

This is generic for all types of co-operative societies. It is meant as a guide for the preparation of ***Management and Prudential Guidelines Manual*** hence requires to be customized before adoption by each Society.

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LIST OF ABBREVIATIONS

AGM	-	Annual General Meeting
AP	-	Accounts Payable
CEO	-	Chief Executive Officer
CRM	-	Customer Relationship Management
FOSA	-	Front Office Services Activities
GIS	-	Geographical Information Systems
GPS	-	Global Positioning System
HOD	-	Head of Department
HR	-	Human Resources
ICA	-	International Co-operative Alliance
ICT	-	Information Communication Technology
KNFC	-	Kenya National Federation of Co-operatives
MOCDM	-	Ministry of Co-operative Development and Marketing
NACO	-	National Co-operative Organizations
PR	-	Public Relations
SACCO	-	Savings and Credit Co-operative

CHAPTER ONE

INTRODUCTION

This chapter defines a co-operative society and describes the way the co-operative movement in Kenya is organized. It also outlines the core co-operative values and principles and explains the methodology used in formulating the management and prudential guidelines. The section concludes by identifying the intended users of the management and prudential guidelines as well as assigning responsibility of ownership and administration of the guidelines.

1.1 BACKGROUND

The International Co-operative Alliance (ICA) defines a co-operative as an autonomous association of persons united voluntarily to meet their common economic and social needs through a jointly owned and democratically controlled enterprise.

1.2 CORE CO-OPERATIVE VALUES AND PRINCIPLES

The values which give co-operatives their identity are self-help; self-responsibility; democracy; equality; equity; and solidarity. In addition, co-operatives are identified with the ethical values of honesty, openness, social responsibility and caring for others. These values are practiced by application of the following co-operative principles:

- i. Voluntary and open membership;
- ii. Democratic member control;
- iii. Member economic participation;
- iv. Autonomy and independence;
- v. Education, training and information;
- vi. Co-operation among co-operatives; and
- vii. Concern for community.

The co-operative movement in Kenya is organized into a four-tier system consisting of primary co-operative societies, secondary co-operative societies, National co-operative Organizations (NACOs) and the apex organization Kenya National Federation of Co-operatives (KNFC).

There has been tremendous growth in the co-operative sector over the years, however, the sector has experienced diverse governance challenges that may have constrained its ability to exploit its full potential hence the need for development of a management and prudential guideline of this manual.

1.3 MANAGEMENT AND PRUDENTIAL GUIDELINES

A Co-operative society's management function should be concerned with the process of planning, organizing, staffing, leading and directing the co-operative activities so as to optimize the use of available resources and attain the set goals. Prudential guidelines provide the use of available resources and attain the set goals. Prudential guidelines provide regulations that state how the various players are to conduct business and how that conduct is to be supervised in order to ensure compliance. The co-operative society's regulations are derived in the Co-operative Societies Act, performance standards and established behavioural norms. Compliance with legal, performance and other standards serves to enhance governance in the co-operative sector.

According to the Centre for Corporate Governance, governance is the manner in which power is exercised in the management of economic and social resources for sustainable human development.

Corporate governance, therefore seeks to promote:

- i. Efficient, effective and sustainable organizations that contribute to the welfare of society;
- ii. Responsive and accountable organizations;
- iii. Legitimate organizations that are managed with integrity, probity and transparency;
- iv. Recognition and protection of stakeholder rights: and
- v. An inclusive approach based on democratic ideals, legitimate representation and participation.

1.4 ORGANISATION OF THE MANAGEMENT AND PRUDENTIAL GUIDELINES MANUAL

The management and prudential guidelines set out standards for sound management and administration of co-operative societies. To the extent that these guidelines are effectively implemented and upheld they will ensure that the co-operative is properly managed. It is recognized that a general rule will not always suit all circumstances or situations that may arise. Therefore, each co-operative should formulate its own detailed policies that take into account its special needs and circumstances. The guidelines are divided into topics, identified by a number, each of which contains a group of related policies.

1.5 UPDATING MANAGEMENT AND PRUDENTIAL GUIDELINES MANUAL

The board of directors shall be responsible for ensuring that management and prudential guidelines are developed and/or updated in a timely manner. A formal review of the guidelines will be conducted at least once annually. This review date or revision date to the introductory section of each guidance.

1.6 USERS OF THE MANAGEMENT AND PRUDENTIAL GUIDELINES MANUAL

The management and prudential guidelines manual is intended to be used by the board of directors, committees of the board and employees of the co-operative society as reference material while carrying out their duties and during training and induction of new staff. It is the responsibility of all Co-operative administrators to familiarize themselves with these guidelines in order to provide proper guidance to employees. It is the responsibility of every employee to follow the stated guidelines.

The management and prudential guidelines manual will also assist the members, investors, auditors, and other stakeholders to evaluate how effective management is in achieving the goals of the co-operative society. The Manual developed by the board should not be restricted in its use.

CHAPTER TWO

GUIDELINE ON REGISTRATION OF NEW CO-OPERATIVE SOCIETIES

2.1 PURPOSE

The purpose of this guideline is to provide information and guidance to those seeking to obtain registration of a co-operative society in Kenya in compliance with sections 4,5,6 and 7 of the Co-operative Societies ACT,2004.

2.2 SCOPE

This guideline provides the conditions one must fulfill to be granted a co-operative society registration certificate in Kenya.

2.3 RESPONSIBILITY

It is the responsibility of the initial members (promoters)proposing to form a co-operative society in Kenya to secure compliance with this guideline.

2.4 APPLICATION FOR REGISTRATION

The applicants will be required to complete the following:

- An prescribed form for registration of a co-operative society; and
- Fit and proper forms and schedule for the promoters.

All applicants duly completed shall then be submitted to the Commissioner for Co-operatives Development (CCD).Communication from the CCD will be received within thirty(30) days in accordance with the Ministry's service charter.

2.5 INFORMATION REQUIRED

The applicants will be require to furnish the Commissioner with the following additional information.

2.5.1 Proposed By-laws of the proposed co-operative society.

2.5.2 Signed declaration by every applicant and senior managers as specified in the application form.

2.5.4 An economical appraisal of the future operations and development of the co-operative society covering a minimum period of three years from the date of the applicant.

The economical appraisal should highlight the following:

- Projections of balance sheets and profit & loss accounts by the appropriate schedules and the assumptions underlying the projections;
- Proposed co-operative society organization structure;

2.5.5 Statistical and other relevant data collected in respect of the area to be covered by proposed co-operative society and should include among others population of the area, agricultural schemes, businesses, infrastructure and industrial development.

2.6 PROCESSING OF APPLICATION

Upon receipt of the application forms together with the attachments, the Commissioner shall appraise the application and inform the applicants on whether the application is successful within 30 days as provided in the Ministry Service Charter.

CHAPTER THREE

GUIDELINE ON OPERATIONS MANAGEMENT

3.1 PURPOSE

This guideline is intended to assist the co-operative society enhance productivity through better management of the process of transforming inputs into outputs. The transformation process varies depending on the activities of a particular co-operative society and therefore each co-operative should formulate detailed operational policies that are specific to its circumstances.

