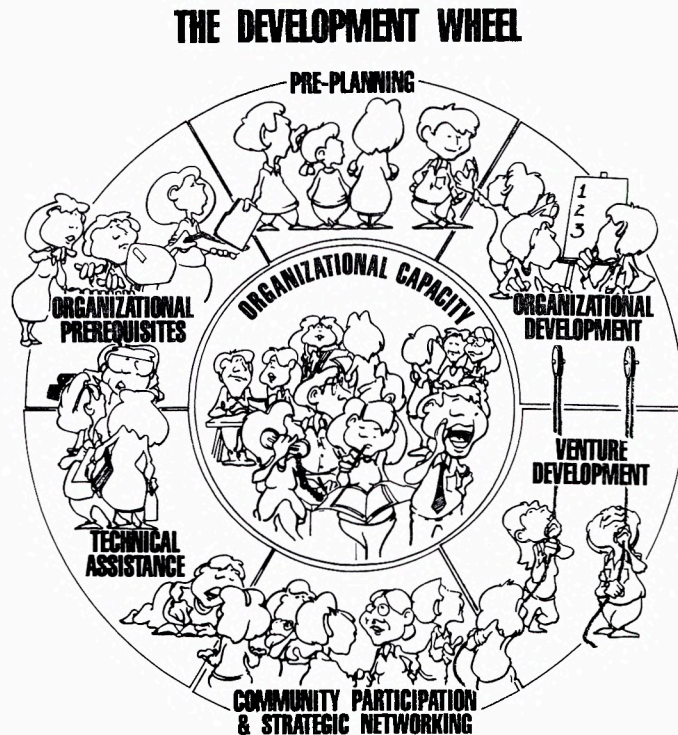
The record shows that “community-based” economic development, when successful, has six key components.

1. Organizational Prerequisites
2. Pre-Planning
3. Organizational Development
4. Venture Development
5. Community Participation and Strategic Networking
6. Technical Assistance

These six components of the “Development Wheel” keep economic development rolling at the community level. Each component deepens the pool of local people who have organizational talent, technical skill, and on-the-job experience. The deeper the pool, the greater the ability of community members to plan, start up, and manage projects. Over time, they become capable of handling projects which are more and more challenging (and rewarding).

We call this pool of talent, skill, and experience the community’s organizational capacity. It is the key product and driving force behind the community’s economic development.

Good programming will encourage and enable communities to build their organizational capacity in all six ways. If a component is neglected, economic development won’t grind to a halt. Its destination, however, will be something other than stronger, more self-reliant communities.



1. ORGANIZATIONAL PREREQUISITES

Programming should ensure that certain values, skills, and systems are present before economic development is undertaken. If these prerequisites are not in place, even the best business has little chance of success. These are:

- stability and effectiveness in community government;
- basic financial systems and skills;
- basic planning and development skills and resources;
- decision-makers who are willing to study and train;
- commitment to integrate planning and decision-making;
- readiness to give economic development time to produce results;
- willingness to consider working with outside businesses and resources;
- willingness to invest in entrepreneur and business management skills;
- willingness to stay involved in the community's economic development.

2. PRE-PLANNING

Pre-planning should respect the need for community agreement about economic development: what it is, what it is for, how it should proceed. To forge this consensus, the community must gather and exchange information in several ways:

- discussions which clarify the community's goals, and the quality of life it desires;
- discussion of the roles of Band government, of private and community enterprise in economic development;
- natural and human resource inventories;
- identification of economic opportunities;
- commitment of time, resources, and personnel to the planning process;
- the beginnings of a community economic development strategy.

3. ORGANIZATIONAL DEVELOPMENT

Good economic development programming does a lot more than finance businesses. To prosper, businesses need a friendly environment. Good programming helps communities build the leaders and management systems which can create and maintain such an environment. This aspect of organizational capacity is developed through:

- assessing the community's strengths and weaknesses in management and planning;
- training staff and leadership in planning, business evaluation, and monitoring;
- writing basic policies and procedures;
- planning and setting up monitoring and management systems;
- planning for further organizational development.

Currently, programming is often choked with different mandates, procedures, outlooks, and personalities. Even the most hard-working and committed leaders find it difficult to look far beyond the fiscal year.

4. VENTURE DEVELOPMENT

When it comes to business opportunities, the best programming is choosy first, and generous later. It throws its support behind only those private and community-aimed enterprises which will really advance the community's economic development strategy. To achieve this, development organizations need assistance with:

- research into venture opportunities;
- a demanding, 3-stage procedure for evaluating business proposals;
- pre-feasibility and feasibility studies;
- business plans;
- finding financial backing;
- venture start-up.

5. COMMUNITY PARTICIPATION & STRATEGIC NETWORKING

To enjoy the active support of community members, an economic development strategy must reflect their hopes, interests, and abilities. Their guidance and comments about the strategy's progress must be regularly sought. Leaders must also win the support and cooperation of key outsiders to the community. Good programming should take into account the need for:

- community meetings, discussion, and education;
- competent, influential contacts in the private and public sectors;
- training in funding sources and procedures;
- outreach on behalf of specific projects and businesses.

6. TECHNICAL ASSISTANCE

The community's leadership must be willing and able to bring outside expertise to bear at critical points in the economic development process. The terms of these contracts must ensure that the outsiders teach some of their skills to community members. In this way, their assistance will actually help the community to become more self-reliant. Critical points might include:

- economic development planning;
- organizational assessment;
- policy-making;
- venture selection;
- venture management and monitoring;
- business planning and feasibility studies;
- financial packaging.

Appendix 3

Making Informed Decisions

Appendix 3

Example of a Board Decision Sheet

1. ISSUE

_____ Training Program

2. FACTS ON THE ISSUE:

The _____ Centre has developed its own curriculum on Entrepreneur Training. The Federal funding program _____ wants the _____ Centre to deliver Entrepreneur Training to their clients. The Centre is a separate department in _____ training institution.

3. IMPACT:

The _____ training institution has delivered four _____ Training programs in Saskatchewan.

4. SUGGESTED SOLUTION:

The _____ Centre sell and deliver _____ Training programs to all aboriginal people of Canada.

5. ACTION REQUIRED

Board approval.

