FINDINGS FROM THE

Cooperative Governance Research Initiative

2021

Center for Cooperatives
UNIVERSITY OF WISCONSIN–MADISON

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CENTER FOR COOPERATIVES

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Correction note: *The version of this report released in August 2022 included incorrect data related to gross annual revenue, total assets, total overhead costs, gross actual wages and salaries, election turnout, and annual meeting turnout. The coding issue that caused these errors was fixed and a corrected version of the report was released on March 20, 2023.*

ACKNOWLEDGEMENTS

As with most cooperative endeavors, the Cooperative Governance Research Initiative (CGRI) came together thanks to a team of people who brought their various talents, connections, and passions to the project. For over a year before launch, we sought feedback on the project idea from leaders in a wide range of organizations including but not limited to the National Cooperative Business Association CLUSA International, National Council of Farmer Cooperatives, Credit Union National Association, National Co+op Grocers, U.S. Federation of Workers Cooperatives, Democracy at Work Institute, Cooperative Development Foundation, Columinate, and FCC Services. We want to thank them for believing in the idea from the beginning and following through with consistent and generous support.

We would like to thank the Cooperative Development Foundation for providing generous seed funding for CGRI. We are also incredibly grateful to the following organizations and their representatives who serve on the CGRI Advisory Committee:

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- National Council of Farmer Cooperatives (NCFC), Marlis Carlson
- Neighboring Food Cooperative Association (NFCA), Erbin Crowell

Members of the CGRI Advisory Committee reviewed the survey instrument, helped build the sampling frame, promoted the study to their members and clients, and continue to serve as an invaluable sounding board. Pretesters and fellow cooperative governance enthusiasts also helped us polish the survey instrument. Thanks to Julie Martinez, Ole Olson, Marc-André Pigeon, Anne Reynolds, Thomas Wegner, Alan Weisberg, and Stan Yu.

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UWCC team members Kelly Maynard, Charity Schmidt, and Megan Webster collectively made over 400 phone calls to encourage cooperatives to complete the survey. UW-Madison senior Ethan Cooke contributed his analytical skills to calculate the response rate and analyze nonresponse and UW-Madison graduate student Vinya Cherian contributed her econometrics skills to data analysis.

Last but certainly not least, we thank all study participants for bringing our dream of national, cross-sectoral research on cooperative governance practices to life. We were blown away by the enthusiasm for this project. This project would not have been possible without your time, candor, and commitment to cooperatives. Thank you!

EXECUTIVE SUMMARY

Democratic member control is cooperatives' superpower and Achilles heel. Research shows that strong governance is essential for cooperatives to thrive, yet cooperatives have lacked the data that is needed to benchmark their governance practices. UWCC launched the Cooperative Governance Research Initiative (CGRI) in response to this unmet need. Its purpose is to generate robust, longitudinal data that empowers cooperatives across sectors to reflect upon and improve their governance structures, processes, and culture. Our first CGRI survey yielded enthusiastic responses from 500 cooperatives, capturing substantial diversity in terms of industry, type, size, age, and location and creating a baseline for the range and frequency of cooperative governance practices and strategies to meet member needs across sectors. Targeted follow-up interviews generated insights behind seven key trends in the survey data.

Our findings suggest:

- On the whole, participating cooperatives believe it is important for members to see their faces reflected in the board and that **diversity**, in multiple dimensions, is a key component of building an effective board. For many, increasing board diversity in terms of age, gender, ethnic, and racial composition is an ongoing journey and priority in the next three years.
- Cooperative boards face real dilemmas as they strive to balance **representation and expertise**. Thinking more carefully about practices related to contested elections, term limits, and board recruitment could help many cooperatives both preserve institutional knowledge and welcome new perspectives.
- Developing a culture of lifelong learning is critical for long-term organizational success. Expanding board education and evaluations provide many opportunities for cooperatives to foster a **culture of learning** and growth through more deliberate reflection and ongoing multi-dimensional training.
- The commonly held belief that the board develops strategy and management carries it out is increasingly being challenged. Our findings offer insights that could help reframe how we think and talk about **the role of the board versus management**.
- The **CEO** plays an important role in a cooperative's governance system—they provide vision and institutional knowledge, engage with members, and support the board's functioning in myriad ways. Overall, cooperatives with CEOs who value the cooperative model and engage with the board as a worthy partner are more likely to have healthy governance systems.
- COVID-19 and changing social norms have created unique challenges for building a **thriving culture** on cooperative boards. Despite these challenges, cooperative boards are finding ways to connect and strengthen their social ties by focusing on essential interpersonal dynamics and activities that cultivate and sustain them.
- The form and content of **member participation** varies across sectors, but most member concerns are connected to the fundamental question of whether the cooperative's goods and services, financial decisions, and overarching strategy align with member needs, desires, and values.

Our biggest takeaway from the launch of CGRI is that there is a hunger for this kind of data in the cooperative community and a desire to translate the data into action. We hope this report prompts some useful reflection and inspires you to join UWCC in an ongoing conversation about how cooperatives can achieve their potential as member-owned and democratically controlled organizations.

INTRODUCTION

Definitions of cooperatives are almost as diverse as cooperatives themselves (Deller et al. 2009). The U.S. Department of Agriculture describes a cooperative as “a user-owned, user-controlled business that distributes benefits on the basis of use,” whereas the International Cooperative Alliance defines the model as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise” (ICA 2013; Reynolds 2014). At the University of Wisconsin Center for Cooperatives (UWCC), we define a cooperative as “an enterprise that is owned and democratically controlled by the members who use its services.” What these definitions share is recognition that **cooperatives, credit unions, and insurance mutuals have unique governance structures—in particular, democratic member control—that make them distinct from other forms of enterprise.**

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How Cooperatives are Controlled

What Do We Mean by Cooperative Governance?

In general, governance is the way a nation or a company is controlled and how decisions are made. In cooperatives, governance refers to the structures and processes by which members control their enterprise and participate in decision-making. In most cooperatives, members elect a board from the membership to govern on their behalf.

THREE NECESSARY ELEMENTS FOR EFFECTIVE COOPERATIVE GOVERNANCE:

1) Member Voice or Involvement
2) Representation
3) Expertise

As we reflected on what good governance means in the context of cooperatives, credit unions, and mutuals, we gravitated toward Johnston Birchall’s cake metaphor (Birchall 2015, 2017). He asserted that all cooperative governance systems include three elements: 1) **member voice or involvement**, 2) **representation**, and 3) **expertise**. According to the metaphor, cooperative governance is a long, rectangular cake cut into three pieces, with each piece representing one of the elements. No two cooperatives cut the cake in exactly the same way. Some assume that representatives will have the necessary expertise, so they cut a very large slice for representation. Some do the opposite, using the nominations process to ensure that only people with the desired expertise are elected to the board and thus cutting a very large slice for expertise (possibly neglecting member voice). There is no perfect ratio and the ideal ratio for a particular cooperative can change over time. Yet Johnston argued that, as member-owned and -governed businesses, cooperatives should make a deliberate attempt to balance the three elements in a way that optimizes cooperative performance and member value.

Why Study Cooperative Governance?

Democratic member control is cooperatives' superpower and Achilles heel. Decades of research has found that strong governance is essential for cooperatives to thrive. It is correlated with performance (Bond 2009; Chen, Spizzirri, and Fullbrook 2010), essential for addressing members' needs (Birchall 2015; Birchall and Simmons 2004), and fundamental to the cooperative DNA (NCBA 2005). Yet cooperatives have lacked the robust data that is needed to benchmark, reflect upon, and improve their governance practices.

UWCC launched the Cooperative Governance Research Initiative (CGRI) in response to this unmet need in the cooperative community. Its purpose is to generate robust, longitudinal data that empowers cooperatives across sectors to reflect upon and improve their governance structures, processes, and culture.

The desire for research on cooperative governance practices was evident in our exploratory conversations with cooperative associations, the enthusiasm of survey respondents, and our follow-up interviews with cooperative leaders. Cooperative governance is challenging. Boards and managers are looking for empirical data and tools to help them navigate the complex dynamics associated with managing and governing member-owned enterprises.

"Any evidence that can be used from the survey and gleaned from it is very beneficial," said Sam, an insurance mutual CEO who completed the 2021 CGRI survey and participated in a follow-up interview. He emphasized the value of having access to robust data that can inform governance system design choices: "What are other companies doing and why should we be doing that? Having that empirical data takes it away from being straight opinion, which for some reason nowadays all becomes political very quickly." Rose, a member of a small worker cooperative, also hopes to learn more about the impact of different governance approaches. "There are lots of guides and toolkits out there but there's not data on how that works out when you do it," she said. "I'm hoping for more information on how different approaches are actually playing out."

The need for governance data and resources is especially pressing as many cooperative leaders near retirement. Morgan, a long-tenured food co-op general manager, is looking to the future: "Anything that might help this new generation of co-op managers work well with their boards could

> **"I hope [CGRI] brings to light how that active participation is so critical, and it is really alive, because I think the collective action of cooperatives has a big future."**

be really good," she said. Conor, the CEO of a regional agricultural cooperative, told us he fears that some cooperatives have lost their way over the generations and hopes the research will reconnect cooperatives with the member needs in their DNA: "These are farmer-owned co-ops. They are here for the benefit of farmers," he said. "They're not here for the benefit of management." Similarly, Kevin, a senior leader in a national agriculture cooperative, hopes the research will reinforce the idea that member voice is central to the cooperative principles: "I hope [CGRI] brings to light how that active participation is so critical, and it is really alive, because I think the collective action of cooperatives has a big future."

CGRI Research Questions

CGRI's first wave of data collection brings us one step closer to our vision of helping cooperatives of all kinds advance their governance practice though benchmarking, evidence-based resources, and cross-sector learning and conversations. The study's mixed methods research design is grounded in a commitment to both academic rigor and real-world application. Our study launch in 2021 focused on the following research questions:

1. **What is the scope and prevalence of specific governance practices across the cooperative community related to …**
    - **Board composition and qualifications**
    - **Board nominations and elections**
    - **Board training, education, and development**
    - **Board meetings and decision-making practices**
    - **Board compensation**
    - **The CEO**
    - **Member participation**
    - **Board culture**
2. **Where are the most opportune areas to advance cooperatives' practices in these areas?**

In the discussion that follows, we introduce our methods and study participants before presenting key takeaways about governance practices related to each of these areas. In general, we present trends among cooperatives that participated in the survey overall and by membership type. We conclude with some reflections on this first wave of data collection, questions it raises, and plans for future research. The data is extremely rich, and we cannot possibly cover everything in one report, so please stay tuned for "deep dives" on specific topics such as gender diversity on cooperative boards and board compensation. As you read, please also note ideas for governance resources that would be beneficial to your cooperative to share with the study team at cgri@uwcc.wisc.edu.

METHODS

Our Approach

There are three key methodological and—really, philosophical—aspects of our approach to this research.

First, CGRI builds on UWCC's experience conducting **participatory** research in direct collaboration with the cooperative community (for recent examples, see Schlachter 2021; West and Berner 2021; West and Gordon Nembhard 2020). Our CGRI Advisory Committee members have been instrumental in ensuring that our research questions are rooted in needs of cooperators on the ground. Looking forward, CGRI represents a prime opportunity to advance our strategic goal of more intentionally integrating UWCC's research portfolio with our outreach, education, and co-op development efforts.

Second, we want CGRI data to be relevant and robust so it can contribute to conversations among scholars just as easily as conversations between colleagues around the proverbial water cooler. One strategy to achieve this is using **mixed methods**, meaning that we put survey responses in dialogue with interview narratives. Another is to collect **longitudinal** data. Funding permitting, data collection for CGRI will take place every two to three years so we can examine patterns over time. We have also done our best to utilize best practices, for example we contracted experts from the University of Wisconsin Survey Center to help us polish the questionnaire and develop our sampling strategy.

Finally, CGRI engages in **translational research**, which "links scientific findings with programs and policies that improve human health and well-being" (Wethington and Dunifon 2012). Although the term has roots in biomedicine, translational research methods are now prevalent throughout the social sciences, industry, and evidence-based policymaking. We have been grateful for opportunities to present a version of these findings to cooperators within and beyond the orbit of CGRI Advisory Committee members. In the months to come, we will also leverage findings from CGRI to develop practical, evidence-based tools for cooperatives of all kinds.

What follows is a brief overview of our survey and interview methods. Please see Appendix B for additional methodological details.

METHODOLOGICAL APROACH

Participatory
Focuses on research questions rooted in cooperatives' needs

Mixed Methods
Uses best practices to conduct an online survey of cooperatives, insurance mutuals, and credit unions across plus follow-up interviews the United States with a small group of respondents

Translational
Leverages findings to develop practical, evidence-based tools

Longitudinal
Examines patterns over time

Survey Methods

We invited one person responsible for the governance function of their cooperative—typically the CEO—to complete a 30-minute online survey. Three quarters of respondents were CEOs or another highest-ranking employee in their cooperative such as a general manager or executive director. Since one person cannot speak for all of their colleagues, the survey focused more on whether cooperatives engage in specific governance practices than individuals' perspectives on these practices. The full questionnaire is available on the study website at https://uwcc.wisc.edu/research/participating-in-cgri/.

Our sampling strategy involved creating a custom sampling frame and selecting all cooperatives with certainty except credit unions, for which we pulled a stratified random sample based on asset size. This left us with a sample of 4,429 co-ops, insurance mutuals, and credit unions.

We administered the survey via Qualtrics between October and December 2021 and received 500 usable surveys in total for an **11 percent response rate** overall. Given the general trend of declining survey response rates and the fact that CGRI is an in-depth and time-consuming survey, this response rate exceeded our expectations. Other indicators of data quality also looked good. For example, **over half of survey respondents volunteered to do a follow-up interview**—an excellent indicator of interest in the study. We also received a handful of emails from cooperatives about how completing the survey was itself a useful exercise for reflecting on their governance. Other indicators of data quality were **high item response**, meaning that those who did complete the survey did so thoroughly, and a **high cooperation rate** (67 percent). We found that follow-up calls and institutional support (i.e. endorsements from CGRI Advisory Committee members) were very effective in boosting participation. Finally, as findings in the Profile of Participating Cooperatives section suggest, the survey data captures a lot of firm-level variation across the cooperative community.

Table 1. Interview Participants

Characteristic	Number of Interviewees
Sector	
Agricultural cooperative	4
Credit union	2
Food co-op	4
Housing cooperative	2
Insurance mutual	2
Purchasing cooperative	2
Rural electric cooperative	2
Worker cooperative	3
Role	
CEO	7
Board Chair	5
Board Member	6
Other role in cooperative	3
Tenure	
Less than 10 years	10
10 to 20 years	7
More than 20 years	4
Gender	
Man	11
Woman	10
Other gender identity	0
Race & Ethnicity*	
White	17
Hispanic or Latino	1
Other racial or ethnic identity	4

*These categories do not sum to 21 because people of Hispanic or Latino origin can identify as any race

Interview Methods

Mixed methods are invaluable to studies like CGRI for two key reasons: 1) it is very difficult to design a questionnaire that accounts for the wide range of governance practices in cooperatives across and even within sectors, and 2) it is easier to ask *what* in a survey than *why*. Triangulating quantitative data and qualitative data often provides a much richer picture of the social processes and stories behind aggregate trends (Small 2009). It also highlights the distinction between having a particular governance practice in place and implementing it well.

Semi-structured interviews allowed us to explore some of the stories behind cooperatives' survey responses. For example, one of the survey questions was, "how confident are you the board has the right mix of people to perform its governance duties effectively?" We asked interviewees to walk us through their thinking in answering that question and what having the right mix of people on the board means to them. The interview guide is available on the study website at https://uwcc.wisc.edu/research/participating-in-cgri/.

In terms of sampling, we wanted to hear stories from cooperatives in different sectors where things seemed to be going well in order to share insights about effective governance practices more broadly. We selected 11 cooperatives in eight sectors to be interviewed. Since we wanted to hear from people with different roles within each of these cooperatives, for each of these cooperatives we invited both the person who actually filled out the survey (in most but not all cases the CEO) and a colleague (in most but not all cases the board chair) to participate in an interview. Whenever possible, we also sought to include perspectives of individuals with different backgrounds. In total we conducted 21 interviews. These conversations were all confidential. Throughout this report we refer to each individual and cooperative with a pseudonym.

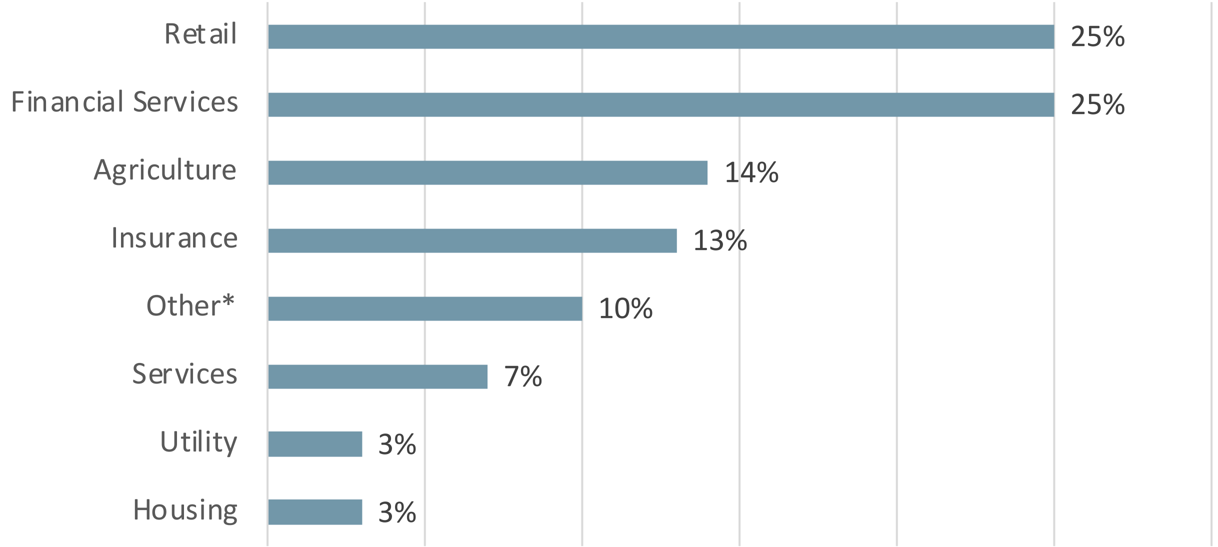
PROFILE OF SURVEY PARTICIPANTS

Characteristics of Participating Cooperatives

Classifying cooperatives is a notoriously complex endeavor. These enterprises operate in nearly every corner of the U.S. economy, incorporate under a dizzying array of state statutes, and take varied organizational forms (see Appendix A). The discussion below examines how the 2021 survey captured this kind of enterprise-level diversity and began laying the groundwork for a typology to facilitate comparisons within and between sectors.

As Figure 1 shows, the 500 cooperatives that participated in the 2021 CGRI survey operate in a variety of industries. A quarter are in retail and financial services, respectively, and the data also includes strong representation from cooperatives in agriculture and insurance. Approximately 85 percent of participating cooperatives in the retail industry are food co-ops; 95 percent of those in financial services are credit unions and four are farm credit cooperatives.

Figure 1. Participating Cooperatives by Industry



*Other includes education or childcare, healthcare or home care, manufacturing, transportation, construction, and cooperatives in other industries

The survey data also includes cooperatives with many different membership structures (see Figure 2). Almost two-thirds of participating cooperatives are housing cooperatives, insurance mutuals, or other types of consumer cooperatives.[1] Within the 49 percent that identify as consumer cooperatives, almost half are credit unions and 43 percent are food co-ops.[2]

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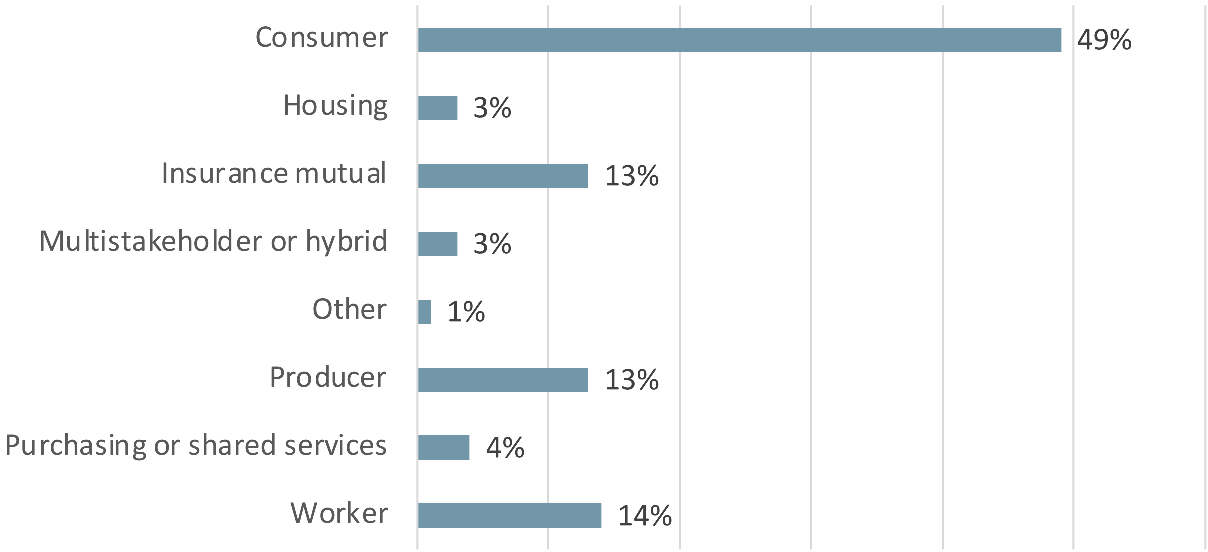
[1]UWCC considers any cooperative that purchases wholesale goods to sell to members – including housing and insurance – to be a consumer cooperative (Deller et al. 2009). We created distinct membership type categories for housing cooperatives and mutual insurance companies in the CGRI survey, however, to make it easier for respondents to see where they fit into our typology.

[2]Two participating food co-ops identified as multistakeholder or hybrid rather than consumer cooperatives.

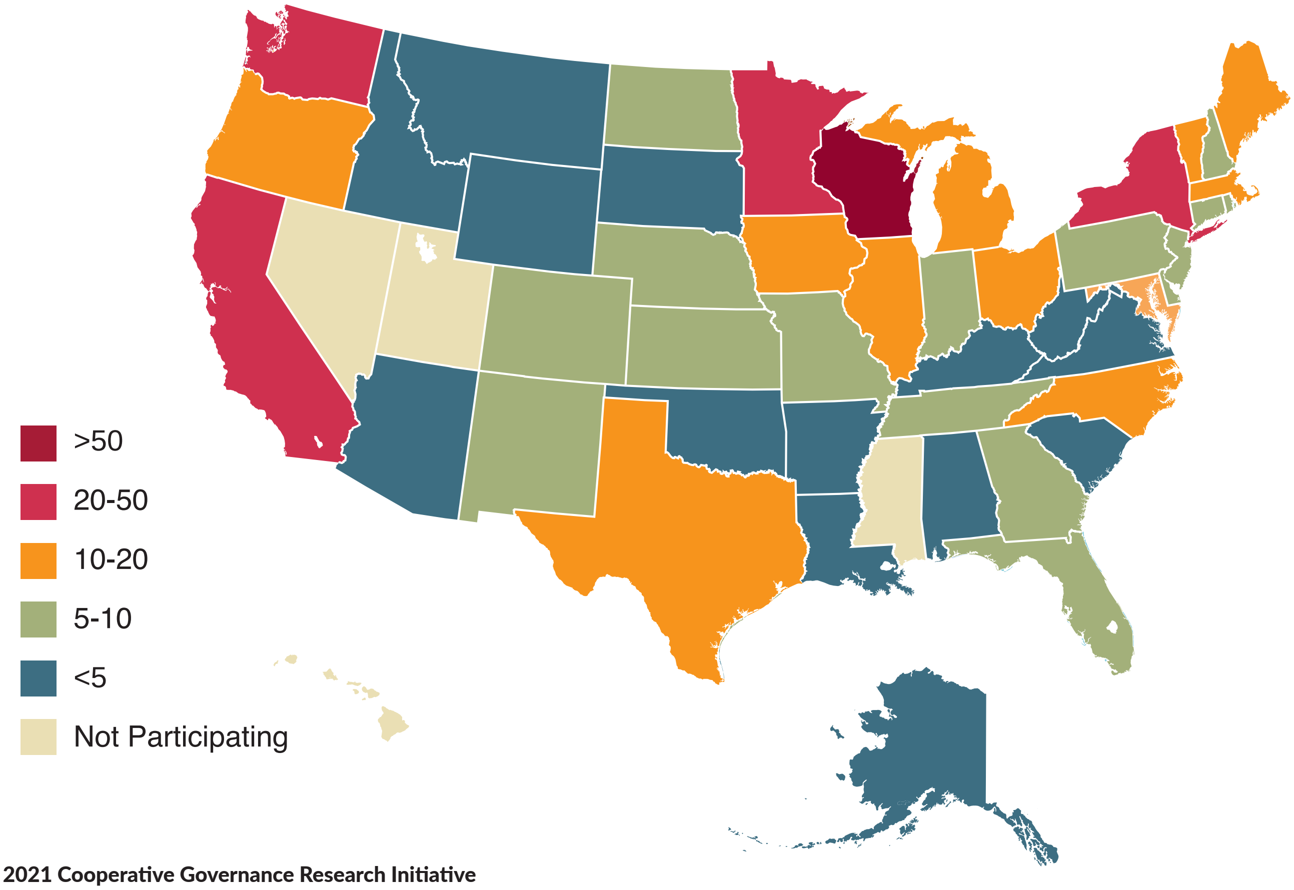
Figure 2. Participating Cooperatives by Type



The vast majority (96 percent) of survey participants are primary cooperatives of individual members. Nine percent are secondary cooperatives whose members are themselves cooperatives and 12 percent are hybrid cooperatives whose members are both primary and secondary cooperatives.