3.2 SCOPE

This guideline explains how the co-operative can enhance its operations, productivity and competitiveness.

3.3 RESPONSIBILITY

The board of directors, CEO, management and other staff members of each co-operative shall be responsible for the design of efficient systems that best meets the co-operative requirements.

3.4 PRODUCTIVITY

The co-operative should establish an operations system that ensures high productivity. Productivity is a measure of how well an operation system functions and an indicator of efficiency and competitiveness. The co-operative management could improve its productivity through:

3.4.1 Production System Design

The board of directors should ensure that the co-operative society has a production system that is appropriate for its activities. Production system design involves making decisions about:

- The product/service to be produced and at what level;
- How and where to produce the goods/services; and
- Who to produce the goods/services.

The co-operative management and the system designers should simplify designs and come up with flexible, easy to use and reliable systems. The co-operative should be able to establish ways of making quick changes in the rate of production as the demand for the product/services changes. This can be achieved by training staff to be multi-skilled and adopting flexible work rules.

3.4.2 Job Design

The jobs within a co-operative operations system should be appropriately designed. In carrying out job design the management will have to decide on the person to carry out the various tasks and how the work is to be accomplished. Job design should entail developing clear work related policies on employee skills, employee safety at workplace collaboration.

3.4.3 Operations Plans and Control

The management of a co-operative safety should develop comprehensive operational plans and control decision on major expense items. Inventory comprising of raw materials, work in progress and finished goods is one such item. The co-operative head of operations should maintain inventories at optimum levels by application of inventory management techniques. Where applicable, the co-operative could also strive for just-in time inventory if possible which minimizes the expense of storing inactive inventories.

3.5 COMPETITIVENESS

The co-operative societies exist primarily to produce quality products and service that customer's want at reasonable prices. The factors that determine the competitiveness of a co-operative's products/services include: pricing; quality level; quality reliability; and flexibility. These are explained briefly.

3.5.1 Pricing

One of the factors that determine the price of a product or service is the costs of production. The head of operations should keep the costs low to be able to offer competitive prices.

3.5.2 Quality Level

The co-operative should set quality standards for its products/services in terms of performance, superior features, tolerance and greater durability. The head of operations should ensure that the standards are met. A record of repeat jobs should be kept and used in performance evaluation.

3.5.3 Quality Reliability

A co-operative society attains reliability through consistent and timely provision of quality products/services. The co-operative management should set quality reliability standards and measure the frequency with which the standard is met.

3.6 MEASUREMENTS

The co-operative management should maintain records of the co-operative activities for use in evaluating its productivity. In deciding on the records to utilize, the management should pay attention to the following:

- Process flow documentation that would help identify the strategic control points, or junctures in the operation processes at which major change occurs. Since these points represent potential sources of confusion and inefficiency as work is passed from one set of workers to another the management should establish clear forms, records and other documents to be kept at every stage.
- Efficiency standards should be set to ensure that co-operative resources are not wasted and to allow for meaningful interpretation of the productivity measurements. Efficiency goals could be set to include among others: levels of scrap or waste materials; units that have to be reworked; length of time to perform an operation; downtime; time spent retooling a production line; and time spent waiting for supplies.

3.7 FEEDBACK

The board should evaluate the information captured in performance measurement and communicate the results to those involved in the operations process. This is a key control function and involves taking corrective action, changing goals and rewarding high achievers among other actions.

CHAPTER FOUR

GUIDELINE ON INFORMATION AND COMMUNICATION TECHNOLOGY

4.1 PURPOSE

This guideline is intended to provide the minimum standards that the co-operative society should develop so as to capture and disseminate adequate information relating to their products or services. Each co-operative should formulate its own detailed information communication and technology (ICT) policies, taking into account its needs and circumstances.

4.2 SCOPE

This guidelines covers characteristics that good information system should possess and suggests ways by which dissemination of information can be improved.

4.3 RESPONSIBILITY

The board of directors, management and staff are responsible for ensuring that the co-operative society's information system avails information to the right person at the right time.

4.4 QUALITIES OF GOOD INFORMATION SYSTEM

Good information system should possess the following qualities:

4.4.1 The co-operative should provide relevant information. Relevance is determined by the user of the information and therefore the management of the co-operative should first define the objectives of the various reports to be produced. Based on the user, the system should generate the following reports:

- Detailed daily operational/transactional reports that are accurate for use by supervisors.
- Summarized current and projected information, regardless of whether internally or externally sourced, that is likely to affect performance for use by the managers.
- Highly processed information for strategic planning and management control, obtained from within the co-operative for use by directors and the CEO.

The system should also be designed to generate exceptional reports.

4.4.2 The information be timely for it to be acted on. The officer in charge ICT should review the system constantly to assess its speed and recommend upgrading or replacement.

4.4.3 Information should be free from errors and the user should be notified of any assumptions or estimates.

4.4.4 The co-operative should obtain information from authoritative sources only.

4.5 ELECTRONIC INFORMATION AND COMMUNICATION SYSTEM

The co-operative where possible should install an electronic information and communication system that enhances its efficiency in communicating with members and in service delivery. This could take any of the following forms:

- i. A web site for the co-operative.
- ii. Online publication of the co-operative activities;
- iii. Electronic access to key performance indicators;
- iv. Online publication of committee meeting schedules and minutes;
- v. Online publication of planned activities;
- vi. Online answer to member comments and enquiries;
- vii. Online payments to members;
- viii. Electronic decision notices;
- ix. Electronic submission of members complaints; and
- x. Electronic requests for service.

4.6 CONTACT CENTRE

The co-operative society could open a demand driven contact Centre. Contact Centre should serve as the first point of contact with the members and it be able to field enquiries, process them and redirect others to the appropriate person or department within the co-operative society. The contact Centre should observe the following practices:

- Be open 24 hour,7 day a week;
- Have the ability of field calls and email, to log and capture data and, if appropriate refer an enquiry to the appropriate person to handle the enquiry; and
- Be integrated with the website and back office systems to enable access to common data and transfer of information internally.

4.7 ONE-STOP-SHOP

Where practical, a co-operative society should operate a one-stop-shop. This is a standalone facility that acts as an information Centre where customers can visit to access a service or obtain information. In operating a one-stop-shop, the co-operative society should observe the following practices:

- Station a customer service representatives equipped with facilities to handle a wide range of enquiries;
- Provide direct internet access at the one stop shop: and
- Integrate ICT systems with co-operative society or service back office systems.

4.8 REMOTE FACILITIES

The co-operative society should provide facilities to remote locations to enable electronic access to the service that are available at the offices. This could be achieved by practicing any of the following:

- Providing remote points of internet access:and
- Providing mobile contact centers and internet access points.