6. APPROVAL:

MOVED BY: _____

SECONDED BY: _____

Appendix 3a

Minimum Project Information Requirements for Board Members

Staff and project committee reports should be on a regular schedule and should include details in the categories listed below. Board members require knowledge, familiarity, clear descriptions and comprehension of:

How Project Works

Expected Schedules

1. Description of Project, including

Quantitative and qualitative dimensions re:

- objectives and how the project addresses local issues such as employment development, training, etc.
- products/services
- markets served
- facilities used
- type and numbers of staff
- benefits to, and impacts on, the community
- financial information: financing, budgets, financial statements
- selection criteria for projects/ventures
- summary of key features (in diagram form)
- interrelationships of project elements
- requirements of staff

Potential Vulnerabilities

1. Political Opposition or Difficulties

External

- lack of local support
- lack of vision or view of a “big picture”

Internal

- opposition to policy
- opposition or difficulties with staff

2. Business/Management Difficulties

Management Issues

- inexperience of staff
- unclear role definition
- lack of training

Market

- inaccurate or changed assumptions
- extent of market capture
- pricing policy
- changes in value of currency
- cost of services in remote areas
- cost of transportation from remote areas

Technology

- finding the appropriate type of technology
- difficulty in using, managing, controlling a new technology
- how to learn to use a new technology

Financial Feasibility

- changes in costs of labour, materials, cost of funds, etc.

Financing

- changes in partners or commitments
- availability of funds
- mix of funds

Contingencies

- inadequate capacity to address and overcome vulnerabilities

Dependencies

- limited local market



Appendix 4

Condensed Rules of Order for Meetings of Boards of Directors

Appendix 4

Condensed Rules of Order for Meetings of Boards of Directors

Any organization must make decisions according to rules which all the members accept and understand. Rules of order are simply a tool to ensure that the business an organization conducts are seen to be based on a fair and accepted process. The following section outlines methods for designing a Board meeting agenda and for conducting meetings.

DESIGNING AN AGENDA

1. Ensure that minutes of previous meetings are distributed so Directors can review and be prepared to adopt as the official record of the discussions. (By voting to adopt them, Directors who voted in opposition to decisions which were taken are not indicating their agreement with that decision. Rather, they are agreeing that the minutes accurately record the events which took place.)
2. Review the agenda of the previous meeting to see if there was business from that meeting which did not get dealt with and which should be brought before the Directors this time.
3. Notify all committees which are expected to report to this meeting that they will be on the agenda and ensure that the documentation is properly prepared and, if desirable, distributed ahead of time.
4. Decide if there is any urgent business which should receive priority treatment.
5. Distribute copies of the agenda to Directors.

Sample Agenda

1. Adoption of minutes of previous meeting.
2. Review of agenda. (Are there any additions? Do people agree with the order of business?)
3. Urgent business.
4. Committee reports. (These should be in two parts: reports for the information of Directors, so they stay in touch with the work of the CEDO; and policy decisions requiring the attention and deliberation of the full Board.)
5. New business.
6. Set date for next meeting.
7. Adjourn.

CONDUCT OF MEETINGS

A Board is free to establish whatever rules it chooses to govern the conduct of its meetings. One of those rules should be a decision which receives unanimous agreement about how to change those rules. These decisions will assist the process of discussion and decision making.

Many Boards choose to use standard sets of rules which have worked for other types of organizations such as *Robert's Rules of Order* or *Bourinot's Rules*. These rules have grown extremely complex over time and while they may be quite useful, sometimes they act as barriers to effective communication since they can be used to discourage discussion. They may not be useful in an organization where consensus is required before decisions can be implemented.

The following rules may be helpful guides to the conduct of a meeting where majority rule will govern all but radical changes in policy.

Agenda

1. The CEO should set the agenda in consultation with the Chair. The Agenda should receive approval from all those present. Additions or changes are allowed.
2. Approval of Minutes: The minutes from the last meeting form the official record of the business which the Board conducts. They will often be the formal direction to staff to implement policies and can form the basis of any legal action or other forms of dispute resolution with which the Board is involved. Minutes should be carefully read by every Board member before the meeting and should not be approved unless all present agree that they are an accurate representation of the decisions made.
3. Making Decisions:
 - a) Usually items come before the Board with a recommendation from a staff member or committee. The Chair should invite a presenter on the topic to make a motion to have the other Board members vote to support that recommendation. Both *Roberts* and *Bourinot's Rules of Order* require that the motion be made before the presentation. We suggest that the Board make an agreement as to which they prefer and stick to it.
 - b) Other Board members may want to comment on the presentation. They should do so by indicating whether they agree or disagree with the suggested motion. If they are simply asking for more information, they should communicate this too.
 - c) When everyone has asked enough questions or had enough information, the debate will be over. The Chair then calls for a show of hands as to who supports the motion and who opposes it. Depending on the formula which has been agreed upon, a majority, two thirds or all of those Board members present will carry the day.

- d) If one person agrees with the intent of the motion but is having trouble with a few words, it can be amended. The Chair will ask the concerned person to suggest wording which they feel will answer their concerns. The original mover of the motion will then be asked to indicate whether they feel the motion if it was amended would still reflect the intention of the original motion. If the answer is "Yes", then the Board votes on the amendment before voting on the whole motion. If the original mover feels that the proposed wording would destroy the original meaning, then the person proposing the amendment will either have to accept the old wording or vote against the first motion and move a second one if the first one is defeated.
- e) If the Board feels that it requires more information before it makes a decision, or that it would like to postpone making it for any reason, the motion can be set aside to be dealt with at a later time or another meeting. This is called "tabling a motion" and requires that a simple majority of those present agree to do so. Having been tabled a majority vote is required to "take it from the table".
- f) If the Chair wishes to reach consensus on an issue, but realizes that it will be impossible at a given time in the meeting, then he/she can request that the item be "tabled" until a later time, or a later meeting. This can allow for more of an opportunity for a consensus to be created.
- g) Debates can be shortened if they are going on longer than most Board members wish. This is done by one Board member indicating that he or she wishes the Chair to "call the question". If most Board members agree, (two thirds is a good idea before debate is cut off), then the Chair may call for the show of hands on the motion itself.
- h) If a Board member later wishes to change his or her mind and reverse the decision, this can be done. However, it is advisable to make sure that most Board members are in favour of having the issue revisited so that the time is not wasted by one person. Therefore, it is customary to require that motions to revisit old debates and reverse or change the intention of old motions require two thirds support from those Board members present including one person who voted in favour of the old motion.
- i) Because Board members are there to represent the community, it is a good idea to record their votes. This allows the community to see how its representatives are voting or have voted on any given issue.
- j) Examples of the kinds of decisions which are of such importance to the organization that many Boards require more than simply majority support include:
 - Budget approval (two-thirds)
 - Strategic plan approval (two-thirds or unanimous)
 - CEO hire (two-thirds)
 - Venture or program selection criteria (two-thirds)
 - New Board members (two-thirds)
 - To change the rules or order (two-thirds)

Boards of Directors can also decide what further rules may be of assistance to them.