As Figure 3 shows, participating cooperatives are headquartered in 46 states and the District of Columbia. Over half (58 percent) operate in a local market, 28 percent in a regional market, and ten percent in a national market. Four percent operate internationally.

Figure 3. Participating Cooperatives by State



Researchers and policymakers typically define business size by employment and revenue thresholds. In terms of employees, participating cooperatives employ between zero and 8,500 people in full-time equivalent (FTE) positions overall. Survey respondents have 132 FTE at the mean and 28.5 FTE at the median, which means that the average participating cooperative is a medium-sized enterprise and at least half are small enterprises according to common standards.[3] Gross annual revenue of participating cooperatives ranges from $0 to $46.6 billion with an average of $385 million and median of $7 million, indicating the participation of a few very large cooperatives that skew these figures upward. Over 60 percent of CGRI survey respondents reported revenue of less than $40 million, the federal cutoff for a small business.[4]

The CGRI survey also asked cooperatives to report their size by number of members and sector-specific financial metrics. Excluding insurance mutuals, the average participating cooperative has 60,611 members and ranges between 2 and 20 million members. Among participating insurance mutuals, number of policyholders ranges even more widely (from 75 to 30 million) with an average of 627,421. Within each cooperative membership type category, consumer cooperatives have the most and worker cooperatives have the fewest number of members at both the mean and median. On average, housing cooperatives have 377 members and 278 housing units (apartments, rooms, etc.). In terms of sector-specific financial metrics, the average participating credit union has $615 million in total assets ($143 million at the median).[5] Among participating purchasing or shared services cooperatives, total overhead costs are $6.7 million on average and $2.8 million at the median.[6] For participating worker cooperatives, the mean of gross actual wages and salaries is $670,000 and the median is $310,000.[7]

The 2021 CGRI survey also captured substantial enterprise-level diversity in terms of age, origin, and mergers. The average participating cooperative was established in 1965 but the age of respondents ranges from 1 to 180 years. On average, insurance mutuals (with a mean year established of 1907) are the oldest type of cooperative in the CGRI survey data and worker cooperatives (with a mean year established of 2009) are the youngest, a finding consistent with recent growth in the worker cooperative sector (Prushinskaya 2022; West and Berner 2021). Overall, ten percent of participating cooperatives converted from a non-cooperative business form. Conversions are most common among worker cooperatives (33 percent), again consistent with recent trends (ibid). Nine percent of all survey respondents merged with another cooperative in the past five years. Mergers were most common among producer cooperatives (25 percent), which reflects increasing consolidation in the farming sector (Kowalski and Merlo 2019).

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[3] *The Organization for Economic Co-operation and Development (OECD) uses the following business size thresholds: micro enterprise (fewer than 10 employees), small enterprise (10 to 49 employees), medium-sized enterprise (50 to 249 employees), large enterprise (250 employees or more). See https://data.oecd.org/entrepreneur/enterprises-by-business-size.htm.*

[4] *The Small Business Administration (SBA) revenue threshold for a small business ranges from $1 million to $40 million depending on the industry. See https://www.sba.gov/document/support-table-size-standards.*

[5] *Total assets are the combined amount of a company's fixed, current, and other assets as recorded in the company's balance sheet at the end of the most recently completed fiscal year.*

[6] *Total overhead costs are the ongoing business expenses not directly attributed to creating a product or service at the end of the most recently completed fiscal year.*

[7] *Gross actual wages and salaries are the total dollars spent on worker wages and salaries in the most recently completed fiscal year.*

Figure 4. Size of Participating Cooperatives by Number of Members

	Min.	Max.	Avg.
Worker	2	220	17
Housing	9	1,600	377
Multistakeholder or hybrid	4	30,000	3,535
Purchasing or shared services	5	35,000	2,530
Producer	4	72,000	6,407
Other	14	73,000	12,253
Consumer	31	20 Million	105,053
Insurance mutual	75	30 Million	627,421

Figure 5. Size of Participating Cooperatives by Revenue

	Min.	Max.	Avg.
Worker	$20,000	$46.5 Million	$3.4 Million
Multistakeholder or hybrid	$40,000	$14 Billion	$1.3 Billion
Purchasing or shared services	$170,000	$1.3 Billion	$216 Million
Producer	$100,000	$36 Billion	$1.3 Billion
Other	$20,000	$430 Million	$86 Million
Consumer	$0	$3 Billion	$37.5 Million
Insurance mutual	$320,000	$46 Billion	$981 Million

Generalizability

Cooperatives in the 2021 CGRI data represent varied industries, membership types, structures, geographies, sizes, and other enterprise characteristics. How well, then, do they mirror U.S. cooperatives overall? This question is difficult to answer because comprehensive data about this population of firms—a prerequisite for complex sampling and weighting strategies—does not yet exist. The best baseline figures available are a breakdown of cooperatives by membership type from Research on the Economic Impact of Cooperatives (REIC), a national enterprise census conducted by UWCC in 2006 (see Deller et al. 2009 for details). Although REIC is now dated and its membership type categories do not exactly map onto those in the CGRI survey, the study provides a helpful starting point for thinking about nonresponse bias (see Appendix B).

Our nonresponse analysis concluded that 2021 CGRI survey results capture substantial enterprise-level diversity across the cooperative community. It is unclear, however, how well they generalize to all cooperatives in the U.S. CGRI also highlights the challenges—and opportunities—of establishing the kind of comprehensive national enterprise-level sampling frame that would make statistical inference possible in future waves of data collection. In the meantime, we present unweighted and largely descriptive findings in the discussion of key takeaways below.

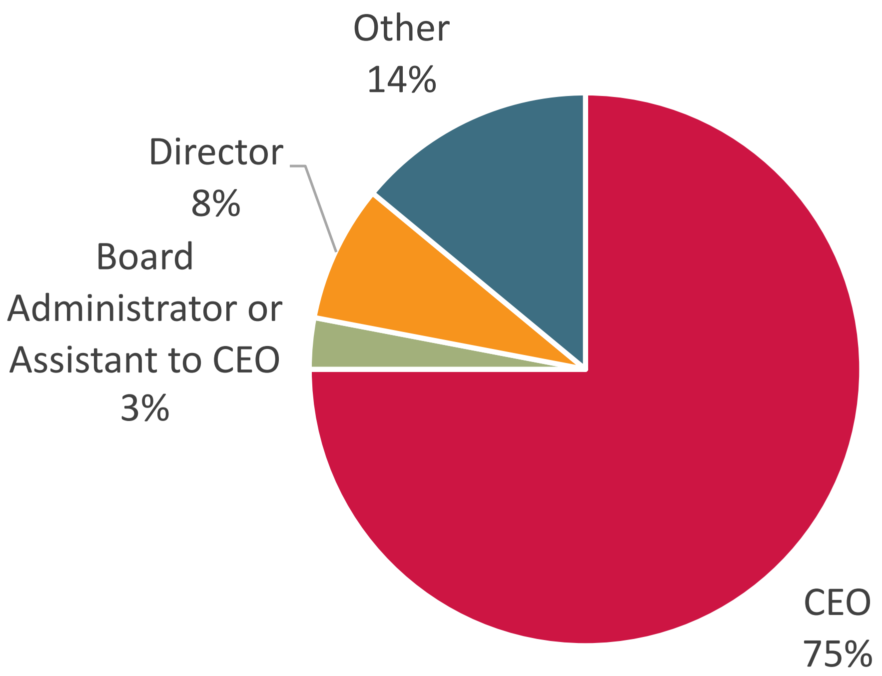
Characteristics of Survey Respondents

Recognizing that knowledge is socially situated and individuals' backgrounds impact their experiences with governance, we asked each person who completed the CGRI survey on behalf of their cooperative to share information about their role, tenure, and basic demographic characteristics.

The majority of surveys (95 percent) were completed by one person responsible for the governance function of their cooperative. Four percent of surveys were completed by two people, and only six cooperatives submitted surveys completed by three or more people responsible for governance. As Figure 6 shows, 75 percent of sole respondents who filled out the survey are CEOs, eight percent are members of the board of directors, and 17 percent have another role.

Only four percent of sole respondents identify as Hispanic and eight percent as nonwhite. About a third (36 percent) identify as female and two percent as nonbinary or another gender identity. Sole respondent tenure ranges from less than one year to 55 years. On average, they have worked at or served on the board of their cooperative for 14 years. The modal sole respondent is a non-Hispanic, white male CEO with tenure of a decade or more.

Figure 6. Survey Respondents by Role



KEY TAKEAWAYS

BOARD COMPOSITION & QUALIFICATIONS

Varieties of Cooperative Democracy

There are many ways to practice democratic decision-making in cooperatives, but the most basic distinction is between representative and direct democracy. The vast majority (91 percent) of cooperatives that completed the 2021 CGRI survey practice **representative democracy**, a governance system in which the cooperative membership elects a *subset of members* to serve on the board. In contrast, *all members* of cooperatives that practice **direct democracy** serve on the board. Only nine percent of all CGRI respondents fall into this category. Direct democracy is very common, however, among participating worker cooperatives—over half of which have all members serve on the board. Excluding worker cooperatives, direct democracy is more common in newer and smaller cooperatives: the average respondent in this group was established in 2003 and has only 14 members.[8]

DIRECT VS. REPRESENTATIVE DEMOCRACY

In a cooperative that practices direct democracy, all members serve on the board.

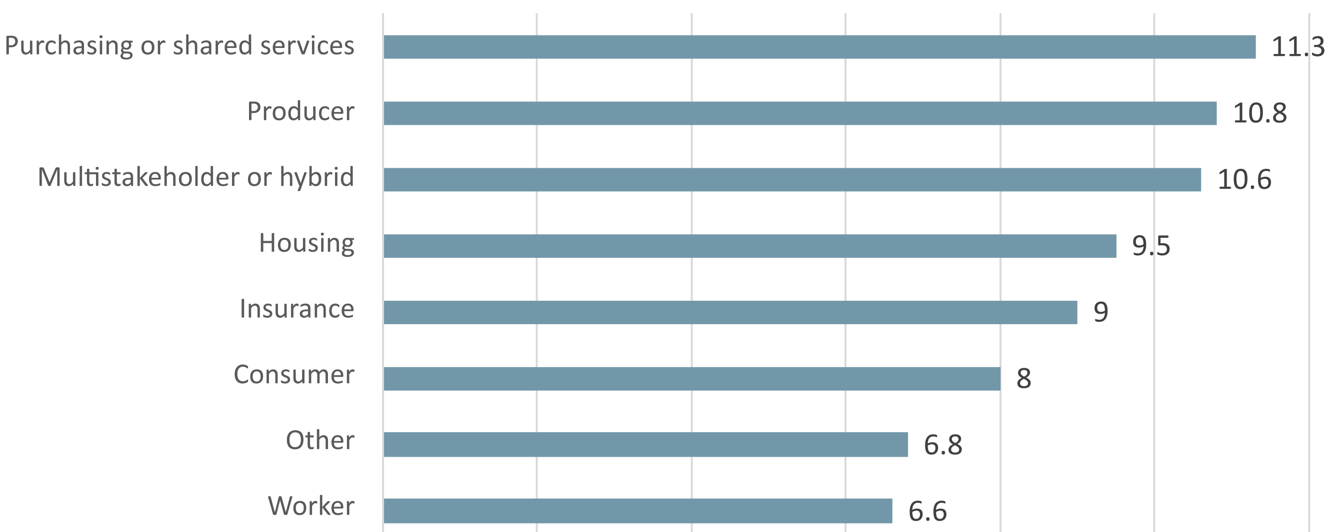
In a cooperative that practices representative democracy, the membership elects a subset of members to serve on the board.

In this section, we examine several other aspects of board composition that have often been studied in conventional firms and are likely to impact how democratic decision-making is carried out in cooperatives including size, experience, demographics, and other qualifications (Bond 2009; see e.g. Chen et al. 2010; Franken and Cook 2017; Reynolds 2020). We also share insights about how cooperatives achieve the "right mix" of people on the board—and what that means to them.

Board Size

Overall, **cooperatives that participated in the 2021 CGRI survey reported that they currently have between two and 45 directors serving on the board with a median of eight and mean of nine**. Excluding one outlying purchasing cooperative with 45 directors, producer and multistakeholder co-ops have the largest boards on average (see Figure 7).

Figure 7. Average Board Size of Participating Cooperatives



[8]*Excluding worker cooperatives, 95 percent of respondents that practice direct democracy have fewer than nine members.*

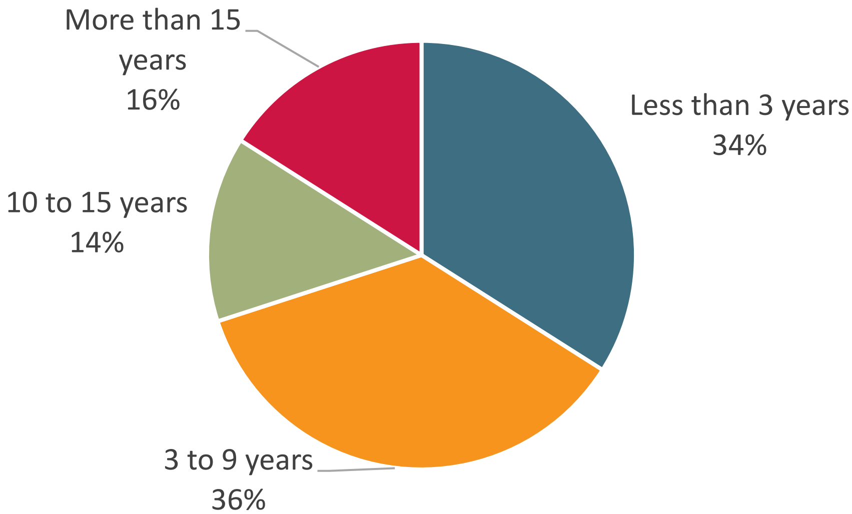
We also asked how many directors cooperatives *allow* on the board. Overall, the maximum board size of participating cooperatives ranges from three to no limit with a mode of nine.[9] Twenty percent of participating cooperatives say their bylaws set a range for how many directors are allowed rather than a specific number.

Sixty-five percent of all participating cooperatives require member approval to change the size or composition of the board. This requirement is most common in purchasing (88 percent) and least common in producer cooperatives (58 percent). Producer cooperatives also report the most changes in the number of people allowed to serve on the board in the past five years. Almost a third (27 percent) decreased the size of their board in this period, largely due to mergers and to achieve efficiencies of a smaller board. Ten percent of participating producer cooperatives increased in size over the past five years, a trend again driven by mergers as well as efforts to better represent stakeholders. These findings are consistent with broader consolidation trends among agricultural cooperatives (Kowalski and Merlo 2019).

Board Composition

Director tenure is one measure of board experience that can have big implications for how cooperatives balance member voice, representation, and expertise (Birchall 2015). Figure 8 shows how directors are distributed by years of service on the average participating cooperative board. It shows that about one-third of directors have served for less than three years, one-third have served for three to nine years, and one-third of directors of the average cooperative that completed the CGRI survey have served on the board for ten years or more.

Figure 8. Tenure Composition of Average Participating Cooperative Board



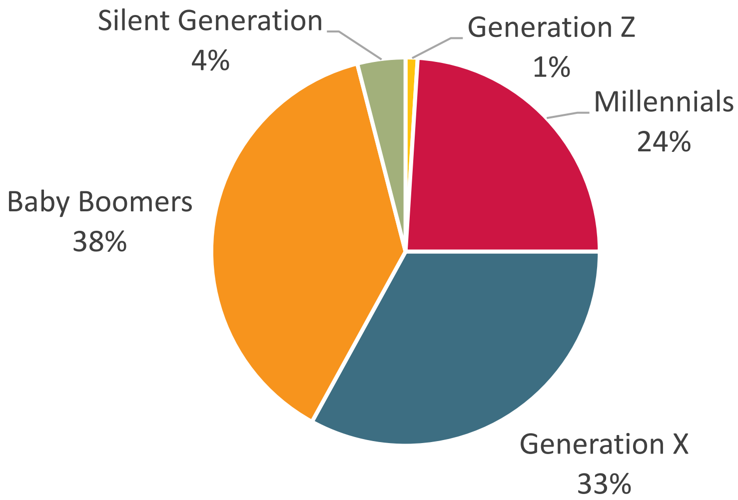
Another dimension of board composition that may influence how cooperatives "slice the cake" is the **age of directors**. As Figure 9 shows, the average participating cooperative board is only one percent Generation Z, almost a quarter Millennials, a third Generation X, 38 percent Baby Boomers, and four percent Silent Generation.[10] On average, housing cooperatives have the highest average share of the board made up of directors from Generation Z as well as the

[9]Ten respondents said their bylaws set no maximum board size. Overall, 28 percent of participating cooperatives have bylaws that stipulate nine seats on the board.

[10]We used generation thresholds from the Pew Research Center that reflect the following age groups in 2022: Generation Z (25 years or younger), Millennials (26 to 41), Generation X (42 to 57), Baby Boomers (58 to 76), Silent Generation (77 years or older).

Silent Generation (14 percent each), which reflects the participation of both student and senior housing cooperatives in the survey. Worker cooperatives have the highest average share of the board made up of Millennials (48 percent), whereas multistakeholder cooperatives have the highest average share of Generation X directors (42 percent) and insurance mutuals have the highest average share of Baby Boomers (57 percent).

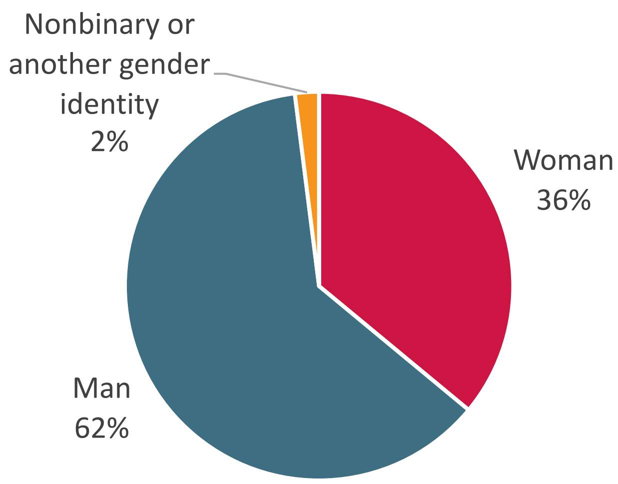
Figure 9. Age Composition of Average Participating Cooperative Board



Questions around governance and the **gender, ethnic, and racial** composition of cooperative boards have become more prominent in recent years as initiatives to promote diversity, equity, and inclusion have gained traction both in the cooperative community (Meyers 2016; Roberson 2021; Schlachter 2021) and the broader organizational landscape (Kalev, Dobbin, and Kelly 2006; Roberson 2019; Roberson, King, and Hebl 2020).

Overall, 13 percent of cooperatives that completed the 2021 CGRI survey have no women on the board and two percent have exclusively women directors. The average participating cooperative board is made up of 62 percent men, 36 percent women, and two percent directors who identify as nonbinary or in another way (see Figure 10). Producer cooperatives have the highest average share of the board made up of men (92 percent) of any membership type. Housing, consumer, and worker cooperatives come closest to gender parity between men and women. Housing and worker cooperatives also have the highest average share of directors with a nonbinary or other gender identity. These descriptive results help set the stage for a deeper dive into gender diversity and governance in the CGRI data planned for later in 2022.

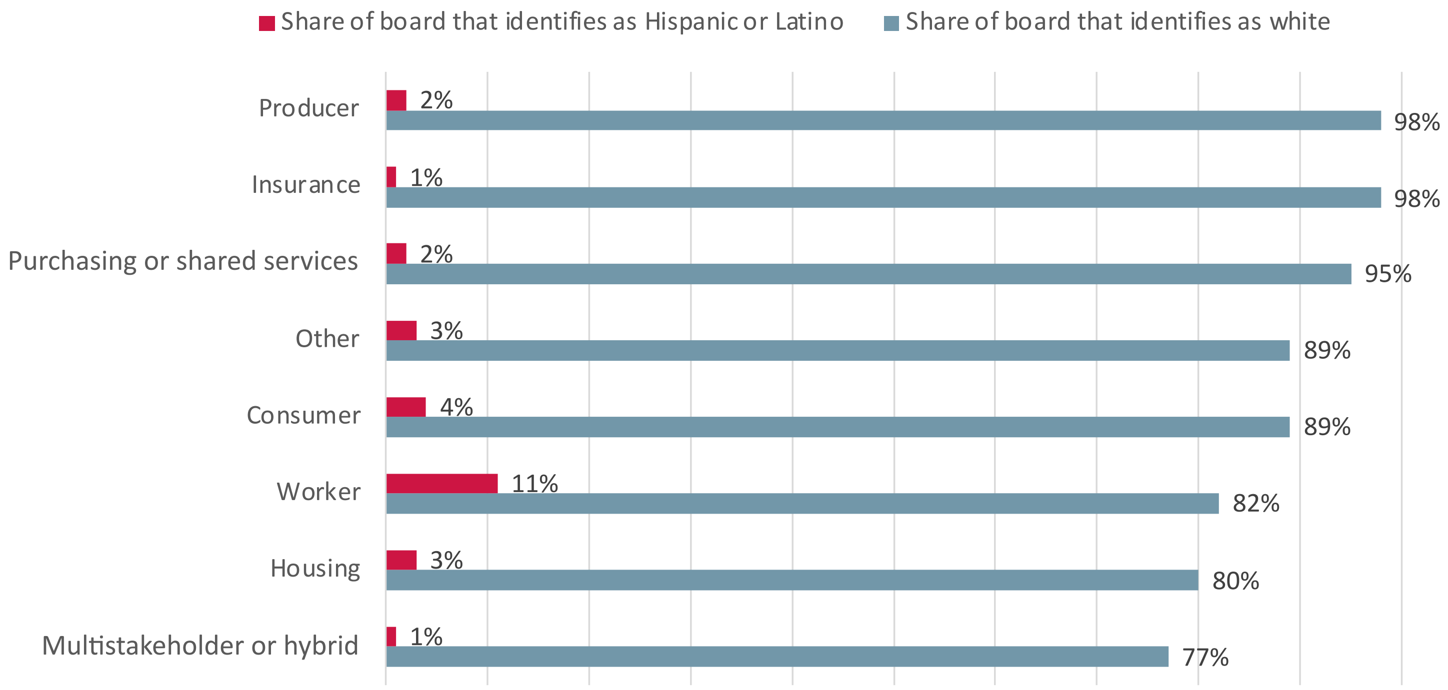
Figure 10. Gender Composition of Average Participating Cooperative Board



In terms of ethnicity, **80 percent of participating co-ops have no directors of Hispanic or Latino origin** (who may identify as any race). Within membership types, worker cooperatives have the highest average share of the board made up of Hispanic or Latino directors (11 percent), which likely reflects recent growth in Latinx worker cooperatives (West and Berner 2021; West and Gordon Nembhard 2020) across the U.S.

In terms of race, **boards of participating cooperatives are 84 percent White at the mean and 100 percent White at the median.** As Figure 11 shows, producer cooperatives and insurance mutuals have the highest share of White directors on average (95 and 93 percent, respectively). Worker cooperatives have the most racially and ethnically diverse boards on average. And whereas only four percent of all participating cooperatives do not have directors who identify as White, 96 percent have no American Indian or Alaska Native directors, 87 percent have no Asian directors, 75 percent have no Black or African American directors, 97 percent have no Middle Eastern or North African directors, and 99 percent have no directors who identify as Native Hawaiian or Pacific Islander.

Figure 11. Racial and Ethnic Composition of Average Participating Cooperative Board



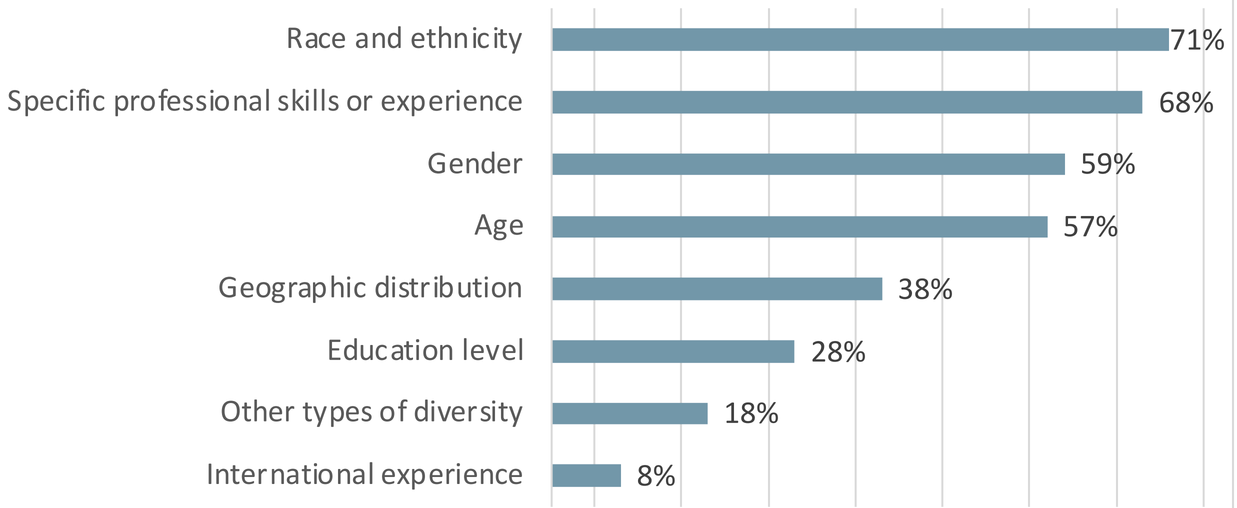
These findings about the age, gender, ethnic, and racial composition of participating cooperative boards raise important questions about diversity and representation. In the vast majority of cooperatives that completed the 2021 CGRI survey, members elect a subset of peers to serve on the board. Among these, 49 percent say the demographics of current board members mirror those of the membership *overall extremely or very well*, and 19 percent say they mirror them *slightly or not at all*. Producer cooperatives and insurance mutuals had the highest self-assessed ratings in this respect. As Nick, the former board chair of a large agricultural cooperative said, “it’s hard to get ethnic and racial diversity in farm co-ops on the membership side.”

