

Topics in Cooperative Governance

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Introduction

This brief analysis considers some topics of cooperative governance. The primary focus is on the Board of Directors but many of these topics also are important for the hired management of the cooperative. While these topics impact all cooperatives, it is important to realize that every cooperative is different. A fundamental difference between cooperatives and other types of businesses is that cooperatives are owned by the members who use its services or buy its goods. Employee owned enterprises are a similar type of business structure where the firm is owned by the employees who share the profits generated by the firm.

Cooperatives can be found in many industries. They are especially common in banking in the form of credit unions. Mutual insurance companies are another example of cooperatives, although many insurance companies with “Mutual” in their names are now investor owned companies. Retail cooperatives are also fairly common, and food cooperatives are becoming more common. Agricultural cooperatives are also very common; some cooperatives provide inputs to their members, some market their members outputs, and some do both. Housing cooperatives are also fairly common.

There is also a wide diversity in the size of cooperatives. Some cooperatives are very small, others are among the largest firms in the country. Given the diversity in the size and industries of the cooperatives, governance will vary from cooperative to cooperative. Small cooperatives may have difficulty finding people willing to serve on cooperative boards, and others may not have enough turnover on governing boards to notice changes in their operating environment. The lack of contested elections may be another problem facing small cooperatives.

Some of the topics covered in this analysis include the composition and qualifications of board members, board nominations and elections, training and onboarding of new board members, compensation of board members and how the board interacts with the Chief Executive Officer or the General Manager. Ensuring sufficient member participation will also be included.

Most cooperatives practice representative democracy (UWCC), the members elect a board of directors who make key decisions for the firm and hire key employees. Direct democracy, where all decisions are made by the members is more common in smaller cooperatives (UWCC) and may be necessary after the cooperative is formed but before it starts operating and attracting additional members.

Board Composition and Qualifications

According to a survey carried out by the University of Wisconsin Center for Cooperatives, 36 percent of board members have served three to nine years, 34 percent less than three years, 16 percent more than 15 years, and 14 percent 10 to 15 years (UWCC). It appears that for the most part there is sufficient turnover to ensure that there a combination of new ideas and experience on most boards, and that in the case of most boards there does not seem to be a likelihood of burnout.

However, there does appear to be an overdependence on older people on boards. Baby boomers still comprise 38 percent of board members, Millennials are only 25 percent of board members (UWCC). Housing cooperatives on average have younger people on boards (UWCC). Housing cooperatives tend to have young members who have not yet started families or are firmly established in their careers. Cooperatives may not be doing enough to encourage younger people to run for board positions. Cooperatives that have not yet established a young cooperators program should consider starting one in order to develop the next generation of leadership.

Diversity is another important aspect of having a board that is an accurate reflection of the membership. In addition to age, having board members that have experience in aspects of running a business such as human resources, accounting and financial management, purchasing, and other skills would add diversity to a board and have the potential to improve performance. It is important for agricultural marketing cooperatives to have representation for all sizes of farms that make up the cooperative. Cooperatives that have a disproportionate number of large or small farmers may not have a good grasp of what other farmers may face or inadvertently enact policies that favor one group of producers over others. Cooperatives that cover a region or are national in scope may want to have directors that represent different parts of the area served by the cooperative. This is particularly important for federal cooperatives, a cooperative owned by other cooperatives.

Another way to add diversity to a board is to have an outside director. This director does not have a financial interest in the cooperative. Often an outside director would have experience that other members may not possess. Examples would be a housing cooperative with a general contractor as an outside director, or an agricultural cooperative with an economist on the board. Some cooperatives with outside directors allow them to have a vote, and in other cases the outside director is not allowed to vote.

Board Nominations and Elections

Recruiting members to run for board seats is an important aspect of cooperative governance. Cooperatives use a number of methods to select potential board members. Sometimes current board members and senior management approach members to run for the board. Sometimes cooperative committees and subcommittees can be a source of board members. Another common strategy is to recruit members from specific groups to ensure a board that is reflective of the membership. It may be particularly important to actively recruit younger members of the cooperative.

It appears that about 20 to 25 percent of cooperatives allow employees to serve on boards (UWCC). The CEO or general manager is generally the employee that serves on the board. Some cooperatives also allow other employees to serve on boards. This appears to be most common in food cooperatives (UWCC). This could be a good strategy to follow if members of the food cooperative do not have experience in food retailing and the employees do.