Appendix 5

Sample Evaluation Chart for Selecting New Board Members

Appendix 5

Sample Evaluation Chart for Selecting New Board Members

CRITERIA	Candidate A	Candidate B	Candidate C	Candidate D	Candidate
<p>1. Community Representation sought to provide:</p> <ul style="list-style-type: none"> • demographic representation • sectoral representation <p>Examples:</p> <ul style="list-style-type: none"> • Elected leaders • Business community • Social service providers • Elders • Educators <p>2. Experience Desirable in:</p> <ul style="list-style-type: none"> • Small business start-up, and operation • design of training programs • business financing • joint ventures • agriculture • forestry • transportation/trucking • contacts in non-native business community <p>3. Personal Qualities and Values:</p> <ul style="list-style-type: none"> • interested in business development • interested in community's long term development • sees importance in community input into decision-making • has time • will make effort 					



Appendix 6

List of Attitudes and Behaviours of an Effective Board Member

Appendix 6

List of Attitudes and Behaviours of an Effective Board Member

Are You a Good Board Member?

There are certain attitudes and behaviours which help make a person a good Board Member. Some of these are listed below.

A Good Board Member

- a) Is dedicated to helping others in light of his/her responsibilities as a Board Member.
- b) Approaches his/her responsibilities in the spirit of a trustee on behalf of the residents, their intended beneficiaries, and the public at large.
- c) Stands up for his convictions, even at the cost of misunderstanding or disapproval in his social or business life.
- d) Backs up other Board members or staff, rising to their defense when they are unjustly criticized or attacked.
- e) Treats staff as a partner in a high calling, while maintaining overall supervision and control.
- f) Avoids being overawed by others on the Board, whether they be executive staff, business professionals, labour or society executives in labour or society, social work, education, medicine, etc.
- g) Welcomes information and the best available advice, but reserves the right to arrive at decisions based upon his own judgement.
- h) Respects the right of other board members and of staff to disagree with him and have a fair hearing of their points of view.
- i) Accepts as routine that decisions must be made by the majority vote, and will at times go against him.
- j) Criticizes when necessary, in a constructive way, and if necessary, suggests an alternative course.
- k) Recognizes that his time and energy are limited.
- l) Endeavours to keep disagreements and controversies impersonal and to promote unity.
- m) Maintains loyalty to his organization, within a higher loyalty to the welfare of the community and humanity as a whole.

The following list has been developed by the Centre for Community Economic Development in Sydney, Nova Scotia.

Appendix 7

Guide for Developing a Board of Directors Training Plan

Appendix 7

Guide for Developing a Board of Directors Training Plan

This is a guide for assisting Boards of Directors of development organization to identify their possible training needs. The list of possible training areas relates to the functional and legal responsibilities and to the skill areas outlined in this book. Individual Board members are asked to:

- 1) identify their level of need for each training area; (low or high)
- 2) rank order the training needs on a scale from priority 1-5. (High = 1, low = 5) (some areas will have the same priority levels.)

Following this, the CEO or staff should consolidate and analyze the results of these individual training needs/priorities. Next, the CEO should present the results to the Board for their review, discussion and decision about Board training priorities.

POSSIBLE TRAINING NEED	Board Members Level of Training Need Low High	Board Members Overall Priority Ranking (List priority 1-5)
<p>A. Skills And Knowledge Related To Board Functions:</p> <ol style="list-style-type: none"> 1. Developing, understanding and reviewing Constitution and Bylaws of the development organization. 2. Developing and understanding the articles of incorporation or letters patent. 3. Planning <ul style="list-style-type: none"> • understanding how to develop a strategic plan • understanding how to develop a financial plan 4. Policy Development <ul style="list-style-type: none"> • understanding how to develop various Board policies 5. Venture and Program Decision-Making <ul style="list-style-type: none"> • understanding how to develop venture selection criteria • understanding how to make decisions related to ventures • understanding how to develop programs • understanding how to make program and activity decisions • understanding how to analyze feasibility studies and business plans 6. Working with the CEO <ul style="list-style-type: none"> • understanding how to select a CEO • understanding how to develop a workplan with a CEO • understanding how to monitor and evaluate a CEO's performance 7. Monitoring and Controlling <ul style="list-style-type: none"> • understanding how to develop monitoring systems and mechanisms for financial, venture, program and personnel functions • understanding when control is appropriate 		

POSSIBLE TRAINING NEED	Board Members Level of Training Need Low High	Board Members Overall Priority Ranking (List priority 1-5)
<p>8. Community Participation</p> <ul style="list-style-type: none"> • understanding how to establish an appropriate level of community participation in the development or organizations decisions • understanding how to establish appropriate levels of accountability <p>9. Strategic Networking</p> <ul style="list-style-type: none"> • understanding how to develop a strategy for making key contacts and develop useful networks <p>10. Working with Organizational Staff</p> <ul style="list-style-type: none"> • understanding appropriate ways to work with the staff (other than the CEO) of the organization <p>11. Financing and Funding</p> <ul style="list-style-type: none"> • understanding key elements of financing business development • understanding the range of possible funding options available to the development organization <p>12. Evaluation</p> <ul style="list-style-type: none"> • understanding how to evaluate the development organization's performance • understanding how to evaluate the Board of Directors performance <p>13. Establishing Board committees</p> <ul style="list-style-type: none"> • understanding which committees are appropriate • understanding how to set up and work with Board committees <p>B. Skills And Knowledge Related to Legal Responsibilities</p> <p>14. Understanding the legal responsibilities:</p> <ul style="list-style-type: none"> • legal mandate • protecting the organizations interest • exercising all the powers of the Board • conflict of interest guidelines • acting within the law <p>C. Skills and Knowledge Related to Board Process</p> <p>15. Running effective meetings</p> <p>16. Problem-solving</p> <p>17. Conflict resolution</p> <p>18. Negotiating</p> <p>D. Skills and Knowledge Related to other General Areas</p> <p>19. Understanding Project Management</p> <p>20. Use of technical expertise</p> <p>21. Understanding general economic trend analysis</p>		



