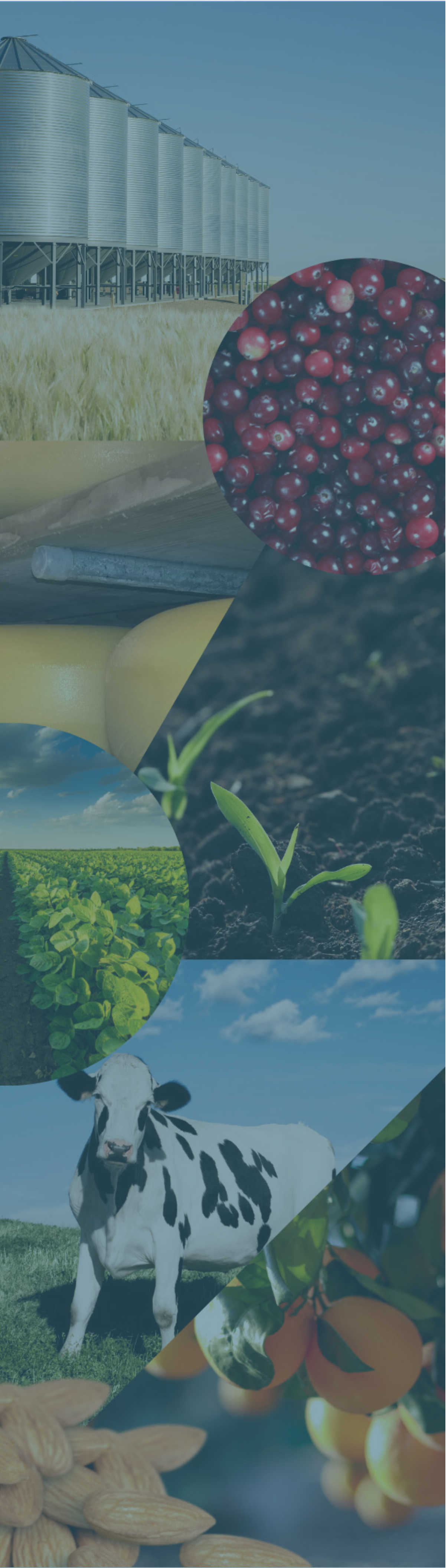
2021 Cooperative Governance Research Initiative

Ag Sector Findings

Graduate Institute of Cooperative Leadership
University of Missouri

Center for Cooperatives
UNIVERSITY OF WISCONSIN–MADISON



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We are also appreciative of the continued support of the CGRI Advisory Committee, which includes representatives from the following organizations:

- Columinate
- Credit Union National Association
- Democracy at Work Institute
- FCC Services
- National Association of Housing Cooperatives
- National Association of Mutual Insurance Companies
- National Co+op Grocers
- National Cooperative Business Association (NCBA) CLUSA International
- National Council of Farmer Cooperatives
- Neighboring Food Cooperative Association

Last but certainly not least, we want to thank the 2021 study participants. This project would not have been possible without their time, candor, and commitment to cooperatives.

A full set of CGRI acknowledgments can be found in our report *Findings from the Cooperative Governance Research Initiative 2021*, available at https://uwcc.wisc.edu/cooperative-governance-research-initiative/.

EXECUTIVE SUMMARY

In 2021, the UW Center for Cooperatives launched the Cooperative Governance Research Initiative (CGRI) with the goal of generating robust data and insights about governance practices within and across U.S. cooperative sectors. The findings revealed diverse approaches to governance across sectors as well as within sectors, including within agriculture. This is the first report to focus on a subset of CGRI respondents: those serving agricultural producers. It provides information on the practices and culture around governance that agricultural cooperative leaders and practitioners need. It also examines the relationships between governance and performance and begins to unpack the dimensions of governance that may impact long-term cooperative health. Our findings suggest:

- Hybrid and secondary cooperatives tend to have greater age and gender **diversity** on their boards than primary cooperatives. Despite this, they feel less confident their board is representative of membership and are more likely to pursue goals related to board diversity in the next three years. There are opportunities to diversify cooperative boards to enhance member representation and potentially improve governance outcomes.
- Board **compensation** among agricultural cooperatives varies widely. While we found no evidence that correlates director compensation with cooperative performance, board compensation strategies should consider the impact on director recruitment and engagement, recognizing that cooperative members—particularly younger ones—have significant demands on their time.
- There is substantial variation in how agricultural cooperatives identify and **recruit** board members, including the use and composition of **nominating committees**. The use of a nominating committee structure is positively correlated with cooperative performance and delivering value to members.
- A strong link exists between board service limits and self-rated performance. Cooperatives without **board service limits** consistently rate their performance higher than those with service limits. Cooperatives should think carefully about the purpose of service limits and the trade-offs they create in other dimensions of governance.
- The majority of participating agricultural cooperatives do not conduct regular **board evaluations**. Applying this important practice can help improve board processes and culture.
- Agricultural cooperatives differ in their approach to **agenda setting** and **meeting facilitation**. Who sets the agenda and facilitates the meeting appears to influence how much time the board spends on strategy and other common board topics, and whether the right amount of time is spent on the appropriate topics.
- Agricultural cooperative boards that strike the right balance between supporting and challenging the CEO have higher levels of **trust** between the board and CEO. Cooperatives that allow for healthy dissent in the boardroom tend to rate themselves more favorably in the area of **strategic growth**.
- **Member participation** is a common challenge across cooperative sectors. Our interviews highlight that agricultural cooperatives with leaders who are committed to the cooperative model foster a culture of robust member engagement at all levels and value the critical role the board plays in the cooperative's success.

Many U.S. agricultural cooperatives have roots dating back to the late 19th and early 20th centuries, with governance practices that have evolved—often slowly—to reflect their growth and change. Agricultural cooperatives are arguably facing one of the most significant periods of their history. The growing complexity of farm and cooperative operations coupled with dynamic business, economic, and social environments are creating new challenges for governance. We hope insights from this report will inform and inspire cooperative leaders as they contemplate the governance practices that will support their cooperative's evolution far into the future.

INTRODUCTION

Cooperatives have unique governance structures—in particular, democratic member control—that make them distinct from other forms of enterprise. In 2021, UWCC launched the Cooperative Governance Research Initiative (CGRI) in response to a need in the cooperative community for data and insights on the governance practices of cooperatives. CGRI's purpose is to generate robust, longitudinal data that empowers cooperatives across sectors to reflect upon and improve their governance structures, processes, and culture.

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). He asserts 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 use 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 Birchall argues that cooperatives should make a deliberate attempt to balance the three elements in a way that optimizes operational performance and member value.

THREE NECESSARY ELEMENTS FOR EFFECTIVE COOPERATIVE GOVERNANCE:

1) Member Voice
2) Representation
3) Expertise

Democratic member control is built into the DNA of all cooperatives, but how that DNA expresses itself varies substantially. From the outset, our goal has been to translate the data we collect into resources and tools that are useful to the cooperative community as a whole and to its component parts. **It is important to us that cooperatives see themselves in the data regardless of their sector, size, age, geography, or membership type.** To that end, we are generating sector specific reports highlighting findings that are useful to cooperatives in that sector. This publication, co-authored by the University of Wisconsin Center for Cooperatives (UWCC) and the University of Missouri Graduate Institute of Cooperative Leadership (GICL), is the first of these reports and features the CGRI data and trends that are relevant to agricultural cooperatives.

CGRI Research Questions

CGRI's mixed methods research design is grounded in a commitment to both academic rigor and real-world application. Our 2021 study 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
    - CEO[1]
    - Member participation
    - Board culture

2. Where are the most opportune areas to advance cooperatives' practices in these areas?

The first wave of data collection provides 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.

The Relationship Between Governance and Performance

A few studies have looked at the relationship between governance and performance within specific cooperative sectors, but findings are mixed. For example, Franken and Cook (2017) found 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.

In the 2021 CGRI survey, we collected data on four measures of financial performance including gross revenue, net profit, patronage allocated to members, and patronage distributed to members. We also asked respondents to rate their cooperative's performance in the following areas: financial performance, strategic growth, reputation, delivering value to members, risk management, member satisfaction, and crisis management. We used the self-rated performance data to develop an overall performance index that weights all seven metrics equally. Throughout the report we use the performance index as well as individual performance metrics to identify correlations between specific governance practices and cooperative performance. While it would be imprudent to draw definitive conclusions from self-rated performance data, we believe there is value in using these metrics to begin unpacking the relationship between governance and performance for the long haul.

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

Why Study Cooperative Governance?

Cooperative governance is challenging. Cooperative leaders are looking for empirical data and tools to help them navigate the complex dynamics associated with managing and governing member-owned enterprises. The need for governance data and resources is especially pressing as cooperatives strive to deliver value to members in an increasingly competitive landscape. Conor, the CEO of a regional agricultural cooperative, suggests that some cooperatives have lost their way over the generations and hopes this 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 agricultural cooperative, hopes the research will reinforce the idea that member voice is central to the cooperative principles: "I hope [CGRI] brings to light how active participation is so critical, and it is really alive, because I think the collective action of cooperatives has a big future."

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[1] Throughout the report, we adopt the usage of CEO whenever we refer to the CEO, general manager, or highest-ranking employee.

Cooperatives within the agriculture sector are diverse—and their governance structures, processes, and cultures reflect this diversity. While we may advocate for certain practices or approaches in this report, we strongly believe there is no single right way to govern a cooperative. This document is not a "how to" manual; rather, it is a window into the broad spectrum of practices agricultural cooperatives are using. It offers an opportunity to understand the different ways cooperatives—large and small, new and old—structure their governance. We hope this report will serve as a catalyst and a resource for thoughtful conversations between directors and managers about how best to lead their cooperatives.

METHODS

Our Approach

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

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). UWCC values participatory research methods, which are defined as "using systematic inquiry in direct collaboration with those affected by an issue being studied for the purpose of action or change" (Vaughn and Jacquez 2020). The CGRI Advisory Committee members have been instrumental in ensuring that our research questions are rooted in the needs of cooperatives.

Second, we want CGRI data to be relevant and robust so it can contribute to conversations among scholars just as easily as conversations between practitioners. One strategy to achieve this is using **mixed methods**, meaning 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 three years, so we can examine patterns over time.

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. Participatory research provides the foundation for translational activities and outputs. Most directly, UWCC is engaging partners, like the Graduate Institute of Cooperative Leadership, to communicate findings and use those findings to design programs that will improve the outcomes of governance practices.

METHODOLOGICAL APPROACH

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

What follows is a brief overview of our survey and interview methods. Additional methodological details are available in the report *Findings from the Cooperative Governance Research Initiative 2021*, which is available at https://resources.uwcc.wisc.edu/Research/CGRI_2021Report_web.pdf.

Survey Methods

We invited one person responsible for the governance function of their cooperative—typically the CEO—to complete a 30-minute online survey. 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 at https://uwcc.wisc.edu/research/participating-in-cgri/.

Our sampling strategy involved creating a custom sampling frame and selecting all cooperatives except credit unions, for which we pulled a stratified random sample based on asset size. This left us with a sample of 4,429 cooperatives, 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. Of the usable surveys we received, 67 were from agricultural cooperatives.

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 positive indicators of data quality emerged, including the following:

- **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 itself was a useful exercise to reflect on their governance.
- There was a **high item response rate**, meaning that those who did complete the survey did so thoroughly.
- The survey had a **high cooperation rate** (67 percent), which measures the proportion of all completed surveys out of all contacts. We found that follow-up calls and endorsements from 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 **great deal of firm-level variation** across the cooperative community.

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) surveys are generally better for asking *what* than *why*. Triangulating quantitative data and qualitative data 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 where things seemed to be going well in order to share insights about effective governance

Figure 1. Interview Participants from Agricultural Cooperatives

Characteristic	Number of Interviewees
Structure	
Primary cooperative	2
Secondary or hybrid cooperative	2
Role	
CEO	1
Board chair	1
Board member	0
Other role in cooperative	2
Tenure	
Less than 10 years	1
10 to 20 years	3
More than 20 years	0
Gender	
Man	4
Woman	0
Other gender identity	0
Race and Ethnicity	
White	4
Hispanic or Latino	0
Other racial or ethnic identity	0

practices more broadly. We selected 11 cooperatives in eight sectors to be interviewed—two of these cooperatives were in the agriculture sector. 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. The characteristics of the interview participants from agricultural cooperatives can be found in Figure 1. We define primary cooperatives as producer-owned enterprises and secondary cooperatives as enterprises whose members are themselves cooperatives. Hybrid cooperatives have both individual producers and cooperatives as members. These conversations were anonymous. Throughout this report we refer to each individual with a pseudonym.

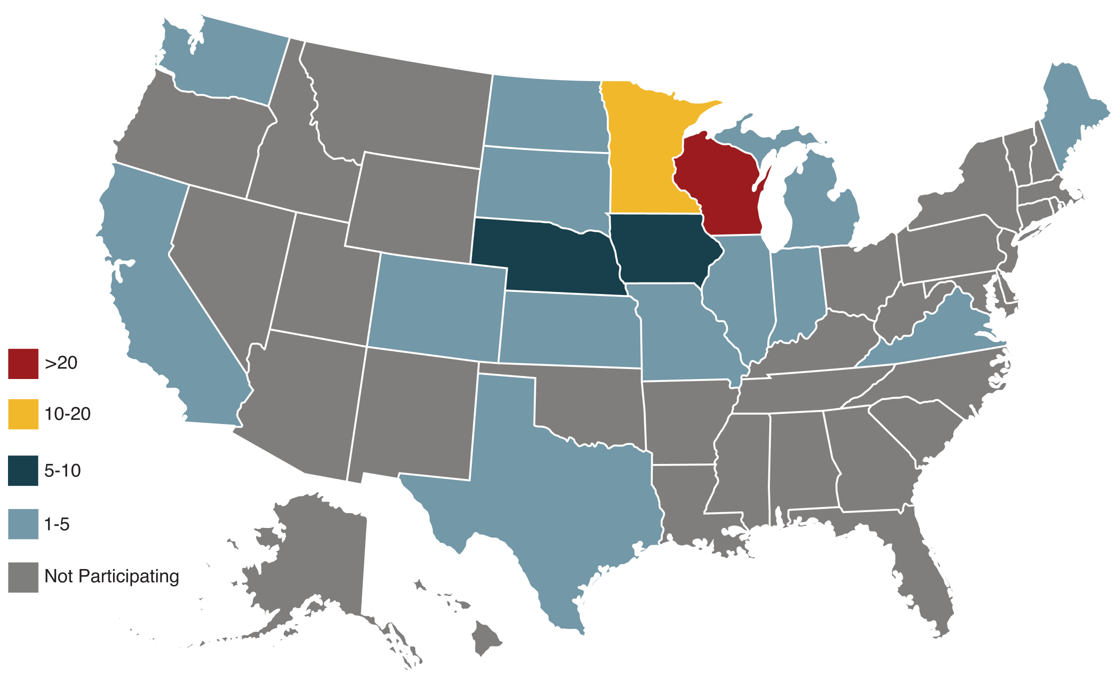
PROFILE OF SURVEY PARTICIPANTS

Characteristics of Participating Agricultural Cooperatives

The 2021 CGRI survey yielded responses from 500 cooperatives and captured substantial diversity in terms of industry, type, size, age, and location. Classifying cooperatives is more complicated than it might seem (Berner and Schlachter 2022). Some scholars and practitioners use typologies based on industry, while others categorize cooperatives based on membership type or function (Williamson 1987). The lack of a standard typology was especially pronounced among farmer cooperatives. Most 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" when producers sit on the board, 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 function—i.e.,marketing, supply or service, or multi-purpose—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 they would select "consumer," instead three chose "producer" and one chose "other." We ultimately deferred to self-reported enterprise characteristics in all cases.

For purposes of this report, we reviewed a list of all participating cooperatives that selected agriculture as their industry or producer as their type. We also reviewed respondents that selected financial services as their industry in order to capture farm credit cooperatives. This process generated a list of 67 cooperatives that directly and explicitly serve agricultural producers and have boards comprised of producer-members. The discussion below describes the characteristics of these 67 participating agricultural cooperatives.