The CGRI survey also provides opportunities to put insights about the current demographics of participating cooperative boards in dialogue with their aspirations. **Overall, 16 percent of respondents say their cooperative is *extremely likely* to pursue goals related to increasing board diversity in the next three years and 28 percent say they are *very likely*.** Multistakeholder, worker, and consumer cooperatives indicated the most interest in board diversity goals on average. And among consumer and producer cooperatives, there is suggestive evidence that interest in pursuing diversity goals is driven by recognition that directors do not adequately represent members in terms of demographic characteristics.[11]

As Figure 12 shows, **participating cooperatives that plan to prioritize board diversity in the next three years are most interested in recruiting directors with diverse racial, ethnic, and professional backgrounds.**

Almost half of participating cooperatives aspire to increase board diversity in the next three years.

Figure 12. In the Next Three Years, Share of Participating Cooperatives That Plan to Prioritize Board Diversity Related to...



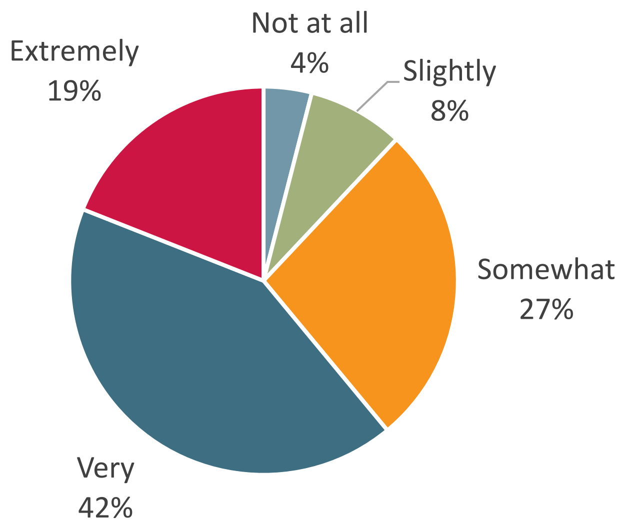
[11] *Among consumer and producer cooperatives, respondents that are less likely to say their current board mirrors member demographics are more likely to report prioritizing diversity goals in the next three years.*

The Right Mix of People on the Board

As Figure 13 shows, **62 percent of participating cooperatives say they are *extremely* or *very confident* their board has the right mix of people to perform its governance duties effectively.** Confidence is highest among insurance mutuals and lowest among housing cooperatives on average. But what exactly does having the right mix of people on the board mean to respondents—and how do they go about getting it?

The question of how to actually get the right mix of people on the board lands differently for cooperatives with representative versus direct democracy. Whereas those with elected boards are striving to achieve the right balance of expertise and representation (Birchall 2017), member recruitment and approval is the critical juncture when every member serves on the board. "Essentially the question is, do you have the right mix of people in your co-op?" said Rose, a member of a seven-person worker cooperative.

Figure 13. How Confident Are You that the Board has the Right Mix of People to Perform Its Governance Duties Effectively?



Survey and interview findings from all types of cooperatives suggest that demographics are one piece of the puzzle. For example, the better participating insurance mutuals and consumer, producer, and housing cooperatives say their directors mirror their membership in terms of age, gender, ethnicity, and race, the more confident they are in having the right mix of people on the board. "From a gender side, we're making real progress," said Nick, the former board chair of a large agricultural cooperative. "Also on age—we've got some younger farmers coming on." And although we found few statistically significant relationships between confidence in having the right mix and actual board demographics in the survey data, the sentiment that "having members see their own faces reflected in the board is important" and the value of the board having a combination of new and seasoned directors came up in many follow-up conversations.

Several interviewees also emphasized what one credit union board member referred to as "diversity in many dimensions" such as life experience, professional background, or geography. The right mix of people on the board is "diverse from a perspective of how they engage with the co-op," Nick said. "And then it's diverse from a perspective of their place in society. We want to make sure we get as many kinds of opinions as possible." In other words, an overarching takeaway across interviews is that the board should not only reflect the ascriptive characteristics of members but also be able to relate to their varied perspectives.

Others proposed that diversity is necessary but not sufficient for achieving the ideal board composition. "The right mix is getting the competencies right *and* attempting to get some diversity," said Lucy, the board chair of an insurance mutual. She emphasized the importance of having directors with business qualifications and financial acumen, as did the leaders of a purchasing cooperative we interviewed. "[We look for] directors who are capable, non-conflicted, and understand their fiduciary duties and role as a director," said Sam, the CEO of the same insurance mutual. "Do they have the skill set to give us honest feedback and valuable insight?" As we discuss further below, one of the ways insurance mutuals have attracted the right mix of skills and professional experience is through outside directors: those with a larger share of outside directors are more confident they have the right mix of people on their board.

In contrast, food co-op leaders cited personality and community-mindedness as more important than specific professional skills or experiences. Interviewees used phrases like “motivational fit,” “doing their part,” and “community people” in describing what it takes to assemble an effective board. As a general manager named Morgan explained, “In the nonprofit world, board members are recruited for their professional experience. In a food co-op, that’s actually not what we’re looking for. We’re looking for people who are good team players, are visionary, and have the time to put into [board service].” Another food co-op general manager, Matteo, described the ideal board composition in terms of cohesive personalities:

> *There’s a mix that has been pretty effective for us the last few years especially. A couple folks who are really organized and think linearly […] A couple folks who are more visionary, so they ask the great questions. We have a couple folks who are more outgoing and […] really get involved and want to […] work with staff and engage with our owners or sometimes the community.*

Although some interviewees emphasized these kinds of intangible traits more than others, people from cooperatives of all kinds agreed that the personal attributes of successful board members often include things like an innate sense of curiosity, courageousness, inquisitiveness, open-mindedness, being an enterprise thinker, and the ability to set aside self-interest and manage in a consensus-driven environment. Effective directors are “people who are very self-reflective and non-judgmental,” said Maria, the board chair of a purchasing cooperative. They “can change their minds and be moved by what people add to the conversation.”

Outside Directors

Another governance design choice that invokes the tension of balancing member voice, representation, and expertise is whether to allow outside directors to serve on the board. The CGRI survey defines outside directors as individuals who serve on the board but are not members of the cooperative. The question of whether non-members should be allowed to serve on a cooperative’s board is contentious in many sectors. Some argue that outside directors dilute the cooperative model, while others insist outside directors are an essential tool for achieving the right mix of people to govern effectively. Decisions about outside directors are also subject to statutory limitations. For example, prior to 2017, non-members were not allowed to serve on the boards of cooperatives incorporated in Wisconsin.

WHAT IS AN OUTSIDE DIRECTOR?
An individual who serves on the board but is not a member of the cooperative.

Overall, **17 percent of participating cooperatives allow outside directors to serve on the board.** The average rate of allowing outside directors is highest in participating multistakeholder cooperatives (58 percent). All farm credit cooperatives in our data allow outside directors, whereas they are extremely rare among participating food co-ops. Among insurance mutuals and purchasing and producer cooperatives, respondents with larger memberships are more likely to allow outside directors. Of those that allow outside directors, 65 percent *actually had* outside directors serving on the board at the time they completed the 2021 CGRI survey. Outside directors occupied three seats and made up 32 percent of these boards on average. Within membership types, insurance mutuals have the most outside directors on average in terms of both absolute value (6 seats) and share of the board (58 percent). And overall, outside directors are most often appointed by the board (72 percent).

The decision to allow outside directors also invokes a number of questions about their authority and influence. Two-thirds of participating cooperatives that allow outside directors empower them to vote on board matters.

Among participating cooperatives that do not currently allow outside directors, the vast

majority (96 percent) are not considering adding them (although interest in adding outside directors is relatively higher in producer and purchasing co-ops: 13 percent, respectively). We also find no statistically significant relationship between interest in adding outside directors and these participating cooperatives' confidence in having the right mix of people on the board, likelihood of prioritizing board diversity generally, or likelihood of prioritizing diversity related to professional skills and experience.

Employee Service on the Board

Creating a seat at the board table for management or employees is another way some cooperatives leverage expertise to support their governance goals. **Overall, 22 percent of participating cooperatives** (excluding worker cooperatives, which were not surveyed about employee service on the board) **allow the CEO to serve as a voting member of the board**. A voting seat for the CEO is most common among participating insurance mutuals (59 percent). Among those with this practice, the majority (63 percent) currently have their CEO serving on the board and 66 percent allow the CEO to serve as a board officer. Within this group, the minority of participating cooperatives (16 percent) also currently have their CEO serving as board chair.

A quarter of participating cooperatives allow employees other than the CEO to serve on the board. On average, these respondents currently have two employee directors. This is especially common among participating food co-ops (51 percent) and came up in several interviews. "It's worked fairly well for us," said Matteo, the general manager of a food co-op. "It's a balance. Most of the staff who have been in that position understand that their responsibility is to all the owners. But they also bring […] somebody from the day-to-day who can pipe in and say, 'Yeah, this is one of the challenges through the pandemic that we've been experiencing and [here's what] we've learned.'" Xavier, a long-time employee who has served several terms on the board of Matteo's food co-op, described his role this way:

> *Knowing that I'm wearing two completely different hats, I don't overlap them at all […] I think some employees could come into the board meetings or play a role where they think they could change things on an operations level, but for us there's eight other board members. You'd have to talk it over and collectively make an agreement.*

Taken together, these findings about board composition and qualifications suggest that many factors—from board size to demographics, personalities, and professional skills—have implications for democratic decision-making in cooperatives and achieving the right mix of people to do it well. The next section examines some of the practices that shape who ends up on the board.

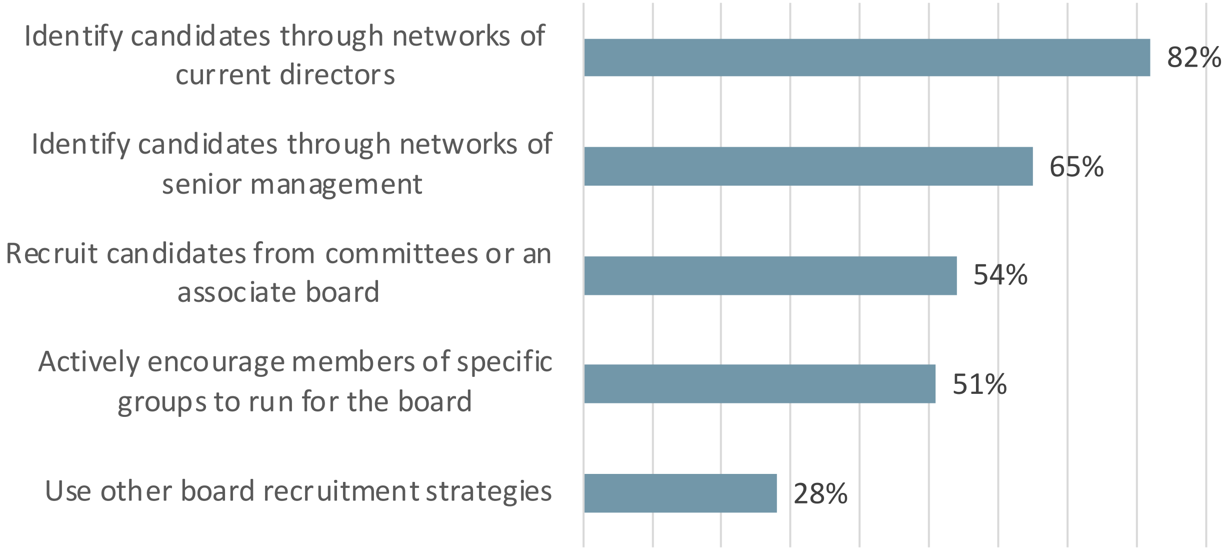
BOARD NOMINATIONS & ELECTIONS

Democratic member control is a core principle of cooperative enterprises. In cooperatives with representative democracy, members exercise this control in part by electing peers to serve on the board of directors. Members elect the board in the vast majority (97 percent) of CGRI respondents. The 11 participating cooperatives in which delegates elect the board are predominantly in the agriculture and insurance industries. Three cooperatives that completed the 2021 CGRI survey reported that members of the current board select new directors.

Overall, 21 percent of participating cooperatives authorize proxy voting, which allows members of a cooperative to delegate their voting power to a representative (often the board chair), in their governing documents. For example, some cooperatives that conduct elections at their annual meeting invite members who cannot attend in person to designate a proxy who may cast votes on their behalf. Proxy voting is most common among participating insurance mutuals (46 percent) and relatively rare among consumer cooperatives (11 percent).

CGRI respondents use a variety of strategies to recruit members to serve on the board. Overall, identifying candidates through personal or professional networks of current directors (82 percent) and senior management (65 percent) are the most common (see Figure 14). Respondents that recruit directors through senior management networks and those that do not use committees or an associate board as recruitment strategies are more likely to say they have the right mix of people on the board.

Figure 14. Share of Participating Cooperatives That...

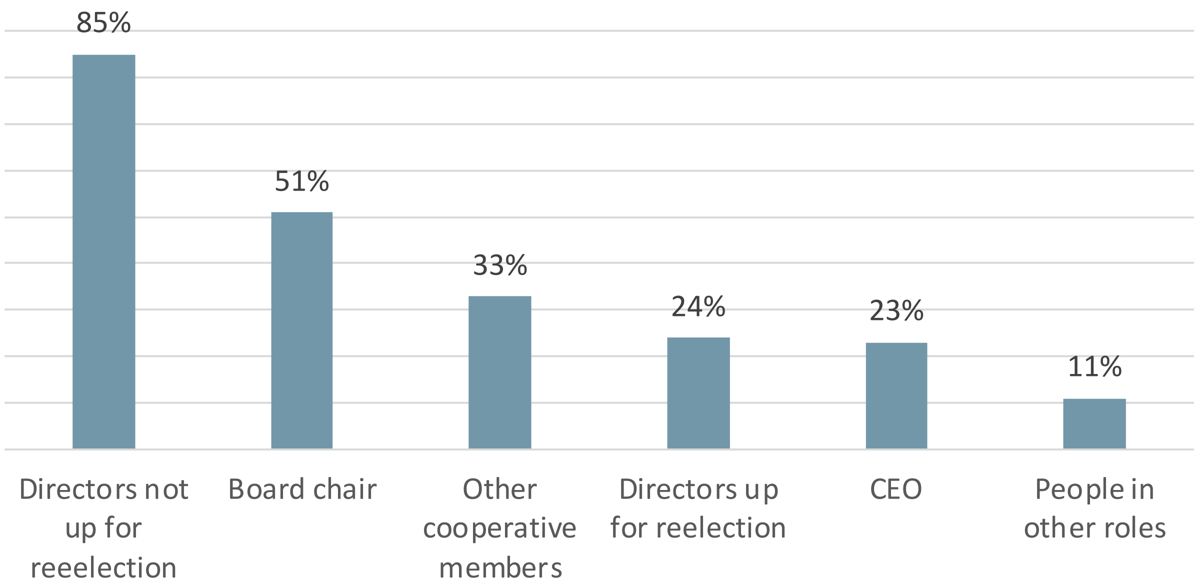


Only half of participating cooperatives actively encourage members of specific groups to run for the board, a targeted recruitment practice that research has shown to be an effective strategy for increasing diversity in other organizational settings (Roberson 2019; Schlachter 2021). CGRI respondents that say the demographics of current board members do not mirror those of their membership very well are more likely to actively encourage members of specific groups to run for the board, as are those who are more likely to say their cooperative plans to pursue goals related to increasing board diversity in the next three years.

Participating cooperatives also use various strategies to promote the opportunity to run for the board. Overall, the most common is using regular member communications such as newsletters, websites, or professional publications (64 percent). Almost half use social media or post physical flyers in the cooperative, respectively.

In terms of nominations practices among participating cooperatives, the most common mechanisms to nominate candidates for the board are self-nominations (74 percent) followed by floor nominations (42 percent) and member petitions (41 percent). The majority of CGRI respondents (71 percent) also have a board committee responsible for the process, although the prevalence of nominating committees varies quite a bit by sector—ranging from 84 percent of participating consumer and purchasing cooperatives to only 15 percent of participating worker cooperatives. Overall, nominating committee members are appointed by the board in the majority (68 percent) of participating cooperatives and by the board chair in almost a quarter. As Figure 15 shows, committees most often include board members not up for reelection (85 percent) and the board chair (51 percent). **Overall, almost a quarter of participating cooperatives allow board members up for reelection to serve on the nominating committee.** This practice is most common among participating worker cooperatives and insurance mutuals: 60 percent and 50 percent have board members up for reelection on the nominating committee, respectively.

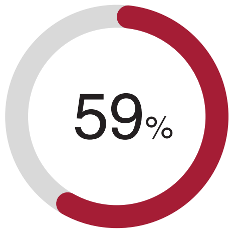
Figure 15. Who Serves on the Nominating Committee?



Overall, responsibilities of the nominating committee most often include assessing the eligibility of board candidates (89 percent) and least often proposing an uncontested slate of candidates for the board (26 percent).[12] Given that only 84 participating cooperatives say they have a nominating committee that is responsible for recruiting multiple candidates for each board seat, it is perhaps not surprising that the majority of CGRI respondents have not had a recent contested election.

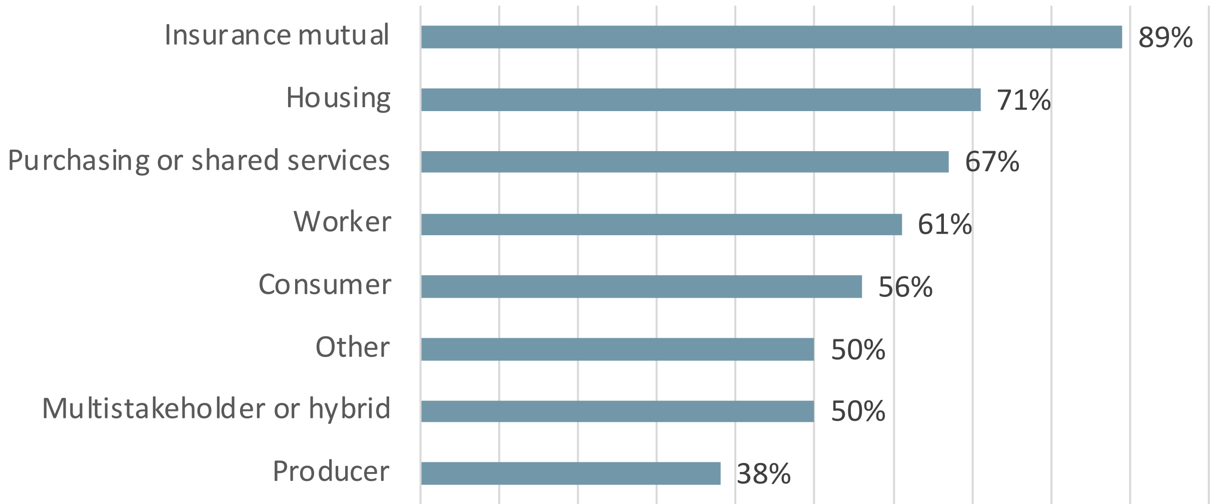
[12]We were surprised to find that 65 participating cooperatives say their nominating committees are responsible for both recruiting multiple candidates to ensure each board seat is contested and proposing an uncontested slate of board candidates. There are at least three possible explanations: 1) respondents misunderstood these survey questions, 2) they filled out the survey incorrectly, and/or 3) there is a disconnect between what nominating committees do on paper and in practice. Since these nominating committee responsibilities should be mutually exclusive, we coded them as missing for these 65 respondents.

Overall, 59 percent of participating cooperatives have not had any contested elections in the past three years and 35 percent have had between one and three.[13] As Figure 16 shows, contested elections are least common among participating insurance mutuals and most common among producer cooperatives.[14] Consumer cooperatives in the CGRI data are about equally split between those that have and have not had a contested election in the past three years. Among credit unions and food co-ops, 81 and 34 percent have not had a contested election in this period, respectively.



of participating cooperatives have not had any contested elections in the past three years

Figure 16. Share of Participating Cooperatives That Have not had a Contested Election in the Past Three Years



What explains the high percentage of participating cooperatives without contested elections? We suspect that a variety of dynamics are in play, each with distinct implications for governance. For example, perhaps the cooperative is small and thus the pool of potential directors is limited. A statistically significant correlation between the number of contested elections and membership size within participating worker and housing cooperatives suggests this may be the case in certain sectors. Perhaps it is difficult to recruit board candidates because members are disengaged due to apathy, frustration, or even satisfaction with their cooperative's performance. "This is the first year since 2008 that we haven't had anyone contest the election," said Winifred, the CEO of a rural electric cooperative who had seen member interest in board service surge during a period of internal turmoil. She viewed uncontested elections as a sign of dissipating political and cultural divisions: "We're thinking that the community's pretty happy with the direction we're going in."

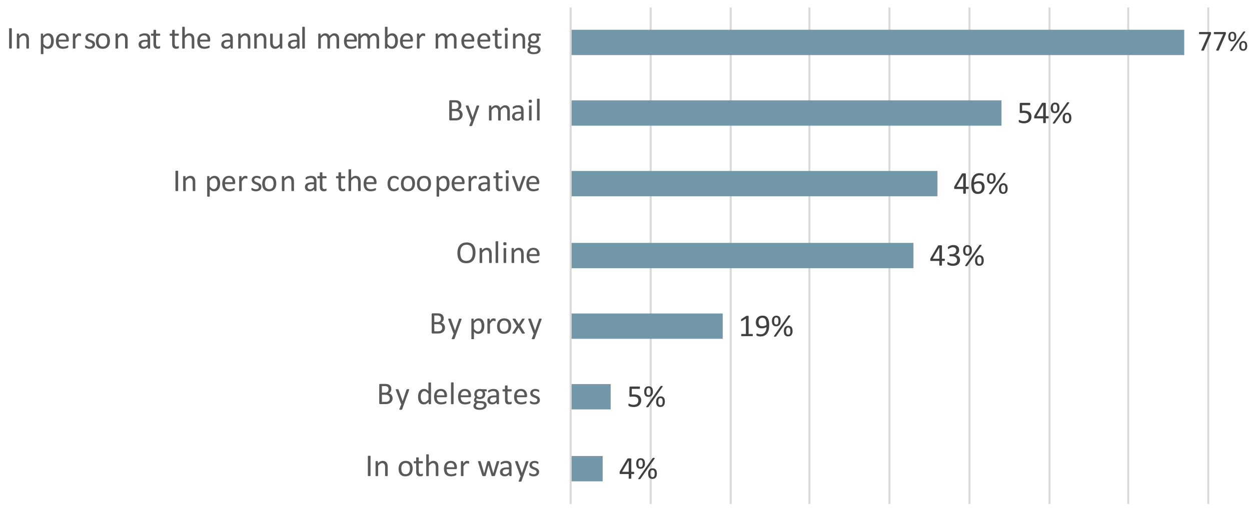
[13]Eighteen producer cooperatives reported they have had between 5 and 22 contested elections in the past three years. This could reflect the fact that many directors are elected by district i.e. they could be counting each district election as a separate contested election.

[14]The share of participating cooperatives that have not had a contested election in the past three years is comparable between producer cooperatives (38 percent) and the agriculture industry (39 percent).

Another possible explanation for uncontested elections is that a cooperative has created structures or processes that intentionally limit the number of candidates to the number of open seats. Perhaps the board is trying to self-perpetuate—or perhaps it believes that achieving the right mix of directors is not possible through an open election. Cameron, a credit union CEO, cited diversification priorities as the reason why his board had put forward an uncontested slate of candidates for the past five years. "It's a very delicate area," he said, "because if you identify [qualified] community people that you really want on your board and you say, 'Come, I want you to be on the board—but by the way I'm going to have you run against an incumbent,' or 'I'm going to have you run against this field of individuals,' and then they don't make it, you may not achieve the diversity on the board that you're seeking." Further study of these dynamics—and nominations and elections practices to help cooperatives ensure they cut the cake to include member voice, representation, and expertise (Birchall 2015)—is clearly warranted. For example, it's not clear whether the rarity of bylaws requirements to have contested elections among participating cooperatives is a cause or consequence of the dynamics discussed above.[15]

When members of participating cooperatives do have the opportunity to choose between candidates for the board, they most often vote in person at the annual meeting (77 percent) and by mail (in 54 percent). Members may vote online in only 43 percent of all respondents but over half of participating consumer, purchasing, worker, and multistakeholder cooperatives.

Figure 17. Share of Participating Cooperatives That Allow Members to Vote...