Appendix 8

Venture Selection Criteria

VENTURE OPPORTUNITIES	SELECTION CRITERIA	Employs low-income community members	Requires low start-up costs	Located in the Community	Will break even within one year	Does not compete with existing community businesses	Stops leakage of community money	Uses existing organization assets	Uses existing organizational expertise	Provides needed community services or products	Total
Day-care centre											
Bakery											
Employment Agency											
Re-cycling centre											
Construction re-hab company											
Grant writing venture											
Weatherization company											
Home health agency											
Storm window manufacturing											
Handicraft distribution company											
Key 0 = venture does not satisfy the criterion 5 = venture strongly satisfies the criterion											

Note: These two examples were developed by the National Economic Development and Law Centre, 1950 Addison St., Berkeley, California, USA 94704

Appendix 8

Venture Selection Criteria: Example 2

Community Action of Marin

Community Action of Marin has developed three stages of venture-selection criteria, evolving the criteria as the organization's capacity and credibility are developed. Each stage has social impact (i.e. community) criteria, organization criteria, and business criteria. After the organization has met its stage one goals, it will go on to stage two and stage three, either through developing a new venture or expanding its first one.

STAGE ONE

Social Impact Criteria

no negative impact on low-income clients

Organization Criteria

within staff capabilities

organization gains credibility in CED

organization gains experience/exposure

low profile

Business Criteria

low financial risk

high success potential

small scale low management risk

affordable/low capital needs

fills existing market need/gaps

high potential for diversification

high CBO Control

low profit margin

STAGE TWO

Social Impact Criteria

positive impact: begins to affect target groups

Organization Criteria

within staff capabilities

makes money for organization

better profile: begins to be seen as leader in CED

Business Criteria

successful

high potential for diversification

greater capitalization needs (leveraging possibilities)

higher financial and management risk acceptable

attract outside capital

good profit margin

STAGE THREE

Social Impact Criteria

positive impact

creates jobs

begins to target poor

Organization Criteria

within staff capabilities

makes money for organization

leadership role

Business Criteria

high diversification potential

high risk acceptable

less CBO control acceptable (e.g. joint ventures)



Appendix 9

Environmental Protection Checklist

Appendix 9

Environmental Protection Checklist

Boards of Directors are often called upon, when deciding on venture development, to balance the need for economic growth with protection of the environment. Boards of Directors, in a large number of instances, have come to realize that a healthy economy can only be achieved in the long term by ensuring a healthy and sustainable environment.

Boards of Directors, in making their venture decisions, often grapple with how to negate or minimize potentially negative impacts of a business operation on its employees, on the general public, or on the environment.

The following is a brief checklist for Board of Directors to consider in determining the appropriate environmental protection measures that can be undertaken as part of any venture development.

Has the Board of Directors ensured that . . .		Yes	No
1.	ventures are assessed, planned, constructed, and operated in compliance with all applicable legislation providing for the protection of the environment, employees, and public?	<input type="checkbox"/>	<input type="checkbox"/>
2.	the adverse environmental impact of all activities have been reduced to a minimum?	<input type="checkbox"/>	<input type="checkbox"/>
3.	all applicable government regulations are met? Where government regulations do not exist, has the Board established operating standards and/or guidelines?	<input type="checkbox"/>	<input type="checkbox"/>
4.	environmental considerations have been incorporated into design and long-range planning?	<input type="checkbox"/>	<input type="checkbox"/>
5.	active, continuing monitoring programs are maintained to evaluate operational risks to human safety and health and the environment? Have sound risk management principles been applied to ensure compliance with government and company requirements?	<input type="checkbox"/>	<input type="checkbox"/>
6.	communications with governments, employees, and the public are developed to promote understanding of the business activities and any risks associated with the business operations or products?	<input type="checkbox"/>	<input type="checkbox"/>
7.	emergencies will receive an immediate response, and that all reasonable measures have been taken to protect the health and safety of the employees, public, and environment?	<input type="checkbox"/>	<input type="checkbox"/>

Has the Board of Directors ensured that . . .		Yes	No
8.	an annual report will be submitted to the Board on environment, health, safety, and emergency preparedness relating to company activities?	<input type="checkbox"/>	<input type="checkbox"/>
9.	periodic environmental, health safety, and emergency preparedness audits will be conducted?	<input type="checkbox"/>	<input type="checkbox"/>
10.	employees, customers, governments, and the public will receive timely communication regarding the environmental aspects of the company's operations and products?	<input type="checkbox"/>	<input type="checkbox"/>
11.	all aspects of waste generation, storage, transportation, and disposal will be responsibly managed, so that public health, safety, and the environment get adequate protection?	<input type="checkbox"/>	<input type="checkbox"/>
12.	work with industry associations, government agencies, and public groups will be undertaken (when appropriate) to determine environmental priorities, and to develop practical, scientifically-sound legislation?	<input type="checkbox"/>	<input type="checkbox"/>
13.	where feasible, research will be supported which aims to expand scientific knowledge of the environment and to improve methods of protection?	<input type="checkbox"/>	<input type="checkbox"/>



Appendix 10

Responsibilities of Board, CEO & Staff

Appendix 10

Responsibilities of Board, CEO and Staff

BOARD	CEO	STAFF
1. STRATEGIC PLANNING		
<ul style="list-style-type: none"> • drives the planning process • selects outside facilitators • carries messages to rest of the organization that this is an initiative of the Board • ensures involvement of all levels of staff • participates in all aspects of process 	<ul style="list-style-type: none"> • ensures planning process works smoothly • provides Board with options for facilitation • ensures consultation with rest of organization works smoothly • participates in all aspects of process 	<ul style="list-style-type: none"> • is involved in the planning process • understands that its participation is critical to successful planning • may participate in some or all aspects of the process
FINANCIAL PLANNING		
<ul style="list-style-type: none"> • sets the budget in accordance with the strategic plan and ensures sufficient funds are available to meet it 	<ul style="list-style-type: none"> • prepares budget recommendations for Board reviews and approval • manages assets and finances. 	<ul style="list-style-type: none"> • identifies needs and accounts for expenditures.
2. POLICY DEVELOPMENT		
<ul style="list-style-type: none"> • sets policy • ensures procedures are in place to implement policy 	<ul style="list-style-type: none"> • prepares policy options for Board approval in consultation with Board members of relevant committees • directs policy implementation • determines with Board whether a decision is a matter of policy or administration 	<ul style="list-style-type: none"> • implements policy and makes recommendations for changes as required

Appendix 10 (cont'd.)