4.9 INFORMATION SECURITY

The co-operative society should develop security measures that ensure confidentiality and the protection of the integrity of information. The co-operative should also put in place measures to ensure that vital records are protected in the event of major equipment, environmental or personnel failure and that the business is not adversely affected. This could be achieved through:

- Restricting access by use of passwords;
- Establishment of backup systems; and
- Development of disaster recovery mechanism.

4.10 INFORMATION RETENTION

The board of directors should develop an information retention policy which specifies the periods that information should be kept before being destroyed. The policies should provide criteria for review/disposition and procedures for controlled destruction. This should take into account the legal and legislative requirements.

CHAPTER FIVE

GUIDELINE ON HUMAN RESOURCES MANUAL

5.1 PURPOSE

The human resource (HR) guideline sets certain minimum standards that the co-operative should have in order to enjoy improved personnel relations. Each co-operative should formulate its own detailed HR policies, taking into account its special needs and circumstances.

5.2 SCOPE

This guideline covers the key issues that have a bearing on HR management.

5.3 RESPONSIBILITY

The co-operative society's HR objective should be to maximize the return on investment from the human capital. It is therefore the responsibility of the head of human resources to carry out the HR function in an effective, legal, fair, and consistent manner.

5.4 MANPOWER PLANNING

The co-operative society needs to review its manpower needs annually and project how any gaps could be filled. This should be undertaken by head of HR in consultation with departmental heads.

5.5 RECRUITMENT

Recruitment is the process of acquiring manpower for the co-operative society. The aim of recruitment should be to identify and attract the best available talent for the specified job within the shortest time and at the least cost. The co-operative society recruitment policy should specify the following;

- i. The minimum qualification requirements for various positions;
- ii. Personnel to be involved in the recruitment process;
- iii. Methods of sourcing and handling of vacancies of applicants; and
- iv. Minimum applications that should be received before further processing.

5.6 TERMS AND CONDITIONS OF EMPLOYMENT

The co-operative society shall set appropriate terms and conditions of employment which will be applicable to the employees of the co-operative society. The terms and conditions of employment shall specify details about the salaries and wages, working hours, work attendance/absentiseem and the co-operative code of behaviour among others.

5.7 PERFOMANCE APPRAISAL

The co-operative society shall carry out periodic performance appraisal on every employee of the society. In performance appraisal actual employee achievement shall be measured against the expectations of the job. Perfomance appraisal results should be used for overall development and growth of the employee.

5.8 TRAINING AND DEVELOPMENT

Training of the co-operative members represents one way by which the efficiency could be improved. The society should constantly seek to enrich the existing knowledge, skills and attitudes of its members. Training should be a continuous process of equipping and upgrading employees' skills and knowledgs. The co-operative should conduct impact of training and development programmes on the functioning of the society periodically. In addition, the co-operative should have a policy on ways of soliciting for trainers.

5.9 EMPLOYEE RELATIONS

Each co-operative society should develop policies on grievance handling and disciplinary procedures. The objective of the co-operatives grievances should be to have grievances settled at the first supervisory level. Cases of indiscipline should be corrected through an appropriate disciplinary action. The co-operative should establish a disciplinary committee and procedure for reviewing appeal against disciplinary action.

5.10 SUGGESTION SCHEME

The co-operative society establishes a suggestion scheme designed with the objective of encouraging creative thinking and suggestions that would lead to improvements in overall working of the co-operative society. All employees should be encouraged to make suggestions under this scheme.

5.11 SEPARATION AND EXIT

An employee may be separated with the co-operative through termination of service, resignation or retirement. There should be clear policies on summary dismissal, the notice period and payment in lieu of notice.

5.11.1 Exit Interview

A co-operative society conduct an exit interview with every outgoing employee, except in case of summary dismissal. The objective of such interview will be to obtain the views of the

outgoing employees in respect of the prevailing systems, procedures and practices of the society with a view to taking suitable corrective action wherever necessary. The interview should try and ascertain the reason for exiting the society. The views expressed by the outgoing employee should be treated in strict confidence and duly recorded.

5.11.2 Service Certificate

All co-operative employees are eligible to receive a service certificate at the time of separation. The service certificate would contain, among other things, the name of the employee, the period of service, last position held, salary and allowances, and remarks about conduct.

CHAPTER SIX

GUIDELINE ON PROCUREMENT

6.1 PURPOSE

The procurement guideline provides minimum standards to ensure that co-operative societies improve the speed and efficiency of the procurement function, reduce costs and improve the co-operative societies overall performance. Each co-operative should however, formulate its own detailed procurement policies in line with the Public Procurement and Disposal Act 2005 that take into account its special needs and circumstances.

6.2 SCOPE

This guideline provides some suggestions in procurement management process optimization supplier performance management.

6.3 RESPONSIBILITY

It is the responsibility of the board to ensure that co-operative society develops policies that would lead to best practice in procurement function.

6.4 PROCUREMENT PROCESS MANAGEMENT

The procurement process management seeks to provide solution to the following challenges:

- The length of time it takes to identify the right supplier;
- Inability to locate pricing agreements for specific suppliers;
- Lack of easy access to contract information;
- Measurement of suppliers performance based on contract terms; and
- The time required to collect problems that occur when a supplier fails to comply with the contract.

Some of the procedures that result in optimal procurement include:

6.4.1 A co-operative society should establish common procurement database. This could be undertaken by streamlining contract data across suppliers of various commodities or services. With common procurement data, the co-operative society would be in a better position to select and channel volume commodity purchasing requirements to the most competitive suppliers. This in turn would lead to reduction in the cost of goods or services and improvement in procurement efficiency.

6.4.2 The co-operative should rely on up to date contract information to create purchase orders. This reduces chances of errors and the associated costs and also serves as check on contract compliance.

6.4.3 The co-operative contract database should be comprehensive so as to allow for easy and fast identification of the preferred supplier. This enhances procurement efficiency and a

reduction in time spent sourcing a supplier. It also improves the operations of the co-operative societies supply chain as delays associated with identifying a supplier are reduced or eliminated. In addition, the contract database should be capable of fast identification of suppliers in time of shortages.

6.5 ENHANCED SUPPLIER PERFORMANCE

6.5.1 The co-operative should constantly measure suppliers' compliance to the terms of contracts. This ensures that problems are identified at an early stage thus allowing the procurement department to take corrective action in time. The co-operative should identify and shift purchasing activities to good performing suppliers. By focusing on suppliers that perform well, the co-operative society reduces the cost of multi-supplier maintenance and improve supplier relations.

6.5.2 The procurement department should monitor contract compliance at the transaction level this minimizes the cost associated with non-adherence to the contract.

6.5.3 Automated contract compliance checking frees the procurement department to devote resources to more strategic activities. This helps the co-operative to realize a better return on investment in procurement and improves the departmental productivity.

CHAPTER SEVEN

GUIDELINE ON MARKETING

7.1 PURPOSE

The marketing management guideline provides minimum standards that co-operative societies should have in order to create or change the perception of a product or service in the eyes of the target audience by making use of research and communication media. Each co-operative should however, formulate its own detailed marketing policies that take into account its special needs and circumstances.