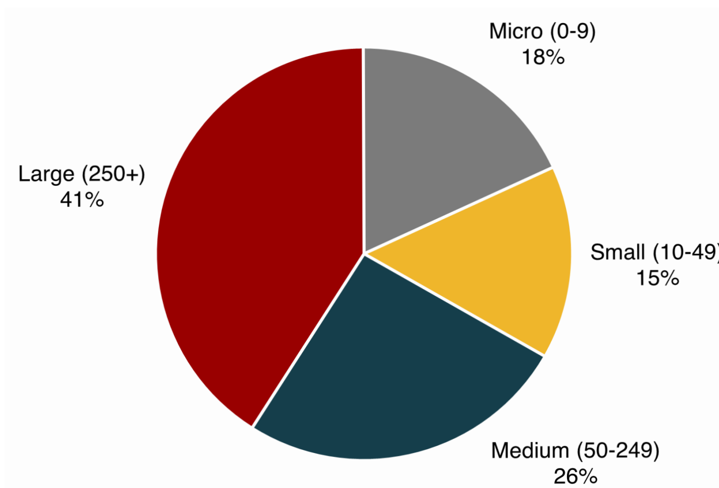
Figure 2. Participating Cooperatives by State



As Figure 2 shows, participating agricultural cooperatives are headquartered in 17 states with nearly 70 percent located in Wisconsin, Iowa, Minnesota, or Nebraska. Nearly half operate in a local market, 33 percent in a regional market, nine percent in a national market, and 11 percent internationally. Most participating agricultural cooperatives are primary cooperatives owned by individual producers. Three percent are secondary cooperatives and 12 percent are hybrid cooperatives.

Researchers and policymakers typically define business size by employment and revenue. The CGRI survey asked cooperatives to report their size by number of members, number of employees, and sector-specific financial metrics. The number of members reported ranges widely from four to 72,000 with an average of 6,613. Participating agricultural cooperatives employ between 0 and 9,000 people in full-time equivalent (FTE) positions overall with an average of 633 and a median of 175. The average participating agricultural cooperative is a large-sized enterprise; however, as shown in Figure 3 the sample includes significant size diversity by number of employees.[2]

Figure 3. Size of Participating Cooperatives by Number of Employees



Gross annual revenue of participating agricultural cooperatives ranges from $100,000 to $36 billion with an average of $1.5 billion and median of $167 million, indicating the participation of a few very large cooperatives that skew these figures upward. Approximately one-third of participating agricultural cooperatives reported revenue of less than $40 million, the federal cutoff for a small business, compared to over 80 percent of CGRI survey respondents overall.[3] In portions of this report we break out responses by cooperative structure (i.e. primary, secondary, or hybrid), so we have provided the range, mean, and median sizes of participating agricultural cooperatives based on type in Figure 4.

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[2]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.

[3]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.

Figure 4. Size of Participating Agricultural Cooperatives by Structure

Primary Cooperatives

	Min.	Max.	Mean	Median
Number of Members	4	72,000	5,574	1,477
FTE	0	4,500	335	164
Revenue	$100,000	$9.0 Billion	$5.1 Million	$159.0 Million

Hybrid and Secondary Cooperatives

	Min.	Max.	Mean	Median
Number of Members	6	50,000	12,540	2,550
FTE	2	9,000	2,301	700
Revenue	$300,000	$36.0 Billion	$6.8 Billion	$494.0 Million

The 2021 CGRI survey also captured substantial enterprise-level diversity in terms of cooperative age, origin, and mergers. The typical participating agricultural cooperative was established in 1951, but the age of enterprises ranges from two to 128 years. One-third of participating agricultural cooperatives are at least 100 years old! **Over a quarter of agricultural respondents merged with another cooperative in the past five years, compared with only nine percent of cooperatives in the full CGRI sample.**

Generalizability

This report includes agricultural cooperatives of varied structures, geographies, sizes, and other enterprise characteristics—but how well do they mirror U.S. agricultural cooperatives overall? This question is easier to answer in the agriculture sector than for cooperatives in general thanks to data collected by the U.S. Department of Agriculture.[4]

As shown in Figures 5 and 6, smaller agricultural cooperatives—both in terms of revenue and number of members—are underrepresented in the CGRI data, whereas medium and large cooperatives are overrepresented.

In terms of geographic distribution, cooperatives in Wisconsin are significantly overrepresented in the CGRI data; whereas cooperatives from Texas and North Dakota are significantly underrepresented (see Figure 7).

Despite these differences, we chose to present unweighted and largely descriptive findings in the discussion of key takeaways that follows. For more information about the generalizability of the full 2021 CGRI dataset, see *Findings from the Cooperative Governance Research Initiative 2021*, at https://resources.uwcc.wisc.edu/Research/CGRI_2021Report_web.pdf.

[4]The USDA data presented in Figures 5, 6, and 7 is from the U.S. Department of Agriculture's 2020 Agricultural Cooperative Statistics.

Figure 5. Agricultural Cooperatives in CGRI vs. USDA Data, Annual Revenue

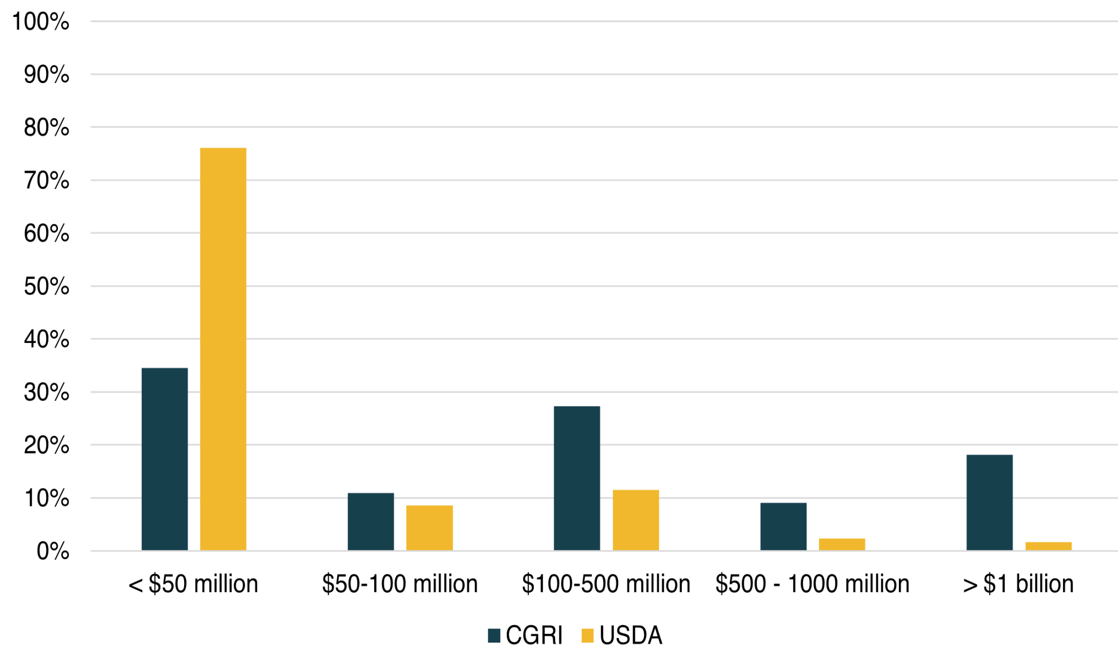
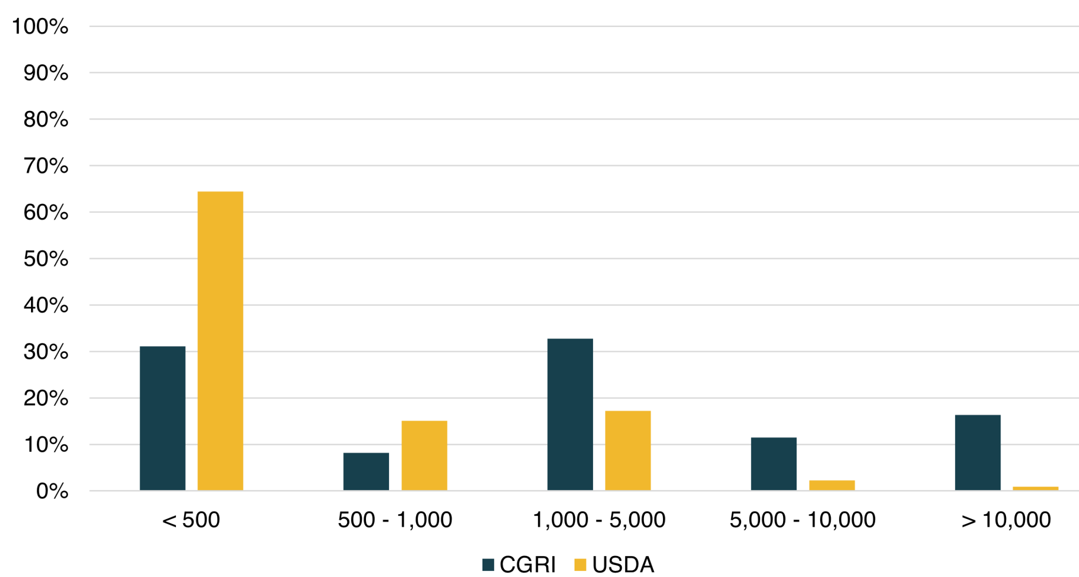


Figure 6. Agricultural Cooperatives in CGRI vs. USDA Data, Number of Members



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 (92 percent) completed by agricultural cooperatives were completed by one person responsible for the governance function of their cooperative. Six percent of surveys were completed by two people, and only one cooperative submitted a survey completed by three or more people responsible for governance.[5] As Figure 8 shows, 64 percent of sole respondents who filled out the survey are CEOs, nine percent are members of the board of directors, and 20 percent have another role.

Figure 7. Agricultural Cooperatives in CGRI vs. USDA Data

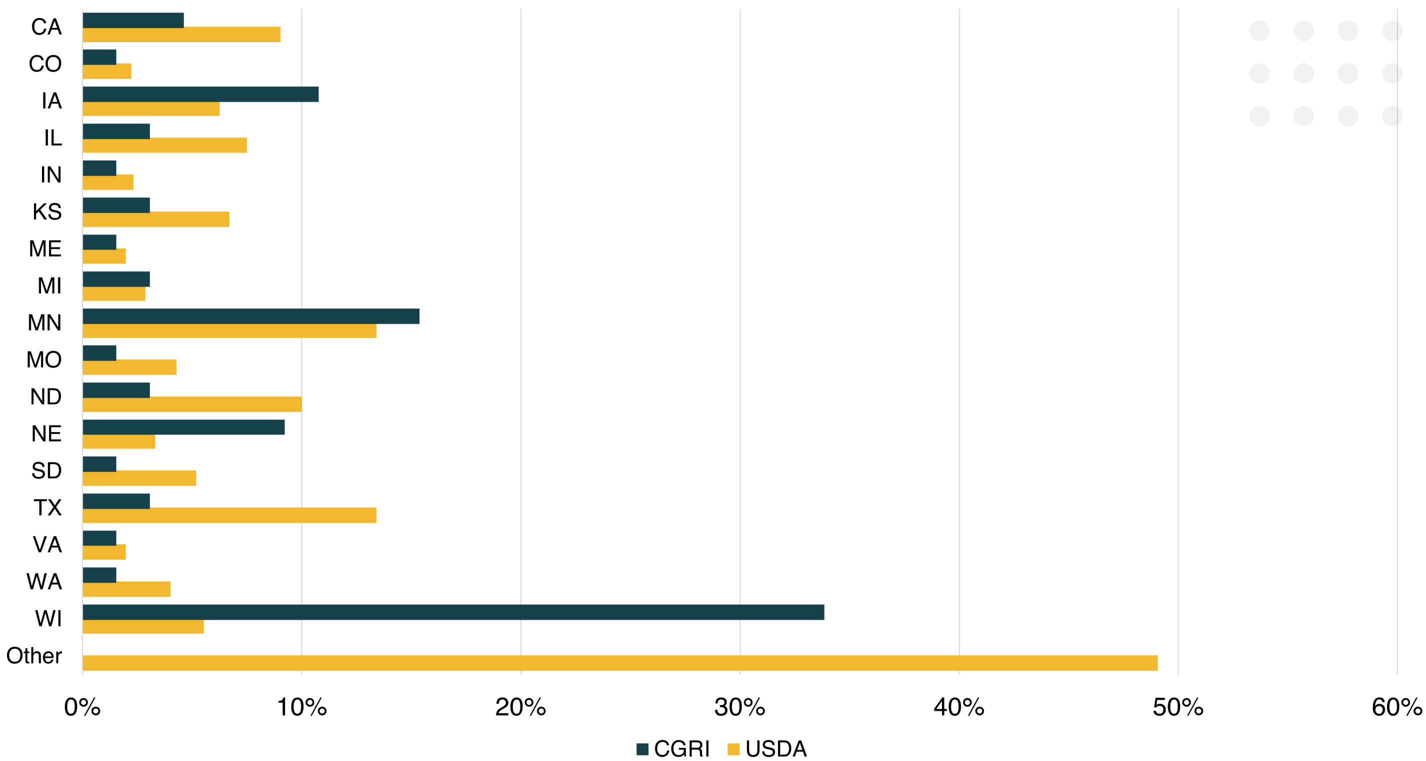
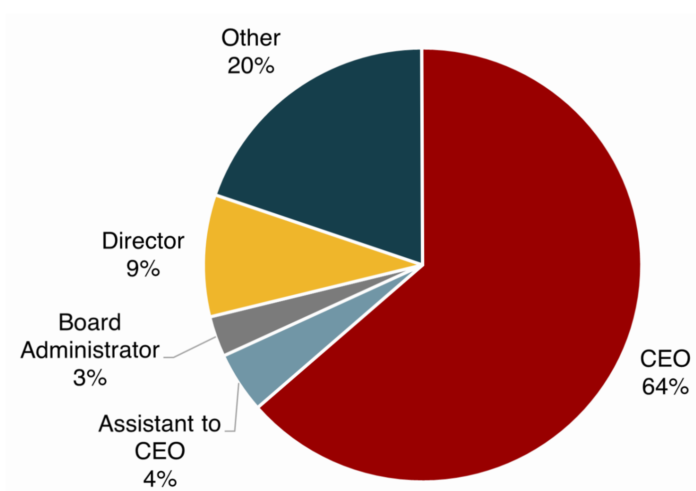


Figure 8. Survey Respondents by Role



Five percent of sole respondents identify as Hispanic and seven percent as nonwhite. In terms of gender, 22 percent of sole respondents identify as female and zero as nonbinary or another gender identity. On average, they have worked at or served on the board of their cooperative for 16 years, though tenure ranges from one to 44 years.

[5] *While more than one person from a firm was allowed to participate in completing a survey, only one survey was submitted per cooperative.*

KEY TAKEAWAYS

BOARD COMPOSITION AND QUALIFICATIONS

In this section, we explore several aspects of board composition that are likely to impact how democratic decision-making is carried out in cooperatives, including board size, director experience, demographics, and other qualifications (Bond 2009; see e.g. Chen et al. 2010; Franken and Cook 2017; Reynolds 2020). We also describe how agricultural cooperatives go about getting the "right mix" of people on the board—and what that means to them.

Board Size

Agricultural cooperatives have slightly larger boards than CGRI respondents overall. **Participating agricultural cooperatives currently have between four and 30 directors serving on the board with a median of nine and a mean of 11, compared to a median of eight and a mean of nine across all participating cooperatives.** Hybrid cooperatives report having larger boards than primary cooperatives, 16 and 10 directors on average, respectively. Board size is also moderately correlated with size of the cooperative when measured by total annual revenue.

We also asked how many directors cooperatives allow on the board. Overall, the maximum board size of participating agricultural cooperatives ranges from five to no limit with a mode of nine. Nearly a quarter of participants say their bylaws set a range for how many directors are allowed rather than a specific number.

Over half of participating agricultural cooperatives (58 percent) require member approval to change the size or composition of the board, compared to 65 percent of participating cooperatives in the full CGRI sample. This requirement was least common in producer owned cooperatives compared to other types of cooperatives.