BOARD	CEO	STAFF
3. FINANCIAL MONITORING AND CONTROL		
<ul style="list-style-type: none"> receives reports from committees and CEO re: budget implementation and asset management ensures organization's viability 	<ul style="list-style-type: none"> ensures Board has full information at all times re: financial status of organization manages and monitors financial performance implements procedures to ensure full information is available to the Board 	<ul style="list-style-type: none"> accounts for expenditures provides feedback as to impacts of expenditures
4. VENTURE OR PROGRAM ACTIVITIES		
<ul style="list-style-type: none"> establishes venture or program selection criteria based on strategic and financial plans ensures procedures in place to provide for effective use of the criteria ensures procedures and policies in place for effective management of ventures or programs monitors performance makes appropriate decisions. 	<ul style="list-style-type: none"> provides Board with recommendations with full information relevant to selection of venture or program selection criteria makes recommendations at the request of Board oversees implementation of choices monitors the management of ventures or programs ensures procedures are in place to generate data necessary to allow the Board to monitor performance. 	<ul style="list-style-type: none"> implements program and venture decisions provides feedback as to impact of Board decisions
5. PERSONNEL RELATIONS		
<ul style="list-style-type: none"> hires, directs and evaluates the CEO 	<ul style="list-style-type: none"> in consultation with the Board and staff establishes procedures and develops a workplan to ensure qualified staff hired, counselled, directed, and evaluated 	<ul style="list-style-type: none"> work as members of team provide consultation and feedback on impacts of workplan and procedures

Appendix 10 (cont'd.)

BOARD	CEO	STAFF
6. COMMUNITY PARTICIPATION		
<ul style="list-style-type: none"> ensures the organization reflects values and vision of community and operates within its mandate to play its part in achieving the community's objectives for the organization encourages community participation seeks community input 	<ul style="list-style-type: none"> identifies needs which the community can meet identifies communication channels provides information to the Board implements the Board's direction re: community participation 	<ul style="list-style-type: none"> understands the clients and community members implements the Board's and CEO's direction in this regard
7. STRATEGIC NETWORKING		
<ul style="list-style-type: none"> identifies areas in which it would serve the organization's interests to increase network effectiveness considers Board members participation in strategic contacts may play a role in personally being part of the networking initiative 	<ul style="list-style-type: none"> ensures organization has appropriate understanding of external environment including governments, other development agencies, potential or actual partners, joint ventures, suppliers, customers, public at large implements Board's direction re: networking 	<ul style="list-style-type: none"> understands the need for strategic networking makes sure organization has a profile with external environment at the level at which staff is working implements Board's and CEO's direction re: networking
8. EVALUATION		
<ul style="list-style-type: none"> monitors organization's CEO, organizations and Board's performance evaluates against objective criteria developed from the strategic plan develops plan for future action to build upon strengths and strengthen weaknesses to achieve mission 	<ul style="list-style-type: none"> monitors and evaluates staff performance in light of objective criteria, often developed in consultation with Board members designed to achieve goals and objectives develops workplan to move organization towards achieving mission 	<ul style="list-style-type: none"> understands goals and objectives of own area of work and how it fits into overall mission of the organization. Participates in evaluation as an important part of the work of ensuring the organization achieves overall goals and objectives. provides feedback as to impacts.

Appendix 11

Analyzing Financial Statements

Appendix 11

Analyzing Financial Statements

Boards of Directors are required to understand and analyze financial statements. This includes financial statements of their own development organization, of subsidiary companies or joint ventures, and of companies which they are considering for purposes of investment or joint venture. This appendix outlines basic principles of understanding and analyzing a financial statement. It is adapted from an article by Henry L. Taylor, Sr., that appeared in the Spring 1989 issue of the *Economic Development Review*.

Basic Elements of a Financial Statement

Financial statements are the most important source of financial information about a company. They are the statistics of the annual report and are the hardest part of the report for the uninitiated person to understand. In addition to the balance sheet and the income report, a complete set of financial statements contains a statement of changes in financial position, accompanying footnotes, and possibly other statements further defining the financial operations of the company. comprehension of these is necessary for a complete understanding of the company's financial condition.

Particular attention should be paid to any footnotes attached to the financial statements. They should be read carefully and considered to be an integral part of the statement. They may relay important information which cannot be abbreviated enough to appear in the statement itself. Although they may be complicated and hard to read, statement analysis is incomplete without complete interpretation of all footnotes.

The two most important and most commonly available financial statements are the *balance sheet* and the *income statement*. They are so important and so generally used in financial analysis that a thorough understanding of them is necessary. All businesses should have at least these two statements.

Balance Sheet

The balance sheet, showing what the company owns and what it owes on a certain date, reveals how strong its finances are. The income statement tells how well the company did this year, whether the year was profitable or not and to what degree.

Fundamental to any analysis of a business enterprise is a test of its *liquidity* and its *solvency*. Liquidity is a measure of the convertibility of a company's assets into cash. Solvency is a measure of a company's ability to meet creditor obligations as they mature. Showing the money invested in its assets and properties and the source of these funds, the balance sheet is a good indicator of both liquidity and solvency. Since it show past earning power, the income statement is also used to determine solvency.

A typical balance sheet for a manufacturing company appears as Table 1. Normally, a balance sheet appears as a single page; if a division is necessary, it is as shown with assets on one page and liabilities on the other. The balance sheet lists all assets of the company and claims against those assets, as of the last day of the accounting period. Those claims include those of creditors, called *liabilities*, and those of the owners, referred to as *equity* or *net worth*.

The balance sheet is a statement of the basic accounting equation: Assets = Liabilities + Equity. From this relationship, it is easy to see why the sum of all assets equals the sum of all liabilities plus any equity. Another way to express this is: equity is equal to assets minus liabilities.