7.2 SCOPE

This guideline provides best practices in marketing management.

7.3 RESPONSIBILITY

It is responsibility of the board to ensure that the co-operative society develops policies that would lead to best practice in marketing function. Marketing policies include areas such as:

7.4 MARKETING RESEARCH

Co-operative societies require detailed and objective understanding of their own business and the market in which they operate, in order to make fact-based decisions regarding their operations. This means that co-operative societies need to invest in research to collect the data required to perform accurate market analysis. As the marketers employ a variety of techniques to conduct market research, the small co-operatives should pool resources to enjoy research benefits.

7.5 MARKETING STRATEGY

The co-operative should use information obtained from market research to make key strategic decisions and develop a marketing strategy designed to maximize the market share, revenues and profits. By selecting target segments the co-operative would subsequently allocate more resources to acquire and retain customers in the target segment(s). Some of the other innovative strategies that a co-operative could pursue include:

7.5.1 Market Niche

The co-operative could identify market niches. A market niche is defined as an area of consumer need that is not being completely satisfied and is often too small for larger businesses to pursue. A co-operative could pursue niche opportunities in the area of:

- Product differentiation and certification. The co-operative emphasizes the product/services characteristics which are different from the competition such as organic, pesticide free, certified among others.
- Value-added processing. The co-operative adds value to raw product to create a new product or product use based on consumer demand.
- Encourage partnership between the consumer and the co-operative. The partnership could take the form of contract for products and prepayments.

7.5.2 Promotion Strategies

The co-operative should adopt strategies that ensure that it creates the target consumers and develops relationships with them to encourage use of product of service. Some of the promotion strategies that a co-operative could apply include

- Purchasing media advertising (newspaper,radio,TV,yellow pages,etc);
- Organizing direct mailing of announcement flyers,coupons,newsletters among others, to current consumers and other target consumers;
- Posting signs or posters in areas frequented by target consumer;
- Participation in or hosting community or regional special events;
- Participating in public interests events-events with community groups which builds a relationship and reputation as a generous and involved community member ;and
- Utilizing the internet.

7.6 MARKETING PLAN

After the co-operative identifies its strategic objectives, selects the target market, determines the desired position for its product or brand a marketing plan should be developed. The marketing plan specifies how the chosen strategy will be executed and the set objectives achieved. The content of marketing plan includes:

- An executive summary;
- Situation analysis to summarize facts and insights gained from market research and marketing analysis;
- The co-operative's mission statement for long-term strategic vision;
- A statement of the co-operatives key objectives, often subdivided into marketing objectives and financial objectives;
- The marketing strategy the business has chosen, specifying the target segments to be pursued and the competitive positioning to be achieved;

- Implementation choices for each element of the marketing mix(4Ps);
- A summary of required investments (in people, programs, CT systems, etc.);
- Financial analysis, projections and forecasted results;
- A timeline or high-level project plan;
- Metrics, measurements and control processes; and
- A list of key risks and strategies for managing identified risks.

7.7 MARKETING INFORMATION SYSTEM

The co-operative will need to design marketing management system that provides cross-functional leadership for various marketing activities. This system should provide pertinent information for decision making, feedback and monitoring and evaluation.

7.8 FEEDBACK AND CONTROL SYSTEMS

The co-operative society shall design various control systems such as sales forecasts, sales force and reseller incentive programs, sales force management systems and customer Relationship Management (CRM) tools to measure progress against objectives. It is the responsibility of marketing managers to ensure that the evacuation of marketing programs achieves the desired objectives and does so in a cost-efficient manner.

CHAPTER EIGHT

GUIDELINE ON FINANCIAL REPORTING

8.1 PURPOSE

The guideline on reporting provides minimum standards that co-operative societies should observe in order to disseminate timely and accurate financial and regulatory information to its key external stakeholders.

8.2 SCOPE

This guideline provides best practices in making timely and accurate reports.

8.3 RESPONSIBILITY

It is the responsibility of the board to ensure that the co-operative develops reporting policies that lead to dissemination of good information to the co-operative stakeholders.

8.4 REPORTING BEST PRACTICE

For effective communication with stakeholders, co-operatives should in preparing reports consider the following:

- 8.4.1 The co-operative society should undertake stakeholders mapping for identification of key consultant groups and their specific information needs.
- 8.4.2 The co-operative should employ suitable communication channels to provide information.
- 8.4.3 The co-operative should then monitor their reporting performance and requirements on a continuing basis in order to identify evolving stakeholder concerns.

Some of the factors that can lead to co-operatives success in dissemination timely and accurate financial and regulatory information include:

- Integration of reporting functions throughout all operations;
- Elevating reporting processes to the level of other key co-operative functions.
- Development of information gathering ,processing, dissemination and storage/preservation policies;
- Establishment of a culture that conveys the importance of a consistent disclosure policy throughout the co-operative organization; and
- Allocation of the necessary resources to help foster a mind-set of transparency that permeates throughout the organization.

CHAPTER NINE

GUIDELINE ON SOUND PRACTICES IN FINANCIAL CO-OPERATIVES

9.1 PURPOSE

This guideline is meant to assist co-operatives safeguard members savings from loses and ensure that savings and Credit Co-operatives (SACCOS) function in a sound manner.

9.2 SCOPE

This guideline specifies the minimum prudential standards for SACCOS.

9.3 RESPONSIBILITY

It shall be the responsibility of the members and directors to ensure that the provisions of these guidelines are compiled with.

9.4 DELIQUENCY

Loans and advances that are not paid according to agreed schedule are to be considered delinquent the day after the first missed payment. The entire loan outstanding balance is then considered past due and collection procedures instituted immediately. The past due loans as a ratio of total loans disbursed should be less than 5%in any SACCO.

9.5 LOAN LOSS PROVISION

Loan loss provisions are made against identified risk of losses to protect members' savings by setting aside earnings. Based on international standards:

- 35% of loans between one to twelve months past due should be provisioned into an allowance account;
- Loans more than 12 months provision should be 100% and be written off as a loss;
- The SACCO should continue trying to collect even after being written off.

9.6 INSTITUTIONAL CAPITAL

The SACCO should set aside a portion of its earnings each year in reserves to cover losses from unforeseen circumstances. This capital should ideally be based on a risk weighted asset standard.

9.7 NON-EARNING ASSETS

The SACCO should limit non-earning assets such as land, buildings, vehicles furniture and cash owned by the SACCO to a maximum of 5% of the total SACCO assets. They should therefore invest 95% of its funds into those assets that earn a return greater than the cost of funds and operating costs.

9.8 PRICING

SACCOS should offer competitive prices while ensuring that it covers all its costs of operations.

9.9 OPERATING COSTS

SACCOS must strive to be efficient. Their operating costs should be limited to between 5%-10% of average total assets.

9.10 LIQUIDITY

The SACCO should maintain a minimum ratio of 15% of withdraw able savings in easy accessible instruments and accounts to meet the demands of operational expenses, loan disbursements and withdrawal by savers.