Agricultural cooperatives report a higher than average frequency of changes in the number of people allowed to serve on the board in the past five years. Over a quarter of participating agricultural cooperatives (27 percent) *decreased* the size of their board during this period, and 11 percent *increased* the size of their board. Reasons for downsizing the board include past mergers, the prospect of future mergers, and improving governance efficiency. Over 70 percent of participating agricultural cooperatives that decreased the size of their board in the last five years did so to achieve efficiencies of a smaller board. The most commonly cited reasons for increasing the size of the board are to better represent stakeholders, to increase skills and experience on the board, and in response to a merger.

These findings are consistent with consolidation trends among producer owned cooperatives (Kowalski and Merlo 2019). They also align with an increasingly popular hypothesis that smaller equals better when it comes to board size. But is this true? As Alexander Wilson, a well-known Canadian cooperator, has rightly asserted, the appropriate board size for an individual cooperative depends on its size, type, and stage of development. She argues that as long as a cooperative is not small, a larger board provides more opportunity for diversity, representation, and talent recruitment. Interestingly, we found a weak positive correlation between board size and self-rated performance, implying cooperatives with larger boards tended to rate their performance higher. Undoubtedly, as Wilson notes, there are more important and strongly correlated determinants of performance than board size.

Board Composition

Director tenure is one measure of board composition that can have implications for how cooperatives balance member voice, representation, and expertise (Birchall 2015). Figure 9 shows how, on average, directors are distributed by years of service on participating agricultural cooperative boards. Nearly 40 percent of agricultural cooperative directors have served on the board for ten years or more.

Another dimension of board composition that may influence how a cooperative balances member voice, representation, and expertise cooperatives is the **age of directors**. As Figure 10 shows, the average agricultural cooperative board is 80 percent Gen X and Baby Boomers.[6] When compared to CGRI respondents overall, the directors of participating agricultural cooperatives have longer tenure and are slightly older.

Figure 9. Tenure Composition of Average Participating Agricultural Cooperative Board

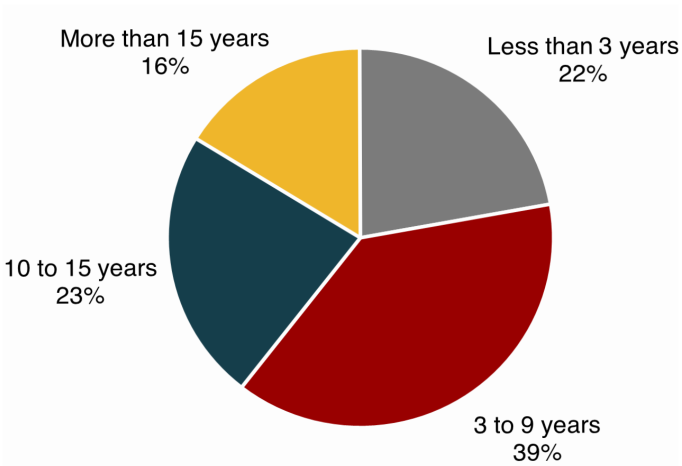
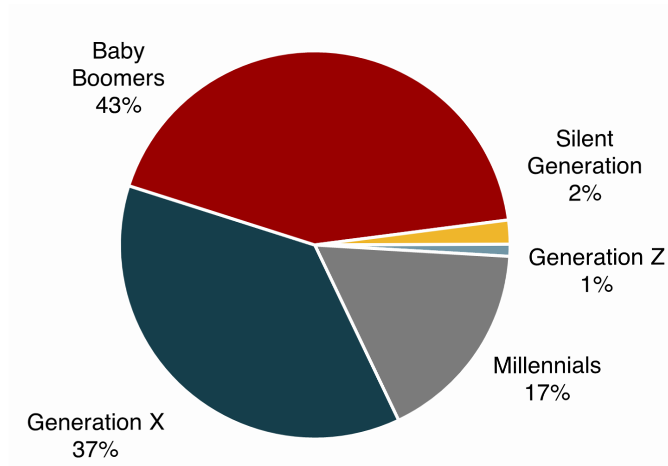


Figure 10. Age Composition of Average Participating Agricultural Cooperative Board

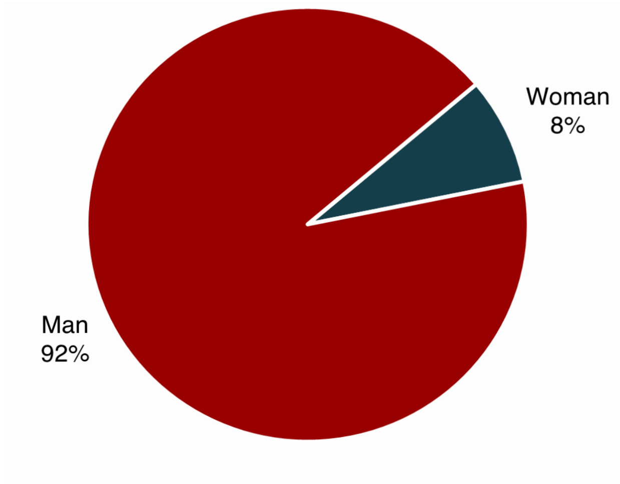


The **gender, ethnic, and racial** composition of corporate boards has attracted increased scrutiny in recent years as initiatives to promote diversity, equity, and inclusion have gained traction both in the cooperative community (Meyers 2016; Roberson 2021; Schlachter 2021) and the broader organizational landscape (Roberson 2019; Roberson, King, and Hebl 2020). Many agricultural cooperatives have struggled with new expectations related to diversity given the demographic realities of their memberships.

The average participating agricultural cooperative board is comprised of 82 percent men, eight percent women, and no directors who identify as nonbinary or in another way (see Figure 11). Whereas in the overall CGRI sample, 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. **Of the agricultural cooperatives that completed the 2021 CGRI survey, 45 percent have no women on the board and 79 percent have one or fewer women on the board.** According to the USDA, 51 percent of all farming operations in the U.S. have a woman operator (U.S. Department of Agriculture, 2020) and 29 percent of all principal operators are women (2019 Ag Census). Given the large number of women operating farms in the U.S., there are real opportunities for cooperatives to diversify their boards by recruiting female directors.

[6] *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).*

Figure 11. Gender Composition of Average Participating Agricultural Cooperative Board



In terms of ethnicity, **98 percent of participating agricultural cooperatives have no directors of Hispanic or Latino origin** (who may identify as any race), compared to 80 percent of participating cooperatives overall. Regarding directors' race, 89 percent of participating agricultural cooperatives are all White. Interestingly, larger cooperatives, both in terms of membership size and revenue, report having boards that are less diverse in terms of gender, race, and ethnicity.

Nonetheless, only **14 percent of participating agricultural cooperatives indicate they are extremely or very likely to pursue goals related to increasing board diversity in the next three years.** This may be related to the fact that, on average, agricultural cooperatives are very confident their boards represent the demographic make-up of their membership—two-thirds say the demographics of current board members mirror those of the membership overall *extremely* or *very well,* and only three percent say they mirror them *slightly* or *not at all.*

There are, however, significant differences between primary and hybrid cooperatives when it comes to perceptions of representation and the pursuit of goals related to diversity. Seventy-one percent of primary cooperatives suggest the demographics of current board members mirror those of the membership overall *extremely* or *very well*, whereas only 40 percent of hybrid and secondary cooperatives report the same. 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.[7] This may explain why hybrid and secondary cooperatives report they are more likely than primary cooperatives to pursue board diversity goals in the next three years (See Figure 12).

As Figure 13 shows, agricultural cooperatives that plan to pursue diversity goals in the next three years are most likely to prioritize diversity related to gender, age, or geographic distribution.

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[7]*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.*

Figure 12. Likelihood Participating Agricultural Cooperatives Will Pursue Goals Related to Board Diversity in Next Three Years, by Structure

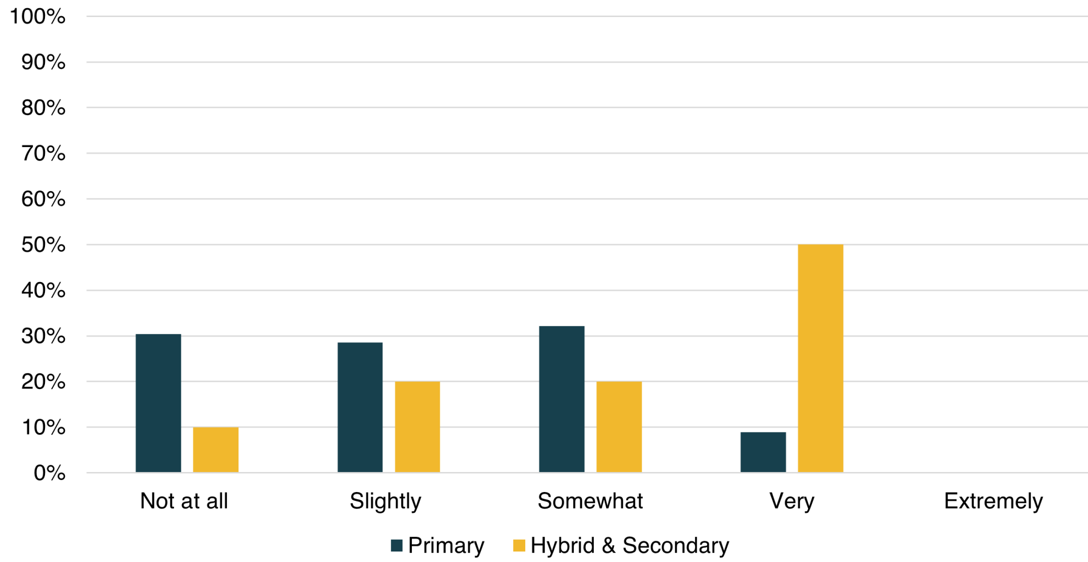
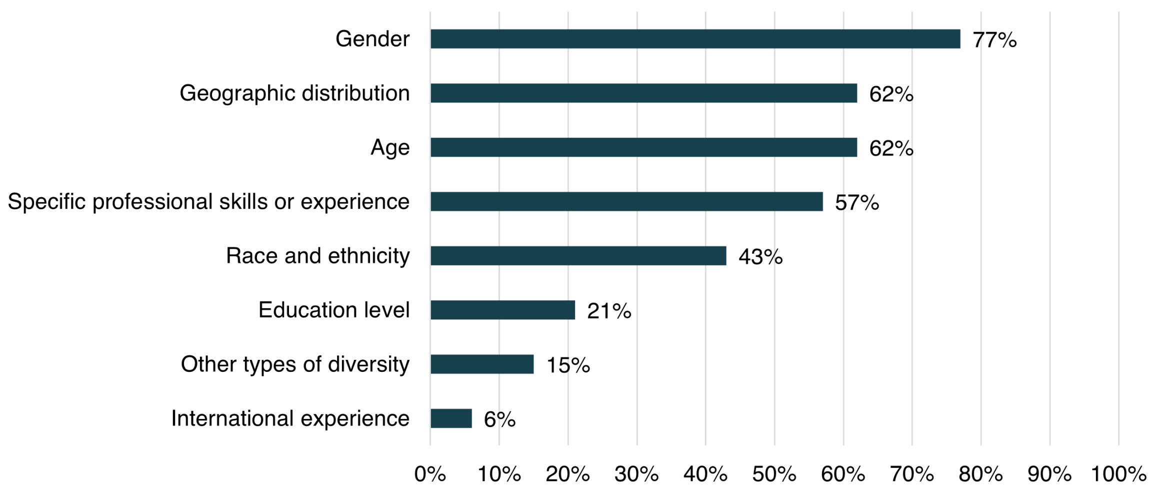


Figure 13. In the Next Three Years, Share of Participating Agricultural Cooperatives that Plan to Prioritize Board Diversity Related to...

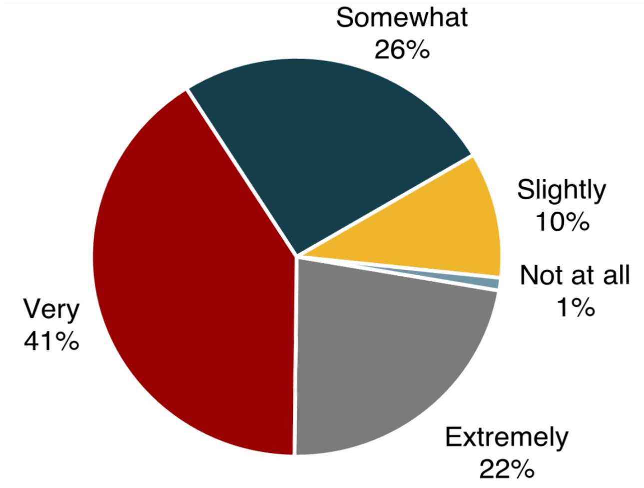


The Right Mix of People on the Board

Survey respondents were asked to reflect on whether the board has the "right mix" of people to effectively perform its governance duties. As Figure 14 shows, **62 percent of participating agricultural cooperatives say they are extremely or very confident their board has the right mix of directors.**

Survey and interview findings suggest that demographics are just one piece of the puzzle. We found few statistically significant relationships between confidence in having the right mix and actual board demographics; however, agricultural cooperatives that believe the demographics of their directors mirror the demographics of the membership *very* or *extremely* well are slightly more confident they have the right mix of people on the board. The sentiment that "having members see their own faces reflected in the board is important" came up in many follow-up conversations, as did the benefits of having a balance of new and seasoned directors.

Figure 14. How Confident Are You that the Board Has the Right Mix of People to Perform Its Governance Duties Effectively?



There is a general attitude among many agricultural cooperatives that achieving racial and ethnic diversity on their boards is extremely difficult given the fact that directors are sourced from the membership. 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." Thus, many cooperatives have focused their efforts to change the demographic mix of the board on recruiting women and young producers. "From a gender side, we're making real progress," said Nick, "also on age—we've got some younger farmers coming on."

Leaders from agricultural cooperatives also emphasized the importance of "diversity of thought" on the board. 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.

Although some interviewees emphasized intangible traits more than others, people from agricultural cooperatives agreed that the personal attributes of successful board members often include things like an innate sense of curiosity, open-mindedness, being a future-focused enterprise thinker, and the ability to set aside self-interest and manage in a consensus-driven environment. An ideal director is someone who can "think about the core businesses of [the cooperative] and how they will lead to growth in the future," emphasized Kevin, an employee of a national agricultural cooperative. Effective directors "have the desire to always get a higher view than they have today," said Connor, the CEO of a regional agricultural cooperative, they "need the ability to think strategically."

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. **Nearly one-third of participating agricultural cooperatives allow outside directors to serve on the board compared to 17 percent overall.** All farm credit cooperatives in our data allow outside directors. Of the participating agricultural cooperatives that allow outside directors, 70 percent had outside directors serving on the board at the time they completed the 2021 CGRI survey. On average, outside directors occupied two seats and made up 16 percent of these boards.

Among agricultural cooperatives that allow outside directors, 60 percent allow them to vote on board matters. The question of whether non-members should be allowed to serve and vote on a cooperative's board is contentious. Some argue outside directors dilute the cooperative model, while others insist outside directors are essential for achieving the right mix of people to govern effectively. Decisions about outside directors may also be subject to statutory limitations.

Outside directors are most often appointed by the board (85 percent), but in 20 percent of participating agricultural cooperatives they are elected by members. **Among cooperatives that do not currently allow outside directors, only 13 percent are considering adding them.** Cooperatives often tout the benefits of outside directors, however we found no statistically significant relationship between the presence of outside directors and self-rated cooperative performance.

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; however, it is not commonly used by agricultural cooperatives in our sample. **Only seven percent of participating agricultural cooperatives allow the CEO to serve as a voting member of the board**, compared to 22 percent of all CGRI respondents. Among those, 75 percent currently have their CEO serving on the board and 75 percent allow the CEO to serve as a board officer, but only one cooperative currently has their CEO serving as board chair. **Only five percent of participating agricultural cooperatives allow employees other than the CEO to serve on the board.** On average, these respondents currently have one employee director.

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.

