



Dairy Farmers of Ontario Governance Review

Fall Policy Conference

October 14, 2008

Discussion Contents

Project Context and Executive Summary

Current State Assessment

Opportunities Going Forward

Project Background

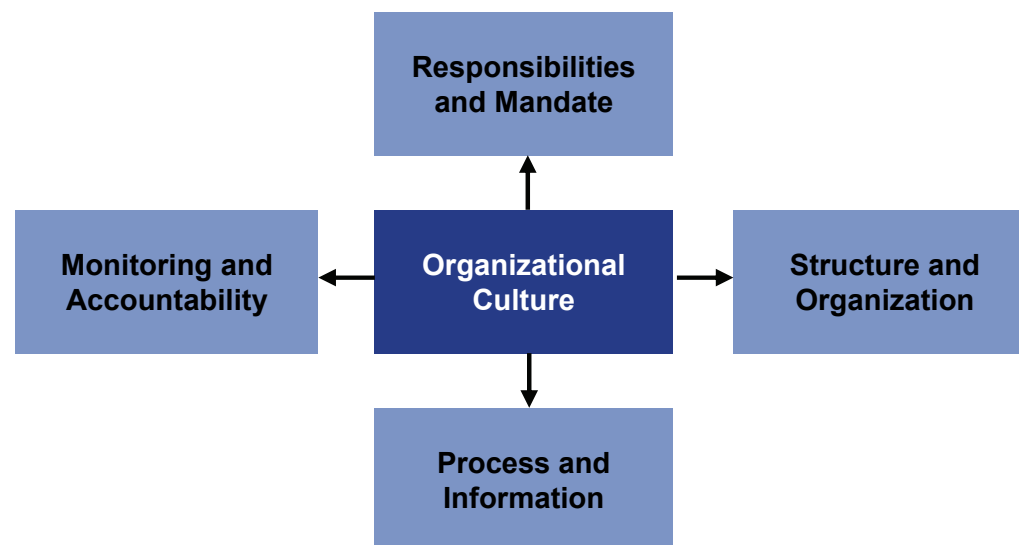
- During the fall policy conference in 2007, the Dairy Producer Committee delegates voted to conduct a review of DFO's governance structure, with a desire for a report by the 2008 fall policy conference; this was supported by the DFO Board.

- The three primary objectives of the ten-week governance review (May – July 2008) were to conduct:
 - A governance assessment to evaluate DFO's governance structures, practices and procedures;
 - An evaluation of stakeholder management to assess DFO's ability to grow and influence key stakeholder relationships (e.g., pool partners, processors, government); and
 - A strategic planning process review to analyze the processes of strategic planning at DFO.

- Primary and secondary research findings and analysis formed the basis of our work.
 - Primary research included the governance survey tool, the online manager survey, internal stakeholder interviews with DFO senior management and board members (19), producer focus groups (40) and online survey (126), and interviews with external stakeholders (36).
 - Secondary research included best practices for benchmarking purposes, developing relevant case studies, and adapting Deloitte research and methodologies to DFO's needs.

Methodology

- The governance assessment was performed using Deloitte's governance framework, evaluating DFO along five dimensions of governance effectiveness:



- DFO's stakeholder management effectiveness was evaluated by identifying the needs and value drivers of key stakeholders, determining DFO's current ability to meet those needs, and identifying improvement opportunities to drive stakeholder value and ways to better manage and influence stakeholder groups.
- DFO's strategic planning process was assessed in relation to best practices.