9.11 DIVERSIFICATION

The SACCO should limit its exposure into interrelated loans to 5% of its total assets.

9.12 NON-FINANCIAL OPERATIONS

Non-financial investments should not exceed 5% of total assets.

CHAPTER TEN

GUIDELINE ON PUBLIC RELATIONS

10.1 PURPOSE

The guideline on Public Relations (PR) Provides minimum standards that co-operative societies should observe in order to have a positive public image and reputation.

10.2 SCOPE

This guideline provides best practices in public relations.

10.3 RESPONSIBILITY

It is the responsibility of the board to ensure that the co-operative society develops PR policies that enhances its reputation.

10.4 PUBLIC RELATIONS FUNCTION

Depending on its size, the co-operative should establish a PR function to play a visible role in setting the co-operative strategy. The co-operative may hire employee(s) or assign one officer to carry out this function.

10.5 CRISIS AVOIDANCE AND MANAGEMENT

The PR should focus on crisis avoidance and management by working with senior management to establish and/or update crisis prevention and management. The co-operative society should also plan and set “crisis avoidance and mitigation” as a performance measure for public relations effectiveness and a basis for discussing its budget.

10.6 ETHICS

Co-operative PR department should be in the forefront in developing ethical codes of behavior and should also lead the way in establishing and maintaining the co-operative reputation and setting business practices that are beyond reproach. The PR department should focus on building and consolidating a reputation reserve that the co-operative can draw from during the most difficult economic times.

CHAPTER ELEVEN

GUIDELINE ON ETHICAL PRACTICES

11.1 PURPOSE

The guideline on ethical practices provides minimum standards that co-operative societies' stakeholders should observe in carrying out their duties and responsibilities.

11.2 SCOPE

This guideline provides best practices in business ethics.

11.3 RESPONSIBILITY

It is the responsibility of the board to ensure that the co-operative society develops ethical standards and policies that enhances good governance.

11.4 CODES OF ETHICS

In any organization it is important that all players fully understand and accept the expected standard of behaviour, and a published code of ethics is a valuable contribution to maintaining such standards. However, unless the code is adhered to (particularly at the highest levels, including the board and senior employees) it will be subject to criticism and could be counterproductive.

A code of ethics can be of considerable value in co-operatives, which rely on maintaining member commitment and assurance that fair treatment is the norm. A code of ethics needs to be developed in full consideration with all those involved. It should also be reviewed regularly and its compliance monitored at appropriate intervals.

Every co-operative needs to develop its own code, which is likely to cover matters such as how it treats both members and other stakeholder groups, the way in which the co-operative conducts its business, practices that can lead to corruption (such as accepting and giving gifts) and what is expected in terms of disclosure of information.

An inclusive code of ethics for the co-operative society and all who deal with it should cover the following:

11.4.1 To whom the code of ethics should apply

These could include:

- i. Directors of the co-operative;
- ii. All employees of the co-operative;
- iii. The members of the co-operative; and
- iv. Other relevant stakeholders

11.4.2 Objectives of the code ethics

These could include:

- i. To set out values, ethics and beliefs upon which the co-operative society bases its policies and behavior;
- ii. To set down and promulgate the basic ethical principles to be observed;
- iii. To secure adherence to uniform principles of good practice;
- iv. To promote and maintain confidence in the integrity of the co-operative;
- v. To harmonise the concepts of social responsibility, public accountability and profitability;
- vi. To prevent and resist the development of undesirable practices; and
- vii. To lay down standards for personal and institutional behavior.

11.4.3 Personal Conduct

Areas to be included may include;

- i. Personal standards and integrity;
- ii. Professional expectation and duty of care to render faithful service;
- iii. Confidelity and trust;
- iv. Loyalty, fiduciary responsibility and transparency;
- v. Compliance with the law; and
- vi. Declaration of personal interest and conflict of interest.

11.4.4 Co-operative society behavior

Acceptable behavior in the co-operative society will include:

- i. Compliance with the law;
- ii. Quality standards and responsibility to members/customers
- iii. Integrity of relationships;
- iv. Transparency and accountability of the co-operative society;
- v. Conflict of interest;
- vi. Privacy of records and information;
- vii. Insider information;
- viii. Policy on corruption, bribes, gifts and entertainment; and
- ix. Social responsibility and accountability.

11.4.5 Specific obligations:

The code of ethics should also specify obligations for the internal stakeholders to other stakeholders both internal and external. For example:

(a) Directors

- i. To members and the co-operative society;
- ii. To employees;
- iii. To suppliers and lenders;
- iv. To customers;
- v. To the community at large; and
- vi. To the Government

(b) Employees:

- i. To members and the co-operative society;
- ii. To suppliers and lenders;
- iii. To customers;
- iv. To directors;
- v. To fellow employees; and
- vi. To the community at large.

(c) Members of the co-operative society:

- i. To the co-operative society;
- ii. To directors;
- iii. To employees;
- iv. To fellow member; and
- v. To the community at large.

CHAPTER TWELVE

GUIDELINE ON STRATEGIC PLANNING

12.1 PURPOSE

The strategic planning guideline provides minimum standards on how to define the co-operative strategy or direction and make decisions on allocation of resources to pursue this strategy.

12.2 SCOPE

This guideline provides last practices in strategic planning.

12.3 RESPONSIBILITY

It is the responsibility of the board, the management and staff of co-operative society to ensure that the co-operative develops policies that lead to best practice in strategic planning.

12.4 STRATEGIC PLANNING PROCESS

In strategic planning, a co-operative society should state its vision and mission.

12.4 A vision refers to the mental perception of the kind of environment an organization aspires to create within a broad time horizon. A vision is a coherent and powerful statement of what the organization can and should become some years from now. A co-operative society should articulate its dreams and hopes for its core business and set the direction for its business planning.

12.4.2 A mission statement defines what an organization is, why it exists, its reason for being. At a minimum, the mission statement defines who the primary customers are, identifies the products and services produced, and describes the geographical location in which an organization operates. The mission statement reflects every facet of a co-operative society business: the range and nature of the products offered, pricing, quality, service, marketplace position, growth potential, use of technology, and relationships with the customers, employees, suppliers, competitors and the community.

12.5 BEST PRACTICE IN STRATEGIC PLANNING

Some of the practices to observe in strategic planning include:

12.5.1 Co-operative societies should set targets that require a shift from business as usual and encourage out-of-the-box thinking:

12.5.2 The co-operative society planning processes should be guided by a philosophy of continuous improvement;

12.5.3 The co-operative society should communicate the strategic plan formally. Effective communication should be viewed as a significant element of the planning process and as a measure of quality planning. The co-operative should practice strategic thinking at all level of its activities;

12.5.4 The co-operative should establish strong links between strategic planning and other elements of the management system;

12.5.5 The co-operative society should ensure adequate documentation of strategic thinking; and

12.5.6 The co-operative should strive to diversify its core competencies.

CHAPTER THIRTEEN

GUIDELINE ON APPOINTMENT OF EXTERNAL AUDITORS

13.1 PURPOSE

The co-operative external auditors should be registered public accounting firms and approved by the ministry to ensure that they maintain acceptable competence and independence standards. This guideline is therefore intended to enhance the supervisory role of the registered public accounting firm.