Overall, 75 percent of participating co-ops elect all board members at large, meaning that every member can vote for candidates to fill any and all vacant positions on the board. Perhaps not surprisingly, this practice is least common among participating multistakeholder or hybrid cooperatives (25 percent) that have multiple member classes. Among the 114 participating cooperatives that do not elect all board members at-large, 41 percent elect directors by geography, 23 percent by membership classes, and 16 percent by districts weighted by patronage and other ways, respectively. Only 5 percent use weighted or proportional voting based on value or volume of business, although this group of 22 respondents includes cooperatives of every membership type.

[15]Overall, only seven percent of participating co-ops have bylaw requirements for contested elections and such requirements are rare within all participating membership types.

Terms

The CGRI survey also examined practices related to terms: the length of time a board member serves before going up for reelection. Overall, the average duration of a standard term in participating cooperatives ranges from one to 20 years with a mean and median of 3.3 and 3 years, respectively. Within types, the shortest average term duration is among housing cooperatives (2.1 years) and the longest is among producer cooperatives and insurance mutuals (3.6 years each). Within industries, average term duration ranges from two years in construction to 4.4 in utilities.

Only 24 percent of all participating cooperatives limit the number of consecutive terms a director may serve. As Figure 18 shows, consecutive term limits are most common among participating purchasing (44 percent) and multistakeholder (42 percent) cooperatives. Directors of respondents that do have consecutive term limits are limited to three terms on average but this figure ranges from two to ten.

Figure 18. Prevalence of Board Term Limits and Retirement Age Among Participating Cooperatives

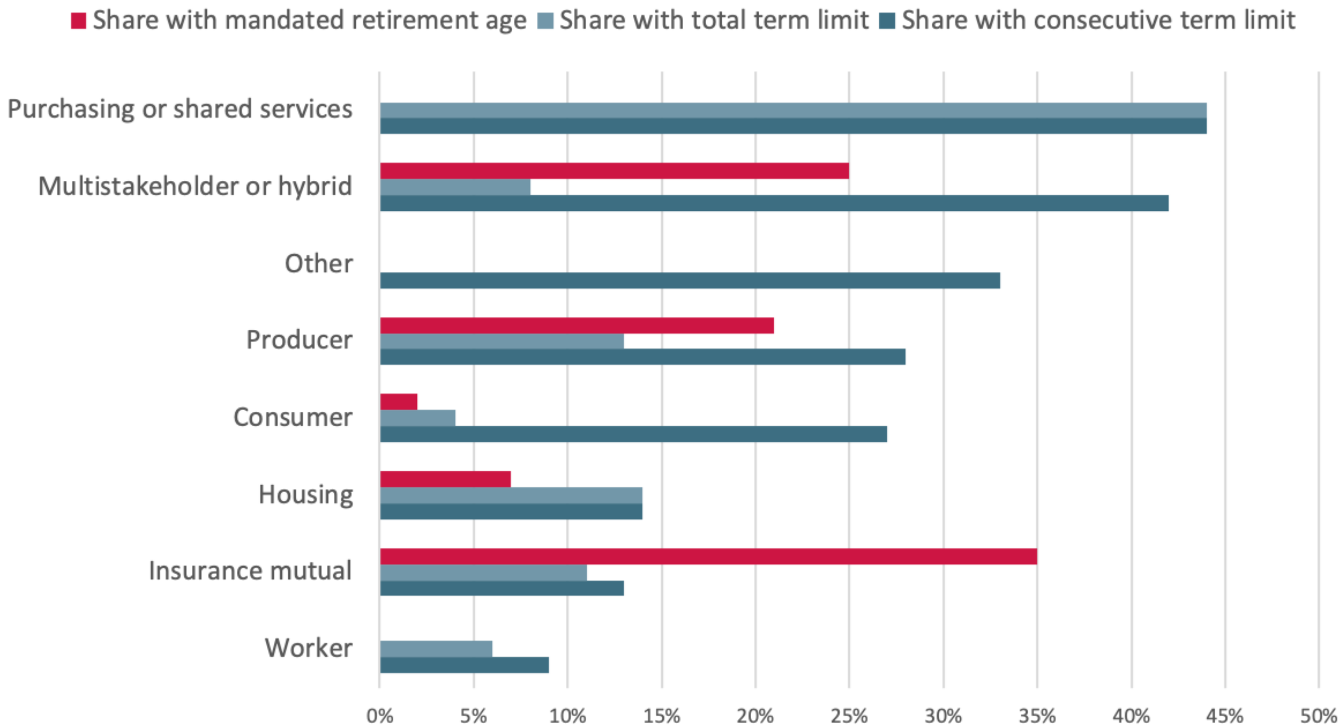


Figure 18 shows that limits on the total number of terms a director may serve are even more rare than consecutive term limits. Although total term limits are relatively common among participating purchasing cooperatives (44 percent), they are rarer in other types and present in only eight percent of participating cooperatives overall. Within the few respondents that do have total term limits, directors may serve an average of four terms before they are ineligible to run for the board.

A similarly small share of all participating cooperatives—ten percent—have a mandated retirement age for directors ranging from 65 to 83 years old (with 72 at the mean and median). This practice is most common among participating insurance mutuals (35 percent).

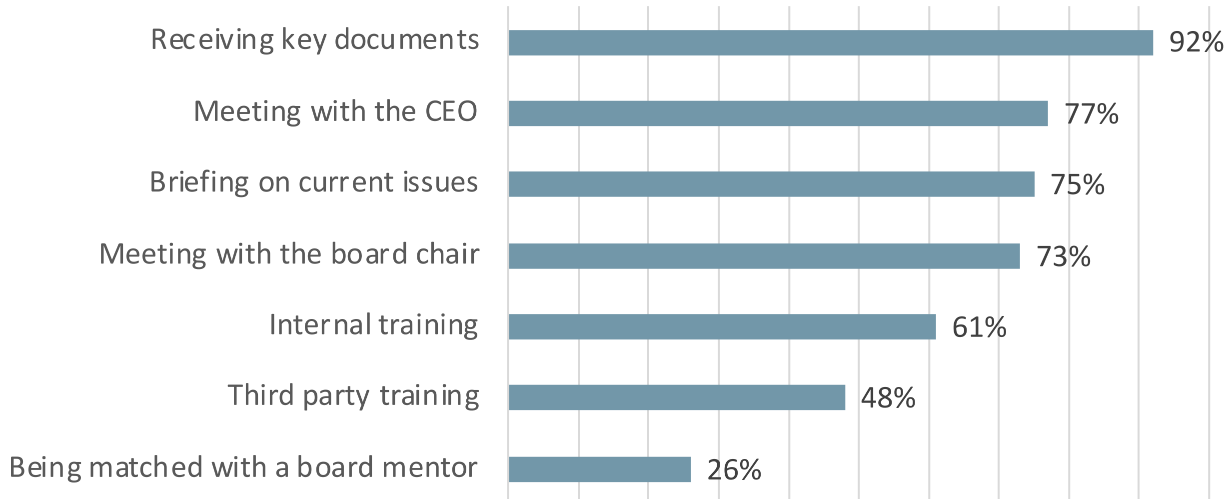
Taken together, survey results and interviews suggest that term limits and board composition are often intertwined. Lucy, the board chair of an insurance mutual, said that lack of turnover had been a barrier to achieving the right mix of directors: “Before term limits it was practically impossible [to achieve diversity on the board] because before someone was ready to leave, you didn’t get much change […] In the future, I will feel glad that [the mutual] will have the ability to modify the board as needed because they have the space to do it.” Survey results echo the idea that cooperatives with term limits have more diverse boards: overall, participating cooperatives with consecutive term limits have a smaller share of directors who have served more than 15 years, a smaller share of white directors, and a larger share of women directors.

The transition to term limits does not always come easily, though. Sam, the CEO of the insurance mutual where Lucy serves as chair, noted that it had been hard to get traction on their proposal to implement term limits with directors who loved the mutual (and the benefits board service entailed) until greater regulatory scrutiny around board composition and qualifications prompted a shift. Wade, a former credit union board chair, also mentioned some resistance to term limits and a mandated retirement age from industry peers. “I would guess that the average [credit union] board member is 70 years old,” he said. “I would guess that the average length of service is probably 20 years. That paradigm is starting to change but it’s slow.” Like every choice when designing a governance structure, the decision to implement term limits comes with its own set of tradeoffs cooperatives must consider.

BOARD TRAINING, EDUCATION, AND DEVELOPMENT

Scholars and practitioners alike recognize that board training, education, and development are essential for instituting and sustaining good governance practices (Chen et al. 2010; Franken and Cook 2017). As we like to say at UWCC, "It's simply fundamental." These activities are also built into the cooperative identity through Principle 5, which invokes cooperatives' responsibility to ensure that all members, elected representatives, managers, and employees receive the education and training they need to contribute to their shared enterprise. While some cooperatives cut a large "slice" for expertise (Birchall 2015) through outside directors or advisory councils, this section explores how expertise can also be cultivated internally by investing in a strong board development program. The CGRI questionnaire began to examine these themes through questions about board education topics, continuity of institutional knowledge, board evaluation practices, and the process for removing directors who are not meeting their board obligations.

Figure 19. Share of Participating Cooperatives in Which Board Onboarding Includes...



THE FOUR Cs OF ONBOARDING

The principles used to onboard new employees can also be applied to the process of orienting new board members. A robust onboarding program should address four key areas: compliance, clarification, culture, and connection.

Compliance ensures that new board members understand and agree to the rules of board service. New directors should receive copies of the bylaws, policies, and any other documents that address issues such as confidentiality, conflict of interest, speaking with the media, etc.

Clarification ensures that new board members understand their roles and responsibilities and how to navigate the systems the board uses to accomplish its work.

Culture helps new board members understand the assumptions and norms of the board and the cooperative. The cooperative's culture will become evident to new board members over time as they participate in board service, however it is beneficial to take a more proactive approach and have direct conversations about the culture the cooperative is trying to foster.

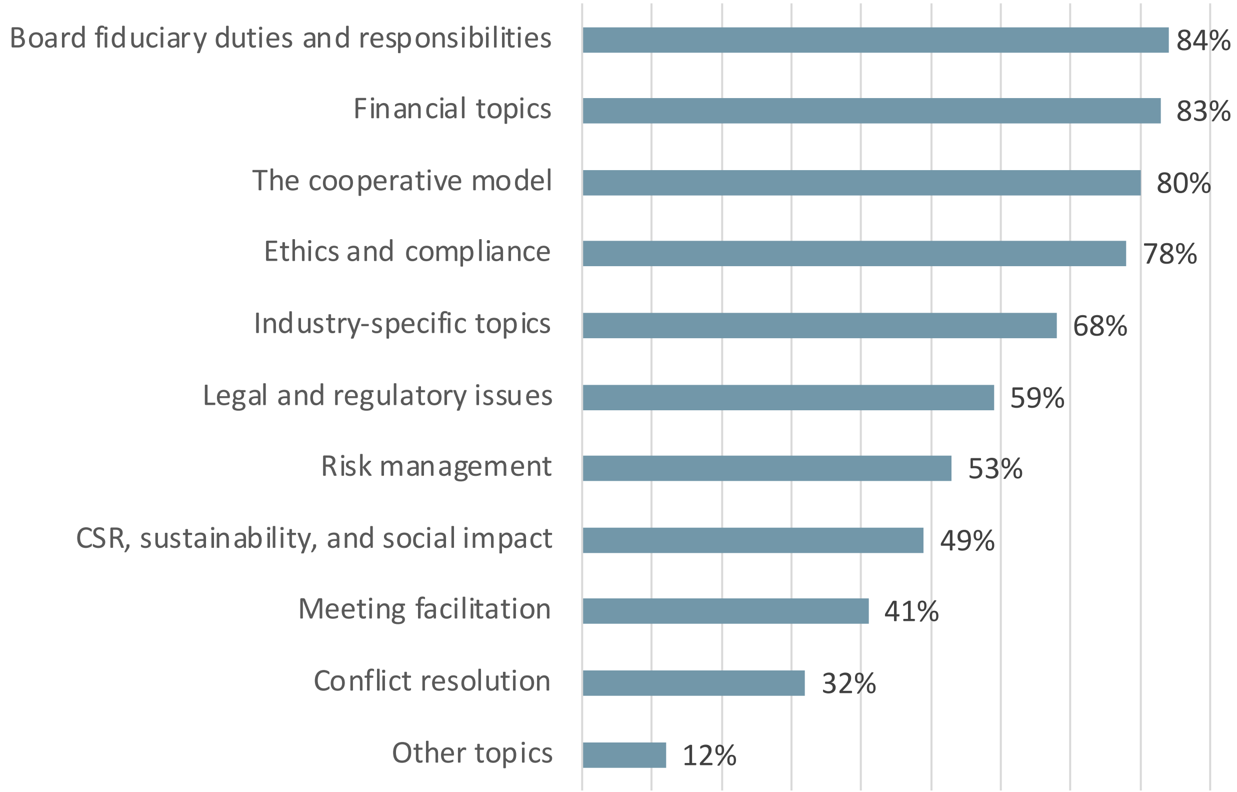
Connection involves facilitating the development of relationships between new board members and fellow board members, employees, and other key stakeholders. Shared meals, group activities, and board mentor programs all foster a sense of connection.

Onboarding and Training

Board education often begins with onboarding, a specific kind of training or set of activities designed to prepare new directors for service. Overall, the most common onboarding activities among participating cooperatives are receiving key documents (92 percent), meeting with the CEO or senior management team (77 percent), and receiving a briefing on current issues facing the board such as expansion plans (75 percent). Although several interviewees mentioned that matching incoming directors with a board mentor helps build strong interpersonal connections and foster a healthy board culture in their cooperative, mentorship is the least common onboarding practice (26 percent) among survey respondents overall.

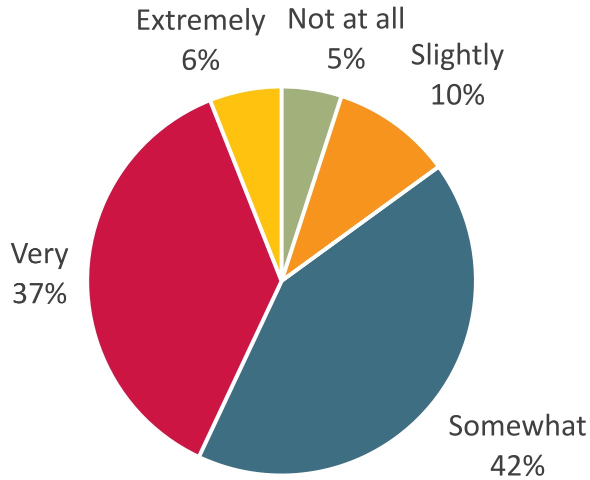
We also asked about the content of more general director training. As Figure 20 shows, the most common themes overall are related to board fiduciary duties and responsibilities (84 percent), financial topics (83 percent), and the cooperative model, principles, and values in general (80 percent). Conflict resolution is the least prevalent training topic among all participating cooperatives (32 percent) but relatively more common among worker cooperatives (43 percent). This is not surprising given that attentiveness to conflict was a recurring theme in our interviews with worker-owners. For example, as Rose said, "One thing we have identified about our work culture is that we can sometimes be conflict avoidant as a group, so it has been helpful and funny to name that and practice techniques for engaging in healthy conflict." Her seven-member worker cooperative had introduced several practices to strengthen conflict resolution skills in onboarding and ongoing training, including an open-ended "conflict style worksheet which asks things like, 'Are there any patterns you have around conflict that you feel like it's important for others to know?' 'Do you have preferences for volume of conversation about something intense?' […] 'Do you want to talk in the moment or later?'" In future waves of data collection, it may be instructive to gather more specific information about tools and takeaways from effective board education programs.

Figure 20. Share of Participating Cooperatives That Train Board Members in...



A high-level board development program also supports continuity of institutional knowledge on a board as directors come and go. Institutional knowledge—the collective information, expertise, and values an enterprise and its people possess—is just as important for board members as employees. Overall, however, only six percent of participating cooperatives rate their systems for preserving continuity of institutional knowledge on the board as “extremely effective.” Insurance mutuals report having the highest efficacy on average.

Figure 21. How Effective are Your Cooperative’s Systems for Preserving Continuity of Institutional Knowledge on the Board?



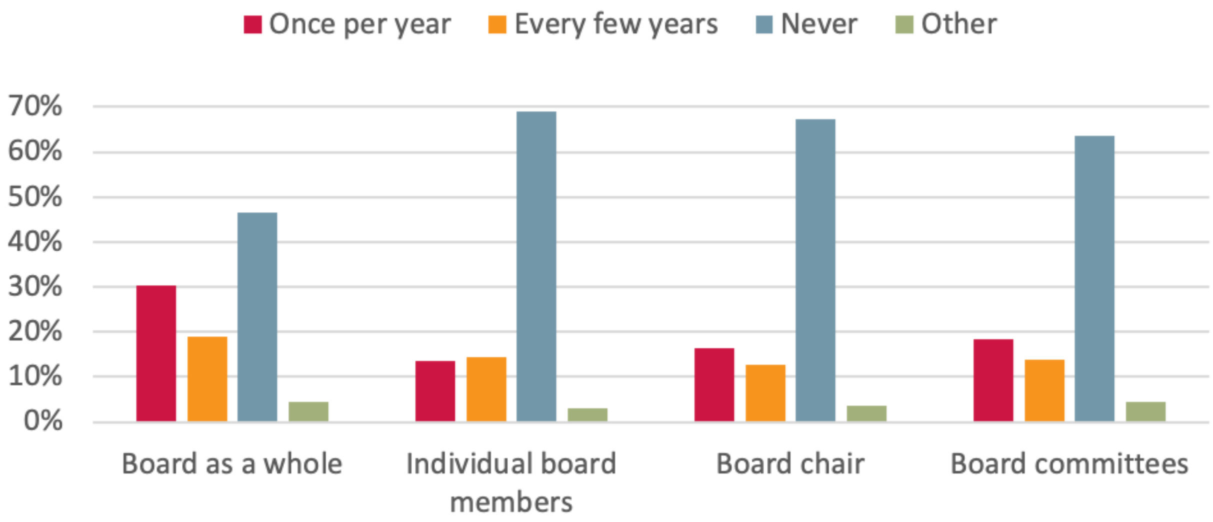
Board Evaluations

A board evaluation is a formal process that assesses the board’s health and performance. Done well, it provides an opportunity for directors to reflect on their personal contributions in the board room and identify areas of board operations or culture that need attention or improvement. Regular board evaluations should build trust and respect with the manager and help directors work more effectively as a team. Like all good governance tools, evaluations should be adapted to the organizational context and support boards in meeting member needs.

There are three main types of board evaluations. **Full board evaluations** focus on the performance of the board as a whole. **Self evaluations** ask directors to contemplate their personal contributions to the work and culture of the board. **Peer evaluations** ask directors to comment on the performance of fellow directors. Some boards also conduct an evaluation of the board chair and committees, either separately or in conjunction with the board evaluation.

Most board evaluations are conducted using a written survey that includes a mix of rating and open-ended questions. Open-ended questions allow for more detailed feedback about specific challenges, frustrations, or opportunities that do not fit neatly into a rating scale. The primary advantage of rating questions is that the board’s performance and progress can be tracked over time. Occasionally, a board will hire an outside consultant to conduct interviews with board members, the CEO, and other key stakeholders to get a more nuanced picture of board dynamics. One of the most meaningful steps in the board evaluation process is the follow up.

Figure 22. Frequency of Board Evaluations Among Participating Cooperatives

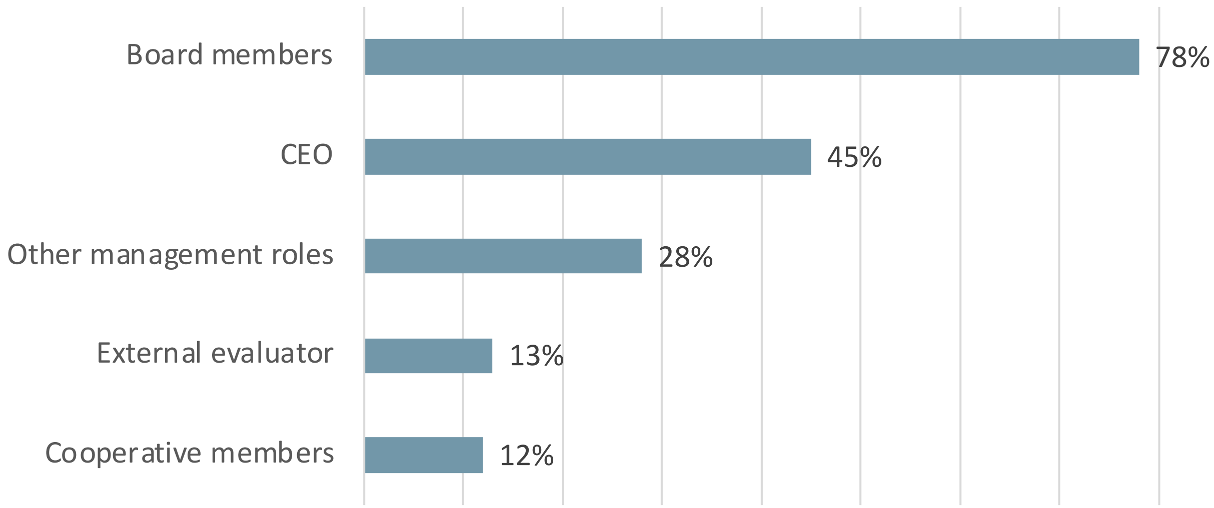


This is particularly true if the evaluation reveals areas that need major improvement. Deciding how the results will be shared and discussed to ensure time is set aside for a meaningful conversation about areas of strength and weakness and how those areas of weakness will be addressed is a crucial aspect of establishing the evaluation process.

In the survey, we asked how frequently the cooperative evaluates individual board members, the board as a whole, the board chair, and board committees. Overall, participating cooperatives conduct evaluations of the whole board more frequently than evaluations of individual directors, the board chair, or board committees (see Figure 22). About half of respondents evaluate the whole board at least every few years.

Overall, 78 percent of participating cooperatives report that board members complete board evaluations. Relatively few respondents report that members or external evaluators complete board evaluations (12 and 13 percent, respectively). Good boards continually strive for improvement, and board evaluations are a critical tool for surfacing issues and finding solutions.

Figure 23. Who Completes Board Evaluations in Your Cooperative?



**These percentages do not sum to 100 because people in multiple roles complete board evaluations in some cooperatives.*

Process to Remove Directors

Of course, evaluations are more effective if they are accompanied by accountability. **Overall, 61 percent of participating cooperatives have a formal process for removing underperforming directors or those who fail to meet their board obligations.** Having a formal process is least common among participating insurance mutuals (43 percent) relative to other types.

Among cooperatives that practice representative democracy and have such a process, 26 percent require member approval to remove a board member. On average, worker cooperatives have requirements for member approval to remove an underperforming director at the highest rate (64 percent).

Among participating cooperatives that have a formal process, only 19 percent have actually removed an underperforming director in the past five years. On average, this was most common among worker cooperatives (40 percent). Several open-ended responses about disagreements between board members alluded to the types of issues that might lead to removing a director and how delicate these situations can be. Albeit painful, they are a good reminder of the importance of setting the right expectations through robust onboarding and reinforcing those expectations through regular board education.

BOARD MEETINGS AND DECISION-MAKING PRACTICES

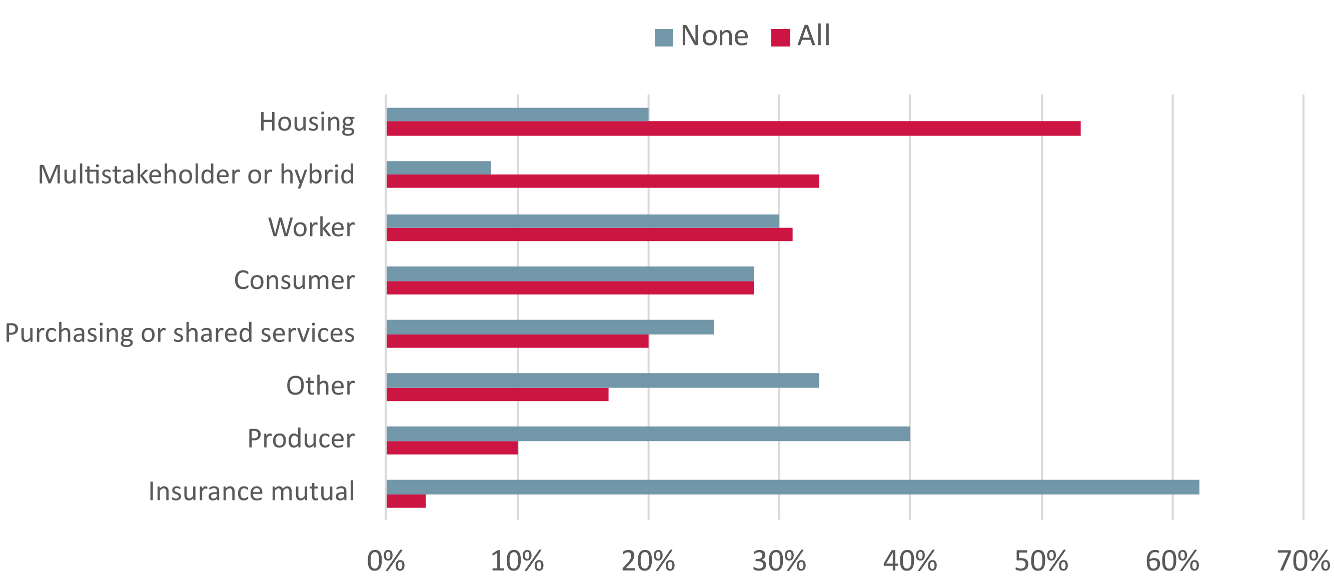
Much of the work of the board happens in meetings, so it is essential that meeting and decision-making practices are thoughtful and effective. The CGRI survey explored several aspects of board meetings, from frequency and duration to agenda setting, facilitation, and allocation of time to various topics.