Report Context and Recommendations to the Reader

- While best efforts have been taken to capture an objective, cross-stakeholder perspective on DFO's current state, the reader should be cautious that interview findings are always influenced by recent and major events that have dominated DFO board and staff debate over the past six months; we gather that these events likely include credit days and transfer assessments.
- Even though we are comfortable that the Governance Review findings represent a reasonable assessment, and a very compelling set of opportunities for DFO going forward for the next 2-3 years, a “discount factor” to the severity of these issues is always recommended to reflect shorter term events that are top of mind for interviewees, and the fact that some feedback is based on perception and may be subjective in nature.
- Effort has been made throughout the report (in both tone and content) to achieve a balance between the positive feedback received and the development opportunities that appear for DFO.
 - Readers should note that the vast majority of interviews gave praise to the board and to management for their efforts and for real progress over the past few years.
 - This positive feedback is often at risk of being overlooked as development opportunities are raised and reported.
 - From time to time, the Board has to make difficult decisions for the long-term benefit of the industry that will not necessarily be universally popular.
- The report scope did not include any review of individuals at the board or staff levels in terms of their skills and personal contributions to DFO, but did of course look at specific roles.
 - The reader should not attribute any development opportunities to individuals, but to the board and staff as a whole.
 - Further, readers should note that interviews often included comments of great respect and appreciation for the individuals in DFO leadership positions, even though such feedback was not part of the project scope.
- DFO roles and culture appear to have evolved over many years and the current state seems to be reflective of this evolution, rather than being driven by short term management approaches; as a result, a longer term “growth journey” will likely be required to guide the implementation of opportunities.

DFO governance, strategic planning process, and stakeholder management review shows recent progress and opportunities.

- Based on primary and secondary research that informed the current state at the organization vis a vis best practices, DFO receives strong credit for solid improvements made across key governance elements in the past few years, including:
 - An annual planning process which recognizes the importance of strategic planning and prioritization;
 - Instituting a performance management system to link individual and organizational objectives;
 - Leading its peers in terms of DFO's capability and depth at the national level;
 - Commanding great respect by developing good working relationships with stakeholders; and
 - Initial progress around defining roles and responsibilities (e.g., development of the Code of Conduct).

- Respect for DFO and credit for its national efforts is also coming from industry peers.

- Despite this progress, there is still room for DFO to improve as an organization.

- In the three areas of project focus, our conclusions are :
 - Governance at DFO could be more effective if there was more clarity around the mandate of the board and the roles and responsibilities of the board, chair, committees and staff; additionally, decisions in some instances would be more effective if made with more timely information and better documentation.
 - The strategic planning process at DFO has been improved, but given the possibility of major changes to industry dynamics, DFO requires more formal and longer term approaches to the strategic planning process to prioritize objectives, set policy, guide stakeholder relations, and manage operations.
 - DFO can further enhance engagement of stakeholders by formalizing incoming and outgoing communication, assigning relationship owners to key stakeholder groups, and delineating clear stakeholder engagement plans to maximize the consensus-building ability of DFO, better enabling the organization to achieve its strategic objectives.

Building upon recent progress, seven types of improvement opportunities for DFO are recommended.

1. Clarify, refine, and communicate the board's mandate to focus the organization on a common vision.
2. Delineate, in writing, the roles and responsibilities of the board, staff, and committees to enable DFO to work toward its mandate more effectively and efficiently.
3. When appropriate, ensure the board is given additional information and analysis, and has access to relevant expertise, to improve decision-making impact and speed.
4. Communicate in a more relevant, timely, consistent, and easily accessible way to improve DFO's stakeholder relationships.
5. Institute periodic board evaluations to assess the board's performance and proactively manage board accountability.
6. Strengthen strategic planning capabilities and formalize the process to prioritize objectives, set policy, and manage operations.
7. Formalize stakeholder engagement plans to better understand and manage stakeholder needs, improving DFO's prospects for success.

Table of Contents

Project Context and Executive Summary

Current State Assessment

Opportunities Going Forward

The current state reveals that improved governance in terms of clarity, discipline, and consistency will build upon an already strong Board.

- We have identified seven key governance elements that are important for effective governance, and where DFO has great opportunity to build upon recent success; these are key “pressure points” on which the organization should focus.