Before looking at the individual components of the balance sheet, a point of terminology needs to be made. "Current" normally refers to the next twelve months, while "long-term" is greater than one year. Thus, current assets and current liabilities are those converted to cash or payable during the coming year, as opposed to long-term or fixed assets and long-term liabilities.

The balance sheet in Table 1 is divided as to assets, liabilities, and stockholders' equity. Being incorporated, Hi-Tech's equity is comprised of stock and earnings. Assets are subdivided into current assets, plant or fixed assets, and intangible assets. Liabilities are divided into current and long-term.

There are two important terms derived from the balance sheet which surface in later analyses. *Working capital* or net working capital, as it may be called, is the difference between total current assets and total current liabilities. Theoretically, it represents the funds available to the company for doing business during the next thirty to ninety days. Net worth or equity capital is equal to the total assets minus total liabilities. Net worth is the owners' share of the business as a result of their investment. As these terms are used often in the business world, it is important to understand their true meaning.

Income Statement

Whereas the balance sheet can be compared to a still picture—a financial picture of business at the close of operations on the last day of the accounting period—the income statement is a moving picture of the income and expenses during the accounting period. The income statement may also be referred to as the *profit-and-loss statement*, or a *statement of earnings*.

Table 1
Hi-Tech, Inc.
Balance Sheet
December 31, 1988

ASSETS

Current Assets:

Cash	\$450,000
Accounts receivable	2,000,000
Inventories	<u>2,700,000</u>

Total current assets \$5,150,000

Fixed Assets:

Land	\$450,000
Building	3,800,000
Equipment	<u>1,000,000</u>

Total fixed assets 5,250,000

Intangible assets 50,000

Total assets \$10,450,000

LIABILITIES

Current liabilities:

Accounts payable	\$1,000,000
Wages payable	200,000
Est. income tax payable	400,000
Interest payable	<u>300,000</u>

Total current liabilities \$1,900,000

Long-term liabilities 3,000,000

Total liabilities \$4,900,000

STOCKHOLDERS' EQUITY

Common stock	\$4,000,000
Retained earnings	<u>1,550,000</u>

Total stockholders' equity \$5,550,000

Total liabilities & stockholders' equity \$10,450,000

The income statement for Hi-Tech, Inc. for the year ended December 31, 1988 is shown in Table 2. Note the first item is always the most important source of revenue and the last item is always the income or profit after all expenses and costs. Standard form usually has income and expenses related to operations separated from those unrelated.

Table 2
Hi-Tech, Inc.
Income Statement
For Year Ended December 31, 1988

Sales	\$11,000,000	
Cost of goods sold	8,000,000	
Gross profit on sales	\$3,000,000	
Operating expenses	1,000,000	
Net income from operations		\$2,000,000
Interest expense	300,000	
Net income before taxes		\$1,700,000
Taxes	700,000	
Net income after taxes		\$1,000,000

Analysis

Types of Analysis

With an understanding of the pertinent financial statements, the Board member is able to begin an analysis to interpret those statements and to understand the company's financial position.

There are three types of statement analysis, depending upon the perspective of the analyst. The banker employs *credit analysis* out of a concern for liquidity and the company's ability to repay debts in the short-term. The stockholder may employ *investment analysis* to determine the company's solvency and earning power. The Board member or manager employs *financial management analysis* as a tool to measure cost and efficiency and to derive information to facilitate decision-making.

Credit analysis emphasizes an examination of the balance sheet, testing for liquidity and the ability to meet short-term debt. The credit lender is more interested in the relationship of current assets compared to current liabilities and the adequacy of working capital.

The primary objective of investment analysis is to appraise the prospective earning power of the company from an examination of the income statement. Emphasis is placed on predicting the trends of near- and long-term earnings. It calls for an examination of the industry and the calibre of the company's management. It uses the working capital position as a measure of solvency, testing the company's ability to meet debt with reduced earnings and to finance improvements and expand without heavy borrowing.

In financial management analysis, the Board member or manager is interested in promoting efficiencies, increasing profits, and providing information for sound business decisions. He/she analyzes the balance sheet to determine the efficiency of the utilization of assets. Comparative analysis is an important technique. The Board member measures relative efficiency by comparing his corporation's financial statements with others in the industry. The Board member looks for trends in sales, costs, and profit by comparing similar months of different accounting periods and the current annual report with previous ones.

The approach that the Board member should use in an analysis of financial statements depends on the amount of information which the company provides. The minimum requirement is the balance sheet and income statement for the most recent accounting period. An additional statement which compares the current year with the previous one is of marginal assistance. Three years of financial statements make comparative analysis more meaningful. Five years of information is what a banker would prefer to see and is the period required in annual reports. Some annual reports contain a summary of ten years or more, allowing for very meaningful results from trend analysis. However, as in anything else, the Board member will have to make the most of what is available.

From the balance sheet the computation of working capital (current assets minus current liabilities) is the most important consideration for the credit analyst. It indicates if adequate funds are available to run the business. Its size represents the amount of "cushion" for current creditors in the event of unforeseen difficulties. In comparison with current liabilities and possibly total debt (current and long-term liabilities), working capital should be substantial. *Quick assets* (the sum of cash and accounts receivable) should be ample enough to cover current liabilities without the sale of any inventories. Comparing net worth (total assets minus total liabilities) with total liabilities reveals the owners' interest in the business, as compared to the creditors'. The owners' interest should be at least as large, if not larger, than the creditors'. If significantly smaller, as debt grows the owners may be less inclined to stick it out and tempted to let the business "go belly up."

This analysis can be performed with only one year's balance sheet, but it may not be a totally accurate assessment. With information from several years, trends can be analyzed. Steady growth in working capital and net worth is encouraging, while continued declines could be forecasting disaster. An upward trend in sales and in net profit is also encouraging.

Examining a single item of only one financial statement has little meaning in itself. The real understanding comes when the item is examined with respect to others. For this reason, *ratio analysis*—"the process of determining and interpreting numerical relationships based on financial statements"—is a very important tool in financial analysis. Ratios relate items of the income statement to each other, items of the balance sheet to each other, and items of one statement to items of the other statement.

Ratio Calculations

Calculation of ratios serves three important purposes: (1) as a double-check to ensure review of important items in the financial statements, (2) for comparison against similar company or industry standards, and (3) as an indicator of satisfactory or unsatisfactory financial condition.