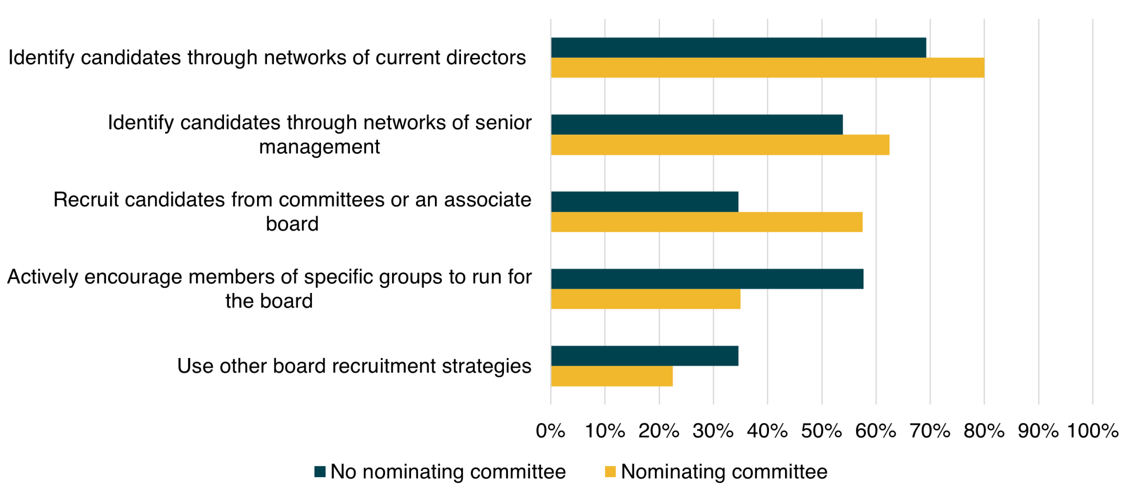
BOARD NOMINATIONS AND ELECTIONS

Democratic member control is a core principle and practice of agricultural cooperatives. Members exercise this control, in part, by electing the board of directors from the membership. In some cooperatives, this is accomplished through a delegate system, whereby the membership elects a delegate body, usually based on regions, and the delegate groups each elect a member from their region to serve on the board. Key dimensions of the board installation process include nomination practices, candidate recruitment, and voting by the membership. The survey findings highlight interesting differences in approaches to this important feature of member democratic control.

Director Recruitment and Nominating Committees

Agriculture sector respondents report a variety of strategies for actively recruiting members to serve on the board and promoting the opportunity to run for election. Similar to the full CGRI sample, the two most prevalent recruitment strategies used by agricultural cooperatives are identifying candidates through personal or professional networks of current directors (76 percent) and senior management (59 percent). On average, participating agricultural cooperatives use two of the four recruitment strategies listed in Figure 15. Encouraging specific groups to run for the board is a targeted recruitment practice research has shown to be effective in increasing diversity in other organizational settings (Roberson 2019; Schlachter 2021). In our sample, just 44 percent of agricultural cooperatives actively encourage members of specific groups to run for the board. Agriculture sector cooperatives most commonly promote the opportunity to run for the board through regular member communications such as newsletters, websites, professional publications (64 percent), followed by using social media (30 percent), and posting flyers at cooperative locations (26 percent).

Figure 15. Share of Participating Agricultural Cooperatives that...



There are many ways to recruit directors; however, putting the responsibility in dedicated hands, such as a nominating committee, is often cited as “best practice” to ensure recruitment is given sufficient attention. Among agricultural cooperative respondents, 60 percent use this strategy.[8] Figure 15 differentiates the use of common recruitment strategies between cooperatives with

[8]Among all participating cooperatives, 71 percent have a board committee responsible for the process, though this varies widely by sector, ranging from 84 percent of participating consumer and purchasing cooperatives to only 15 percent of participating worker cooperatives.

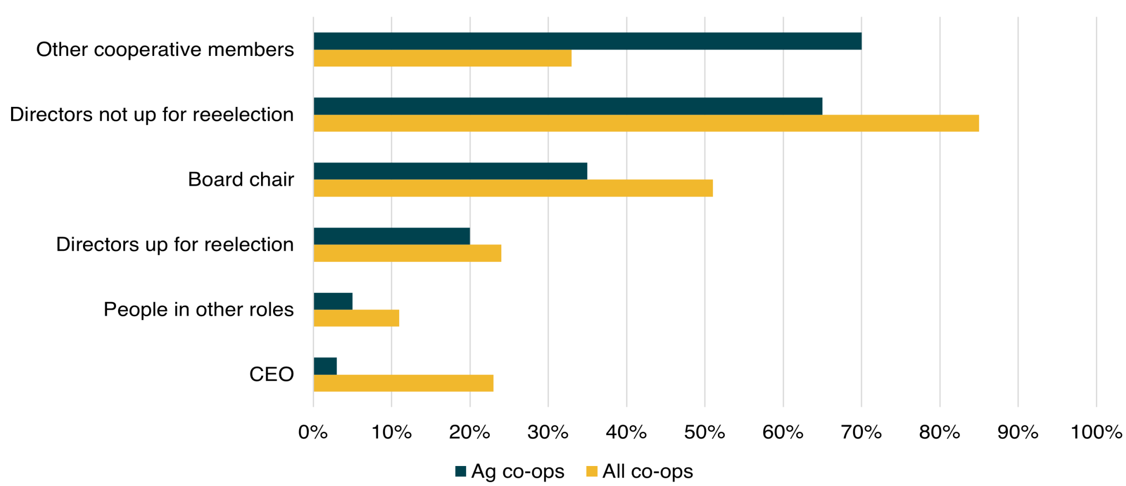
and without a nominating committee. Of those using a nominating committee, the most common recruitment pathway is through personal or professional networks of current board members (80 percent) followed by management networks (63 percent). Cooperatives with a nominating committee are much more likely to use multiple recruitment strategies relative to those without one. For example, 78 percent of them report the nominating committee engages in at least two of the recruitment tactics.

Among agricultural sector respondents that do *not* use a nominating committee (40 percent), the most common recruitment method is to utilize personal or professional networks of current board members (69 percent) followed by recruiting from specific membership groups (58 percent). Only 48 percent—compared to 78 percent of ag cooperatives with nominating committees—report that they utilize at least two of the recruitment tactics. **These findings reinforce the belief that placing responsibility for director recruitment in dedicated hands is more likely to yield robust recruitment processes and practices.**

In cooperatives with a nominating committee, committee composition and selection vary. Nominating committee members are often appointed by the board (68 percent) and by the board chair (20 percent). Committee selection practices are similar between agricultural respondents and respondents from other sectors; however, there are some notable differences in committee composition (see Figure 16). In 70 percent of participating agricultural cooperatives, the nominating committee includes cooperative members who are not on the board, compared to 33 percent of all CGRI respondents. Participating agricultural cooperatives are less likely than other cooperatives to include board members, the board chair, or the CEO on the nominating committee. The practice of including board members up for reelection on the committee is fairly even between agricultural respondents and all CGRI respondents (20 and 24 percent respectively).[9] Participating agricultural cooperatives list field operations personnel and past board members among others who may serve on nominating committees.

A nominating committee's responsibilities may not be limited to director nominations. Agriculture sector respondents report that nominating committees are most often responsible for assessing

Figure 16. Who Serves on the Nominating Committee?



[9] *The practice of placing a director up for reelection on the nominating committee 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.*

the eligibility of board candidates (90 percent) and ensuring contested elections (50 percent).[10] In 35 percent of respondents, the nominating committee is responsible for developing competency or skill profiles to establish recruitment priorities, and in 13 percent the committee develops board education plans.

Regardless of whether there is a nominating committee, the most common director nomination mechanism among agricultural cooperatives is self-nominations (77 percent) followed by floor nominations (50 percent) and ballot write-ins (42 percent). Only 29 percent report the use of member petitions to nominate candidates to the board.

We might reasonably expect that having a nominating or similarly charged committee will contribute positively to having "the right mix" of people on the board. Surprisingly, survey responses cannot corroborate this. **Agriculture sector respondents that use a nominating committee are no more confident they have the right mix of people on the board than respondents without a nominating committee.** In fact, none of the director recruitment strategies alone appear to be significantly correlated with feeling confident in having the right mix of people to carry out governance responsibilities.

This begs the question: does utilizing a nominating committee ultimately play a role in the cooperative's performance? The self-reported performance of agricultural cooperative respondents suggests there is a link. **Cooperatives that use a nominating committee are twice as likely to rate their financial performance as "very good" or "excellent" as cooperatives that do not.** Similarly, 48 percent of those with a nominating committee rate their ability to deliver value to members as "very good" or "excellent" compared to just 28 percent of those without. The coupled relationship between higher ratings of performance and the use of nominating committees holds for all performance dimensions measured.

We were also curious about how director recruitment strategies track with self-rated performance. We found the following connections:

- Higher self-rated performance in most dimensions is tied to a recruitment process that identifies candidates through networks of current board members.
- Lower self-rated performance across most metrics corresponds to agricultural cooperatives that actively recruit candidates from specific groups or from committees or associate boards.

On the surface, the survey findings seem anomalous; however, further inspection suggests there may be important dynamics between recruitment practices and performance at play. Cooperatives would be wise to have a thoughtful strategy about the role of a nominating committee and the nominations process more generally.

Board Elections

In the past three years, 37 percent of participating agricultural cooperatives have not had a contested election. Among all CGRI survey respondents, contested elections are least common in insurance mutuals and most common in producer cooperatives.[11]

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[10] Among all CGRI respondents, 26 percent stated the nominating committee was responsible for proposing an uncontested slate of candidates. By comparison, that role is identified in only 10 percent of reporting agricultural cooperatives.

[11] 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.

When members vote in board elections, 70 percent have more than one voting mechanism available to them. Seventy-seven percent of agricultural cooperative respondents permit voting by mail and 66 percent allow in-person voting at the annual meeting. **Online voting and voting at a branch location are options for only 25 percent of agricultural respondents.** By comparison, members may vote online in over half of participating consumer, purchasing, worker, and multi-stakeholder cooperatives. We did not identify any strong correlations between the voting mechanisms available to members and election turnout in participating agricultural cooperatives.

Half of participating agricultural cooperatives elect all board members at large, meaning that every voting-eligible member can vote for candidates to fill any and all vacant positions on the board. Common alternatives to at-large elections are those based on membership classes, geography, or even patronage- or equity-weighted districts. Sixty-nine percent of agriculture sector respondents said their directors are elected by geography (districts) and 28 percent use a combination of methods.

Proxy voting allows members of a cooperative to delegate their voting power to a representative (often the board chairperson) and is usually authorized and described in a cooperative's bylaws. 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. Among the participating cooperatives in the agricultural sector, 29 percent authorize proxy voting. By contrast, proxy voting is authorized by 21 percent of all CGRI survey respondents, 46 percent of participating insurance mutuals, and only 11 percent of consumer cooperatives.

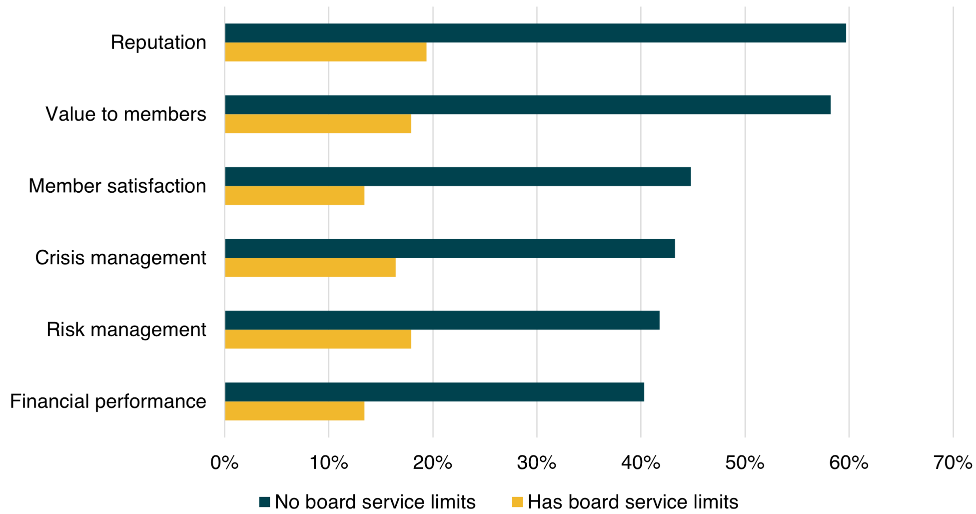
Terms

Among agricultural cooperative respondents, the duration of a standard term ranges from one to 20 years, with an average of four and a median of three years.[12] Among all CGRI respondents, producer cooperatives and insurance mutuals have the longest standard director terms. Boards commonly consider the merits of term and age limits for directors, citing the trade-offs between gaining new ideas and perspectives on the board and the need for experience and institutional knowledge. Only 26 percent of reporting agricultural cooperatives limit the number of consecutive terms a director may serve. Among those, the number of terms varies from three to six (most have three-year terms). Twelve percent of agriculture cooperatives reported having a limit on the total number of years of board service, and 23 percent on age. Among those with an age restriction, the average limit is 71 years old.

The survey data highlight a strong link between the use of board service limits and self-rated performance. Figure 17 illustrates the proportion of agricultural sector respondents with and without board service limits (term or age) that rate their cooperative as "very good" or "excellent" in each of the performance categories.[13] These should not be used to suggest that boards with service limits are inherently disadvantaged or that any performance advantage directly results from not having service limits. Instead, they should prompt us to think critically about the role of age or term limits and the trade-offs they invoke.

[12]Only three agriculture sector respondents noted a standard term length longer than four years, and those were 12, 15, and 20 years. It is likely these respondents misunderstood the question and instead reported on the average length of director service on the board.
[13]Percentages by performance metric do not sum to 100%.

Figure 17. Share of Participating Agricultural Cooperatives that Rate Themselves "Excellent" or "Very Good" in...



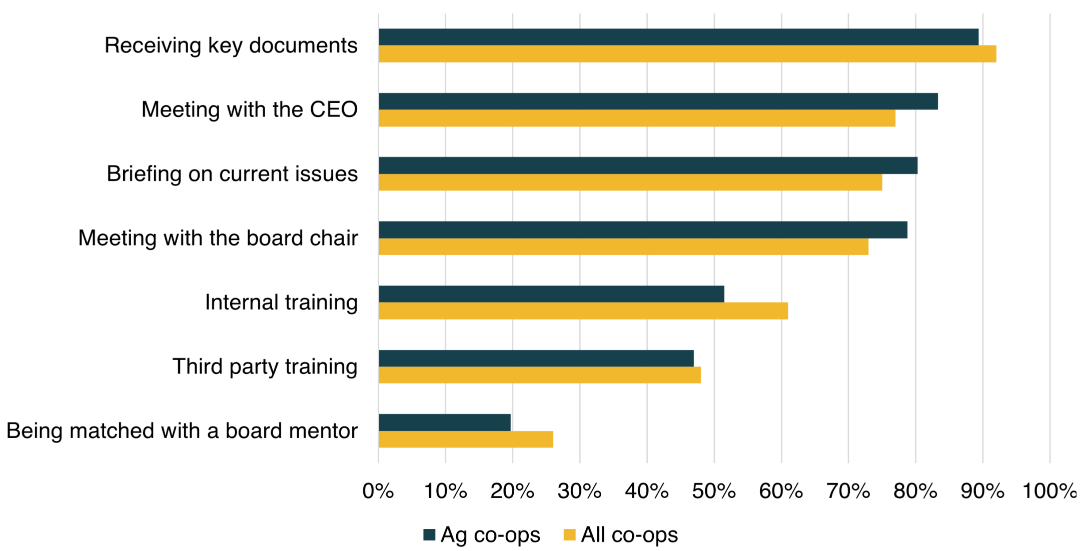
BOARD TRAINING, EDUCATION, AND DEVELOPMENT

Board training, education, and development are essential for good governance practices (Chen et al. 2010; Franken and Cook 2017). These activities are also inherent in the cooperative identity through Cooperative 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 be cultivated internally by investing in a strong board development program. The CGRI survey examines 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.

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. As Figure 18 shows, the most common onboarding activities among participating agricultural cooperatives are receiving key documents (89 percent), meeting with the CEO or senior management team (83 percent), and receiving a briefing on current issues facing the board such as expansion plans (83 percent). Third party training and assigning mentor-mentee relationships are the least prevalent practices among participating agricultural cooperatives. Other onboarding activities include site visits and meetings with individual board members, board advisors, legal counsel, and department heads.