Board Mandate	<ul style="list-style-type: none"> ▪ Although the DFO board mandate is defined, it is not clearly communicated or understood by all stakeholders.
Roles (Board, Board Chair, Committees, Staff)	<ul style="list-style-type: none"> ▪ Despite strong internal relationships, more clarity around DFO roles and responsibilities will enhance efficiencies.
Strategic Planning	<ul style="list-style-type: none"> ▪ DFO strategic planning has greatly improved, but goals are not always planned or prioritized in alignment with a long-term vision.
Board Member Skills	<ul style="list-style-type: none"> ▪ Elected board members are committed and focused, but may not individually always have all the requisite skills to drive a \$ 1.7 B organization.
Communication with Stakeholders	<ul style="list-style-type: none"> ▪ DFO communicates with stakeholders through various processes and channels, risking inconsistent messaging.
Information Needed for Decision- Making	<ul style="list-style-type: none"> ▪ The process of information provision does not maximize the efficiency of decision-making.
Performance Assessment, Board	<ul style="list-style-type: none"> ▪ A formal process to offer board members means of evaluation will improve skills, performance, and accountability for decisions.

- A discussion of the current state at DFO along these elements is on the following slides.

Although the DFO board mandate is defined, it is not clearly communicated or understood by all stakeholders.

- Though there may be a board mandate, it is not viewed the same by everyone, resulting in inconsistent expectations of the board.
 - While elements of the mandate of the board are documented across a variety of sources, there is no one place where the mandate, in its entirety, is clearly documented; the closest consolidation of the mandate of the board is in the Code of Conduct:
 - With no clear written consolidation of all duties and responsibilities of the board itself, board members are not aligned around the duties, responsibilities, and accountability of the board.
- Board members are very loyal to their work, but there is a potential conflict between the board's need to be accountable to the producers they represent and acting in the best interest of the dairy industry.
 - The board is legislated to make decisions on behalf of Ontario's dairy industry.
 - The board is accountable through the Ontario Farm Products Marketing Commission (OFPMC) through the Minister.
 - In practice, many board members feel accountable to producers – this sometimes creates conflicts.
- For progress to be made, the board's mandate should link to the organizational vision and mission.
 - The mandate needs to be clear and ideally pull stakeholders in the same direction – provincially and nationally.

Board Mandate
Roles (Board, Board Chair, Committees, Staff)
Strategic Planning
Qualifications of Board Members
Communication with Stakeholders
Information Needed for Decision-Making
Performance Assessment, Board

Despite strong internal relationships, more clarity around DFO roles and responsibilities will enhance efficiencies.

- Since the mandate of the board is not clearly communicated, stakeholders are not aligned around the role of the board, leading to duplication of activities such as communication.
 - Board members at times appear to be more comfortable dealing with operations, which can lead to confusion around responsibilities of the board versus those of staff.
 - Staff, stakeholders, and board members suggest the board should focus more on policy and providing strategic direction.
 - A clearly written board mandate will help to define the role of the board.
- The role of the Chair is well-defined in the “Duties and Responsibilities” document, though this degree of leadership is not always being exercised in a disciplined and consistent manner at board meetings.
 - As per the “Duties and Responsibilities” document the chair should “provide leadership to the board.”
 - The Chair provides strong leadership day to day, but could increase the effectiveness and focus of board meetings; this may require more discipline in meeting planning and facilitation, as well as the cooperation of all board members who, at times, impede disciplined meeting progress.
- The role of committees is to help staff get access to and support from the board, but sometimes involves the board in deep operational elements of policy.
 - Committees provide a good venue for board members and staff to work together, but need to be better utilized to enable the board to spend less time on operational issues and more time assessing and reviewing staff recommendations.
 - A formal review of the roles and portfolio of committees should be conducted every 5 years.
- The role of staff is to manage DFO operations and make recommendations to the board in terms of what directions they should take.
 - There is significant expertise and institutional knowledge among DFO staff; the board does not always recognize this expertise.
 - The board could set clearer parameters and direction to allow the staff to operationalize on board decisions.
 - Succession is a significant challenge at the staff and board levels; a structural review to assess existing skills and capabilities should be conducted.