The value of ratio analysis comes from comparison with a standard. There are four commonly used standards: *absolute*, *past record*, *company* or *industry average*, and *budgeted*. The absolute standard is a desirable "rule of thumb" regardless of the industry, time, or stage in the business cycle. Rarely used, the past record standard is useful only if the past proves to be indicative of the future. Comparison with another company or an industry standard is the most commonly used technique in financial analysis. The budget standard is used in-house to compare with projections in order to measure accomplishment of goals. Selection of the proper standard is an important element in financial analysis.

Financial ratios have become so important that more and more companies are now including them in their annual reports. A number of published references provide average ratios regularly for all manufacturing industries in the United States. These are useful as a bench mark for evaluating individual industries and companies, provided one keeps in mind that particular conditions may cause variances from the industry averages.

With ratio analysis playing such an important part in the financial analysis of a business, the Board member needs to know which ratios best suit his/her purposes. With the numerous amounts of information available in the balance sheet and the income statement, an almost infinite number of relationships is possible. However, seven key ratios are recommended by most experts. They are: (1) the current ratio, (2) the quick ratio, (3) debt to net worth, (4) sales to receivables, (5) sales to inventory, (6) net profit to net sales, and (7) net profit to net worth.

With these seven ratios a good insight into the business' financial position is available and they are well-suited for the inexperienced analyst. They provide the proper test of liquidity (the ability to convert assets to cash), solvency (ability to meet debt obligations as they occur), and profitability. The information for their computation is readily available from the two primary financial statements. Industry averages are available for each ratio, but in their absence most of the key ratios have some rule-of-thumb value.

The current ratio and the quick ratio are good indicators of liquidity. The *current ratio* is equal to current assets divided by current liabilities, and is one of the best measures of financial strength. It indicates the relationship of current debt to the firm's ability to meet that debt. The rule-of-thumb standard of 2:1 indicates that there are enough current assets available to meet current liabilities with allowance for a margin of safety.

The *quick ratio* is also called the "acid test" and is equal to the quick assets (cash and accounts receivable) divided by current liabilities. It is a better indicator of liquidity since it omits inventories, significant because most other components of current assets are either cash or one transaction from cash. Inventories require two transactions, conversion to accounts receivable and then conversion to cash. A minimum quick ratio of 1:1 is recommended. Any ratio less than one means the company could not quickly meet its obligations and this could be indicative of problems.

The *debt to net worth ratio* is the most important test of solvency and is equal to total liabilities divided by net worth (assets minus liabilities). This ratio is used to measure the extent to which company operations are financed by borrowed funds. It represents the relationship of total borrowed capital to total capital invested by owners. A conservative rule of thumb to indicate satisfactory solvency is 2:3 or 66%; anything larger is less solvent. A condition of 1:1 indicates the creditors own as much of the business as the owners do. It is a path to bankruptcy when debt grows to the point where creditors are the larger owners of the business, for in almost every bankruptcy, total debt will substantially exceed net worth.

The *sales to receivables ratio* (also called the *turnover of accounts receivable*) is equal to sales divided by accounts receivable. A ratio of 4:1, for example, says that accounts receivable were paid or turned over four times during the year. It also says one quarter of the year's sales had not been collected at the end of the accounting period. The average collection period is equal to 360 days divided by the sales to receivables ratio. This average period for collecting accounts receivable can then be compared to the company's terms of sale. If, again, the sales to receivables ratio is 4:1, the average collection period is 360 divided 4, or 90 days. Should the company's terms call for 30 days net, management has been lax in collecting the accounts receivable. This puts a drain on working capital.

The *sales to inventory ratio* (also known as the *turnover of inventory*) is equal to sales divided by inventory and represents the number of times the inventory turns over or sells during the accounting period. It is a measure of efficiency, with high numbers indicating good merchandising and more profits. Inventory turnover varies with the industry and is normally compared against industry standards.

The other two ratios are measures of profitability can be used by management to measure efficiencies. The *net profit to net sales ratio* is equal to the net profit after taxes divided by net sales. It indicates the number of cents of profit the company made for each dollar of sales. It is often compared with ratios for similar companies or against previous years.

The *net profit to net worth ratio* (often referred to as the *return of investment* or ROI) is equal to the net profit after taxes divided by the net worth. This represents the profit generated by the owners' investment in the company, showing cents of profit per dollar of investment. Management reviews the return on investment

before making major outlays for new plants and equipment. If it borrows money for expansion, the ROI should exceed the rate of interest. If it utilizes surplus cash, ROI should exceed the interest rate available on the more secure investments.

It should be apparent how important the seven key ratios are in analyzing the financial statements of a company. They provide proper tests of liquidity, solvency, and profitability. They are easy to calculate and compare with standards. Finally, they serve to ensure that important items of the financial statement have been examined by the analyst.

Case Example

Smith Bros., a small manufacturing company, applied to the Board of a development corporation for a site and a facility in an industrial park. To process the application, the Board first secured financial statements from the firm and evaluated their quality. The report of an independent accounting firm should state that the records were audited and to what degree. If the statements were prepared in-house, look for a signature of a corporate officer and determine if they are interim, year-end, or estimated.

The Board then examined the balance sheet and income statement. On the balance sheet, Board members calculated working capital, quick assets, and net worth and compared them with current liabilities and total liabilities where appropriate. Board members also examined the income statements for profit or loss—the bottom line. Statements from several years were available, so the Board looked for signs of steady growth in working capital, net worth, sales, and profits over a period of time.

To complete the examination, a basic ratio analysis was then performed. Using the data from the most recent statements, the seven key ratios were calculated. They were compared with the rule-of-thumb standards, and against a reference of industrial ratios. Table 3 contains a summary of the financial statements submitted by Smith Bros., and the Board's basic ratio analysis for a three-year period. This summary appears in a form similar to a technique the banking community calls "statement spreading." In this case, it lists only the numbers from the statements necessary for the Board to do its analysis. The eight items in the first group are taken from the statements for the appropriate years. The items in the other two groups are calculated from these eight. The second group shows the prime components of a balance sheet analysis. The last group displays the seven key ratios to test liquidity, solvency, and profitability.