Frequency, Duration, and Mode of Board Meetings

Boards of the typical cooperative that completed the 2021 CGRI survey meet monthly for an average of 2 hours and 45 minutes. On average, participating worker cooperative boards met the most frequently (14 times in the previous year) but had the shortest meetings (less than two hours per meeting). The average consumer, producer, and housing cooperative board met once per month; the average participating insurance mutual and multistakeholder cooperative board met every two months.

The COVID-19 pandemic caused major shifts in meeting norms, some of which are likely here to stay, so the survey focused on current rather than pre-pandemic practices. Overall, the average participating cooperative board held some of their meetings online and some of their meetings in a mix of in person, online, or telephone between fall 2020 and 2021. Almost half (48 percent) did not have any in-person board meetings during that period, while 10 percent said that all of their board meetings were conducted in person in the previous year. As shown in Figure 24, on average, insurance mutuals and producer cooperatives held the highest proportion of their board meetings in person. In contrast, a third of all participating cooperatives said they did not conduct any board meetings online between fall 2020 and 2021, while 24 percent said all of their board meetings were conducted online during that period. Figure 24 also shows that housing and multistakeholder cooperatives held the highest proportion of their board meetings online. As the response to COVID-19 shifts, it will be interesting to observe how cooperative meeting practices evolve—and how those practices affect the social and interpersonal dynamics of cooperative boards.

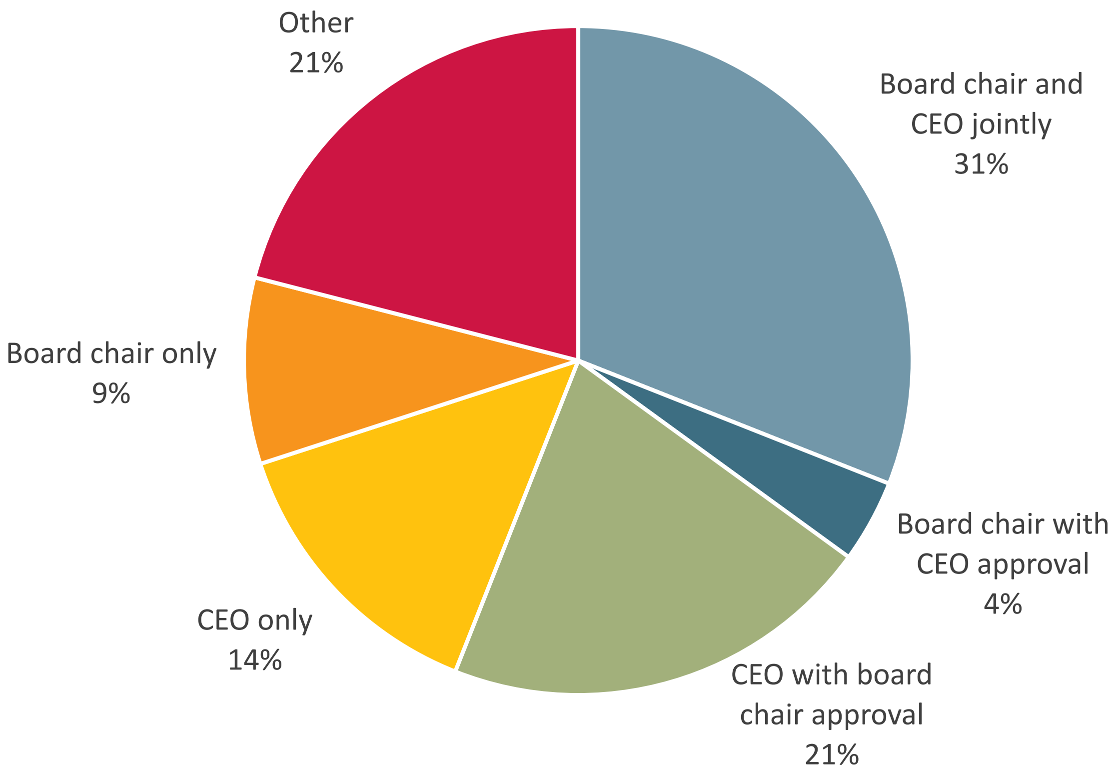
Figure 24. Proportion of Board Meetings Conducted Online



Board Agendas and Facilitation

A well-crafted agenda and skilled facilitation are two essential ingredients for effective meetings. As shown in Figure 25 it is most common for the board chair and CEO of participating cooperatives to jointly set board agendas (31 percent). Equal shares of respondents say their CEO sets the agenda with board chair approval or people in other roles, such as the executive committee, set the agenda (21 percent, respectively).

Figure 25. In the Past 12 Months, Who Has Set the Agenda for Board Meetings?



As we discuss below, many cooperatives use the agenda as a tool to keep board meeting discussions focused on strategic issues. The agenda setting process can also help achieve other governance goals such as strengthening relationships between board members, inviting the next board president into leadership, and supporting board succession by widening participation in important director conversations. As Morgan, the general manager of a food co-op, said, “Instead of just the president and general manager crafting the agenda, the whole executive committee meets halfway between board meetings to talk about the agenda, what we need to do, and ways to do it. Then we go out to dinner together.”

EXECUTIVE SESSIONS

An executive session is time set aside within a regular meeting for board members to meet alone and confidentially. Depending on the topics to be discussed, other people, such as the CEO, might be invited to attend some or all of the session. Boards use executive sessions to discuss sensitive or confidential topics and executive sessions can be an important tool for ensuring board oversight and independence. Some boards incorporate executive sessions into every regular board meeting, whereas others schedule them as needed. In the CGRI survey, we defined an executive session as any block within an otherwise open board meeting in which minutes are taken separately or not at all, only board members are present, and the contents of the discussion are treated as confidential. Overall, 55 percent of participating cooperatives say that some or very few of their board meetings included an executive session and 23 percent said most or all did in the previous year.

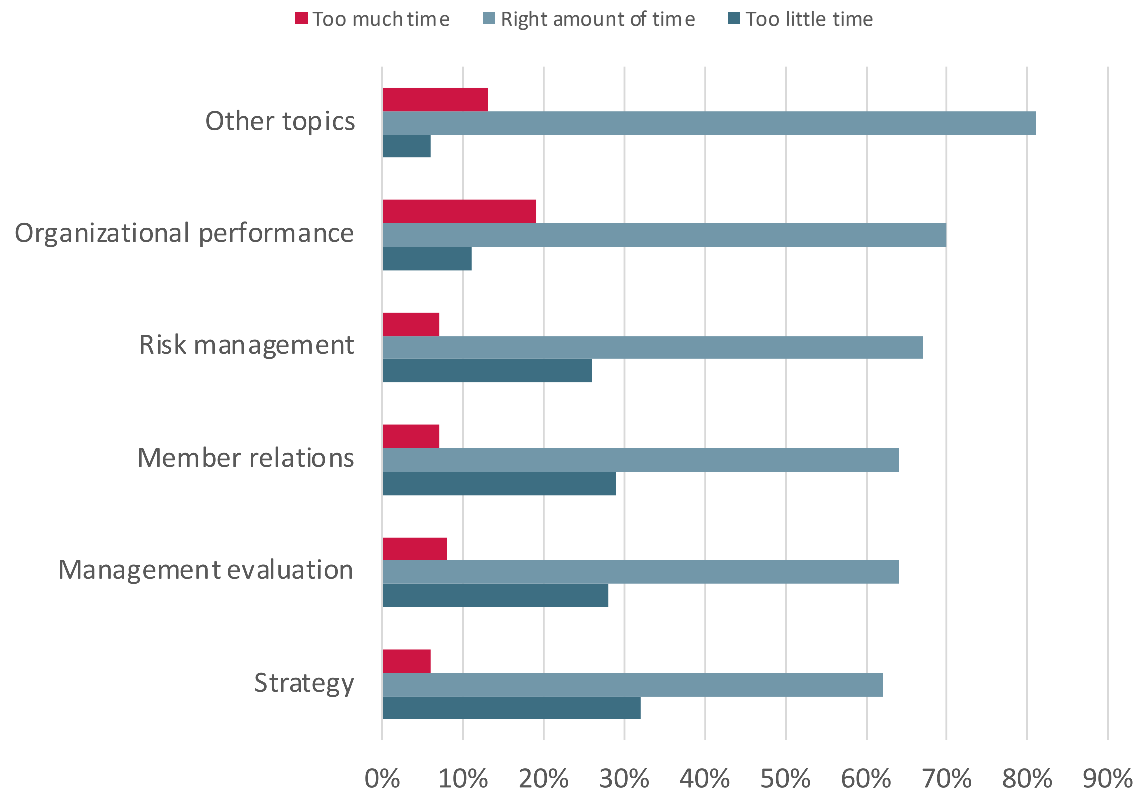
Skilled meeting facilitation can also pay dividends in multiple areas such as building trust between directors and creating space for healthy dissent. Overall, 68 percent of participating cooperatives have board meetings facilitated by the board chair, 19 percent by the CEO, seven percent by another board member, and three percent by a third-party facilitator. Within membership types, CEO facilitation is relatively most common among participating purchasing cooperatives (45 percent) and facilitation by another board member is most common among worker cooperatives (40 percent), where rotating these duties is a common practice.

Allocation of Time at Board Meetings

We also asked survey respondents about what proportion of time in board meetings has been spent on specific topics—and how much should ideally be spent on each of those topics. Overall, participating cooperatives reported the most alignment between the actual and ideal time allotted to other topics (81 percent) and organizational performance (70 percent).

Overall, 32 percent of participating cooperatives said their boards spent too little meeting time on strategy in the past year, and over a quarter said they spent too little meeting time on risk management, member relations, and management evaluation. On average, insurance mutuals and producer cooperatives said their boards spent the right amount of time on strategy at the highest rates (76 and 72 percent, respectively).

Figure 26. Actual vs. Ideal Allocation of Time in Board Meetings



Strategic Orientation of the Board

Follow-up interviews also allowed us to more qualitatively explore structures and processes cooperatives use to calibrate the board's strategic orientation.

Several cooperative leaders described using meeting agendas as a tool to keep the board focused on the future. When Sam became CEO, for example, his insurance mutual board was more focused on operations. Yet "As I gained comfort, I started introducing very slowly the concept of more strategic think into the board meetings," he said. "The best way to do that is get rid of the operational stuff. There's always enough operational stuff to fill an agenda, so if you put it on there, you're never going to get away from it." Whereas his board had previously devoted an hour to discuss quarterly reports at every meeting, Sam began telling directors, "Read reports before the meeting and ask questions if you have them." Another approach is to leave some room for operational matters in the board room but prioritize strategy on the agenda. Conor, the CEO of a farmer-owned cooperative, always begins board meetings with strategic questions so they are discussed when directors have the most energy. Conor and his board chair David are aligned on this point. David stressed, "If you're focusing on the past the whole time during your board meetings, you don't know where you're going." Similarly, Cameron, the CEO of a credit union, explained they spend 45 minutes of each two-hour board meeting on a strategic topic. "We identify those topics throughout the year and […] swap them out as things come up. Operational items are mostly on the consent agenda." Of course, the success of these strategies depends on the board reviewing materials in advance and arriving at meetings prepared to engage in discussion. According to CGRI survey results, two-thirds of participating cooperatives report that most or all board members arrived at the typical board meeting in the past year well prepared.

"If you're focusing on the past the whole time during your board meetings, you don't know where you're going."

Rose and Paige, members of a small worker cooperative that practices direct democracy, explained that their enterprise uses different types of meetings including operational meetings, general meetings, and annual board retreats, to delineate where and when different topics are discussed. Strategic topics tend to be put on the agendas for general meetings, but Rose confessed, "There's no real home yet for real business strategy and development decisions. We're still figuring that part out."

Explicitly connecting the board's work to an overarching strategic plan or vision is also useful for keeping strategy front and center. Several years ago, Cindy's purchasing cooperative developed a strong strategic framework for the organization. "We focus board work on things that relate to that framework," she said. "We spend most of our meeting time in strategic discussions about our four core drivers." Similarly, when Winifred became CEO of a rural electric cooperative, she helped redirect her board's focus from daily operations to strategy by collaborating with the board to develop mission and vision statements that informed management's process of crafting a five-year operational strategic plan and ten-year budget. The management team now documents how their projects meet the cooperative's mission, vision, and operational strategic plan on an annual basis, and Winifred reports on their progress at every board meeting. "All of this makes it easy for the board to connect the co-op's action to the mission and vision," she said.

The board also needs the right knowledge, information, and perspective to meaningfully engage in strategic conversations. As Birchall recognized (2015), sometimes this kind of expertise comes from within a cooperative—and in other cases engaging at a strategic level requires leveraging external perspectives and tools. "The board needs to get out to conferences and talk to other directors to get a higher view," said Conor, who believes his farmer directors think more strategically when they broaden their perspectives. Several people echoed Conor's observation that attending gatherings, reading industry publications, receiving briefings, and networking with other directors helped directors gain this kind of "higher view." For example, when Wade was the chair of his credit union's board, he gleaned articles from *CU Insights*, a digital news source for credit unions, and circulated a curated packet to the board and audit committee every week. The large national agricultural cooperative we interviewed emphasized the important role of a corporate strategy group in educating the board, as well as outside firms that have helped the board and management team understand and prepare for major market disruptions.

Of course, there are always periods in the life of a cooperative when the board is pulled into more operational matters—perhaps during a crisis or amidst a leadership change—and the organization must find its way back to a better balance. This has certainly been Cindy's experience as the CEO of a purchasing cooperative: "When there have been big transitions or when there are significant events, the board can lean in a little bit more and become more involved or have a stronger interest in operational matters than just strategy matters." She experienced this shift when she became the CEO, but she understood why the board was asking more questions and paying more attention to operations—they had not yet established trust. "Over time they were able to pull back and focus more on strategic issues as we all got comfortable with each other." Growth can also have this impact, as Conor shared. "We recognized as we grew that our board was actually regressing. As the company became larger, it almost got too big for the board to think about, so they started to regress to wanting to talk about operational issues." The solution for them was to create committees through which board members could engage more deeply on topics they were passionate about and keep meetings focused on strategic topics.

Our conversations also surfaced another tension within cooperative governance: on which side of the dividing line between management and governance does strategy development belong? **The commonly held belief that the board develops strategy and management carries it out is increasingly being challenged.** Marcus, the board chair of a rural electric cooperative, argues that this tension is one of the core philosophical debates about the role of a board. "Is the role of a board to lead or to steward? I believe the role of the board is to steward. It is not an appropriate use of board resources to decide what the strategy of an organization is. The purpose of the board is to hire a CEO who decides the strategy, and then at times the board can decide if a given strategy maps to the objectives of the organization." David, the board chair of a regional agriculture cooperative, agrees. "In my view, management presents the strategy. The board can give input on the strategy [but] it's really driven by management and approved and vetted by the board." David acknowledged that many of the trainings he attends stress that strategy is the responsibility of the board, and he agrees in theory but says it does not function that way in reality. "We all have other careers. We don't get to spend five days a week submerged in the co-op business, where management really does. So in disagreement with what I've been trained to believe, I'm going to say strategy is really management driven at its core."

> **"Management and the board bring different types of expertise that are both important to the strategic process and the visioning. And I don't think that they belong entirely to one group or the other."**

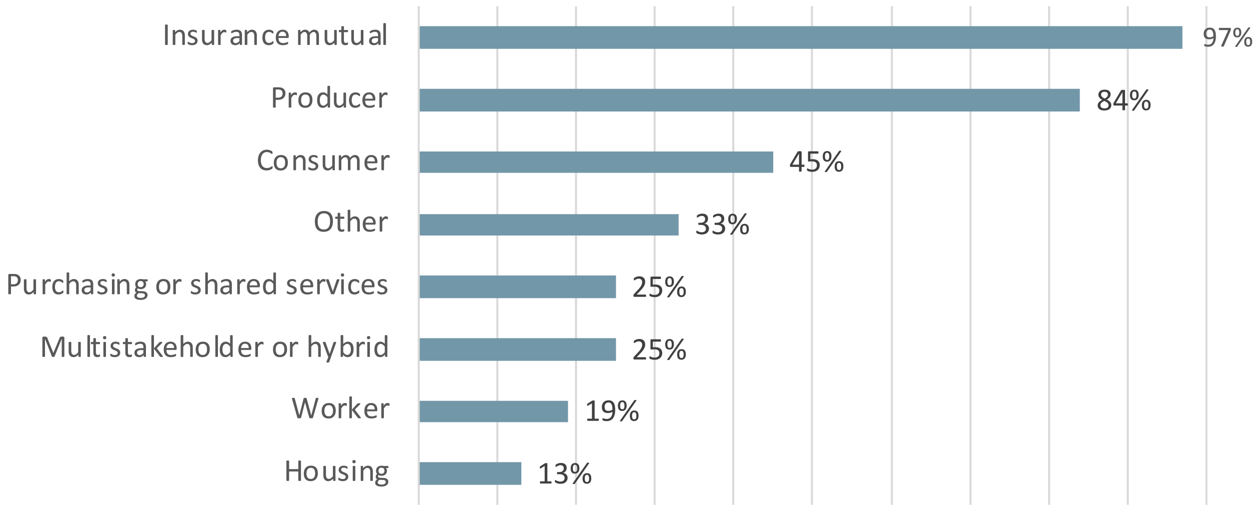
Morgan, the general manager of a food co-op, takes the position that when it comes to strategy, partnership is best: "Vision and strategy, those two things, there's partnership between the management leadership and the governance leadership of the board. Management and the board bring different types of expertise that are both important to the strategic process and the visioning. And I don't think that they belong entirely to one group or the other." Like most issues related to governance, appropriately calibrating the board's strategic orientation is a context-specific process without a single right approach. Ultimately, however, walking the line between management and governance is often easiest with a healthy dose of teamwork, trust, and mutual respect.

BOARD COMPENSATION

Debates about whether—and how—to compensate members of the board of directors have emerged across the cooperative community in recent years. Whereas regulatory constraints prohibit some cooperatives from providing financial remuneration to directors, others view compensation as a critical strategy for board recruitment, retention, equity, or other goals. “If you want young, professional people, they’re not going to volunteer,” said Wade, a board member of a credit union who often advocates for director compensation to skeptical peers. “They’re giving up family time—and then you’re asking them to attend conferences where they have to use their professional vacation to attend […] Well, this is the compensation for the efforts they’re putting in. And so once I explain that it makes sense to them.”

Exactly half of all participating cooperatives compensate directors for serving on the board above and beyond expense reimbursement or base salary. Figure 27 shows that all but two participating insurance mutuals provide board compensation, as do 84 percent of participating producer cooperatives. In contrast, this practice is relatively uncommon among participating housing and worker cooperatives (13 and 19 percent, respectively).

Figure 27. Share of Participating Cooperatives that Compensate Board Members



Among participating cooperatives that do provide board compensation, the most common types are per meeting payments contingent upon attendance (54 percent) and fixed annual, quarterly, or monthly payments (46 percent). The least common is an hourly rate (5 percent).

In terms of amount, sixty-four percent of participating cooperatives that provide board compensation pay board officers at a higher rate than non-officers. Participating worker cooperatives have the most equitable board compensation arrangements of any membership type: 69 percent have the same rate for all directors regardless of officer status. Average total annual compensation for non-officers is $8,734 overall but varies quite a bit by sector, ranging from an average of $387 among worker cooperatives to about $60,000 among multistakeholder, hybrid, and other types of cooperatives (see Figure 29). We see a similar pattern with total annual compensation for outside directors, which averages $21,071 overall but ranges between $500 among worker cooperatives and $76,000 among multistakeholder or hybrid cooperatives.

Figure 28. Do Board Members Receive Any of the Following Types of Compensation?

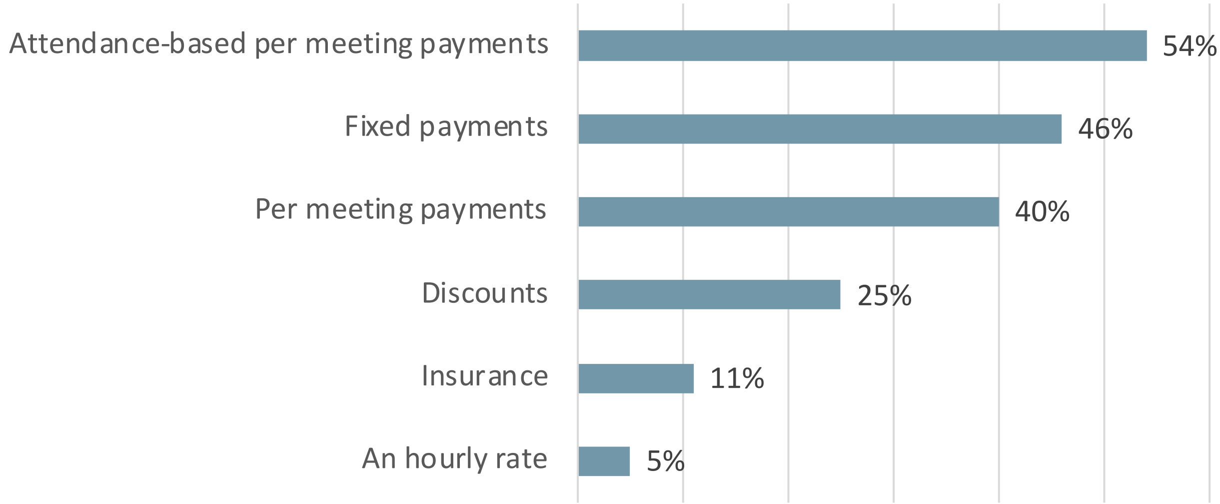
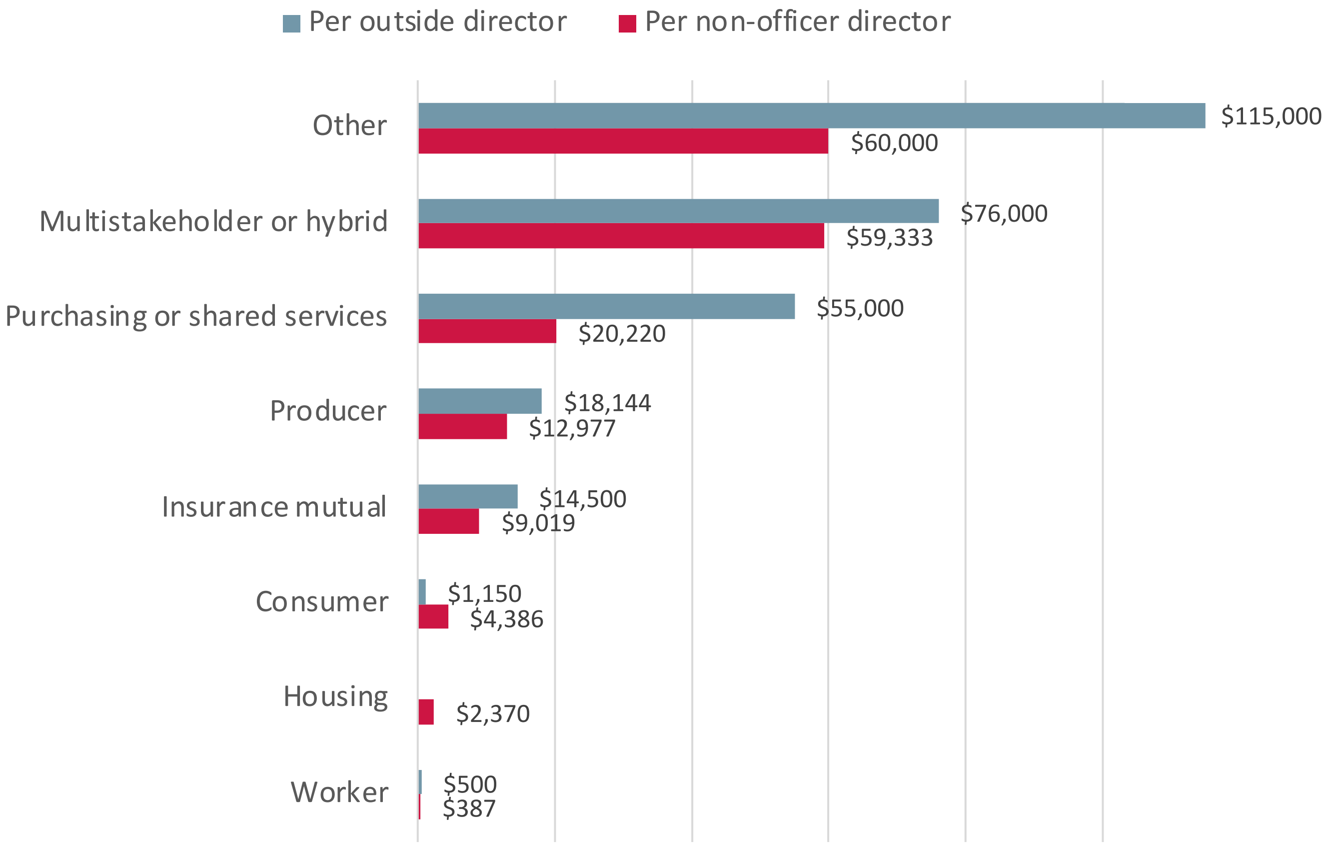


Figure 29. Average Total Annual Compensation



Survey results suggest that decisions about director remuneration typically take place at the management and board level. Only 21 percent of participating cooperatives that provide board compensation require a member vote to change whether and how it is implemented. These findings also raise a number of questions about relationships between board compensation, other governance practices, and cooperative performance that are prime opportunities for future analysis.