13.2 SCOPE

This guideline applies to the appointment, duties and responsibilities of a registered public accounting firm.

13.3 RESPONSIBILITY

It is the responsibility of the board of directors to ensure that the co-operatives members appoint a registered public accounting firm annually in accordance with this guideline and other applicable laws.

13.4 AUDIT PARTNER/FIRM ROTATION

A registered public accounting firm shall ensure that the lead audit partner or the audit partner responsible for reviewing the audit has not performed audit services for the co-operative in each of the three (3) previous financial years.

13.5 APPROVAL OF APPOINTMENT

Before nomination and subsequent appointment of a registered public accounting firm the co-operative should obtain the following from the firm:

- i. Name of the registered firm.
- ii. Names, qualifications and experience of each partner.
- iii. Physical and postal address of the local office. In case of an international firm, full details of the head office.
- iv. Details of the partner to be in charge of the audit.
- v. Name, qualifications and experience of the manager to be engaged in the audit of the co-operative.
- vi. Details of the registered public accounting firm's experience in other institutions.
- vii. Details of any existing business relationship between the partner in-charge of the audit and the co-operative.
- viii. Any other information considered necessary.

13.6 PRINCIPAL RESPONSIBILITIES

The principle responsibilities of the external auditor include:

13.6.1 The registered public accounting firm shall express an opinion as to whether:

- All the necessary information and explanations for the audit of the co-operative have been obtained.
- Proper books of accounts have been kept and maintained by the co-operative.
- The accounts dealt with in the report are in agreement with the books of accounts and are in conformity with the international Financial Reporting Standards.
- The financial statements derived from the books of accounts give a “true and fair view” of the co-operative activities.

13.6.2 Each audit that carries out an audit for a co-operative shall provide timely report to the audit committee of the co-operative on:-

- All critical accounting policies and practices used or to be used;
- All alternative treatments of financial information within generally accepted accounting principles that have been discussed with co-operative management, implications of the alternative disclosures and treatments and the treatment preferred by the auditors; and
- Other material written communications between the audit firm and the management of the institution, such as any management letter or schedule of unadjusted differences.

13.6.3 In order to enhance the supervisory role the audit firm may also be required to carry out further investigations and submit a report on its findings

CHAPTER FOURTEEN

GUIDELINE ON MERGES AND AMALGAMATIONS

14.1 PURPOSE

This guideline is meant to assist co-operatives intending to merge or amalgamate and/or transfer assets and liabilities.

14.2 SCOPE

This guideline specifies the minimum conditions that must be fulfilled by all co-operatives intending to merge amalgamate or transfer assets and liabilities.

14.3 RESPONSIBILITY

It shall be the responsibility of the members and directors to ensure that the provisions of these guidelines are adhered to by the institutions intending to merge, amalgamate and/or transfer of assets and liabilities.

14.4 APPLICATION PROCEDURES

All institutions intending to merge/amalgamate or transfer assets and liabilities should prepare a due diligence report which should at a minimum contain the following:

- i. An extract of minutes of the general meeting of the members of each of the co-operatives involved passing the resolutions to merge or amalgamate and terms and conditions of the relevant agreement.
- ii. Resolution of the board of directors of all the participating co-operatives approving the proposed merger or amalgamation.
- iii. Latest audited accounts for all the co-operatives involved in the merger/amalgamation and consolidated accounts of the merged institutions duly certified by an independent firm of auditors.
- iv. By-laws of each of the respective organizations.
- v. A statement of the nature and objectives of the merger/amalgamation.
- vi. A copy of the proposed agreement for the merger/amalgamation.
- vii. Financial projections for the first three years of operation after merger/amalgamation supported by the assumptions made.
- viii. Agreement on proposed method of valuation and the valuer.
- ix. Proposed organization structure of the resulting institution.
 - x. Proposed details of senior management.
 - xi. Proposed board of directors.
 - xii. Proposed branches
- xiii. Proposed staff rationalization programme that takes into account the following:
 - The management structure of the resulting co-operative will need to be agreed upon, properly structured and where necessary job descriptions amended.

- The provisions of the trade union agreement will need to be complied with and may require renegotiations with the union.
 - In respect of non-unionised staff the accumulated leave and other benefits to be transferred to the resulting institution.
 - An appraisal of the staff requirements will need to be done.
 - Staff pension scheme/provident fund schemes will need to be in compliance with the relevant laws and guidelines.
 - Contracts of employment will need to be transferred to the new entity or fresh ones drawn out.
 - Salary scales, benefits and remuneration structure will need to be carefully reviewed and harmonized to avoid any inconsistencies.
 - Staff training programmes will need to be reviewed and consolidated.
 - New personnel policies will need to be agreed upon.
- xiv. Anticipated tax implications of the merger.
- xv. Operational contingences and marketing plan.
- xvi. Business strategy to be adopted.
- xvii. ICT strategy to be adopted.
- xviii. Legal due diligence covering all areas of any legal concerns that may face the resulting institution covering current and anticipated litigations.

14.5 POST MERGER/AMALGAMATION REQUIREMENTS

The post-merger procedures to observe include:

14.5.1 All licenses, permits and approvals will need to be obtained in the name of the new entity;

14.5.2 Membership of various trade associations and other similar bodies will have to be in the name of new entity;

14.5.3 It is essential to ensure that the right accounting systems and procedures are in place. Expert advice may be required to ensure proper consolidation of the different accounts and systems used;

14.5.4 Books of the entity being absorbed will need to be closed;

14.5.5 Closure and/or transfer of all bank accounts, income tax file, PAYE file, and others; and

14.5.6 Review/consolidation of policy and procedures manual.

14.6 MISCELLANEOUS REQUIREMENTS

The following requirements in so far as they are applicable, will need to be attached to:

14.6.1 Consolidation of insurance;

14.6.2 Transfer of lease agreements in respect of all rented premises, including premises occupied by staff;

14.6.3 Transfer of all electricity, water and telephone accounts; and

14.6.4 Transfer of credit facilities from various suppliers to the new entity.

CHAPTER FIFTEEN

GUIDELINE ON PERFORMANCE MANAGEMENT

15.1 PURPOSE

This guideline is meant to entrench performance based culture in the management of co-operative societies.

15.2 SCOPE

The guideline sets the minimum skills requirement for filling vacancy's for the position of the management committee/directors, supervisory committee and the CEO in co-operative sector. The guideline further specifies formal criteria for measuring the performance by the holders of those positions.

15.3 RESPONSIBILITY

It shall be the responsibility of the management committee/board of directors to ensure that the provisions of these guidelines are complied with.