Board Mandate
Roles (Board, Board Chair, Committees, Staff)
Strategic Planning
Qualifications of Board Members
Communication with Stakeholders
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Performance Assessment, Board

DFO strategic planning has greatly improved, but goals are not always planned or prioritized in alignment with a long-term vision.

Board Mandate
Roles (Board, Board Chair, Committees, Staff)
Strategic Planning
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- The strategic planning process at DFO has recently been revisited and there has been good progress made on instituting a process for developing an annual strategic plan.
 - However, the process is not as structured as it could be, and a long-term (3-5 year) strategic plan or vision for the organization (or at least scenario planning efforts) is absent.
 - Board meetings, and associated agenda priorities, do not routinely focus on annual strategic plans.
 - Because strategic issues are not systematically researched or analyzed, DFO falls into a reactive mode, and key projects tend to be sidelined for unplanned activities that arise.
 - Attempts have been made to shift the ownership of the strategic planning process as the board wants to become more strategic; the board may require additional expertise to accomplish this.
- The DFO strategic planning process is still not characterized by the strategic flexibility observed at leading organizations, which would allow the organization to more easily address changing market forces.
 - The strategic priorities of the organization reflect today's world, but may not incorporate enough future scenario planning to be truly effective.
 - Decision-making should be based on the strategic priorities of the organization and the evidence presented to the board.
- Increasingly, there are pressures to reform the strategic planning process.
 - The new performance management system has increased the demand for clarity in the strategic planning process, as staff are assessed on the basis of their achieving organizational goals.
 - Fundamental industry shifts might include technological advances, competition in pricing / substitutes, shrinking market, potential quota price caps, and consolidation.
 - The board needs a clearer strategic planning process to deal with industry complexities, such as growing the dairy industry and maintaining revenues, that continuously refers back to the organization's long-term vision.

Elected board members are committed and focused, but may not individually always have all the skills to drive a \$1.7B organization.

Board Mandate
Roles (Board, Board Chair, Committees, Staff)
Strategic Planning
Qualifications of Board Members
Communication with Stakeholders
Information Needed for Decision-Making
Performance Assessment, Board

- Elected members come to the board with admirable dedication to the dairy industry, but may lack some important skills.
 - Individual members may not have all the skills and capabilities required to manage a billion dollar business (e.g., finance / business acumen, strategic planning, analytics, government relations).
 - Published guidelines of DFO expectations of board members would help people understand expectations in advance.
 - Board member objectivity is a challenging requirement that must be adhered to: board members are accountable to all producers, and not just local interests or specific constituents

- There is training for new board members to overcome some of these skill gaps, but the current training is not adequate.
 - There is a very steep learning curve for new board members.
 - Although the OFPMC and the CDC provide some training to new board members, it appears further training may be helpful to keep the board focused on policy and strategic direction.

- When the board is lacking expertise in a particular area, external expertise is often sought; this practice could be utilized more frequently.
 - Non-producer experts should be consulted more frequently to ensure the proper skills and experience are available to DFO during the decision-making process.

- There seems to be a large pool of capable potential candidates for board membership, though the time requirements of board members has limited competition for seats in the past.
 - Board membership is often by acclamation or competition between a very limited number of candidates.
 - There is an opportunity cost to running for the board, related to the time spent away from the farm.

DFO communicates with stakeholders through various processes and channels, risking inconsistent messaging.