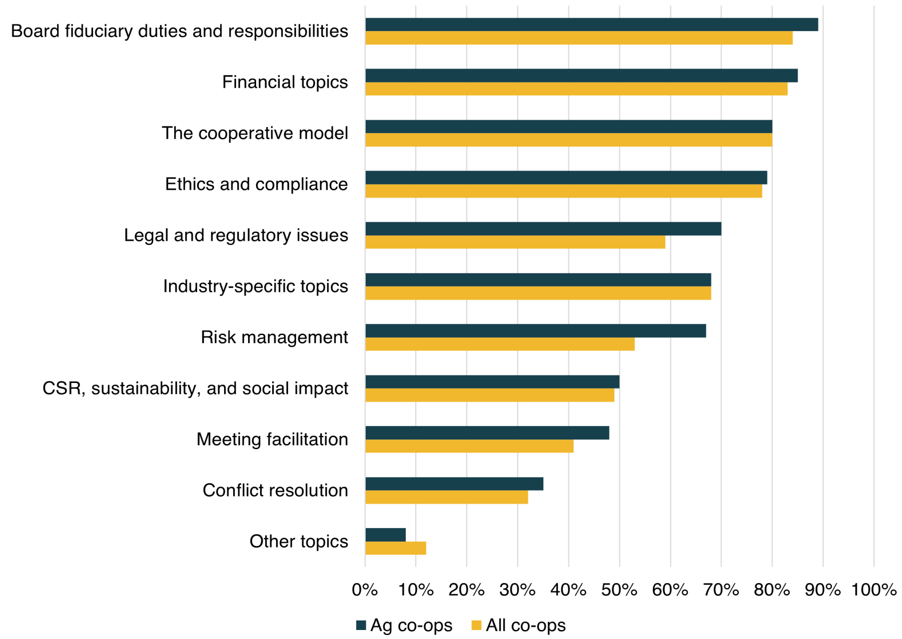
Figure 18. Share of Participating Cooperatives in Which Board Onboarding Includes...



We found that larger cooperatives, based on annual revenue, offer a slightly larger number of onboarding activities. This is not entirely surprising—as cooperatives increase in size, their complexity tends to increase as do the resources they have available to invest in training and education. The practice most positively correlated with higher revenue levels is the use of a mentor program for new directors. **A robust onboarding program was also weakly correlated with higher self-rated performance and increased confidence the board understands its role relative to management.**

We also asked about the content of ongoing director training. In nearly every topic area, participating agricultural cooperatives offer training at a slightly higher rate than responding cooperatives overall (see Figure 19). The most common types of training sought by participating agricultural cooperatives are related to board fiduciary duties and responsibilities (89 percent); financial topics (85 percent); and the cooperative model, principles, and values (80 percent). Participating agricultural cooperatives are least likely to seek training in the two areas most closely connected to culture and interpersonal dynamics: meeting facilitation and conflict resolution. Less than half say their directors receive training in meeting facilitation and 35 percent train board members in conflict resolution. Other education topics agricultural

Figure 19. Share of Participating Cooperatives that Train Board Members in...



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.

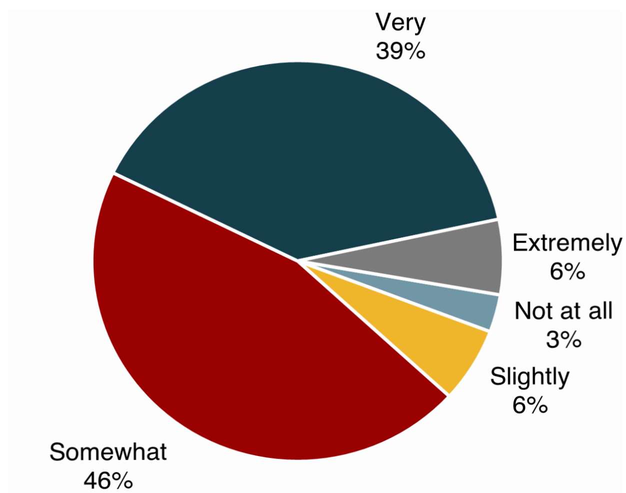
Connection involves facilitating the development of relationships between new board members and fellow board members, employees, and other key stakeholders. Shared meals, group activities, and board mentor programs all foster a sense of connection.

respondents shared include strategic planning; CEO evaluation; leadership; communications; and cooperative operations, product, and service categories.

We did not find any correlation between cooperative size and training topics offered to board members. We did, however, find a weak positive relationship between the number of training topics offered and confidence the board understands its role relative to management.

The continuity of institutional knowledge on a board as directors come and go is an essential component of a high functioning governance system. Institutional knowledge—the collective information, expertise, and values an enterprise and its people possess—is just as important for board members as employees. Overall, 45 percent of participating agricultural cooperatives rate their systems for preserving continuity of institutional knowledge on the board as "very or extremely effective," and more than half rate their systems as "somewhat, slightly, or not at all effective" (see Figure 20).

Figure 20. 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 and others' personal contributions in the boardroom and identify areas of board operations, training, and culture that need attention. Regular board evaluations should build trust and respect with the CEO 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.

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. Deciding how the results will be shared and discussed and how areas of weakness will be addressed is a crucial aspect of establishing the evaluation process.

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 full board evaluation.

The CGRI questionnaire asked how frequently the cooperative evaluates individual board members, the board as a whole, the board chair, and board committees. Overall, participating agricultural cooperatives conduct evaluations of the whole board more frequently than evaluations of individual directors, the board chair, or board committees (see Figure 21). Just over half of agricultural cooperative respondents evaluate the whole board at least every few years, with only a quarter evaluating the board annually. Over 60 percent of responding agricultural cooperatives *never* evaluate individual board members, the board chair, or board committees. **Cooperatives that evaluate their full board annually are more confident their board has the right mix of people to perform its governance duties effectively than those that evaluate their board every few years or not at all.**

In 85 percent of participating agricultural cooperatives, board members complete full-board evaluations. Compared to respondents from other cooperative types, participating agricultural cooperatives are less likely to have cooperative members, the CEO, or other management personnel complete a board evaluation. Good boards continually strive for improvement, and board evaluations are a critical tool for surfacing issues and finding solutions. These findings suggest there is much room for improvement in the area of board evaluation.

Figure 21. Frequency of Board Evaluations Among Participating Agricultural Cooperatives

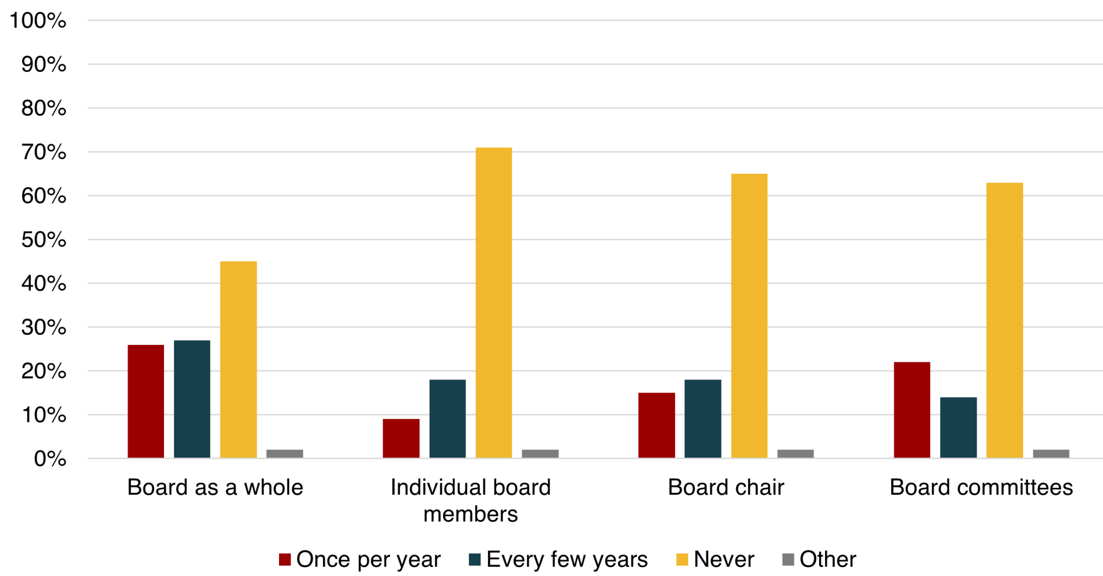
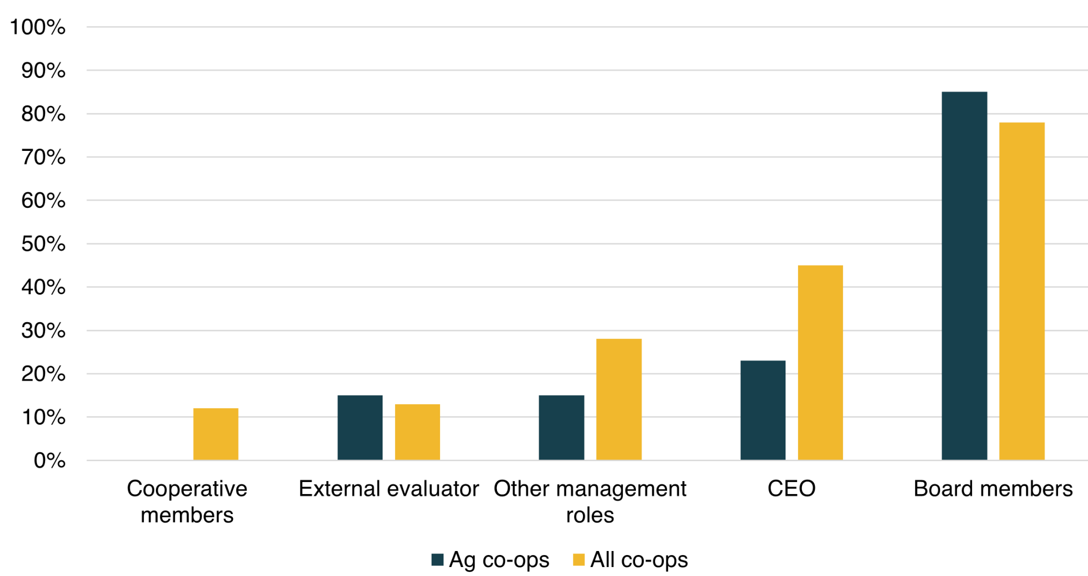


Figure 22. Who Completes Board Evaluations in Your Cooperative?



**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, 58 percent of participating agricultural cooperatives have a formal process for removing underperforming directors or those who fail to meet their board obligations and 25 percent require member approval to remove a board member. **Of the 38 participating agricultural cooperatives that have a formal process for removing an underperforming director, only five have actually done so in the past five years.**

BOARD MEETINGS AND DECISION-MAKING PRACTICES

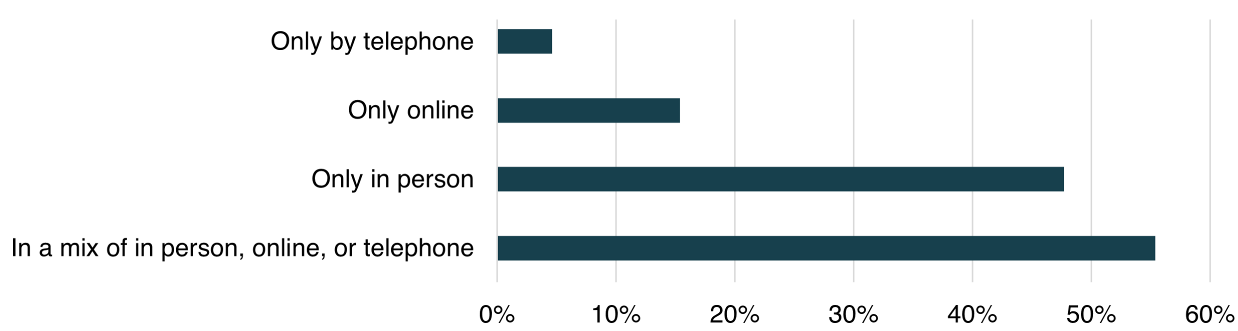
Much of the work of the board happens in regular board meetings, so it is essential that meeting and decision-making practices are thoughtful and effective. The CGRI survey explores several aspects of board meetings, from frequency and duration to agenda setting, facilitation, and allocation of time to various topics. Governing during the COVID-19 pandemic meant major shifts in meeting norms, some of which are likely here to stay, so the survey asked respondents to focus on current (fall 2020 - 2021) rather than pre-pandemic practices. The time-series intent of the CGRI survey will allow us to observe changing meeting norms and whether some dimensions of board meetings (e.g., mode) retain their pandemic-initiated practices.

Frequency, Duration, and Mode of Board Meetings

Participating agricultural cooperatives report their board meets, on average, 10 times per year for five hours each meeting. There are, however, stark differences in meeting frequency and length between primary and hybrid cooperatives, with primary cooperative boards meeting an average of 11 times annually for four hours each and hybrid cooperatives meeting an average of seven times annually for 10 hours. Given that hybrid cooperatives have, on average, significantly larger memberships spatially and in numbers, it is not surprising they would find it more efficient to hold fewer, longer meetings than primary cooperatives.

Whether and how the frequency and duration of cooperative board meetings was impacted by COVID-19 is less obvious, but we do know there was a significant shift to online meetings. During 2020 and 2021, 55 percent of participating agricultural cooperatives used a mix of in-person, online, or telephone to conduct their board meetings, and 13 percent used a mix of in-person, online, or telephone and held in-person only meetings, indicating there may have been a switch during the survey time frame. More than half (52 percent) did not have any in-person board meetings during that period, while 33 percent said that all of their board meetings were conducted in person only. Only five percent of participating agricultural cooperatives report conducting all their board meetings online only. As new norms are established in the post-COVID-19 era, we will be able to observe how meeting practices evolve, and how those practices affect the social and interpersonal dynamics of cooperative boards.

Figure 23. Proportion of Board Meetings Conducted...

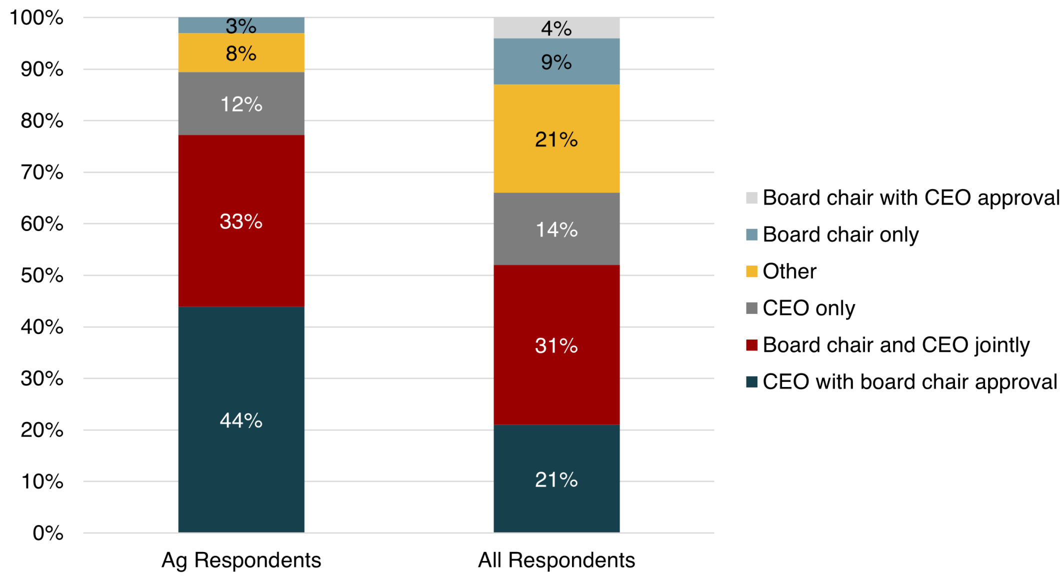


Board Agendas and Facilitation

A well-crafted agenda and skilled facilitation are two essential ingredients for productive board meetings. An agenda is not only a tool to keep board meeting discussions focused on the important issues and topics that must be contemplated by the board, it also serves other goals such as strengthening relationships between board members and between the board and management team, preparing the next board president for leadership, and supporting board succession by widening participation in important director conversations.