15.4 PERFORMANCE MANAGEMENT

The co-operative sector should adopt the balanced scorecard approach in performance management. This approach takes into account both financial and none financial aspects of performance. Though the financial performance of a co-operative is essential for its success, it is usually historical and as such not a good indicator of what is happening currently or what is expected I the future. It is also common for the current market value of an organization to exceed the market value of its assets due to existence of intangible assets. This value is not captured in normal financial reporting. The balanced Scorecard method tries to overcome these drawbacks by working from four perspectives:

- Financial perspective;
- Customer perspective ;
- Business process perspective;
- Learning and growth perspective.

This allows the monitoring of present performance as well as capturing information about how well the organization is positioned in the future.

15.5 MANAGEMENT COMMITTEE/BOARD OF DIRECTORS

The management committee members/board of directors are responsible for determining the direction that a co-operative society takes and ensuring that the society is well managed and accountable to its members. To perform this role effectively members/directors require a wide range of skills and expertise .The core areas in which this knowledge and skills is required include:

- i. Basics in management and leadership. The specific skills required include:

- Organizational management;
 - Core competences for leading; and
 - Ability to deal with other board members.
- ii. Planning skills including:
- Business planning involved in planning a new line of business ,product, department; and
 - Strategic planning which establishes the co-operative goals and how to reach them.
- iii. Organizing skills:
- Human resources management;
 - Reorganization of the existing organizational structure.
- iv. Leading skills are required in dealing with co-operative members, employees and other individuals.
- v. Communication skills when dealing with persons within and without organization.
- vi. Coordinating activities and resource management skills:
- Finance;
 - Performance management;
 - Organization change management;
 - Policies and procedures;
 - Product/service management;
 - Marketing and promotions; and
 - Public and media relations.

15.6 EVALUATION OF BOARD MEMBERS

Evaluation is a way of checking progress against plans and visions. It is important for the board of directors performance to be subjected to formal appraisal on a regular basis as a way of providing members with a more meaningful measure of accountability and hence enhancement of the governance process. The importance of board evaluation process includes:

- Providing the board with a chance to reflect on and assess its areas of strength and weakness;
- Providing the board with an invaluable yardstick by which it can prioritize its activities for the future; and
- Serving as an educational and consensus-building function-by clarifying and defining the overall standards of performance for the board.

A formal appraisal encourages all directors to reflect on what the board has accomplished, as well as on what it should be doing and how it works. Such a review can optimally result in all directors contributing to setting goals of the board. The commitment of all directors contributing to settling goals of the board effectiveness makes those goals all the more likely to be completed.

Being a responsible board member is hard work. An evaluation which points up strengths as well as weaknesses can give a board a sense of its own competence and accomplishment

as a group. This is a good foundation on which to build positive change. Evaluation should be based on the following areas:

i. Membership Accountability and Governance

The board is the representative of the members and the steward of their interests. However, it is important that an individual board member, and the board as a whole, does not cater to special interest groups, but considers what is best for the co-operative (membership) as a whole. Appropriate performance criteria would include:

- Approval of applications for membership;
- Effectiveness of membership meetings (annual meeting);
- Process of director selection.
- Membership Communication;
- Membership relations program;
- Timely presentation of annual report to members that describes clearly the co-operative's operations and financial status; and
- The co-operative's capital plan creates an adequate capital base for the co-operative's current and future needs.

ii. Board Operations

The criteria for board operations may include:

- Development of an organizational chart;
- Preparation of job descriptions for management committee members/board members;
- Meeting agenda and other materials for discussion at board meetings, including written reports and recommendations by the CEO and committees, are mailed to members prior to meeting;
- Length of board meeting;
- Board discussions and participation ;
- Policies regarding board terms, electronics, officers, meeting attendance, committee structure;
- Orientations of new board members;
- Are decisions made in a timely manner?
- Written record of board policies and decisions;
- Executive sessions;
- Preparation and adherence to annual board calendar;
- Availability board manual;
- Preparation of job description for the CEO;
- Procedures for appraisal and compensation and compensation of the CEO;
- Training and development of the CEO;

- Procedure for board training and development; and
- Effectiveness of the committee structure.

iii. Legal Responsibilities

These are responsibilities relating to directing the affairs of the co-operative in accordance with the guidelines provided by the Act, by-laws, and other rules and regulations governing the co-operative movement. The criteria may include:

- Degree to which board members are informed;
- Board members knowledgeable of the Act, by laws, policies and procedures;
- Annual review of by laws;
- Board reads and approves minutes of each meeting; and
- Availability of written policies on board ethics and conflict of interests.

iv. Financial Overview

This refers to establishment of financial plans and policies and monitoring of the organizations operations for soundness and stability. The performance criteria may include:

- Financial policies reviewed and updated;
- Capital and operating budgets approved annually;
- Goals/policies for important financial ratios established;
- Board receives regular financial reports;
- Insurance program reviewed and updated annually;
- Policies established for member equity/redemption; and
- Procedure for annual audit.

v. Planning

To approve the organization's mission, the goals and objectives, major plans and programs, capital and operating budgets. Planning is a culmination of all the board's responsibilities. It is the process that pulls all of the elements together and makes the board's vision for the co-operative become real. The criteria for measuring performance in this area may include:

- Board approves mission and vision statements;
- Board approves annual business plan;
- Board reviews and approves a 3 to 5 year strategic plan;
- Board evaluates the mechanism(s) provided for member input into the planning process; and
- Board is adequately informed about the business and market environment in which co-operative operates.

vi. Board-Management Relations

The line between board and management roles can be blurred at times. Board and management responsibilities (delegation from board to management) often change as co-operatives grow and/or boards and management mature. Established procedures and strong communication are important for good performance of the co-operative. Performance measurement criteria may include:

- Written job description of the CEO;
- Procedure established for the CEO annual review and compensation;
- CEO's reports to the board;
- Board and management work together to determine the direction of the co-operative;
- Whether the board focuses on goals and results and leaves day to day decisions, methods, to management; and/
- Whether the board provides overall personnel guidelines to management and remains uninvolved with specific personnel matters.

15.7 CHIEF EXECUTIVE OFFICER'S

The chief executive officer is responsible for the overall day to day to day management and leadership of the co-operative society. It is therefore, critical that the CEO has strong knowledge and skills in a wide variety of areas as a foundation from which to add knowledge and skills customized to suit the particular co-operative and industry. The core areas in which these skills are required include:

- i. Basics in management and leadership. The specific skills would include:
 - Managing self;
 - Organizational management;
 - Core competencies for leading; and
 - Ability to deal with the board of directors.
- ii. Planning skills including:
 - Business planning involved in planning a new line of business, product, department; and
 - Strategic planning which establishes the co-operative goals and how to reach them.
- iii. Organizing skills in:
 - Human resources management;
 - Organization of various groups/teams; and
 - Reorganization of the existing organizational structure.
- iv. Leading skills are required in dealing with:
 - Other employees and individuals;
 - Groups; and
 - The organization.
- v. Co-ordinating activities and resource management skills:
 - Finance;

- Employee performance management;
- Group performance management;
- Organization change management;
- Organization performance management;;
- Policies and procedures;
- Product/service management; and
- Marketing and promotions; and
- Public and media relations.