CEO

Although the board is most often associated with governance, in most cooperatives the CEO is also integral to the structures and processes by which members control their enterprise and participate in decision-making. This is because members typically delegate authority over most decisions to an elected board of directors, which in turn delegates authority over operations to management. CEOs also provide vision, engage directly with members, and support the board's functioning in myriad ways. In cooperatives with long-tenured CEOs, the CEO can also be an important source of institutional knowledge and continuity for the board. Leah, a food co-op board member, noted that their CEO's knowledge and experience has helped their board feel more confident during a period of high director turnover. "Morgan has been involved for so long and knows more about the board than anyone […] I have a lot of confidence that even though we have four brand new board members […] we can still move forward and make great decisions."

Excluding worker cooperatives, 96 percent of CGRI survey respondents have a Chief Executive Officer (CEO), general manager, executive director, or other type of highest-ranking employee (among worker cooperatives, only 45 percent have a CEO).[16] Overall, the average participating cooperative's CEO assumed that role in 2012, and CEO tenure ranges from less than one year to 48 years with a median of six. Insurance mutuals and purchasing cooperatives have the longest CEO tenure (11 years) on average, while CEO turnover is highest among housing, multistakeholder, and consumer co-ops. Overall, participating cooperatives have had one to 11 different CEOs (including interims) in the past decade with two at the mean and median.

Succession Planning

Given the CEO's importance in both the management and governance of a cooperative, succession planning is crucial for successfully weathering changes in leadership. **Overall, 74 percent of CGRI respondents have an emergency succession plan for the CEO and 47 percent have a long-term CEO succession plan**. Figure 30 shows that, on average, both types of succession plans are most common among insurance mutuals (92 percent emergency, 75 percent long-term) and least common among worker co-ops (20 percent emergency, 10 percent long-term). In general, emergency succession plans are much more common than long-term plans.

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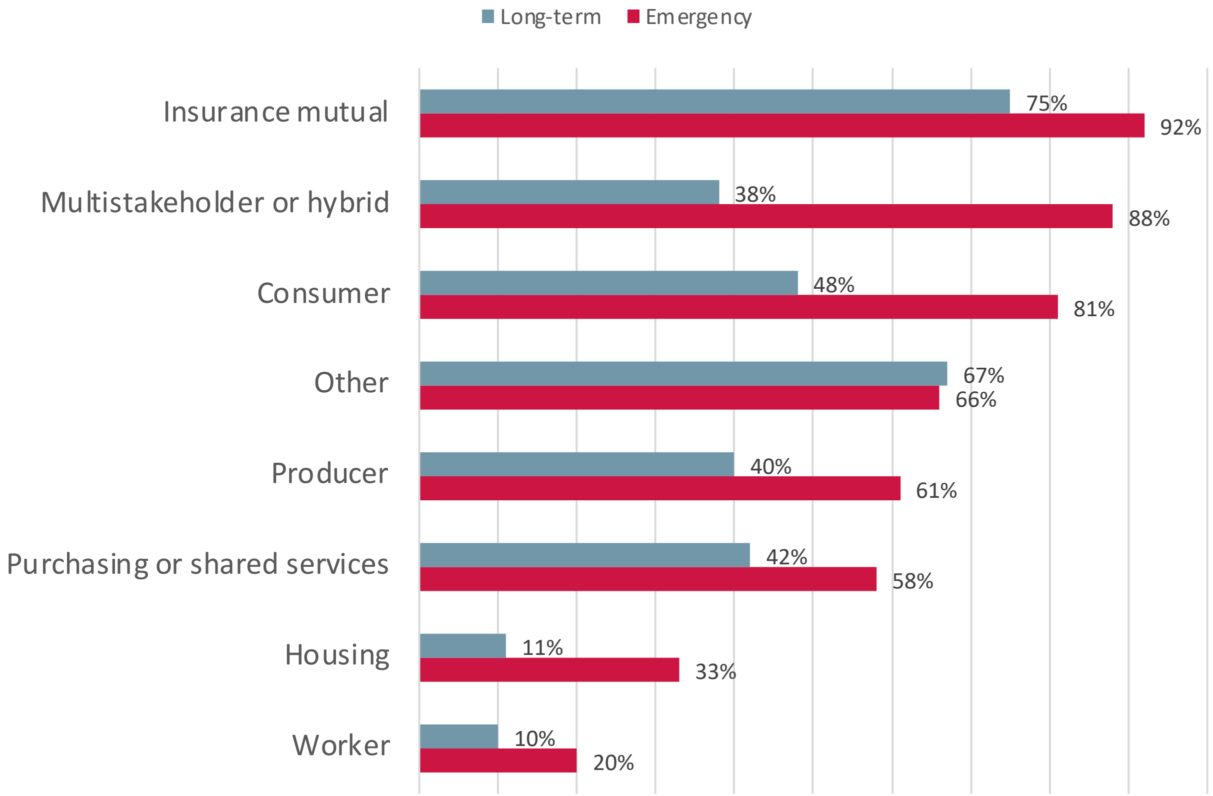
[16]Among worker cooperatives, respondents with a CEO are larger on average than those without. The few participating non-worker cooperatives without a CEO range in size from 4 to 15,000 members with a mean of 1,542 and median of 100.

WHAT IS A SUCCESSION PLAN?

A succession plan is a written document outlining a process and strategy for identifying who can replace a leader in the cooperative if they leave. There are generally two types of succession plans. An emergency succession plan identifies who on the team can take over as interim if the CEO leaves suddenly due to illness, death, or other circumstances. It should also outline the responsibilities of the interim CEO and other key leaders during an emergency and protocols for internal and external communications. Long-term succession plans are focused on long-term business continuity and the development of individuals who can fill critical positions within a company. Both types of plans should be written down and discussed confidentially with the board of directors.

Figure 30. Prevalence of Succession Plans Among Participating Cooperatives



Performance and Compensation

One of the board's primary responsibilities is to select and monitor the manager. **Overall, 61 percent of participating cooperatives use specific, quantifiable measures to evaluate CEO performance.** This practice is most common among participating purchasing cooperatives (84 percent) and least common among worker cooperatives (27 percent). Respondents described using several measures of CEO performance, most often metrics tied to financial benchmarks followed by progress toward strategic goals. They also mentioned measures related to leadership qualities, staff education and growth, patronage rebates, and using skills assessments and balanced scorecards with financial and member satisfaction metrics. Among food co-ops, policy governance and its associated reporting framework stood out as a prevalent approach to CEO performance measurement. Many respondents of all kinds also indicated that the board conducts an annual evaluation of the CEO's performance but did not describe the specific metrics it includes.

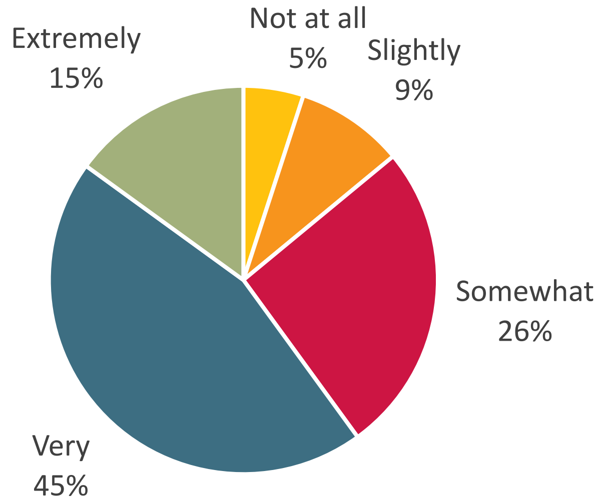
The results of the CEO's annual performance evaluation are often tied to decisions about compensation. **Overall, 63 percent of participating cooperatives use industry benchmarks to determine CEO compensation**. This practice is again most common among participating multistakeholder (75 percent), purchasing (74 percent), and consumer (73 percent) cooperatives and least common among worker (22 percent) and housing (22 percent) cooperatives. Taken together, these findings set the stage to explore many other interesting dynamics regarding board control, cooperative performance, and CEO compensation in the next wave of CGRI data collection.

The Board-CEO Relationship

Carolee Colter, a long-tenured consultant with Columinate, compares the relationship between the CEO and the board to the engine of a car. If the engine is not working, the car will sputter, it cannot travel efficiently to its destination, and it may eventually break down completely. The ability of the CEO and board to productively work together is paramount to a cooperative's success.

Much has been written about the CEO-board relationship in the context of the principal agent dilemma (Dalton et al. 2007; Trechter et al. 1997). Agency theory, the dominant framework for studying corporate governance, posits that business owners (the principal) and managers (the agent) have different interests and that the main function of the board is to control managers. The types of board-CEO relationships described in our interviews, however, align more closely with the **stewardship theory of governance**, which suggests that managers want to do well, will effectively steward an enterprise's resources, and thus are better treated as partners with the owners. "Lots of times people come to the board and want to have power over the manager" said Morgan, the general manager of a food co-op, "[But] what we do is power with. We really harness the power of working with each other and that kind of partnership." In other words, the board's main function is to add value to decision making and improve organizational performance. Enacting stewardship theory in practice becomes possible under two conditions. First, the CEO must view the board as a worthy partner. Second, the board must have the necessary skills and knowledge to add value to discussions and decision-making. Both conditions require intention and care.

Figure 31. How Well Does the Board Strike an Appropriate Balance Between Supporting and Challenging the CEO?



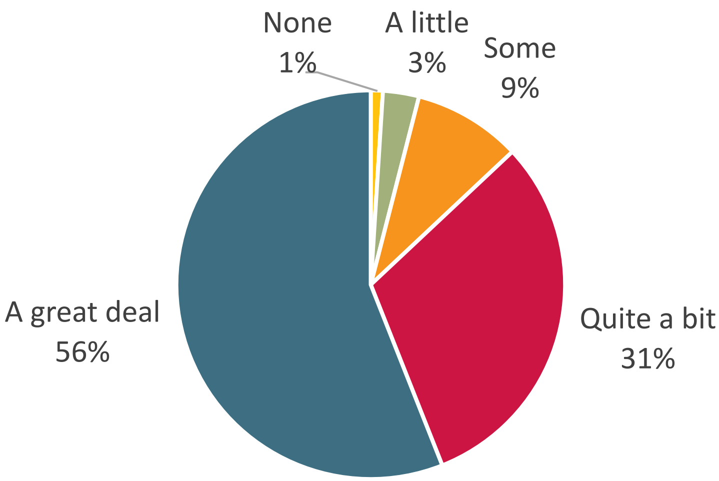
"If you're going to monitor, how do you ask questions in a way that isn't putting your fingers in the business but understanding what's being done to meet the challenges?"

Several survey questions about the board-CEO relationship shed light on these dynamics. Overall, 65 percent of participating cooperatives say their board understands its role in relation to management "extremely" or "very" well and 60 percent say their board strikes an appropriate balance between supporting and challenging the CEO "extremely" or "very" well (see Figure 31). Perhaps not surprisingly, these variables are strongly correlated.

What does striking the right balance between supporting and challenging the CEO mean to cooperative leaders? Maria, the board chair of a purchasing cooperative, credits her CEO's strength and transparency for the healthy dynamic in the board room. "I see aspects of Cindy's leadership style that engage, that offer confident leadership paired with humility. She's open to feedback. That makes it easier to speak up when we have concerns or questions." Board chairs can also play a crucial role in mediating between the full board and CEO to ensure that communication is both tactful and well-timed. "If you're going to monitor, how do you ask questions in a way that isn't putting your fingers in the business but understanding what's being done to meet the challenges?" said Kevin, who works closely with the board of a large agricultural cooperative. Credit union CEO Cameron has helped his board find the right balance by connecting them with training on how to ask questions without leading or making assumptions. "I need diversity of thought and challenge. I need them to ask questions," said Sam, a mutual insurance CEO. "I want them to indicate if they affirm the strategy and indicate where to tweak." The dividing line between governance and management is often clearer in theory than in practice.

Boards are more likely to be effective partners to the CEO if they cultivate a stewardship culture, deep knowledge, and a mix of skills. Nick explained that when he was the board chair of a large agricultural cooperative, his goal was to "have a board room full of intelligent people who could have an educated discussion around the topics of importance […] We would end up in the right place if we could do that." Cameron, a CEO who is involved in many aspects of his credit union's governance, emphasized that board members do not necessarily have to be subject matter experts to add value to discussions and decision-making. He sees his role as attending to board dynamics, working closely with the chair to support a healthy culture of asking questions, and bringing in outside resources and consultants for ongoing education. A collaborative spirit is key. "You're really trying to work together in this process," Cameron said.

Figure 32. How Much Trust Exists Between the CEO and the Board?



Striking the right balance between supporting and challenging the CEO also goes hand in hand with trust. Figure 32 shows that 56 percent of participating cooperatives say there is "a great deal" of trust between the CEO and the board and 31 percent say there is "quite a bit." In our interviews, two experienced CEOs emphasized that transparency is key to building a healthy working relationship with the board. "When I came into the [general manager] role, I was told more than once by [peers], 'Don't tell the board anything that you don't need to tell them,'" said Matteo, the general manager of a food co-op. He ignored this advice: "The GM is accountable, but the board is elected by the owners and they need to know stuff." Conor, the CEO of a regional agricultural cooperative, shared a similar story. "I can't believe how many CEOs told me when I was younger that boards operate on a need-to-know basis. That's a load of crap, but there's still a lot of it out there," he said. "We're here to add value to the people who own this organization. I won't have a company that doesn't respect the board of directors' role."

Cultivating a healthy dynamic between the CEO and board can take time, especially if there has been a change in leadership or a breakdown in trust. Winifred, the CEO of a rural electric cooperative, explained that it took time to earn the board's trust. "They had just experienced a CEO who was pretty awful, so it was understandable. They also didn't really understand what was happening at the company. But now that we have trust and respect, it's a good balance." Improved systems of accountability and a focus on building personal relationships contributed to the improvement. She added, "A lot of CEOs don't understand that a majority of their job is actually just relationships."

Conflict often tests these relationships—and provides opportunities to make them stronger. In the survey, we asked respondents to think back to the last time there was disagreement between the CEO and the board about the right path forward, and then explain the disagreement and how it was resolved. **Although the specifics varied, disagreements were most often related to divergent viewpoints on strategy or the role of the board versus management**. In terms of resolving these issues, a prominent theme was the role of the board chair in navigating conflict and establishing common ground between the board and CEO. “If the path is too divergent,” wrote one respondent, “we either lean on policy or lean on our board consultant or board chair to help forge agreements.” These findings resonate with other studies about the relationship between board chair tenure and cooperative health (Cook and Franken 2017), an area where further research is clearly warranted.

Ultimately, both survey and interview findings suggest that keeping the “engine” of the board-CEO relationship running smoothly requires ongoing investments in mutual respect. **The CEOs we interviewed acknowledged that working with directors can be frustrating at times, but they also demonstrated a commitment to engaging with the board as a worthy partner in stewarding the cooperative**. “I will never own [the cooperative],” said Conor, a CEO. “They *are* the owners, and they are elected by the owners, and they need to do their job. And I don’t let them off the hook in doing their job. If it is a board decision to be made, I’m not making it for them.” While the CEO is not solely responsible for a cooperative’s governance functions, the importance of the CEO’s attitude toward the board and democratic member control cannot be overstated.

MEMBER PARTICIPATION

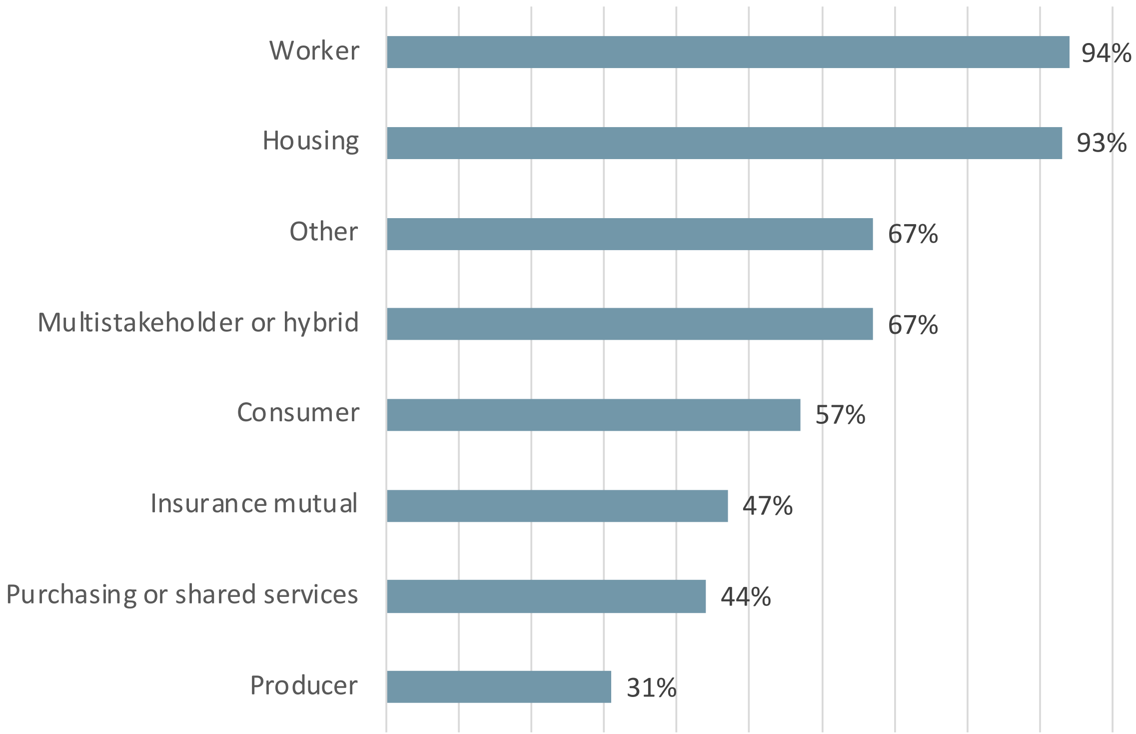
Much of the literature on corporate governance focuses on the board of directors and how to improve its performance. When it comes to cooperative governance, however, it is equally important to examine member engagement and the degree to which members' needs and concerns are addressed. As Conor, the CEO of a regional farmer-owned cooperative, aptly put it: "It's the biggest fear of all co-ops that the company becomes more important than the people who own it."

Birchall (2015) refers to this slice of the cake as *member involvement or voice* and suggests that it is expressed through voting, annual meeting attendance, and participation in other cooperative activities such as committees, member-focused events, and surveys. In order to better understand how large of a slice cooperatives are cutting for member voice, the CGRI survey included questions about member participation in elections and annual meetings, strategies for promoting member participation, measuring member satisfaction, and how well the board understands and responds to member concerns.

Metrics of Member Participation

Overall, 56 percent of participating cooperatives allow members who are not directors to attend regular board meetings. Almost all participating worker and housing cooperatives have open board meetings. This practice is least common among participating producer cooperatives (31 percent).

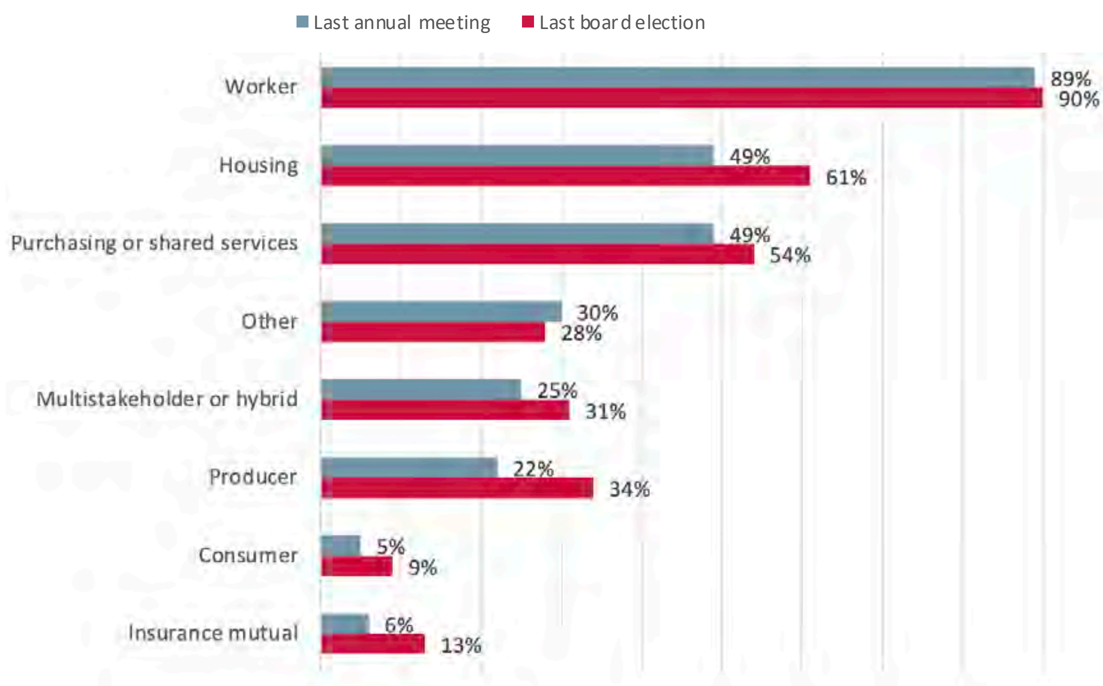
Figure 33. Share of Participating Cooperatives that Allow Members to Attend Board Meetings



In cooperatives with representative democracy, electing the board of directors is perhaps the most important way members exercise their voice. The extent of member participation in board elections appears to vary quite substantially, however. **Overall, 23 percent of members of all participating cooperatives voted in the last board election.** This figure ranges from zero to 100 percent.

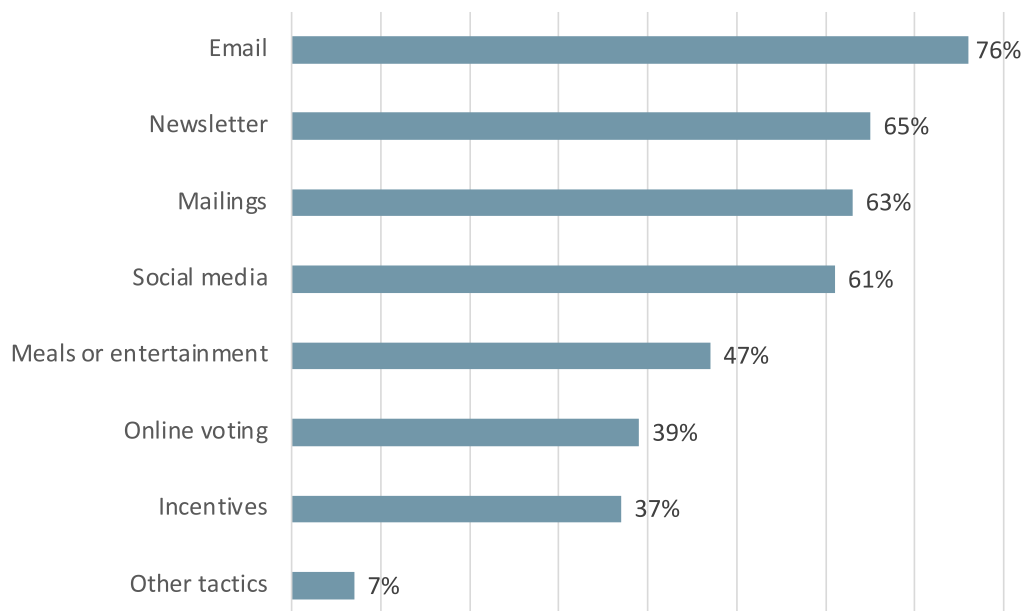
As Figure 34 shows, on average voting rates are highest among worker (90 percent) and housing (61 percent) cooperatives and lowest among consumer cooperatives (9 percent). We see a similar pattern with member turnout at the last annual meeting, which is 17 percent overall but highest among worker cooperatives (89 percent) and lowest among consumer cooperatives (5 percent) and insurance mutuals (6 percent) on average.