Figure 24 illustrates that, among agriculture sector respondents, it is most common for the meeting agenda to be set by the CEO with board chair approval (44 percent) followed by joint setting between the board chair and CEO (33 percent). The starkest difference between agricultural cooperatives and all respondents is in the prevalence of the CEO's role in agenda-setting. Among agricultural cooperatives, 44 percent said the CEO sets the agenda with board approval, whereas that occurs in just 21 percent of all responding cooperatives in the CGRI sample. **In 89 percent of responding agricultural cooperatives, the CEO has sole, primary, or joint responsibility for agenda-setting, compared with just 66 percent among all respondents.** Within the full set of respondents, 21 percent indicate that another individual or group sets the board meeting agenda; however, this occurs in just eight percent of agricultural cooperatives, which cite a roll in agenda-setting for the general counsel, committees, the corporate secretary, and others.

Figure 24. In the Past 12 Months, Who Has Set the Agenda for Board Meetings?



Effective meeting facilitation is a skill, and, if done correctly, can generate benefits in many dimensions of governance, such as building trust between directors and with management, creating space for healthy dissent, and ensuring board meetings stay on-topic and productive. **In 61 percent of participating agricultural cooperatives, board meetings are facilitated by the board chair and in 33 percent the CEO facilitates.** Only a handful report that meeting facilitation is handled by other board members or third-party facilitators. Across all cooperative types, CEO facilitation is 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

Boardroom challenges frequently cited by directors and CEOs include keeping the board thinking at a sufficiently high or strategic level and avoiding spending significant chunks of time on topics better left for management and operational expertise. To understand this challenge better, we asked survey respondents about the proportion of time in board meetings spent on specific topics and their beliefs about how much should ideally be spent on each. These topics are: 1) organizational performance, 2) management evaluation, 3) member relations, 4) risk management, 5) strategy, and 6) others. Respondents were asked, "In the past 12 months, about what proportion of time in board meetings has been spent on each of the following topics?", and given response options "none," "very little," "some," and "most." **The average of responses suggests participating agricultural cooperatives spend board meeting time—in order of most to least time spent—on organizational performance, strategy, risk management, member relations, management evaluation, and other.** The "other topics" open-form responses vary widely.

A follow-up question asked, "Ideally, about what proportion of time in board meetings should be spent on each of the following topics?" By comparing beliefs about how much time should be spent relative to how much time was spent, we categorized each respondent's belief about time spent on a topic as "too little," "the right amount," or "too much." Figure 25 illustrates these comparisons. A majority of participating agricultural cooperatives believe they are spending about the right amount of time on each topic. Quite surprisingly, 25 percent of respondents believe they spend the right amount of time on every topic! Among those that do not believe their time is allocated appropriately, these findings are most notable:

- 30 percent believe they spend too little time on member relations,
- 27 percent believe they spend too little time on management evaluation,
- strategy and risk are not given enough time according to 25 percent of respondents, and
- organizational performance is the only specific category on which significantly more cooperatives believe they spend too much time versus too little.

The time a board spends on topics is undoubtedly influenced by the agenda-setter and the meeting facilitator because the former identifies the topics and the latter drives the discussion time of agenda items. We were curious if an "agenda-setter" or "facilitator" effect would emerge as a significant influence on time spent. Of the agriculture respondents that indicated they spend the "right amount of time" on all topics, a salient point is that in 75 percent of them, the meeting is facilitated by the board chair. There is also a link—albeit a weaker one—between agenda-setting and effective allocation of meeting time. The CEO sets board meeting agendas with board chair approval in 56 percent of the agriculture respondents that indicated they spend the "right amount of time" on all topics.

EXECUTIVE SESSION

An executive session is time set aside within a regular meeting for the board 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 define 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. Among ag cooperatives, 34 percent of respondents say that all or most of their board meetings included an executive session in the previous year, while 29 percent said none or very few did. Relative to participants across all sectors, ag cooperatives report using executive sessions more regularly.

Figure 25. Actual vs. Ideal Allocation of Time in Board Meetings

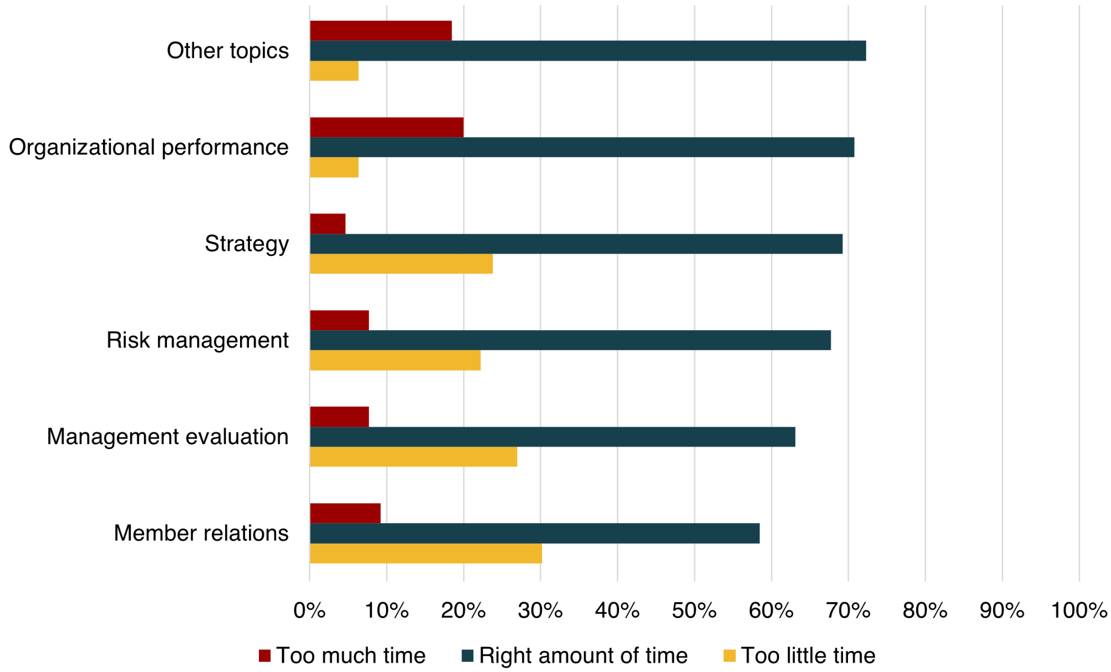


Figure 26 compares the time allocated to board meeting topics when the board chair facilitates the meeting versus the CEO. The percentages represent the percentage of respondents in the facilitator-group type that report spending too little or too much time on each topic. No obvious pattern emerges that allows us to draw meaningful regularities between the two facilitator types, but it is notable that:

- in 35 percent of cases where the board chair facilitates, respondents feel that too little time is spent on strategy, and
- when the CEO facilitates, 32 percent of respondents feel too little time is spent on member relations and too much time on performance.

Figure 26. Time Allocation in Board Meetings by Facilitator

	Board Meeting Facilitator			
	Board Chair		CEO	
Topic	Too Much	Too Little	Too Much	Too Little
Organizational performance	15	5	32	9
Management evaluation	13	25	5	23
Member relations	5	30	9*	32
Risk management	3	18	18	23
Strategy	3	35	5	14
Other	18	8	23	5

Are there real and measurable consequences in terms of cooperative performance based on how board time is allocated? There are. Averaging the performance rating of an agricultural respondent across each of the performance dimensions (i.e., financial, member value, crisis management, growth, risk management, member satisfaction, and reputation), we learn that how time is spent in the boardroom does matter. For each boardroom topic (e.g., risk management, strategy, etc.), agriculture sector respondents that believe their cooperative spends “the right amount of time” out-perform, on average, cooperatives that spend “too little” or “too much” time on a topic. **The biggest differences in average performance ratings exist when time is not appropriately allocated to risk management and strategy.**

These results point to the importance of paying attention to what items are on the agenda and having a facilitator who understands where the board needs to spend its time. The good news is that boards and CEOs have discretion over agenda items and how the board spends its time. These practices influence performance, and therefore deserve careful attention and regular reflection to ensure the board is spending the appropriate amount of time on critical governance topics.

Strategic Orientation of the Board

It is commonly prescribed that the board’s role is primarily strategic and the management’s is operational. We were curious how this is implemented in practice, if at all. Follow-up interviews allowed us to explore agricultural cooperative boards’ structures and processes designed to calibrate the board’s strategic orientation. Our interviews revealed what we believe are practical and useful strategies to keep the board focused at a high level:

1. Add “strategic thinking” time to each meeting agenda and eliminate purely operational agenda items. Instead, directors can read operational reports before the meeting.
2. Put the most important—and most strategic—topics at the beginning of the meeting when energy is high. Focus the first part of the meeting on future-looking discussions and save the backward-looking topics for last.
3. Develop expectations that board members gain external perspectives, knowledge, and insights by attending conferences, networking, reading industry publications, and so forth.
4. As the cooperative grows and its businesses become more complex, it is even more imperative that directors’ attention is focused on helping to drive toward a corporate strategy, versus focusing on operational strategies and activities. Creating committees allows board members to engage more deeply on topics they are passionate about and keeps meetings focused on strategic topics.

> **“Management and the board bring different types of expertise that are both important to the strategic process and the visioning.”**

Of course, restructuring board meetings so less time is allocated to operational reporting and more time to strategic discussions requires that board members arrive at meetings prepared. **Just 59 percent of participating agricultural cooperatives report that most or all board members arrived at the typical board meeting in the past year well prepared.**

Our conversations with respondents about meetings and the board’s strategic orientation surfaced another tension many agricultural cooperatives share: who owns strategy? The commonly held belief that the board develops strategy and management carries it out is increasingly being supplanted with a view that acknowledges the board's role in vetting a strategy developed primarily by management and helping to set a strategic direction based on how members derive and perceive value. David, the board chair of a regional agriculture cooperative, agrees. He acknowledged that many of the trainings he attends stress that strategy is the responsibility of the board. 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." Morgan, a cooperative General Manager does not believe strategy belongs entirely to one group or the other. "Management and the board bring different types of expertise that are both important to the strategic process and the visioning."

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.

CEO

The CGRI survey was designed to elicit information and context about key dimensions of how the CEO impacts and is impacted by board governance practices. In particular, we were interested in the board's role in supporting and evaluating the CEO, as well as the CEO's role in supporting governance.

Of the 67 agricultural cooperatives that completed the CGRI survey, 94 percent have a Chief Executive Officer (CEO), general manager, executive director, or other type of highest-ranking employee. On average, the agricultural cooperatives in the CGRI sample that do not have a CEO are significantly smaller in terms of membership size, number of employees, and annual revenue.

Performance and Compensation

One of the board's primary responsibilities is to select and monitor the CEO. Overall, 59 percent of participating agricultural cooperatives use specific, quantifiable measures to evaluate CEO performance. This practice is much more common among participating hybrid cooperatives (100 percent) than primary cooperatives (54 percent). Respondents from agricultural cooperatives predominantly use financial metrics to measure CEO performance; however, member satisfaction, employee engagement and development, and adherence to the strategic plan were also mentioned. The results of the CEO's annual performance evaluation are commonly tied to decisions about compensation. **Overall, 59 percent of participating agricultural cooperatives use industry benchmarks to determine CEO compensation.** All participating agricultural cooperatives from the insurance and financial services industries use specific, quantifiable measures to evaluate CEO performance and industry benchmarks to determine CEO compensation, which suggests there may be opportunities for sharing practices related to CEO evaluation and compensation between different types of producer-owned cooperatives.

CEO Tenure and Succession Planning

The average participating agricultural cooperative's CEO assumed their role in 2014. CEO tenure ranges from less than one year to 31 years with a mean of seven years and a median of four. On average, CEO turnover in agricultural cooperatives is similar to CGRI respondents overall: both groups have had an average of two different CEOs (including interims) in the past decade with two at the median. **In participating agricultural cooperatives, longer CEO tenure was correlated with higher self-rated performance with the greatest positive impact in the areas of member satisfaction and crisis management.**

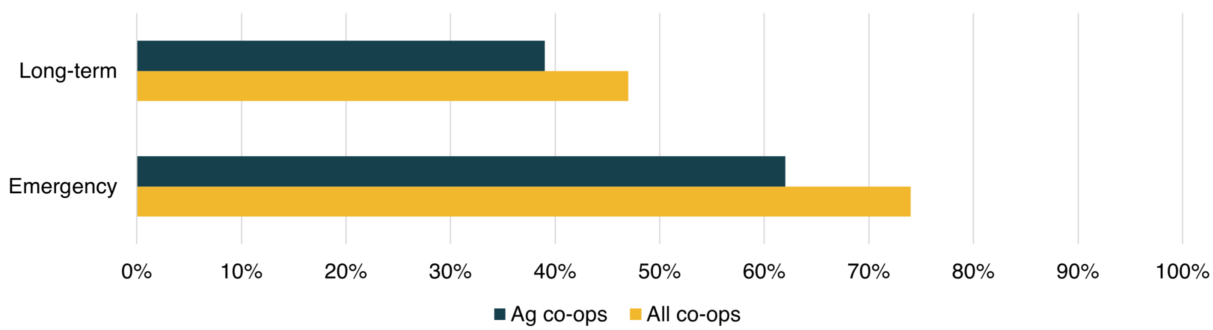
WHAT IS A SUCCESSION PLAN?

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.

The board of directors does not ultimately have control over CEO retention; however, the board's behavior toward and choices regarding the CEO certainly impact whether a CEO chooses to stay with the cooperative or leave for another opportunity. While compensation is an important element of job satisfaction, most people are motivated by other dimensions of a workplace such as how they are treated and how the work aligns with their values. We did not find a relationship between CEO tenure and the use of industry benchmarks for setting compensation; however, **participating agricultural cooperatives that use specific, quantifiable measures to evaluate the CEO's performance have longer tenured CEOs.** This correlation could also signal that longer-tenured CEOs have helped their board develop these metrics over time. Cooperatives boards that effectively balance supporting and challenging the CEO also have longer tenured CEOs.

Given the CEO's importance in both the management and governance of a cooperative, succession planning is crucial for successfully weathering changes in leadership. As Figure 27 shows, participating agricultural cooperatives are less likely than respondents overall to have a succession plan in place. **Less than two-thirds of participating agricultural cooperatives have an emergency succession plan and only 39 percent have a long-term succession plan for the CEO.** Participating agricultural cooperatives with higher annual revenue were more likely to have succession plans in place than smaller cooperatives.

Figure 27. Prevalence of Succession Plans Among Participating Cooperatives



The Board-CEO Relationship

The ability of the CEO and board to productively work together is paramount to a cooperative's success. An effective CEO-board relationship is based on trust, mutual respect, open and honest communication, and an appropriate balance of shared authority and accountability.

Much has been written about the CEO-board relationship in the context of the principal agent problem (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. In other words, the board's main function is to add value to decision making and improve organizational performance. Enacting stewardship theory in practice is only possible under certain conditions. The CEO must have the best interest of members in mind and view the board as a worthy partner; and the board needs the necessary skills and knowledge to add value to discussions and decision-making.

Several survey questions about the board-CEO relationship shed light on these dynamics.

Participating agricultural cooperatives are slightly more positive than respondents overall about the health of the relationship between their board and CEO. Over two-thirds of participating agricultural cooperatives say their board understands its role in relation to management *and* strikes an appropriate balance between supporting and challenging the CEO "extremely" or "very" well (see Figures 28 and 29). Perhaps not surprisingly, these variables are strongly correlated.

Figure 28. How Well Does the Board Understand Its Role in Relation to Management?