The most common method used to nominate board members is through self-nominations and floor nominations at cooperative meetings (UWCC). Nominating committees are also common. Usually, board members not up for reelection, board chairs, and other cooperative members serve on nominating committees (UWCC).

Many cooperatives do not have contested elections. This is especially true for mutual insurance companies, housing cooperatives, and purchasing cooperatives. Farm cooperatives usually do have contested elections (UWCC). While uncontested elections may make sense for small cooperatives and be a sign of member satisfaction, the lack of contested elections may also be an indication of a lack of interest in the cooperative by members. Uncontested elections with a board that has been in office for a long time may also lead to a lack of innovation or openness to new ideas. Generally speaking, contested elections is a sign that the membership is engaged in the cooperative.

The length of terms on average are in the range of three years (UWCC). Housing cooperatives have the shortest average length of slightly more than two years (UWCC). This makes sense as many members of housing cooperatives do not plan to live that long in their cooperative. About a quarter of cooperatives have term limits for their board members. About 10 percent of cooperatives have age limits for their board members, some as young as 65 the oldest at 85 (UWCC). Term limits and age limits can enhance board turnover and help ensure that younger members serve on boards, but the limits need to be long enough to make sure the board members can develop expertise and have sufficient experience.

One of the core principles of cooperative governance is democratic control by its members. As a result, elections play an important role in insuring control by its membership. Proxy voting (members giving their voting power to a representative) is sometimes used by larger cooperatives, and cooperatives that serve a national market. However, for most cooperatives, proxy voting is not the optimal solution.

Board Training, Education, and Development

Once a new board member is elected training and developing the board member is important for the member to be effective. Most cooperatives take this very seriously and conduct their own training. Some cooperatives use outside resources to conduct board training. More than 90 percent of cooperatives surveyed give their new members key documents, more than 70 percent meet with the CEO or general manager, 75 percent are briefed on current issues, more than 70 percent meet with the board chair, and more than 60 percent receive internal training (UWCC). About one quarter of cooperatives match a new board member with an existing board member for mentoring (UWCC).

The most common training involved board fiduciary duties and responsibilities (UWCC). This is important because board members need to understand that as board members their primary responsibility is to the health of the cooperative, not their own personal interests. Training on financial topics, the cooperative model, and ethics and compliance is covered by more than 75 percent of cooperatives. Understanding financial statements and being able to measure financial performance is very important for directors. Training on industry specific topics is covered by 68 percent of cooperatives surveyed, and legal and regulatory issues are covered by 59 percent of cooperatives surveyed (UWCC).

Training in Corporate Social Responsibility, sustainability, and social impact is conducted by almost half of the cooperatives surveyed (UWCC). Training in this topic is likely to become more important in the future as all firms in addition to cooperatives will face pressure from outside parties and agencies.

Occasionally a board member will have to be removed from office. The primary reason is inability to meet obligations, such as attending meetings. Sometimes disagreements between board members will also require a board member to be removed from office. While unlikely to be used cooperative bylaws should have a process for removing board members.

Board Meetings and Decision Making

Most boards meet monthly for about three hours (UWCC). Covid-19 has driven a change from face to face meetings to online meetings via zoom, Microsoft Teams, or other methods. Virtual meetings are particularly common in housing cooperatives (UWCC). This may be due to the fact that members of housing cooperatives are comparatively young and more used to using the technology. Agricultural cooperatives and insurance companies are less likely to use virtual meetings.

Agendas are generally set either by the CEO or general manager or the chairperson of the board. Often the CEO and the chairperson of the board jointly set the agenda (UWCC). A key aspect of board meetings is using the time productively. Two key aspects of board decision making are strategic planning and assessing organizational performance. Providing documents before the meeting is a good way to make sure meeting times are used productively. Too often excessive time is used analyzing finances and not enough time on other topics. Providing financial statements before the meeting can reduce the time spent on finances and allow more time to be spent on strategic issues.

Strategy is increasingly being developed by both the senior management and the board. Management may have more time available to follow and assess industry trends. Many times, board members are busy with their own jobs or businesses. Nonetheless, final decision making for key strategic decisions should reside with the board. Day to day management of the cooperative should be left to the hired management team. If the board does not trust the management team with making minor decisions, the cooperative has underlying problems.