Board Mandate
Roles (Board, Board Chair, Committees, Staff)
Strategic Planning
Qualifications of Board Members
Communication with Stakeholders
Information Needed for Decision-Making
Performance Assessment, Board

- DFO is noted by partners to be one of the most progressive boards in Canada.
- However, some stakeholders are confused by the number of people who seem to be speaking on behalf of the organization.
 - Each board member tends to speak independently to his / her constituents on a frequent basis with minimal board coordination.
 - Clarifying the roles of the board and staff will help distinguish who is responsible for communicating what to which stakeholder group.
- The board should be more unified in its communication.
 - When a decision is made, though debate may happen behind closed doors, public divergences from the decision create confusion and a bad image for the organization.
 - Currently a one page overview of board meetings is distributed to producers, but more details are needed to answer producer questions in a consistent, objective way.
 - Inconsistency in the amount and messaging of information shared with producers by different board members creates distrust among producers.
 - Staff or the DPCs could be the first point of communication for producers, and raise policy issues to the board.
- To enhance stakeholder perceptions, the process for decision-making could be communicated with more detail around steps taken to arrive at key policies or operational decisions.
 - The outcomes of decisions may not be as much of a problem for stakeholders as understanding the process by which DFO comes to those decisions.

The process of information provision does not maximize the efficiency of decision-making.

Board Mandate
Roles (Board, Board Chair, Committees, Staff)
Strategic Planning
Qualifications of Board Members
Communication with Stakeholders
Information Needed for Decision-Making
Performance Assessment, Board

- Board members need information in a manner that is comprehensive and timely.
 - Staff do not always provide enough information to the board;
 - Board members are, at times, concerned that staff reports are sometimes rushed.
 - The board sometimes receive supporting information for decision-making late. On occasion, board members have received information one day in advance of meetings.

- Recognizing that there are many issues and complexities for the board to contend with, the board still spends too much time on understanding issues rather than on making decisions.

- External stakeholders perceive that the board, at times, seem to make decisions without considering all necessary evidence or information.
 - There is a perception that the board does not always fully utilize the information provided.
 - Producers sometimes view ‘back and forth’ policy changes as partially reflective of a problem in the information-gathering part of the decision-making process.

- The typical learning curve for board members (to understand the complexity of the business environment) can be an impediment to efficient decision-making; this could be mitigated by additional training and with experience.
 - Note: the board makes decisions based on a majority vote and, in most cases, the Chair refrains from voting, except when there is a tie (in this unusual case, the final vote is also likely to be deferred to a future date).

A formal process to offer the board means of evaluation will improve skills, performance, and accountability for decisions.

Board Mandate
Roles (Board, Board Chair, Committees, Staff)
Strategic Planning
Qualifications of Board Members
Communication with Stakeholders
Information Needed for Decision-Making
Performance Assessment, Board

- Board members are clearly motivated to perform well in their role and are extremely committed, however no individual assessment program exists to enable improved skills over time.
 - There is not a base assessment for board members to identify their individual skills gaps.
 - Thus, tailored training to bridge gaps of individual board members is not possible.
 - There is also no way, currently, for board members to know if they, as individuals, are doing a good job.

- Additionally, there is no formal assessment procedure to evaluate the performance of the board as a whole, and assist it in becoming more effective as a group.
 - The board does not have an evaluation procedure to assess whether it is meeting its own objectives.
 - Clarification of long-term objectives would enable this process.
 - Any new assessment program would have to be implemented over a number of years.

- With no formal visibility into board meetings, producers do not have the opportunity to monitor how the board is representing their interests.
 - Producers have a very limited view into the board's decisions-making process, and would like more transparency.
 - Producers want to have some way of periodically monitoring the work of the board.
 - With no clear accountability of board members, it is difficult for producers to judge strong versus weaker performers.
 - In general, election systems are based on stronger candidates being re-elected and weaker candidates being voted out; in the case of DFO there is no clear understanding of how well each board member is performing and thus hard to vote out under-performers.

Table of Contents

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Based on the current state and best practices, we have identified seven opportunities for DFO.