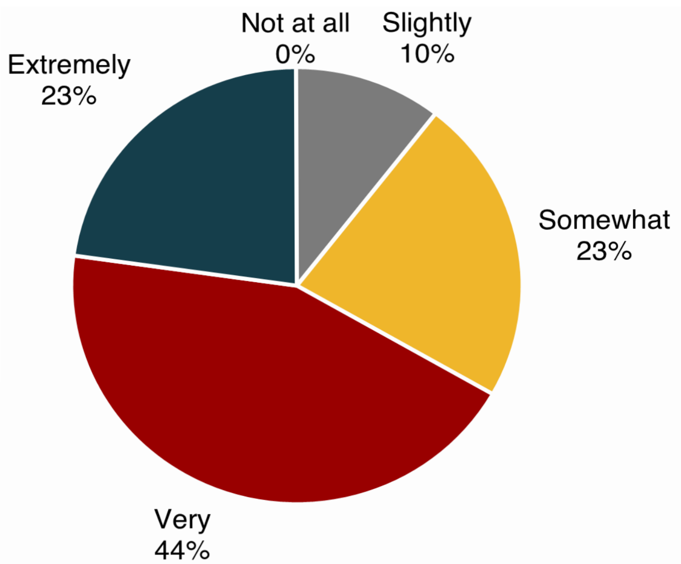
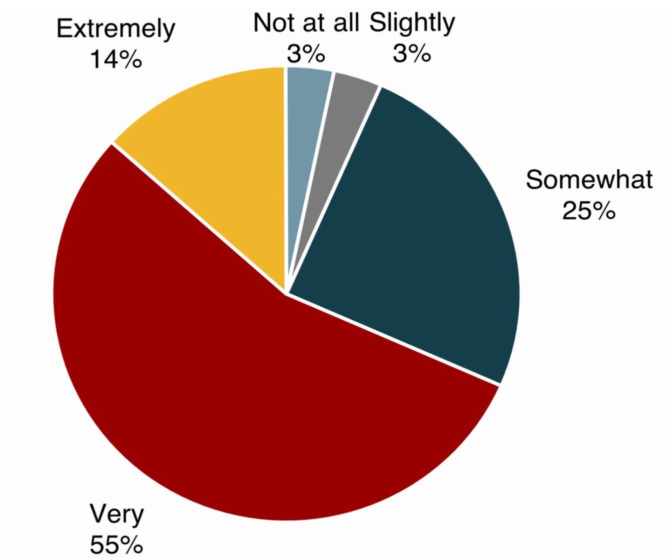


Figure 29. How Well Does the Board Strike an Appropriate Balance Between Supporting and Challenging the CEO?

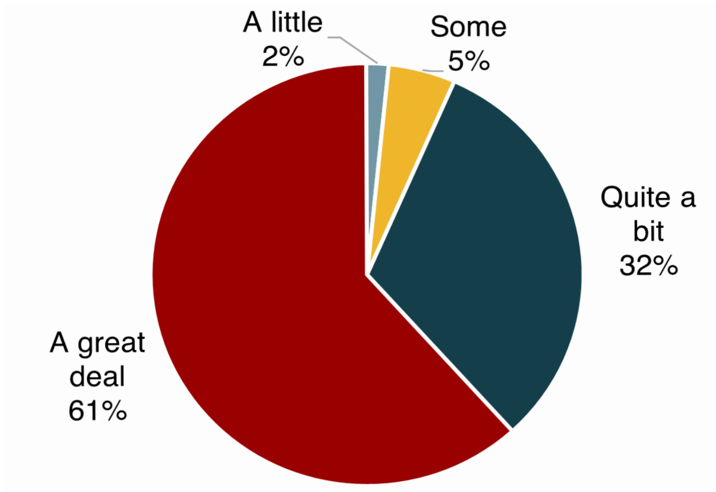


Striking the right balance between supporting and challenging the CEO also goes hand in hand with trust. Agricultural cooperative boards that strike the right balance between supporting and challenging the CEO also have higher levels of trust between the board and CEO. Figure 30 shows that 93 percent of participating ag cooperatives say there is "a great deal" or "quite a bit" of trust between the CEO and the board.

> **"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."**

In our interviews, two experienced CEOs emphasized that transparency and respect are key to building a healthy working relationship with the board. "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," said Conor, the CEO of a regional agriculture cooperative. "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." It is equally important that the board respects the CEO and their expertise—especially when questioning a strategy or decision. "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.

Figure 30. How Much Trust Exists Between the CEO and the Board?



Dynamics related to trust, respect, and communication are particularly consequential when conflicts arise. We asked respondents to think about the last time there was a disagreement between the CEO and the board about the right path forward and to explain the disagreement and how it was resolved. A surprising number of agricultural cooperatives left the question blank or said they could not recall a major disagreement in the past several years. One respondent noted, "Our belief is that if there is a disagreement that runs deep, there has not been enough good information provided or discussion about the issue."

> **"Our belief is that if there is a disagreement that runs deep, there has not been enough good information provided or discussion about the issue."**

When disagreements did emerge, they were most often related to divergent viewpoints on financial or strategic decisions. Cooperatives that successfully navigated conflicts of this nature cited the importance of frank discussion and pausing to regroup and collect additional information and perspectives. One respondent noted that when the CEO and board have divergent views on a critical decision, they "go back to the common goals and needs of the members, and then decide together on how they fit. Many times, the CEO is ahead of the board at the moment, but the board sees the value over time and likes the overall direction."

Boards are more likely to be effective partners to the CEO if they cultivate a mix of skills and knowledge as well as a culture of openness, humility, accountability, and lifelong learning. Board chairs often play a crucial role in mediating between the full board and CEO to ensure that communication is both tactful and well-timed. 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." 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.

The CEO's Role in Governance

While the board is most often associated with governance, the CEO plays an important role in shaping and shepherding a cooperative's governance structures and processes. 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. The following sections of the report highlight specific examples of the CEO's role in governance:

- **Board Composition & Qualifications:** It is very rare for CEOs of participating agricultural cooperatives to serve on the nominating committees; however, there are ways CEOs can influence board composition. Over half of participating agricultural cooperatives identify board candidates through the networks of senior management, and CEOs may propose initiatives related to diversity, equity, and inclusion that challenge boards to diversify their makeup.
- **Board Training, Education, & Development:** From meeting with newly elected directors and advocating for a healthy board training budget to providing timely and accurate information to directors and participating in the board evaluation process, the CEO impacts board education and development in myriad ways.
- **Board Meetings & Decision-Making Practices:** In many cooperatives, the CEO is an active participant in setting and facilitating board meeting agendas and maintaining the board's focus on strategic rather than operational matters.
- **Member Participation:** The CEO can play an important role in facilitating connections between directors and members by providing channels for member input and ensuring that input makes its way to the board.
- **Board Culture:** The culture of a group is the result of the way the individuals in that group think, act, and interact when together. As the highest ranking employee, the CEO has considerable influence over the culture of the board and the cooperative as a whole.

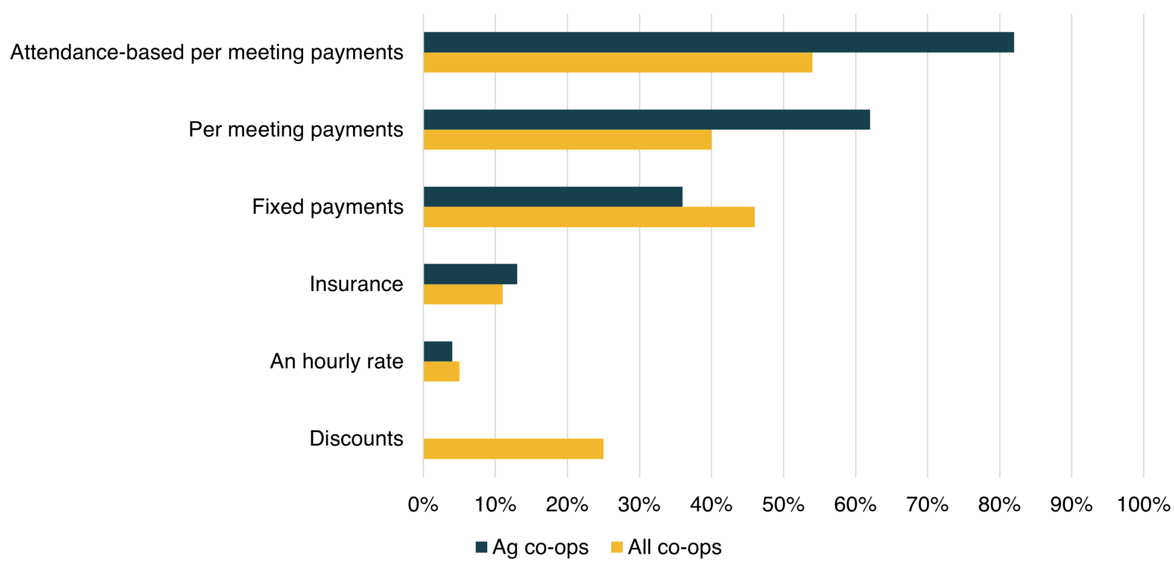
Ultimately, both survey and interview findings suggest that keeping the board-CEO relationship running smoothly requires ongoing investment in positive relationships and systems of accountability. The CEOs we interviewed acknowledged that working with directors can be frustrating at times, but they also 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.

BOARD COMPENSATION

Norms and practices regarding if and how to compensate the board of directors vary across the cooperative community. Whereas regulatory constraints prohibit some cooperatives from providing financial remuneration to directors, many cooperatives view compensation as a critical strategy for board recruitment, retention, equity, or other goals.

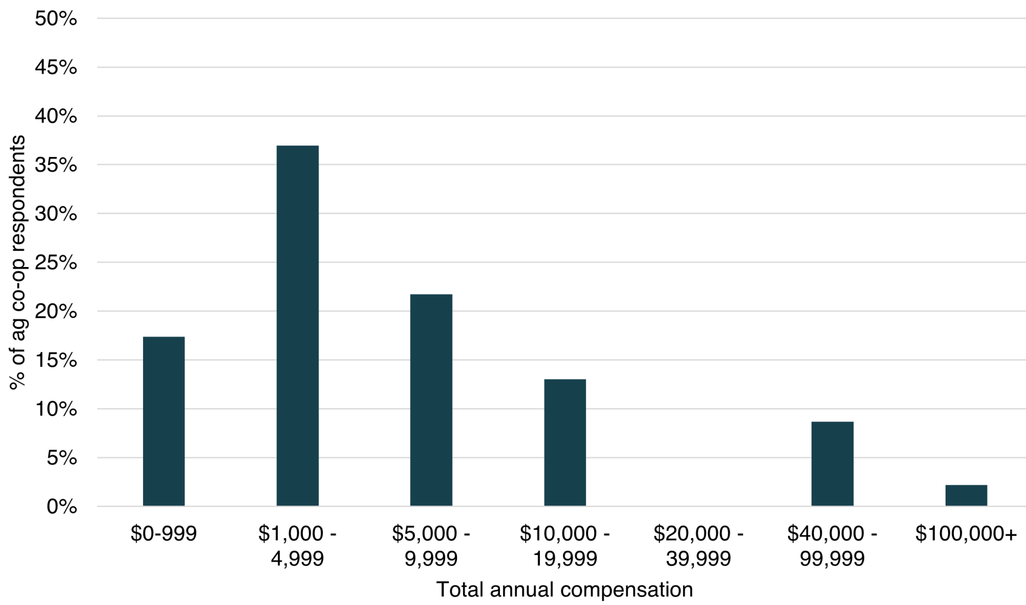
Participating agricultural cooperatives are more likely to compensate directors and to compensate them at higher rates than CGRI respondents overall. **The majority of participating agricultural cooperatives (85 percent) compensate directors** for serving on the board above and beyond expense reimbursement compared to only half of all participating cooperatives. As Figure 31 shows, among those that do provide board compensation, the most common types are per meeting payments (62 percent) and per meeting payments contingent upon attendance (82 percent). The least common are discounts (0 percent) and an hourly rate (4 percent).

Figure 31. Share of Participating Cooperatives that Compensate Directors with...



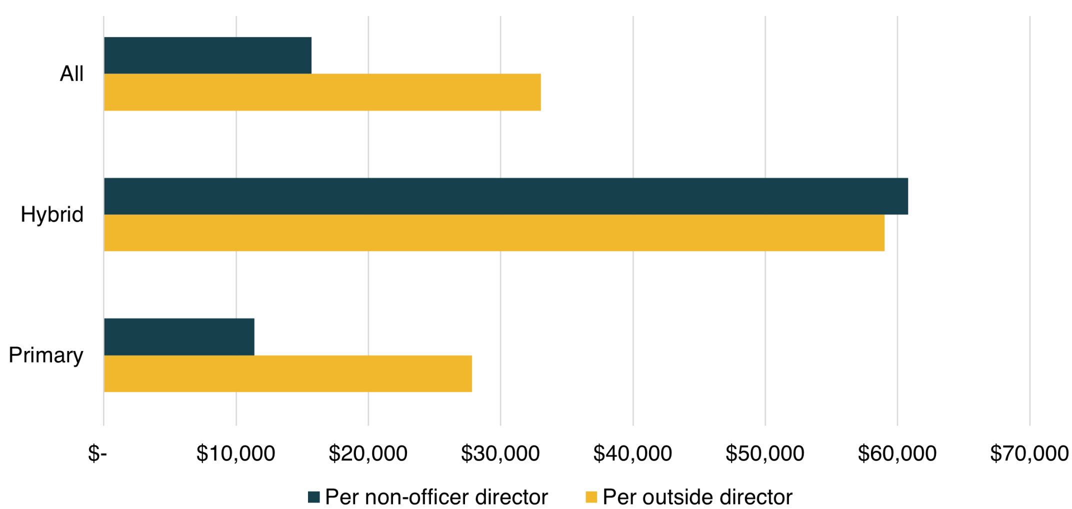
While board compensation is common in participating agricultural cooperatives, annual compensation levels vary widely (see Figure 32). Average total annual compensation for non-officers of agricultural cooperatives is $15,695 compared to $8,734 across all types of cooperatives; and 85 percent of participating agricultural cooperatives that provide board compensation pay board officers at a higher rate than non-officers. While average compensation is higher in participating agricultural cooperatives than respondents from other sectors, the majority of participating agricultural cooperatives (89 percent) pay their directors less than $20,000 per year (see Figure 32).

Figure 32. Total Annual Compensation for Non-Officer Directors



As shown in Figure 33, participating hybrid cooperatives compensate directors at a higher rate than primary cooperatives. In these hybrid cooperatives, the average total annual compensation for non-officers is $60,800 compared to $11,399 in primary cooperatives. Hybrid and primary cooperatives also differ in how much they compensate outside directors compared to directors from the membership. In primary cooperatives, the average annual compensation for outside directors is more than double the average annual compensation for non-officer directors, whereas it is slightly less in hybrid cooperatives.

Figure 33. Average Total Annual Compensation in Participating Agricultural Cooperatives



Compensation levels are also strongly correlated with cooperative size—on average, participating cooperatives with higher annual revenue tend to compensate their boards at a higher rate. Despite the high level of correlation between these two variables, there are several outliers in the dataset that do not conform to this trend. In other words, participating cooperatives with greater revenue *often* compensate directors at a higher rate but not *always*.

Overall, survey results suggest that decisions about director remuneration typically take place at the management and board level. This appears to be especially true within agricultural cooperatives. Only 11 percent of participating agricultural cooperatives that compensate directors require a member vote to change if and how directors are compensated, compared to 21 percent of participating cooperatives overall.

The survey data does not offer any clear insights into how director compensation affects the self-rated performance of participating agricultural cooperatives or their boards. **We do not find a clear correlation between director compensation and a board's confidence in having the right mix of people, preparedness of directors for meetings, or self-rated cooperative performance.** Despite this, cooperatives should be strategic and intentional when developing their board compensation programs and consider the impacts the program may have on director recruitment, retention, motivation, and performance. One strategy is to scale board compensation to the size and complexity of the business. Meaningful compensation recognizes the value of directors' time and contributions. While cooperatives certainly do not want to attract directors who are simply in it for the money, agricultural cooperatives may need to consider paying directors more if they want to recruit board candidates whose time is in high demand, acknowledge the acumen required for board leadership, and be able to hold directors to high standards of performance and commitment.

MEMBER PARTICIPATION

Member engagement in governance, including the degree to which members' needs and concerns are addressed, is unique among cooperative organizations compared with traditional corporations and critical to fulfilling the promise of democratic member control. 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, 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 how well the board understands and responds to member concerns, member participation in elections and annual meetings, and strategies for promoting member participation.

It's the biggest fear of all co-ops that the company becomes more important than the people who own it.