Board Compensation

Compensating board members appears to be dependent on the industry. Mutual insurance companies and farm cooperatives overwhelmingly pay board members (UWCC). Less than half of the remaining cooperatives pay their board members, only 13 percent of the housing cooperatives pay their board members (UWCC). Per diems for attending board meetings are more common.

Outside directors generally get paid more on average than cooperative members (UWCC). This is something to consider when determining whether or not to use an outside director. For the most part director salaries are quite small. Farm cooperative board members make less than \$13,000 per year; mutual insurance directors make less than \$10,000 on average; and housing directors make less than \$3,000 per year (UWCC). For many board members, even if they are compensated, the level of compensation does not fully cover the time used for board activities.

Role of the CEO or General Manager

Perhaps the most important task of the board of directors is the selection and oversight of the CEO or general manager. As previously mentioned most cooperative members lack the time and the expertise to manage the day to day activities of a cooperative. To a lesser extent this is also true for the board of directors. Trust in the senior management is a key component to the success of a cooperative.

Among some of the tasks carried out by a CEO or General Manager are vision, engagement with members, and support the Board of Directors (UWCC). An experienced CEO can also provide institutional knowledge and understanding of the market forces impacting the cooperative. Given the importance of this position a cooperative should have a succession plan in place when it becomes time to have a new CEO or General Manager. This includes an emergency succession plan if the CEO or General Manager dies, quits, or needs to be replaced on short notice. It is better to have an interim CEO or General Manager than to rush and hire a CEO or General Manager that is not well suited to the cooperative. It is important that senior management understands the cooperative model.

These most common sources of disagreements between the board and senior management were differences with respect to strategy or the role of the board versus management (UWCC). The CEO or General Manager needs to understand that the final decision making authority and strategic direction resides with the board, and the board needs to understand that the day to day operation of the cooperative is generally best left to the management.

Member Participation

The board plays a key role in making sure the membership is involved in the cooperative. This is an area where many cooperatives fail. One way to encourage member involvement is by allowing members to attend board meetings. More than 90 percent of worker cooperatives and housing cooperatives surveyed allow members to attend board meetings. Only 31 percent of producers cooperatives allow their members to attend meetings (UWCC).

Only 22 percent of members of all cooperatives surveyed voted in the last board election, and a quarter of cooperatives had a voter turnout of one percent or less (UWCC). Worker and housing cooperatives have the highest voter turnout, and consumer and mutual insurance companies have the lowest turnout.

The most common forms of promotion in board elections and annual meetings are e-mail and newsletters. Mailings and social media are also used by more than 60 percent of cooperatives surveyed (UWCC). Given the low turnout for elections, these methods may not be effective. Only 37 percent of cooperatives use incentives, this could increase the level of participation by members. Also, if there are no contested elections does voting even matter?

Feedback from members is important for the long term viability of the cooperative. Many cooperatives use surveys and other methods to obtain input from their members. Many cooperatives have employees who focus on member relations or field representatives who provide a link between the members, the

board, and hired management. Roundtables and subcommittees are other ways to get members involved in the cooperative and can provide training and mentorship for future board members.

Maintaining good relations between the members and the board is particularly important for larger cooperatives and cooperatives whose members are widely geographically dispersed. It is less of an issue for smaller cooperatives such as food cooperatives and housing cooperatives whose members know or live with each other.

Concluding Statements

It is important for the board to promote a culture that allows the cooperative to operate successfully. Culture is a difficult concept to measure but is important. A successful culture takes input from the members into account and allows for the respectful airings of differences in opinion in board meetings. One way to promote a healthy culture is to allow board members to interact with each other at informal events. This helps develop interpersonal relationships.

The size of the board needs to be considered. As a general rule the smaller the cooperative, the smaller the board. Larger boards have the potential to be more representative of the membership but at the potential cost of a greater difficulty of reaching decisions. Large geographically diverse cooperatives may require board members that represent different regions. There is also some evidence from agricultural cooperatives that outside directors can improve the performance of the cooperative (UWCC).

Finally, and perhaps most importantly of all, a cooperative has to remember the business reason it exists. A cooperative exists to provide value to its members. It has to provide a good or service that investor owned firms are unwilling or unable to provide at a competitive price.

References

University of Wisconsin Center for Cooperatives (UWCC) (2022). *Findings from the Cooperative Governance Research Initiative 2021*.