1. Clarify, refine, and communicate the **board's mandate** to focus the organization on a common vision.
 2. Delineate, in writing, the **roles and responsibilities** of the board, staff, and committees to enable DFO to work toward its mandate more effectively and efficiently.
 3. Ensure the board is given appropriate **information and analysis**, and has access to relevant expertise, to improve decision-making impact and speed.
 4. DFO should **communicate** in a more relevant, timely, consistent, and easily accessible way to improve DFO's stakeholder relationships.
 5. Institute periodic **board evaluations** to assess the board's performance and proactively manage board accountability.
 6. Strengthen **strategic planning capabilities** and formalize the **process** to prioritize objectives, set policy, and manage operations.
 7. Formalize **stakeholder engagement plan** to better understand and manage stakeholder needs, improving DFO's prospects for success.
- The following slides explore each key theme and provide examples for DFO.

A potential implementation plan, over the short-, medium- and long-term is depicted below, vis a vis opportunities.

Opportunity	Short Term (3-6 Months)	Medium Term (6-12 Months)	Long Term (12+ Months)
Clarify Mandate	Consolidate / Refine Mandate	Communicate Mandate	Update Mandate
Delineate Roles & Responsibilities	Define Authorities, Responsibilities, and Prerequisites of Each Role		Update Roles
		Communicate Roles and Responsibilities	
Refine Information & Analysis	Develop Information Template	Continually: Gather Appropriate Information, Conduct Appropriate Analysis, Seek Expertise	
Improve Communication	Identify Target Audience		
	Determine Message Deliverer		
	Select Communication Vehicle		
Introduce Board Evaluation	Determine Required Profile / Skills of Board	Conduct Training / Seek Expertise to Fill Gaps	Evaluate Board According to Long-Term Objectives
	Assess Gaps		Update Required Profile / Skills of Board
Build Strategic Planning Capabilities	Define Roles and Responsibilities	Assess Current Capabilities to Identify Core Competencies	
	Determine Required Strategic Planning Skills	Provide Training or Hire Experts to Bridge Capabilities Gaps	
Formalize the Strategic Planning Process (Note: for Annual and Long-term Plan)	Conduct Strategic Assessment	Identify Strategic Initiatives	Conduct Ongoing Scenario Analysis and Planning to Update Plan
	Summarize Strategy and Define Desired Results	Prioritize Strategic Initiatives	
	Analyze Gaps	Develop a Strategic Plan	Evaluate Targets (e.g., Scorecard)
		Communicate Strategy	
Develop Stakeholder Engagement Plan	Identify Key Stakeholders	Develop Stakeholder Engagement Plans	Update Stakeholder Engagement Plans
	Determine Needs and Value Drivers		
	Allocate Responsibility of Ownership	Update Needs and Value Drivers	

By acting on these seven opportunities, DFO will improve its governance, strategic planning, and stakeholder management.

- **Impact on governance:**
 - Delineating board and staff responsibilities will help maximize DFO expertise and capabilities, enhance accountability at DFO, and better enable DFO to manage expectations.
 - Focusing board members on strategy and policy setting will improve the efficiency and effectiveness of DFO's decisions, reducing the required time commitment and increasing the pool of potential board members.
 - Increasing the transparency of decision-making by increasing communication with stakeholders while soliciting feedback from stakeholders will improve DFO's ability to make decisions that reflect the best interests of the industry as a whole.
 - Periodic evaluations for DFO will force board members to make informed, evidence-based decisions.

- **Impact on strategic planning process:**
 - Aligning organizational goals and strategic initiatives to the vision and mandate will provide focus to long-term planning.
 - Ensuring the board avoids operational task will help DFO to focus on longer term objectives and improve its strategic planning process.
 - Basing strategic initiatives on accurate and timely information and better utilizing staff and appropriate external expertise will improve DFO's ability to perform scenario planning.
 - Communicating DFO's strategic plan to key stakeholders will increase the likelihood of success.

- **Impact on stakeholder management effectiveness:**
 - Clarifying DFO roles and responsibilities while improving the strategic planning process will unify DFO, and convey greater organizational cohesion and focus to stakeholders.
 - Having access to relevant information, making informed decisions, and ensuring consistent and regular two-way communications with stakeholders will improve DFO's ability to build consensus and achieve its long-term goals.
 - Periodic evaluations of the board will increase board accountability and effectiveness.