Figure 34. Average Member Turnout in the Last Board Election and Annual Meeting



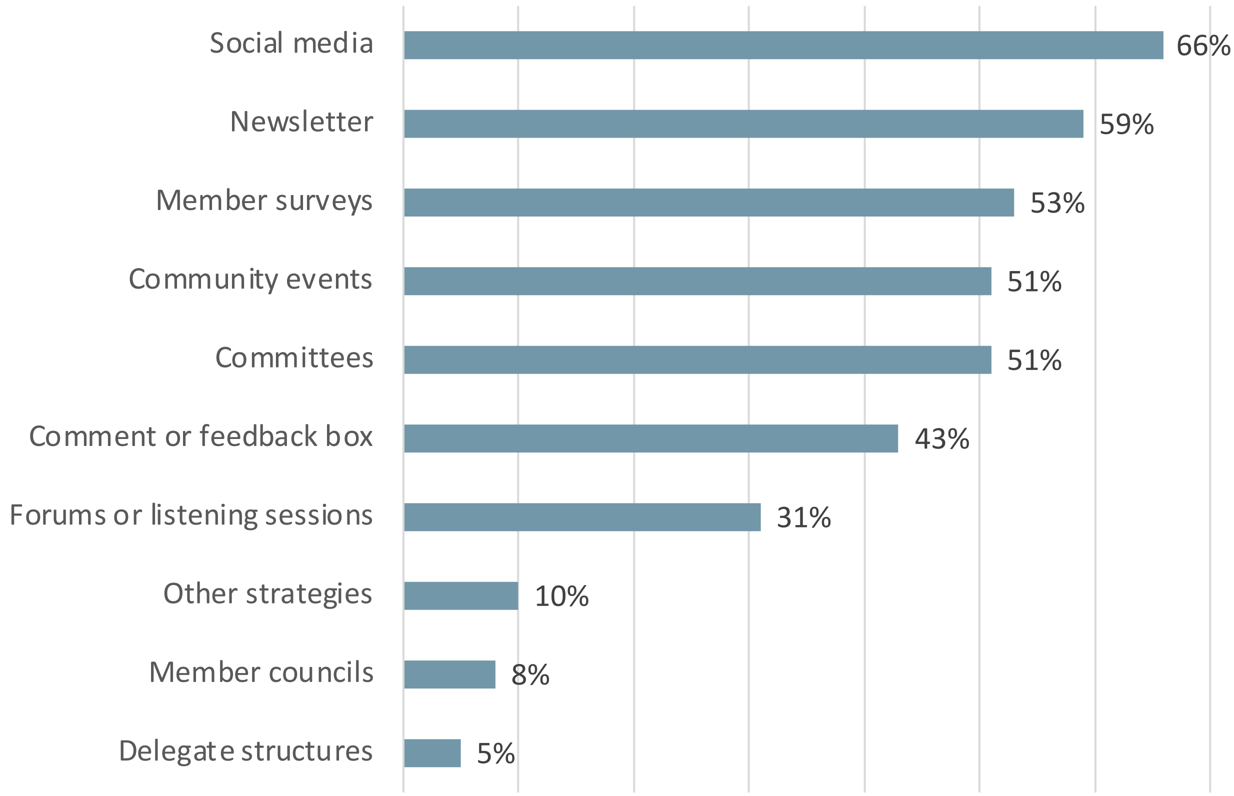
Overall, the most common strategies to promote participation in board elections and annual meetings are email (76 percent) and newsletters (65 percent).

Figure 35. Share of Participating Cooperatives that Promote Member Participation in Board Elections and Annual Meetings with...



Recognizing there are many ways members interact with their cooperatives beyond elections and annual meetings, we also asked respondents to share other engagement strategies they have used in the last year. Overall, the most common are social media (66 percent) and newsletters (59 percent). Over half of participating cooperatives use surveys, community events, and committees to engage members outside of elections and annual meetings. The least common strategies are delegate structures (5 percent) and member councils (8 percent). Examples of other types of engagement strategies include peer-to-peer networking groups, young farmer programs, public charities, campaigns for members to weigh in on policy matters, and other types of events, trainings, and workshops.

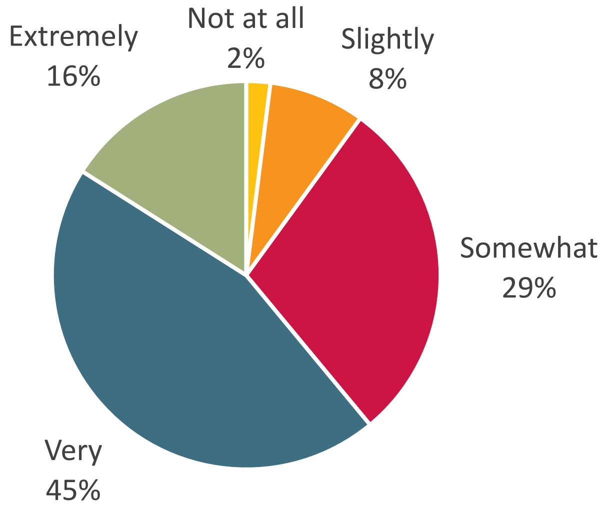
Figure 36. Share of Participating Cooperatives that Engage Members with...



Understanding Member Needs

The board of directors not only has a fiduciary duty to safeguard the assets of the cooperative but is also responsible for ensuring the cooperative stays true to its purpose of meeting members' needs. As such, it is imperative that board members understand what those needs are and how they are evolving. As Figure 37 shows, overall, 16 percent of participating cooperatives say their directors understand the needs of members "extremely well" and 45 percent "very well." On average, participating producer and purchasing cooperatives are the most confident their boards understand the needs of members well; participating multi-stakeholder and consumer cooperatives are the least confident.

Figure 37. How Well do Board Members Understand the Needs of Members?



The interviews revealed several insights about the role of the CEO, other employees, diversity, and director education in helping cooperative boards understand and respond to member needs.

First, **the CEO can play an important role in facilitating connections between directors and members**. “I get a lot of direct [member] input and I do ask what’s working [and] what’s not,” said Matteo, the general manager of a food co-op. “Under policy governance, part of my gig is to make sure people have a way to give input.” Like several of the CEOs we interviewed, Matteo takes his role conveying member needs to the board quite seriously. Similarly, Conor, the CEO of an agricultural cooperative, facilitates director-member connections by inviting board members to his regular producer roundtables and supporting the formation of cooperative advisory councils organized by type of production. As his board chair David said, their hope is that the advisory councils will both illuminate what is important to members and build a pipeline of future directors. These examples illustrate how CEOs who embrace the cooperative model’s potential to meet member needs can help keep this ethos front and center for the board.

Second, **other employees can also be crucial in helping the board understand member needs**. In many cases, employees are the face of the cooperative: they serve members on a day-to-day basis, address their immediate concerns, and relay member perspectives to the board. “I am a farmer,” said David, the board chair of an agricultural cooperative, “so I have an agronomist that I work with. And he’ll say ‘We really need this’ or ‘This is the way I see things changing.’ […] You need to hear those things.” Similarly, in many mutual insurance companies, agents help board members and management stay in touch with the needs of policyholders. Sam, the CEO of an insurance mutual, touted the value of having agents out in the field: “Agents provide feedback on what the competition is doing and what policyholders are interested in, which can be used to inform board knowledge and overall strategy.”

Third, **ensuring that directors represent a broad swath of member perspectives can also help the board stay in touch with diverse member needs.** For example, David explained that all directors are elected at large in his agricultural cooperative—but there is a tacit understanding that the nominating committee will find candidates from different geographies who can relate to the needs of members in different regions: “Each individual director understands their particular region very well, but we also have eight other regions that you have to try to wrap your head around. […] For the most part we do really good coming together in the board room, hearing those different opinions in the board room, then coming to decisions.” Cindy, the CEO of a purchasing cooperative, also believes her board understands the needs of members very well ,in part because directors “come from different geographies and industries.” And Marcus, the chair of a rural electric cooperative board, explained that while more community-oriented directors may not always have the most technical or financial savvy, their ability to bring a wide variety of member needs into the board room is invaluable: “They tend to be quite involved and to talk a lot in their communities. They don’t get the whole community […], but you get the mosaic—and I think it tends to be a fairly accurate mosaic of the region.” In other words, diversifying the board can be a strategy to keep tabs on how best to serve members.

Finally, even with these elements in place, **continuing education and gentle reminders are still helpful**—particularly in large cooperatives and mutual insurance companies. “Initially, most board members don’t know what [policyholders’] needs are unless they are in the insurance industry,” said Sam, a mutual CEO. “They know when they join the board that they are the fiduciaries for the members, but they need to be educated” about the importance of stability and affordability for policyholders. Wade, a credit union board member, offered this perspective: “Sixty percent of the population, if they have a $400 emergency, they would have to sell something. Those are our members. Oftentimes when you get on a board such as this […] you’re doing financially okay. You don’t want to forget that there are people honestly living paycheck to paycheck.” As board chair, Wade felt it was his job to remind directors to view the credit union both "strategically" and "through the eyes of the members." Similarly, the CEO of that credit union shared that he makes sure the purpose statement and shared values statement are visible in the board room to remind directors to keep members' interests in mind as they make decisions.

Measuring Member Satisfaction and Addressing Member Concerns

The CGRI survey also asked how participating cooperatives measure member satisfaction and found that **36 percent conduct regular surveys of members and customers.**[17] Among these, almost a fifth specifically mentioned using Net Promoter Score as a metric to gauge member satisfaction. Other metrics are more industry-specific; for example, housing cooperatives often use occupancy rates as a metric of member satisfaction. Other common responses included member or policyholder retention and growth, member patronage or sales to members, the number of complaints received, and general feedback via board and member meetings, comment cards, and social media.

A similar share of participating cooperatives (31 percent) either left the question blank or stated they do not have standardized metrics for measuring member satisfaction. Several small worker cooperatives noted that they prefer to keep tabs on workplace experiences through general governance and management practices such as meetings and annual performance evaluations. "As a small worker cooperative with weekly meetings and close contact among us, self-reporting on satisfaction is the main tool we use," one respondent wrote. Another shared, "We have such a small membership that [member satisfaction] is handled primarily as a function of our meetings, specifically through check-ins, and secondarily through surveys/polls regarding issues that come up." In other words, more tailored metrics can be useful as resources allow.

Keeping a pulse on member satisfaction is one thing, but what happens when a decision or issue sparks a strong reaction from members? To better understand these dynamics, we also asked survey respondents to think back to the last time this occurred, describe the situation and steps the board and management of the cooperative took to address members' concerns, and explain the outcome.

The particularities of the issues that elicited strong member responses were often sector specific. For example, changes in compensation or COVID safety policies often elicited strong member reactions among worker cooperatives; credit union and rural electric cooperative members often reacted to changes in fees and services; and product selection often riled up food co-op members. Several housing cooperatives mentioned member reactions to remodeling costs, whereas participating producer and purchasing cooperatives mentioned member concerns related to capitalization and corporate structure and strategy. Politically charged member reactions seemed to be most common among participating food and rural electric cooperatives, perhaps because these types of consumer choices have become increasingly politicized and people often "vote with their feet." Insurance mutuals reported the fewest reactions from their members: 63 percent of participating mutuals left the question blank, wrote "N/A," or made a comment such as "none for last 30 years."

Regardless of membership type or industry, however, member concerns were often connected to the following overarching questions:

- **Do the goods or services offered by the cooperative align with member needs, desires, and values?**
- **Is the cooperative making financial decisions that align with members' short- and long-term preferences?**
- **Does the cooperative's strategy align with member needs, desires, and values?**

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[17] *Instruments and indexes provided by national food co-op and rural electric cooperative associations were especially common among participants from these sectors.*

We also found that participating cooperatives tended to respond to major member concerns in similar ways. They listened. They shared information. They launched ad hoc committees. Respondents gave many examples of proactive communication strategies and emphasized the need to explain the “why behind the decision.” Some cooperatives held member forums, others hired consultants or relied on support from national associations, and still others made personal phone calls to members. In many cases, members’ reaction to an issue influenced the eventual outcomes—policies were changed, fees eliminated, names retained, mergers voted down. In others, members were convinced of the merits of a decision or at least came to accept it. Ultimately, in cooperatives, often the outcome—and how well it affords members a voice on issues that matter—is just as important as the process.

BOARD CULTURE

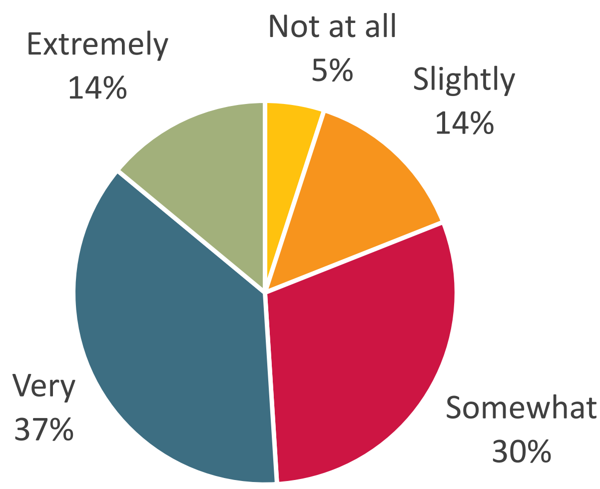
As management consultant Peter Drucker used to say, “Culture eats strategy for breakfast.” Culture—the way a group thinks, acts, and interacts—is just as important as structures and processes in terms of how a cooperative’s governance system functions. Assessing organizational culture with a firm-level survey is quite difficult, however, since many aspects of culture are idiosyncratic and best explored in people’s own words. The CGRI survey included two attitudinal questions about cultural dynamics on the board as well as an open-ended question that asked respondents to describe a recent board conflict. We also explored issues related to social and interpersonal dynamics in the follow-up interviews. In this section, we bring together qualitative and quantitative data to gain a richer picture of cultural dynamics that impact cooperative governance efficacy.

Building Social and Interpersonal Dynamics that Support Governance Effectiveness

Figure 38 shows that half (51 percent) of participating cooperatives say their board builds social and interpersonal dynamics that support it in its governance effectiveness “extremely” or “very” well.

We also find some suggestive evidence that director experience and/or homogeneity may make it easier to build these kinds of dynamics, which would be consistent with a large body of scholarship (McPherson, Smith-Lovin, and Cook 2001). For example, participating cooperatives with longer-serving directors say they do a better job building these dynamics, as do those with a larger share of men on the board. Homogeneity in terms of age also appears to matter. Overall, participating cooperatives with a larger share of Baby Boomer directors say their board does a better job. In contrast, we do not find a statistically significant relationship between how well boards build social and interpersonal dynamics and board size or racial composition. These trends in the survey data prompted us to do a deeper dive in follow-up interviews.

Figure 38. How Well Does the Board Build Social and Interpersonal Dynamics that Support it in its Governance Effectiveness?



Our conversations with survey respondents made clear that **the COVID-19 pandemic has created unique challenges for building a thriving culture on cooperative boards**. Nearly everyone said they would have answered the question of how well directors build social and interpersonal dynamics very differently two years ago. While virtual board meetings can be more efficient, the lack of in-person interaction has taken a relational toll. Respondents described the difficulty of relationship building when informal exchanges are limited and board members are increasingly busy—especially younger directors with budding careers or young families. Nick, the former board chair of a national agricultural cooperative, said that when the board met more frequently, it was easier to get to know each other. “Now with the push for time, and frankly COVID, [getting to know each other] will be one of our challenges. How can we build strong relationships between board members but with limited opportunity to engage?”

Despite these challenges, cooperative boards are finding ways to connect and strengthen their social ties. The interviews illuminated two different but equally important aspects of building strong board culture: essential interpersonal dynamics and the specific activities that cultivate and sustain those dynamics.

Time and again, **interviewees described trust, open and honest communication, respect and positive regard for one another, and a sense of mutual responsibility, as essential interpersonal elements of effective governance**. But how do cooperative boards go about actually cultivating and sustaining these dynamics? One overarching theme from the interviews was simply spending time together outside of meetings. As Lynn, the board chair of a housing cooperative described it, building trusting interpersonal ties is about a mix of "clear rules plus socializing." Interviewees described getting to know one another by attending conferences, carpooling, or engaging in group activities like hiking or sharing a meal. Cameron, a credit union CEO, talked about the benefits of visiting a waterslide park with his board: "You now understand their risk tolerance, their interpersonal skills, how they communicate with each other […] Now when we have a tough decision to make, everybody has developed those relationships to work through that." This kind of unstructured time outside the board room makes it easier for directors to bring their whole selves to collective decision-making.

Cooperatives that prioritize cultivating a healthy culture often find ways to incorporate relationship building into the board's existing work. Morgan shared that every board meeting at her food co-op starts with an ice breaker. "They're just fun little questions that get everyone participating and loosened up. And you get little insights into people that are personal. […] Sometimes people would get impatient and be like, we have all this work to do, why are we wasting time with this?" The board chair who started the practice was very clear: these types of practices build the kind of community we need in order to have good conversations. Similarly, the CEO of a regional agricultural cooperative explained that his board began scheduling committee meetings the day before board meetings in order to give directors a chance to "stay overnight and have supper together." As Conor explained, this extra face time helped with "building relationships that allowed people to be comfortable to really talk about the issues that needed to be talked about rather than maybe worrying if they were going to hurt someone's feelings."

Establishing new peer support and evaluation structures also creates opportunities to build social connection. Several interviewees mentioned their board mentor program in the context of perpetuating the cooperative's culture. Rose, a member of a small worker cooperative, explained that each worker-owner has an "accountabilibuddy" who helps them identify monthly goals and work through any challenges they are facing. "A lot of our time is in groups, so it feels different to be one-on-one," she said. "I feel like that contributes a lot to the culture of interpersonal relationships because everybody is supporting at least one other person and is being supported by one other person." David, the chair of a regional agricultural cooperative that recently adopted a new board evaluation process, explained that they intentionally build in time to address challenging dynamics that surface with open communication and compassion. "We do director evaluations where we evaluate each other, which can be tough. You want to be honest, but you don't want to hurt feelings either," he said. David's board has found this approach useful because the evaluation results also help identify areas of group culture the entire board can work on together during education sessions held before monthly committee meetings.

How Well Board Discussions Allow for Healthy Dissent

Another overarching theme in the interviews was the importance of interpersonal dynamics like trust, open and honest communication, and respect for the board's ability to be accountable and strategic. "We might not always agree on everything," said Morgan, the general manager of a food co-op, "but we have trust in each other and have a kind of partnership where […] slight disagreement can really elevate a conversation and you end up coming up with something better.” Sam and Lucy, the CEO and board chair of an insurance mutual, both emphasized that the relationship between board members should be collaborative but not too close. “You don’t want the board to be so chummy that they won’t call each other out,” said Sam. Cindy, the CEO of a purchasing co-op, alluded to the importance of honesty and healthy conflict in a slightly different way: “If you lack candor, you run the risk of the illusion of agreement.”

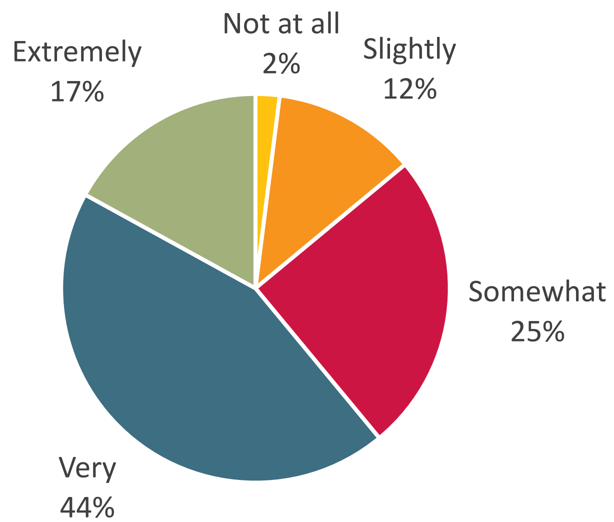
If you lack candor, you run the risk of the illusion of agreement.

The CGRI questionnaire also asked respondents how well their board discussions allow for healthy dissent. Overall, 61 percent of participating cooperatives say their board discussions allow for healthy dissent “extremely” or “very” well. Perhaps not surprisingly, **participating cooperatives that say their board discussions allow for healthy dissent also say their board does a better job building social and interpersonal dynamics that support governance effectiveness.** Similarly, those that say their board discussions allow for healthy dissent also say their board does a better job striking the appropriate balance between supporting and challenging the CEO.

At times, however, dissent inevitably turns into conflict between board members. We asked survey respondents to describe the last time this occurred, steps the board and management took to address the conflict, and the outcome. Most conflicts were related to one of the following ten themes:

- Major financial or strategic decisions (e.g. merger, expansion, patronage allocation)
- Personal or political issues between board members
- Personnel issues (e.g. pay, performance, hiring and termination decisions)
- Accountability issues (e.g. missing meeting, fair distribution of labor)
- COVID-19 response (e.g. mask mandates, vaccinations, virtual versus in person meetings)
- Self-dealing and conflicted board members
- Changes to the governance structure (e.g. adding term limits, changing committee structure)
- Inappropriate board interactions with staff
- Board meeting process (e.g. meeting format and facilitation, use of executive sessions)
- Diversity, equity, and inclusion initiatives (e.g. DEI statements, diversifying the board)

Figure 39. How Well Do Board Discussions Allow for Healthy Dissent?



In most cases, the board responded to the conflict by engaging in discussion, seeking additional information, and/or hiring a third party to mediate. When the conflict was interpersonal or involved a conflict of interest or inappropriate interactions with staff, the outcome often involved drafting or updating a code of conduct, policy, or set of group agreements. In cases involving serious conflict with one or a small number of directors, the dissenting or offending director(s) often backed down or resigned. In a few cases, the conflict had not been resolved at the time of the survey and continued to adversely impact the board’s performance.

In the interviews, **several people emphasized the importance of leaning into conflict in order to spark a cultural shift.** For example, soon after Marcus became the chair of a rural electric cooperative that had been plagued by unhealthy interpersonal dynamics, a board member behaved inappropriately during a meeting: “People who are attracted to co-ops tend to be nice, which creates a behavior that is conflict averse. It’s very difficult for a lot of people in those environments to stand up and say ‘actually, that’s not okay.’” Marcus pulled the director aside during a break and told them the behavior needed to stop. Once Marcus modeled this kind of leadership around interpersonal respect, it set a new tone for the entire group. “That’s how networks work,” he said. “If you walk into a room and it’s okay to interrupt people, you interrupt people.” Rose also described how her small worker cooperative has been working to harness the potential of healthy dissent. She noted that creating space for others is helpful to a degree, but sometimes people need to be reminded that strong opinions help the group move forward too.

Ultimately, these survey and interview findings reiterate that even the best systems and intentions can be derailed by unhealthy group dynamics. When cooperatives are as intentional about the intangible aspects of governance as they are about concrete practices, they often discover that a strong culture is both a cause and a consequence of realizing their potential.

CONCLUSIONS & NEXT STEPS

The Relationship Between Governance and Performance

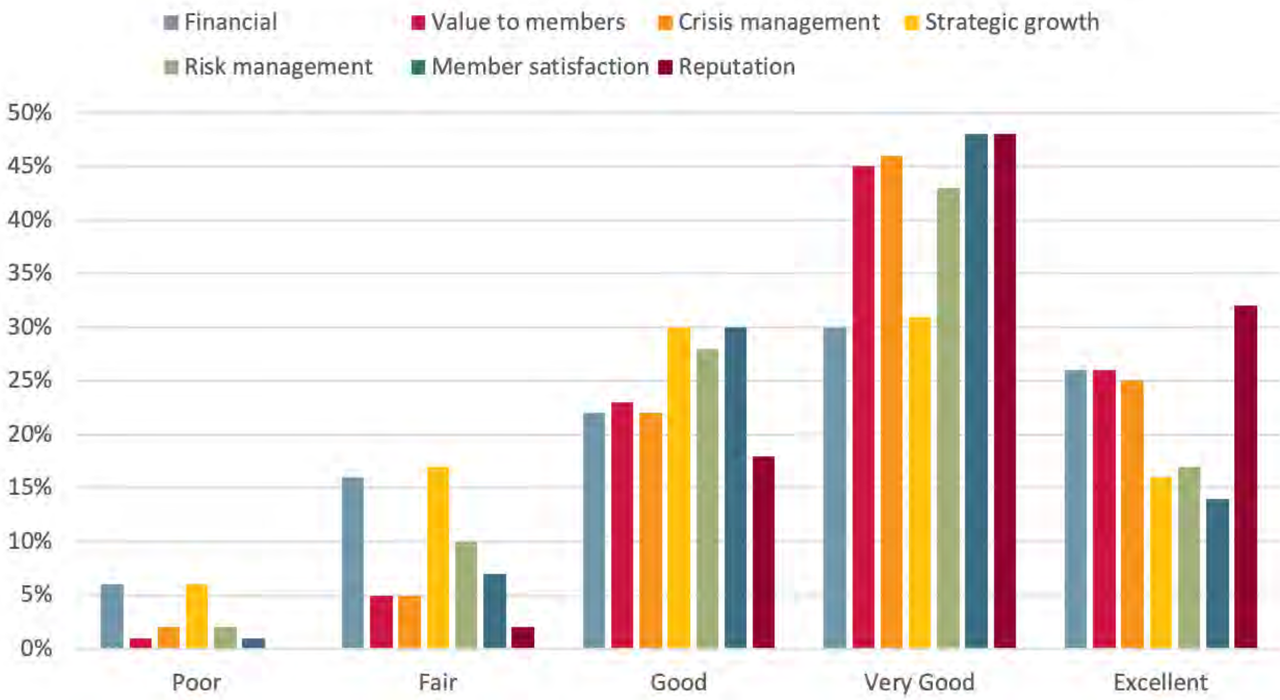
The overarching goal of the Cooperative Governance Research Initiative is to generate information and tools to help cooperatives reflect on and improve their governance practices. The first wave of data collection is a step in that direction, providing a baseline for the range and frequency of cooperative governance practices across sectors and insights into strategies cooperatives use to meet member needs today and well into the future. But what is the relationship between those governance practices and a cooperative's performance? That is the million-dollar question.

A few studies have looked at the relationship between governance and performance within specific co-op sectors, but findings are mixed. For example, Franken and Cook (2017) found that stronger performance in agricultural cooperatives is associated with outside directors, more active members, director training, and smaller boards; whereas Bond (2009) found that some measures of performance are lower in agricultural cooperatives with larger boards. Chen et al. (2010) found no correlation between return on assets and self-assessed good governance in credit unions – but a strong correlation between self-assessments of performance and good governance. Interpreting these findings is also challenging. Despite consensus that more effective strategies for understanding and capturing the multidimensional nature of cooperative performance are needed, we are far from having a uniform framework for measuring performance and good governance across the cooperative community (Brown et al. 2015; Theodos, Payton Scally, and Edmonds 2018, Franken and Cook 2019).