15.8 EVALUATION OF CHIEF EXECUTIVE OFFICER

Evaluation of the CEO is a key responsibility of the board of directors. The benefits that can be derived from the evaluation process include:

- i. Ensuring that the goals of the co-operative are being met;
- ii. It is a way of allows the board to meet its duty of effectively leading the organization;
- iii. It ensures the continued development of the CEO to carry out their responsibilities more effectively
- iv. Ensures a formal and documented evaluation process that meets standards of fairness and practicality;
- v. Ensures the CEO values his or her role, is happy with the organization and more likely to stay; and
- vi. Leaves written records of the board's impression of the CEO performance for future reference.

Evaluation Criteria

The following considerations should be observed when conducting performance evaluation of the CEO.

- i. Ensure that the evaluation is conducted annually;
- ii. The procedures to be followed in the evaluation process should be documented to ensure consistence;
- iii. The evaluation should be carried out by a board committee and not by one member; and
- iv. Make it clear to all whether the staff members are to be involved in the evaluation exercise.

Table 15.1 is a sample evaluation form for CE

Name of preparer	Rating	Comments
<p>CEO/Board Relations</p> <p>Consider how well the CEO:</p> <ul style="list-style-type: none"> • Provides timely information to the board allowing the allowing the board to make informed decisions. • Develops realistic budgets and operating plans and provides timely progress reports identifying variations and reasons thereof. • Makes good and timely decisions, identifies and follows up on problems, and provides general leadership. • Advises the board on needed resources, facilities, capital and operating needs. Assists the board in establishing strategic plans, implementing actions to achieve strategic goals, and measures progress towards goals. • Seeks new business opportunities or ideas for increasing productivity. 		

<p>Marketing of Members produce</p> <p>Consider how well the CEO:</p> <ul style="list-style-type: none"> • Aggressively markets members produce to fetch the best prices. • Seeks out new business opportunities 		
<p>Financial</p> <p>To carry out a financial appraisal, standards should be set for each aspect to be evaluated so as to compare actual performance with the standard. These can be specific to the co-operative or based on industry standards. Example of areas that may require setting of standards include:</p> <ul style="list-style-type: none"> • Income/Sale; • Return on investment Assets; • Working Capital; • Days sales in Accounts Receivable; • Total Expenses/Gross Margin; • Personnel Expenses/Gross Margin; • Debt/Total Assets; and • Members Supply Sales/Average Inventory 		
<p>Coordination/Operations</p> <p>Consider how well the CEO:</p> <ul style="list-style-type: none"> • Uses an effective chain of command, delegate effectively and conducts regular performance evaluations; • Maintains the recommended standards in processing members produce; 		

<ul style="list-style-type: none"> • Manages controllable costs; • Maintain compliance with policies and standard operating procedures; and • Appropriately administers the cooperative's credit policy. 		
<p>Personnel Management</p> <p>How well does the CEO:</p> <ul style="list-style-type: none"> • Aggressively seek out people to fill key positions in co-operative administration; • Train personnel to assume a greater level of responsibility; • Apply policies and practices to the daily activities of the co-operative; • Encourage individual initiative and teamwork; and • Enforce corrective action in a direct, but fair, manner when necessary. 		
<p>Member Relations</p> <p>How well does the CEO:</p> <ul style="list-style-type: none"> • Plan for growth in volume and number of members in relation to market potential. • Make and maintain contacts with members, the overall community, and other relevant organizations. • Inform membership of changes in co-operative policy. • Project a positive image to the members. • Respond promptly and effectively to members concerns or complaints. 		

<p>Facilities</p> <p>Consider how well the CEO maintains professional surroundings and safe working environment.</p>		
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15.9 SUPERVISORY COMMITTEE

This supervisory committee checks the operations of the co-operative on behalf of members. The members expect the committee to give them an assurance that the society affairs are well governed and report on any irregularities. To be effective in carrying out this role, the members of the supervisory committee ideally should comprise individuals with diverse backgrounds, skill sets and experience to provide adequate control assurance to support the business on a board range of risk and internal control matters. The essential skills that the supervisory committee members should possess include:

- In-depth knowledge of the co-operatives industry;
- In-depth knowledge of auditing standards and best practices;
- Technical understanding and expertise;
- Knowledge on skills for implementing and improving process in both financial and operational areas;
- Strong communication and presentation skills; and
- Professional qualification.

15.10 SUPERVISORY COMMITTEE EVALUATION

The effectiveness of the supervisory committee should be measured annually. The criteria for measuring effectiveness of supervisory committee would largely be based on the quality of their reports and corrective actions arising from those reports, as well as their timeliness. The key performance measures include:

- Completion of the annual work plan;
- Issuing of final reports within a reasonable time(one to two weeks)of the formal management response;
- Achieving high acceptance(at least 90%of audit recommendations);

- Achieving reasonable implementation of audit recommendations (above 50%) within 12 months;
- Achieving 100% implementation of high-risk recommendations within 12 months;
- Finding a significant improvement in control during the follow-up checks;
- Stemming losses and making significant financial savings as a result of audits and investigations.

15.11 SKILLS GAPS IN THE CO-OPERATIVE SECTOR

There is need for a separate study on the existing skills in the co-operative sector. Such a study would identify the skills gaps and recommend the training requirements.

15.12 CO-OPERATIVE SOCIETY'S EVALUATION

Performance in the co-operative society can be improved by:

- Setting annual performance targets and budgets and periodically evaluating actual performance against targets;
- Making leaders to sign performance contracts and tying rewards and contract renewal to achievement of set targets;
- Defining clear performance parameters and developing a framework of performance evaluation and monitoring;
- Developing performance tracking mechanisms that would raise a red flag immediately things start going wrong; and
- Encouraging societies to develop and implement strategic plans.

The co-operative performance evaluation should be carried out with the assistance of the sector regulator. The results of the evaluation should be used to:

- Develop policy guidelines on investment, procurement and expansion;
- Make decisions concerning the management team, dividends, debtors, creditors, general membership;
- Apply for loan;
- Rewarding best achievers;

15.13 REPORTING REQUIREMENTS

To facilitate effective performance evaluation and enhance good governance in the co-operative movement, the reports indicated in table 15.2 below should be prepared:

Report	Who to prepare	Recipient	Timeline
Annual reports and Financial statements	Board	Members	Annually
Annual returns	Board	Regulator	Annually
External audit report	External auditor	Members	Annually
Internal audit report	Internal auditor	Audit committee	Monthly
Loans reports	CEO	Board	Monthly
Investments reports	CEO	Board	Quarterly
Education/training reports	CEO	Board	Quarterly
Budget estimates	Board/CEO	Members	Annually
Budgetary control reports	CEO	Board	Monthly
Bank reconciliation report	Accountant	CEO	Monthly
Management accounts	Accountant	CEO	Monthly
Departmental reports	Departmental heads	CEO	Monthly

Table 15.2 Reports for effective performance evaluation