TABLE 3
Summary of Smith Bros.
Financial Statements, 1986-1988

Statement item	1988	1987	1986
From Statements			
Current assets . . .	\$65,554	\$58,593	\$52,207
Current liabilities . .	11,112	20,054	5,751
Total assets	151,759	129,220	114,948
Total liabilities . . .	29,612	46,054	32,151
Inventory	38,985	25,829	27,322
Receivables	14,048	14,704	12,731
Sales	333,743	173,049	162,867
Net Profit	39,837	367	19,906
Components from Balance Sheet			
Working Capital . . .	\$54,442	\$38,539	\$46,456
Quick assets	25,164	32,764	24,885
Net worth	122,147	83,166	82,797
Key Ratios			
Current ratio	5.9	2.9	9.1
Quick Ratio	2.3	1.6	4.3
Debt/net worth	0.24	0.55	0.39
Sales/receivables	23.8	11.8	12.8
Sales/inventory	8.6	6.7	6.0
Net profit/net sales . . .	0.119	0.002	0.122
Net profit/net worth . . .	0.326	0.004	0.240

Once the data had been calculated and arranged in this format, the Board could readily assess the applicant's financial position. It could participate in the financial discussion with authority, make enlightened decisions, and serve the community (and the applicant) better.

In 1988, both the current assets and quick assets of the company were far in excess of current liabilities and even compared favourably against total liabilities. There was a large cushion of working capital for future contingencies. Net worth indicated the owners' interest in the company was much greater than the creditors/. The company's operations showed a good profit with strong sales.

A trend analysis for the last three years reveals steady growth overall, with a fluctuation in 1987 and subsequent recovery in the following year. Without the later recovery, the loss of profits in 1987 could indicate a serious problem. The dip in working capital in that same year is, no doubt, the result of a four-fold increase in current liabilities, which were reduced the next year. Nevertheless, the strong showing of the company at the end of 1988 speaks well for management's ability to recover from the earlier fluctuations.

The ratio analysis verifies these initial conclusions. The company was extremely liquid, and could easily cover its current liabilities without the sale of inventory. The owners'/interest was 4:1 compared to creditors'. A high turnover of accounts receivable is evident with an average collection period (360 divided by sales/receivables) of approximately fifteen days. The inventory turned over rapidly, allowing for more profit. The company realized almost twelve cents of profit for each dollar of sales. The rate of return on investment (net profit/net worth) was large enough to justify capital expansion even in times of high interest rates.

As for expansion by this company, leasing (as opposed to buying) a facility for its relocation was recommended, given its small size and relatively small net worth. The debt necessary to purchase a building was larger than the company could afford and would have caused the debt/net worth ratio to approach critical levels. Smaller capital outlays was recommended for such items as equipment.

The company's philosophy at the time was to plough all the profits back into the business rather than acquire real estate. Examination of the new profit/net worth ratio confirmed the wisdom of this approach, since every dollar of additional investment produced 32.6 cents of profit.

The bottom line was that this firm represented a small, very healthy, growing manufacturing company with conservative management deserving of a good recommendation. With these statements and a lease commitment from the company, the corporation obtained building financing from a bank. A facility was built which the company occupied and on which it thrives today.

Three good sources of industry ratios for all segments of manufacturing are *Statement Studies* by Robert Morris Associates, *Key Business Ratios* by Dun and Bradstreet, Inc., and *Almanac of Business and Industrial Financial Ratios* by Prentice-Hall, Inc. All are available at most larger libraries and many banks have a copy of *Statement Studies*.

Appendix 12

Example of a Board Performance Checklist

Appendix 12

Example of a Board Performance Checklist

A.	Personal Inventory	Yes	No
1.	Do you prepare yourself for board meetings by reading minutes, reports, contracts, and materials sent to you, in advance?	<input type="checkbox"/>	<input type="checkbox"/>
2.	Do you attend Board meetings regularly? (at least 3 out of 4)	<input type="checkbox"/>	<input type="checkbox"/>
3.	Do you participate in discussions?	<input type="checkbox"/>	<input type="checkbox"/>
4.	Do you listen attentively while others talk?	<input type="checkbox"/>	<input type="checkbox"/>
5.	Do you know your organization's Articles of Incorporation?	<input type="checkbox"/>	<input type="checkbox"/>
6.	Do you occasionally read articles, periodicals, books on business and community economic development?	<input type="checkbox"/>	<input type="checkbox"/>
7.	Do you ever attend conferences, seminars, workshops, or classes on development organization matters?	<input type="checkbox"/>	<input type="checkbox"/>
8.	Are you familiar with the various contracts and investment agreements your development organization has made?	<input type="checkbox"/>	<input type="checkbox"/>
9.	Are you familiar with the special conditions in your grant agreements?	<input type="checkbox"/>	<input type="checkbox"/>
10.	Are you familiar with the contract between your development organization and your CEO (or President)?	<input type="checkbox"/>	<input type="checkbox"/>

B.	Board Inventory	Yes	No
1.	Is there an agenda for Board meetings?	<input type="checkbox"/>	<input type="checkbox"/>
2.	Are meeting notices sent out?	<input type="checkbox"/>	<input type="checkbox"/>
3.	Are meetings conducted in an orderly and businesslike manner?	<input type="checkbox"/>	<input type="checkbox"/>
4.	Are new Board members presented with a portfolio of pertinent documents (Articles of Incorporation, Bylaws, Contractual Agreements)?	<input type="checkbox"/>	<input type="checkbox"/>
5.	Is there an updated file of amendments, Board policies and resolutions?	<input type="checkbox"/>	<input type="checkbox"/>
6.	Are minutes taken, reviewed and filed, and provided to management (key staff)?	<input type="checkbox"/>	<input type="checkbox"/>
7.	Do all Board meetings provide time for reports from management?	<input type="checkbox"/>	<input type="checkbox"/>
8.	Do some Board meetings provide opportunity for regular reports from members or community residents, scheduled early in the meeting? Are some meetings, at least, held at hours convenient for working people to attend?	<input type="checkbox"/>	<input type="checkbox"/>
9.	Are Board members afforded the opportunity to discuss management problems without the presence of management?	<input type="checkbox"/>	<input type="checkbox"/>
10.	Do Board members know their legal responsibilities and liabilities?	<input type="checkbox"/>	<input type="checkbox"/>
11.	Do Board members understand the limitations of their individual authority and avoid acting unilaterally when dealing with management?	<input type="checkbox"/>	<input type="checkbox"/>
12.	Is Board training provided for new Board members?	<input type="checkbox"/>	<input type="checkbox"/>