That said, we can build on previous studies. For example, Franken and Cook (2017) measure financial performance in terms of return on assets, return on equity, and extra-value index. They also use a measure of "cooperative health" that indexes self-rated cooperative success in terms of member satisfaction, competitive position in the industry, profitability, ability to achieve vision, and overall performance. In their study of credit union governance and performance, Chen et al. (2010) gauge performance using both financial metrics and self-reported measures. These studies exemplify a judicious approach to objective financial data, which can be unreliable as a sole metric for success due to the unique relationship between cooperatives and their members. For example, many farmer-owned cooperatives are essentially vertically integrated extensions of their members' farm businesses, thus financial performance of the cooperative firm can be altered by moving income from one entity to the other.

In the 2021 CGRI survey, we collected data on a few objective measures of financial performance including gross revenue, net profit, patronage allocated to members, and patronage distributed to members. These measures provide some necessary but insufficient insight into the scale and financial performance of participating cooperatives because they do not necessarily capture how well cooperatives meet member needs (Brown et al. 2015). We also asked respondents to rate their cooperative's performance in the following seven areas: financial performance, strategic growth, reputation, delivering value to members, risk management, member satisfaction, and crisis management. As Figure 40 shows, participating cooperatives rated their performance the highest in terms of reputation, delivering value to members, and crisis management and the lowest in terms of strategic growth.

Figure 40. Self-Rated Performance of Participating Cooperatives



In the interviews, we also invited respondents to share how they measure cooperative performance in their own words. These conversations reflect the complex and varied nature of meeting member needs. **Above all, cooperative leaders evaluate performance based on their cooperative's ability to deliver on the value proposition to members.** Maria, the board chair of a purchasing cooperative, shared that they use membership growth as the primary performance metric. The board asks itself, "Are we truly delivering the value we say we do when we ask someone to join our co-op?" Cindy, the cooperative's CEO, explained it this way: "Are we retaining members? Are we adding members? That is the ultimate measure for us. If we're doing the right things, if we're truly adding value to our members, we will grow." The board of a regional agriculture cooperative asks itself a similar question: "Are we doing what we need to to serve our members?" The chair, Dave, said, "If we're providing [members] the tools and the advice and the knowledge and the advisors they need to be successful, I would call that a success for us."

Of course, strong financial performance is essential to long-term viability and fundamental to delivering value to members. Yet exactly how it translates to member benefit differs across sectors. In producer cooperatives, which are relatively capital intensive, "Return on invested capital and return on member equity are key," said Nick, the former board chair of a national agricultural cooperative emphasized. The cooperative measures other things that feed into those metrics, but Nick stressed, "if we're not meeting those goals then you have to wonder if we're really meeting our purpose." The phrase "no margin, no mission" peppered our conversations with credit unions and food co-ops, whose multi-faceted missions often reflect issues of importance to their members such as financial literacy or thriving local food systems. Worker cooperatives mentioned paid time off, health insurance, and other benefits as indicators of success, as well as opportunities for workers to make decisions together about how to prioritize various benefits. In industries such as housing, insurance, and utilities, interviewees emphasized the safety, reliability, and long-term sustainability of delivering critical services. Lucy, the board chair of insurance mutual, explained that for policyholders, success is about "providing me with a product that gives me what I need: insurance and a sustainable company that is run well so it will be there when I need a claim covered."

While the first CGRI study has revealed novel insights about cooperative governance practices in the U.S., we have not yet answered the million-dollar question. In the year ahead, we will turn our attention to building the capacity needed to unpack the relationship between governance and performance for the long haul.

Next Steps for CGRI

Launching CGRI underscored two key cooperative research infrastructure needs for this project and beyond. The first is a comprehensive national list of cooperative enterprises in the U.S. A robust enterprise-level sampling frame would support rigorous research about many aspects of cooperatives by making statistical inference possible in this population of firms. The second need is a standard definition or typology of cooperatives, which would greatly facilitate data collection efforts and transnational comparative research (Bouchard 2016). Our challenges classifying cooperatives in the first wave of CGRI data collection reiterate that developing a logical, consistent, and practitioner-friendly typology for cooperatives should be a high priority in future cross-sector cooperative research.

We also identified several substantive areas for future research. Our top priority in the year ahead will be to develop a performance index to begin identifying correlations between specific governance practices and cooperative performance. We also see opportunities to put our findings in dialogue with those of other cooperative scholars and practitioners on issues such as board recruitment and selection in credit unions (Brown 2005), member participation in large consumer cooperatives (Birchall and Simmons 2004), governance practices of cooperatives in the United States versus Canada (Reynolds 2020) and other countries, and the relationship between governance and performance in cooperatives versus conventional firms (Brown et al. 2015; Cooper, Lamm, and Val Morrison 2019; Cornforth 2004; Dalton and Dalton 2005; Eldenburg et al. 2004; Shivdasani and Yermack 1999). Additionally, the large body of scholarship about the relationship between diversity and good governance in conventional firms (Adams and Ferreira 2009) and sector-specific studies about gender diversity in cooperatives (CUNA 2021; Meyers 2016; van Rijn 2019; Schlachter 2021; Sobering 2016), will provide important context for exploring our findings on gender and racial diversity on co-op boards. Throughout the next phase of CGRI, we will continue to use Birchall's cake metaphor as a framework for thinking about what good governance looks like and how it translates to long-term success—in part by identifying specific governance practices and design choices that cooperatives can leverage to achieve the most expedient balance of member voice, representation, and expertise in their governance systems.

We will also leverage findings from CGRI to develop practical, evidence-based tools for cooperatives of all kinds. Resources permitting, the next phase of CGRI will focus on developing educational resources and tools that help cooperatives reflect upon and improve their governance practices. And as we continue administering the survey, longitudinal data will provide unique insights into how governance practices and their relative impacts on health and performance are evolving over time.

How do cooperatives build and sustain governance systems that hold true to the cooperative DNA and position them for success in today's increasingly complex word? This report is an invitation to join UWCC in an ongoing conversation about what it looks like for cooperatives to achieve their greatest potential as member-owned and democratically controlled organizations. As we continue to explore this rich dataset and make plans for future waves of data collection, we welcome your insights and reflections. What findings interest or surprise you? What questions should we probe more deeply? What resources would be most useful to you or your cooperative? CGRI is an ambitious endeavor, launched in the spirit of cooperation. We hope you will join us in our work to strengthen cooperatives' superpower of democratic member control.

APPENDIX A – CLASSIFYING COOPERATIVES

Determining what counts as a cooperative is more complicated than it might appear. A cooperative can be defined in terms of incorporation status, tax-filing status, ownership model, adherence to specific values and principles, or other characteristics (Deller et al. 2009). These boundary issues and the absence of a standard legal category across states make it difficult to establish a clear criterion for cooperative enterprises in the U.S.

It is equally challenging to classify cooperatives. Whereas some scholars and practitioners use typologies based on industry, others categorize cooperatives based on membership type or function (Williamson 1987). The definitional issues described above further confound efforts to create a mutually exclusive and collectively exhaustive classification system.

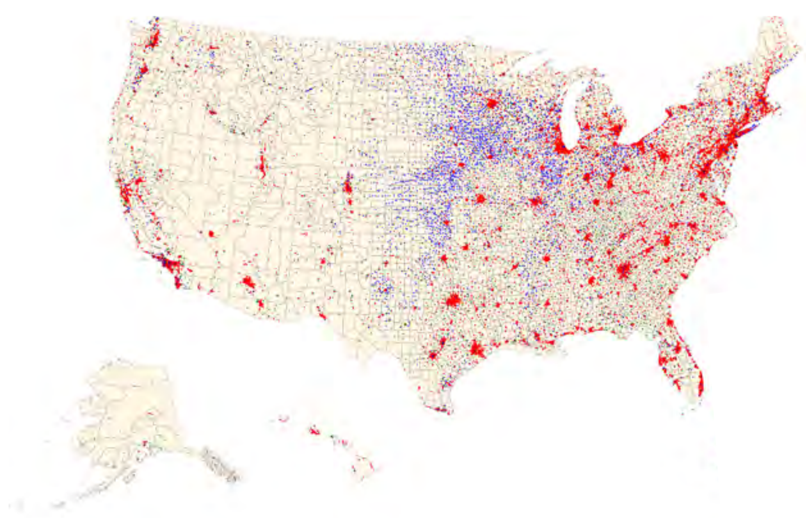
Drawing on UWCC's experience conducting a national census of cooperative enterprises (Deller et al. 2009) and maintaining the Wisconsin Co-op Directory, the CGRI survey asked respondents to classify their enterprise in terms of:

- **Industry:** agriculture, financial services, education or childcare, retail, healthcare or home care, housing, insurance, manufacturing, services, transportation, utility, other
- **Structure:** primary, secondary, hybrid
- **Membership type:** consumer, insurance mutual, multistakeholder or hybrid, producer, purchasing or shared services, worker, other

We used several strategies to ensure consistency and reliability in these reported enterprise characteristics. As a general rule, we corrected obvious errors by contacting respondents for clarification, conducting desk research, or consulting with members of the UWCC team familiar with the cooperative in question. When in doubt, we deferred to self-classification.

First, we reviewed whether industry and type consistently mapped onto each other. For example, all respondents that identified their type as *insurance mutual* selected *insurance* as their industry and vice versa. We discovered, however, that housing cooperatives with similar governance structures all selected *housing* as their industry but identified their type as *consumer*, *worker*, and *other*—suggesting confusion about where they fit in. We retroactively created a dedicated *housing* type category for these cooperatives and assigned it to all 15 respondents in the *housing* industry.

Cooperatives in the U.S.



Second, we cross-referenced reported enterprise characteristics with the source of each contact in our sampling frame to ensure consistency with the membership criteria for each cooperative association as described below. This process involved reclassifying the industry of one credit union; the type of eight credit unions, one consumer food cooperative, and two worker cooperatives; and the structure of one credit union and one worker cooperative. We noted that credit unions with a field of membership based on a similar employer seemed particularly confused about the nature of members' relationship to their cooperative, with six incorrectly identifying as *worker* rather than *consumer* cooperatives.

Association	Industry	Type	Structure
Credit Union National Association (CUNA)	Financial services	Consumer	Primary
National Association of Housing Cooperatives (NAHC)	Housing	Housing	Primary
National Association of Mutual Insurance Companies (NAMIC)	Insurance	Insurance	Primary, secondary, or hybrid
National Council of Farmer Cooperatives (NCFC)	Agriculture or financial services	Producer or multistakeholder	Primary, secondary, or hybrid
National Co+op Grocers (NCG) and Neighboring Food Co-op Association (NFCA)	Retail	Consumer or multistakeholder	Primary
US Federation of Worker Cooperatives (USFWC)	Any	Worker, producer, or multistakeholder	Primary

Third, we ran a series of code checks for missing or illogical responses to questions about key enterprise characteristics. For example, one cooperative identified its type as *multistakeholder* but only selected a worker member class, so we reclassified it as a worker cooperative. Three worker cooperatives that offer accounting, tax preparation, bookkeeping, or payroll services selected *financial services* as their industry; we moved these to the *services* industry category to be consistent with NAICS code 541200. Four consumer and producer cooperatives that said they do not have a CEO, general manager, executive director, or other highest-ranking employee identify one on their website, so we changed their response accordingly. We also conducted desk research to impute the structure of one insurance mutual and consulted the UWCC team to correct the industry of one cooperative and the type of another.

Next, we individually reviewed all firms that identified as *other* industry or *other* type to assess whether a more specific classification was appropriate. For example, we moved eleven cooperatives that provide consulting, web development, or other services to the *services* industry category. We also identified four cooperatives in building and construction and retroactively created a *construction* industry category. If a cooperative's activities bridge two different industries or we could not determine a clear alternative, we left them in *other*. This process resulted in reclassifying the industry of 16 respondents and the type of six respondents in total.

Finally, we reviewed the self-identified type of all respondents in the farming sector including farm credit cooperatives, farm supply cooperatives, and producer cooperatives. This exercise revealed two key insights. First, the lack of a standard typology was especially pronounced among farmer cooperatives: most (but not all) respondents that chose agriculture as their industry identified producer as their membership type—even if their main activities involve selling goods or services to producers and other consumers (rather than transforming member inputs into a marketable output, which is how UWCC defines the function of a producer cooperative) (Deller et al. 2009). We suspect this is related to the long tradition of cooperatives in rural communities identifying as "producer-owned" regardless of whether they transform members' inputs into a marketable output or purchase wholesale goods to sell to members. Instead many in the farming sector more readily classify cooperatives based on marketing, supply or service, or multi-purpose functions, which we did not include in the survey instrument (for details, see Williamson 1987). Second, farm credit cooperatives did not consistently identify their type. Although our study team had anticipated them to select consumer, instead three chose producer and one chose other. We ultimately deferred to self-reported enterprise characteristics in all cases.

Taken together, our challenges classifying cooperatives in the first wave of CGRI data collection reiterate that developing a logical, consistent, and practitioner-friendly typology for cooperatives is a pressing need in future cross-sector cooperative research.

APPENDIX B – METHODOLOGICAL DETAILS

Research Team

The study team included University of Wisconsin Center for Cooperatives (UWCC) Researcher Laura Hanson Schlachter and Executive Director Courtney Berner. University of Wisconsin-Madison students Ethan Cooke and Vinya Cherian provided research support.

Survey Instrument and Interview Guide Design

Developing the survey questionnaire was an iterative process informed by background research about governance in cooperatives and conventional firms and UWCC's experience in the field. We focused on behavioral measures (i.e. whether or not cooperatives engage in specific governance practices). We also included a few attitudinal items and open response questions about specific examples of turning points in the cooperative that were inspired by Mario Small's (2017) book, *Someone to Talk To.* The University of Wisconsin Survey Center conducted an expert instrument review. The research team also solicited feedback from CGRI advisory committee members and other cooperative leaders who were not invited to participate in the survey.

Developing the interview guide was also an iterative process involving members of the study team. We identified themes to explore based on our preliminary analysis of survey results, then wrote questions that would elicit stories about board composition, board culture, strategic orientation of the board, the board-CEO relationship, engagement with members, and performance

The full survey instrument and interview protocol are available at https://uwcc.wisc.edu/research/participating-in-cgri/

Sampling Strategy

The survey was designed for key informants at the firm level, meaning we invited one person responsible for the governance function of their cooperative to complete the survey on their firm's behalf. We targeted the Chief Executive Officer (CEO) because we thought people in this role would be knowledgeable about governance issues and CEO contact information is relatively more accessible than that of board chairs. That said, there is no master sampling frame of all the CEOs of all the cooperatives in the U.S. We began to create one in 2021 by aggregating lists of members and clients of CGRI Advisory Committee members who were willing to share this data confidentially with UWCC. The sampling frame included the name and email for an individual point of contact associated with each firm, in most cases the CEO, president, general manager, or board chair.

We selected all cooperatives on the sampling frame with certainty except those from the Credit Union National Association (CUNA) list. In this case, we pulled a stratified random sample based on asset size. We excluded all credit unions with assets below $10 million, selected with certainty all with assets of $50 million and above, and randomly sampled half of all credit unions with assets between $10 million and $50 million. These procedures resulted in a national non-probability sample of 4,429 co-ops, insurance mutuals, and credit unions. We screened for eligibility with two survey questions confirming that respondents were cooperatives and currently operational.

The interviews used a purposive sampling strategy designed to capture stories from cooperatives in different sectors where things seemed to be going well so we could share insights about effective governance practices more broadly. We identified eight sectors to focus on, then narrowed down the list of everyone who volunteered to do a follow-up interview within those sectors based on indicators of good governance in their survey responses. For example, we only invited cooperatives that said they were “very” or “extremely” confident they have the right mix of people on the board and that their board strikes the appropriate balance between supporting and challenging the CEO “very” or “extremely” well. We also looked at answers to open response questions and self-assessed performance for subjective indicators of good governance such as responsiveness to members’ concerns. Since we wanted to triangulate perspectives of people with different roles within each of these cooperatives, we invited both the person who actually filled out the survey (in most but not all cases the CEO) and a colleague (in most but not all cases the board chair) to participate in an interview. Whenever possible, we sought to include perspectives of individuals with different backgrounds in terms of tenure, gender, racial identity, and other characteristics that might shape their experiences with decision-making at their cooperative.

Recruitment

The study team disseminated a survey advance letter, invitation to participate, and two reminders by email between October 13 and December 10, 2021. The UWCC team also conducted over 400 follow-up phone calls. The research team accepted responses until December 31. Survey incentives included one discounted admission to the 2021 Co-op IMPACT Conference valued at $5 and a $25 gift card to REI for the first 300 respondents.

Interview recruitment involved an email invitation to participate and up to two reminders by phone and/or email between March 2 and April 26, 2022. We offered each interviewee a $25 gift card to REI. All but two individuals we invited ultimately participated in an interview.

Survey Response Rate

We received 500 usable surveys in total. “Usable survey” includes complete and partial responses. We defined a partial survey response as one in which the cooperative answered all crucial questions, which are grouped in the first third of the survey.

We used the American Association for Public Opinion Research (AAPOR 2016) disposition codes and response rate calculator to determine a RR1 of 11 percent overall.

Non-probability Disclosure

The data have not been weighted to reflect the composition of all cooperatives in the U.S. Since the sample is largely based on firms that self-selected into the sampling frame by virtue of their membership or involvement with an organization represented on the CGRI Advisory Committee rather than a probability sample, no estimates of sampling error can be calculated. All sample surveys may be subject to multiple sources of error including but not limited to sampling error, coverage error, and measurement error.

Contact Information

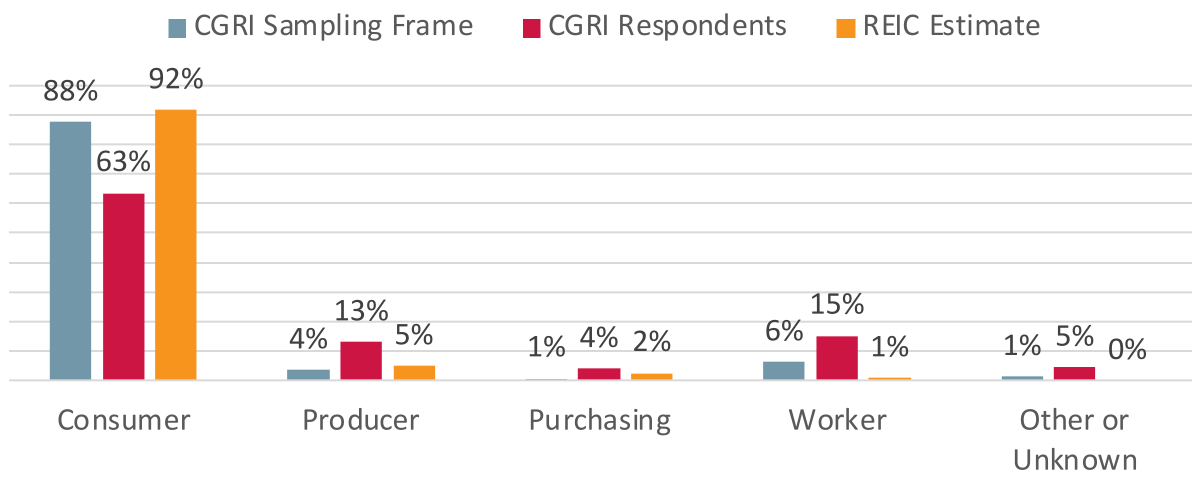
Please contact Courtney Berner, Executive Director at the University of Wisconsin Center for Cooperatives, at cberner@wisc.edu or (608) 890-0966.

APPENDIX C – NONRESPONSE ANALYSIS

As discussed in the Profile of Survey Participants section, findings from the 2021 CGRI survey do capture substantial enterprise-level diversity across the cooperative community. It is unclear, however, how well they generalize to all cooperatives in the U.S. The 11 percent survey response rate surpassed study team expectations but cannot tell us much about nonresponse bias in and of itself (Groves and Peytcheva 2008).

As Figure 41 shows, REIC estimates for the share of all U.S. cooperatives with consumer, producer, purchasing, and other types of members are comparable to the prevalence of these membership type groups in the CGRI sampling frame. In terms of response, producer, worker, and other types of cooperatives are overrepresented in the CGRI survey data relative to REIC estimates and consumer cooperatives are underrepresented. The greater prevalence of worker cooperatives in the CGRI sampling frame and survey data likely reflects growth in that sector in the 15 years between data collection for REIC and CGRI, respectively.

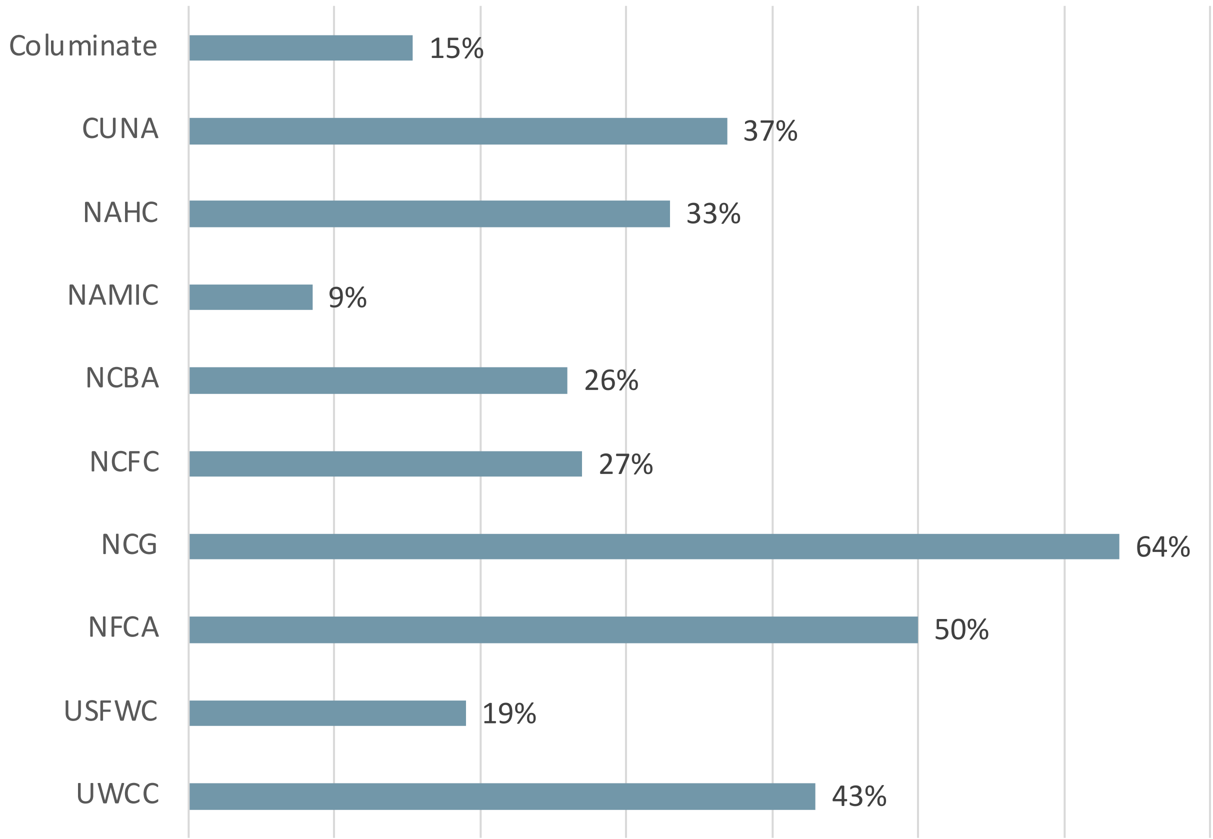
Figure 41. Cooperatives in the Cooperative Governance Research Initiative (CGRI) vs. Research on the Economic Impact of Cooperatives (REIC) by Type



Assessments of how well characteristics of CGRI respondents map onto those of U.S. cooperatives generally are much more reliable in specific sectors where comprehensive enterprise-level data is available. For example, all but one insurance mutual that participated in the CGRI survey is from a membership list provided by NAMIC that also included information on geography and direct written premium (DWP). Our nonresponse analysis of this data found that the average DWP of insurance mutuals that completed the survey is substantially lower ($100.7 million less) than that of NAMIC members overall. NAMIC members at the low (less than $10,000) and high (more than $900 million) end of the DWP distribution are also underrepresented in the CGRI data. NAMIC suspects this is because very small members are mostly farm mutuals without a board and very large ones already have well-developed governance practices and are not actively looking to make changes. Anecdotal evidence from UWCC staff conversion calls also suggests that cooperatives with very good or very poor governance appeared more motivated to complete the survey.

Finally, there may be some nonresponse bias related to survey sponsorship. As Figure 42 shows, we suspect that the response rate is relatively higher among food co-ops (from the NCG and NFCA lists) and cooperatives from the UWCC list because UWCC organizes the annual national food co-op conference and staff targeted calls to cooperatives with whom they have relationships.

Figure 42. Survey Response Rate by Contact Source*



* Acronyms: CUNA (Credit Union National Association), NAHC (National Association of Housing Cooperatives), NAMIC (National Association of Mutual Insurance Companies), NCBA (National Cooperative Business Association CLUSA International), NCFC (National Council of Farmer Cooperatives), NCG (National Co+op Grocers), NFCA (Neighboring Food Co-op Association), USFWC (United States Federation of Worker Cooperatives), UWCC (University of Wisconsin Center for Cooperatives).

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