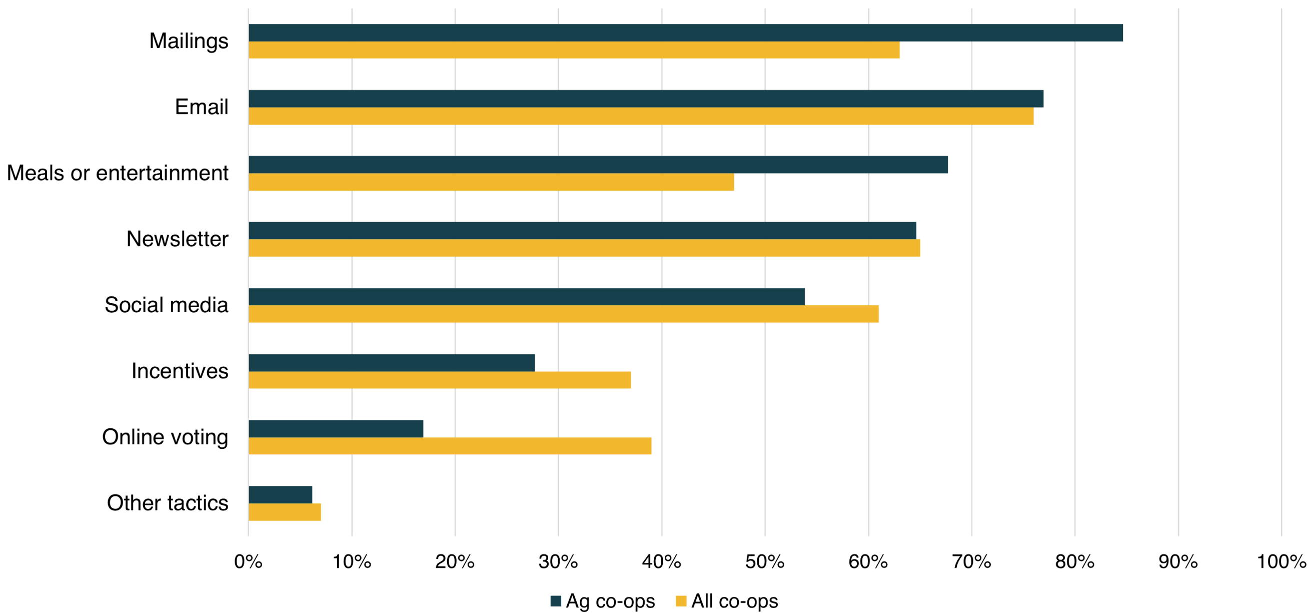
Metrics of Member Participation

Cooperative members can directly participate in governance in three ways:

- voting on cooperative matters reserved for all voting members,
- casting votes to elect the memberships' representatives (e.g., delegates, directors), and
- serving on a representative board (e.g., delegate board or board of directors).

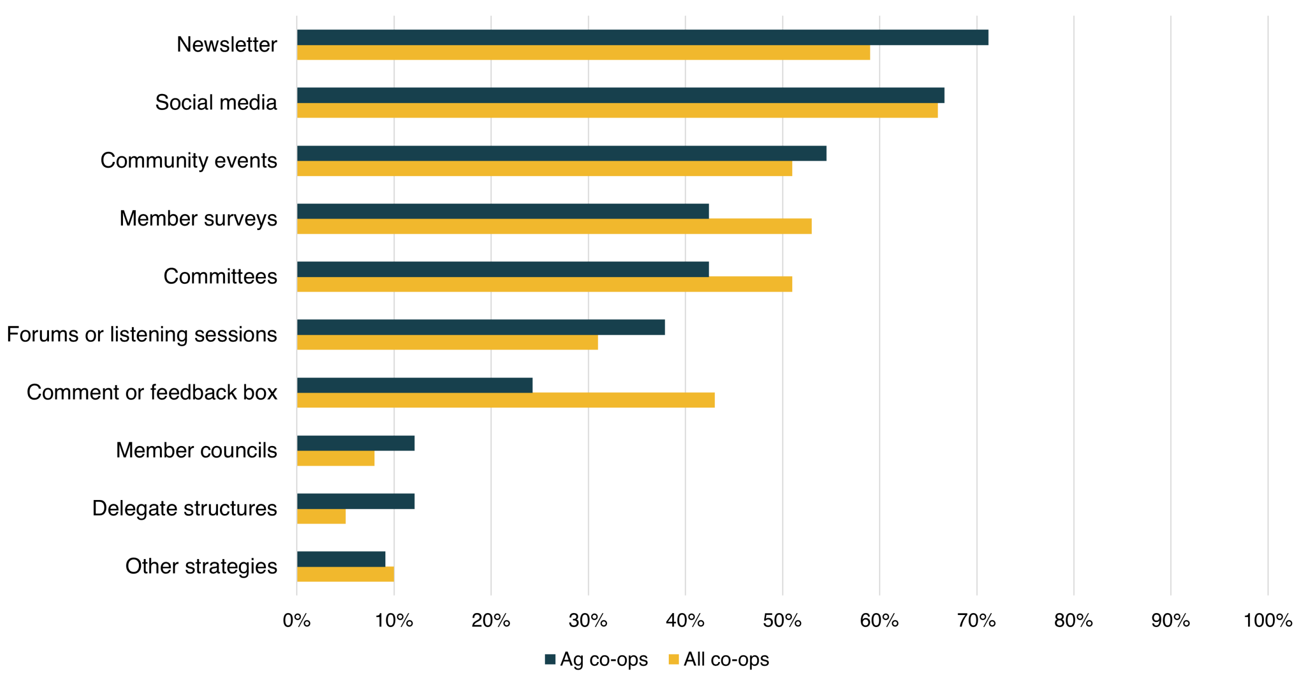
In cooperatives with representative democracy, electing the board of directors is perhaps the most important way members exercise their voice; however, the extent of member participation in board elections varies considerably. Participating agricultural cooperatives reported that, on average, 35 percent of members voted in the last board election; however, this figure ranges from zero to 100 percent. Voter turnout in board elections is higher in participating agricultural cooperatives than in consumer cooperatives and insurance mutuals, but lower than in worker, housing, and purchasing cooperatives. We observe a similar pattern with member turnout at the last annual meeting, which averages 23 percent among participating agricultural cooperatives and 17 percent among all CGRI respondents. Average annual meeting turnout is highest among worker cooperatives (90 percent) and lowest among consumer cooperatives (5 percent). Agricultural cooperative leaders have lamented dwindling member participation and turnout at annual meetings and director elections. To promote participation in board elections and annual meetings, participating agricultural cooperatives most commonly utilize mailings (85 percent) and email notices (77 percent). As shown in Figure 34, agricultural respondents are more likely than respondents from all cooperatives to use standard mailings and meals or entertainment to promote member participation and significantly less likely to use online voting.

Figure 34. Share of Participating Cooperatives that Promote 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 used in the last year. Overall, the most common strategies amongst participating agricultural cooperatives are newsletters (71 percent) and social media (67 percent). The least common strategies are delegate structures and member councils (12 percent); however, respondents from the agriculture sector are more likely than other CGRI respondents to use these structures. Examples of other types of engagement strategies include young farmer programs, district meetings, and one-on-one conversations with members.

Figure 35. Share of Participating Cooperatives that Engage Members with...



Members may also participate in their cooperative's governance by attending board meetings; however, this practice is relatively uncommon in participating agricultural cooperatives. **Only 31 percent of participating agricultural cooperatives allow members who are not directors to attend regular board meetings compared to 56 percent of all CGRI respondents.** This practice is least common among participating producer cooperatives compared to other types of cooperatives.

Understanding Member Needs and Satisfaction

In addition to its fiduciary duty to safeguard the assets of the cooperative, the board of directors is 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, how they are evolving, and how satisfied members are with the cooperative.

The CGRI survey asked respondents what metrics they use to measure member satisfaction. The most frequent response among agricultural cooperatives was member surveys followed by metrics related to member retention and growth. Several respondents also listed "general feedback via informal channels". Nearly a third of agricultural cooperatives left the question blank or stated they do not have any standardized metrics for measuring member satisfaction, suggesting there may be room for improvement in this area. The interviews revealed insights regarding other ways cooperative boards increase their understanding of member needs.

First, **the CEO often plays an important role in facilitating connections between directors and members.** Conor, the CEO of an agricultural cooperative, facilitates director-member connections by inviting board members to 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. This example illustrates how CEOs who embrace the cooperative model can help keep member needs front and center for the board.

Second, **other employees can also be crucial in helping the board understand the needs of producers.** 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."

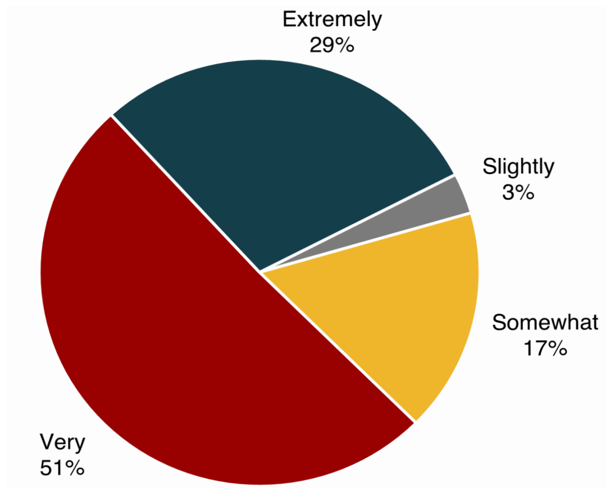
Third, **ensuring that directors represent a broad swath of member perspectives can also help the board stay in touch with diverse member needs.** For example, David explained that all directors are elected at large in his agricultural cooperative, but there is a tacit understanding that the nominating 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 boardroom, hearing those different opinions in the boardroom, then coming to decisions." In other words, diversifying the board can be a strategy for keeping tabs on how best to serve members.

Despite what might appear as relatively low member-engagement vis-à-vis turnout at board elections and annual meetings, participating agricultural cooperatives are, overall, more confident than CGRI respondents as a whole that their board understands the needs of members: 80 percent of agriculture respondents believe their boards understand the needs of members "extremely" or "very well" compared to 61 percent of all CGRI respondents. We found a positive weak correlation between how well the board understands the needs of members and self-rated performance. Participating agricultural cooperatives that are more confident their board understands the needs of members rated themselves higher in overall performance, member satisfaction, and risk management. Drilling further, the average member satisfaction rating is 4.0 out of 5.0 for a respondent who says the board understands members' needs "extremely well" and drops to 3.48 for boards who understand their members' needs "very well." While we cannot purport a statistical validation of differences in these averages, they do highlight that agricultural cooperatives—indeed all cooperatives—must have an awareness of and appreciation for the relationship between a boards' understanding of its members' needs and how it will perform in meeting those needs.

Addressing Member Concerns

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 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 issues that elicited strong member responses were often sector specific. Participating agricultural cooperatives most often mentioned member concerns related to capitalization, corporate structure, and strategy. Regardless of membership type or industry; however, member concerns were often connected to the following overarching questions:

Figure 36. How Well do Board Members Understand the Needs of Members?



- **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?**

We 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 provided examples of proactive communication strategies and emphasized the need to explain the "why behind the decision." Some cooperatives held member forums, others hired consultants, and still others made personal phone calls to members. In many cases, members' reaction to an issue influenced the eventual outcomes—policies were changed, mergers voted down. In others, members were convinced of the merits of a decision or at least came to accept it. Often, in cooperatives, the process—and how well it affords members a voice on issues that matter—is just as important as the outcome.

BOARD CULTURE

As management consultant Peter Drucker used to say, “Culture eats strategy for breakfast.” Culture is multidimensional and dynamic. It is the amalgamation of the way a group thinks, acts, and interacts. In the words of one leadership expert, it is “the sum of what we permit and promote.” Culture is just as important, if not more, than the structures and processes of governance systems. Anyone who has spent time observing board culture will understand its power—the power to elevate and the power to undermine.

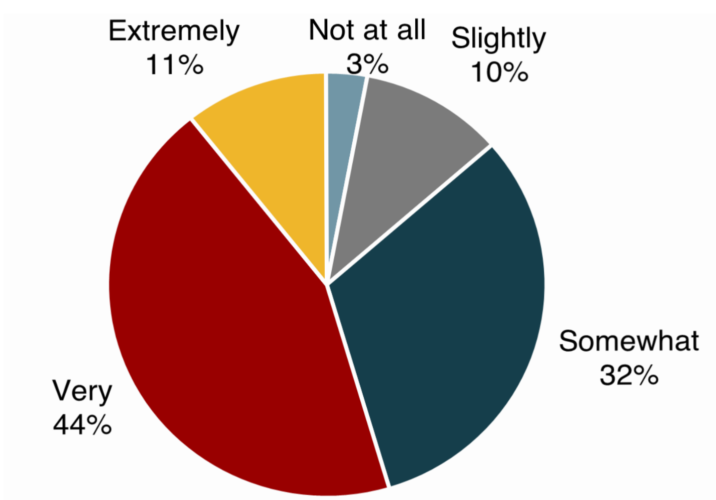
As critical as culture is to the success of any organization, assessing culture vis-à-vis a survey is quite challenging. Many aspects of culture are idiosyncratic and revealed in attitudes, activities, and outcomes that are not easily quantified. The CGRI survey included two attitudinal questions about cultural dynamics on the board as well as an open-ended question that asked respondents to describe a recent board conflict. The follow-up interviews explored issues related to social and interpersonal dynamics.

In this section, we bring together quantitative and qualitative data to gain a richer picture of the cultural dynamics that impact cooperative governance efficacy. Dimensions of board interactions that determine culture are also found in the CEO section, including the board’s role relative to management, how well the board balances supporting and challenging management, and the degree of trust between the board and CEO.

Social and Interpersonal Dynamics

The first attitudinal survey question about board dynamics asked, “How well does the board build social and interpersonal dynamics that support its governance effectiveness?” Figure 37 highlights that 55 percent of agricultural cooperative respondents said their board dynamics support governance either “very” or “extremely” well, compared to 51 percent of respondents from the full CGRI sample. Yet, this also suggests significant opportunities for improving board relationship dynamics: approximately 45 percent felt that the dynamics were not very conducive to supporting effective governance.

Figure 37. How Well Does the Board Build Social and Interpersonal Dynamics that Support It in Its Governance Effectiveness?



There exists a body of peer-reviewed scholarship that investigates social ties between people and how social networks and their fragility differ when people in the network are more or less similar to one another (McPherson, Smith-Lovin, and Cook 2001). Among agricultural cooperative respondents, there is a moderately strong positive correlation between a cooperative's board dynamics rating and their confidence in having "the right mix" in the boardroom. However, we do not find evidence of a relationship between board demographics (gender, age, and racial diversity) and the social and interpersonal dynamics of the board. This is perhaps evidence that participating agricultural cooperatives may not view these dimensions as critical factors in achieving "the right mix" of perspectives on the board.

A well-functioning board will outperform a dysfunctional one in multiple dimensions. One way to measure board performance is by proxy, using self-reported measures of cooperative performance. The CGRI survey asked respondents to rate their cooperative in the past 12 months on financial performance, delivering value to members, managing through crisis, strategic growth, risk management, member satisfaction, and reputation. **Higher ratings of board cultural dynamics are most strongly positively correlated with higher self-assessed performance in strategic growth, member satisfaction, and reputation.**

Because of the complexity surrounding board dynamics, we incorporated follow-up interview questions to add robustness and context to the survey responses. Our conversations with survey respondents made clear the COVID-19 pandemic created unique challenges for building a thriving culture on cooperative boards. Even though agricultural cooperatives held a much higher proportion of their board meetings in person between fall 2020 and 2021 compared to other CGRI respondents (only insurance mutuals held fewer meetings virtually), the diminishment of in-person interaction still took 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?"

"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 activities that cultivate and sustain those dynamics. 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. The most common strategy cited for fostering these dynamics was spending time together outside of meetings. Many cooperatives also find ways to incorporate relationship building into the board's existing work. Conor, the CEO of a regional agricultural cooperative explained that his board began scheduling committee meetings the day before board meetings to give directors a chance to "stay overnight and have supper together." Others cited mentor programs and board evaluations as effective tools for perpetuating the cooperative's culture and helping directors understand how to navigate that culture.

How Well Board Discussions Allow for Healthy Dissent

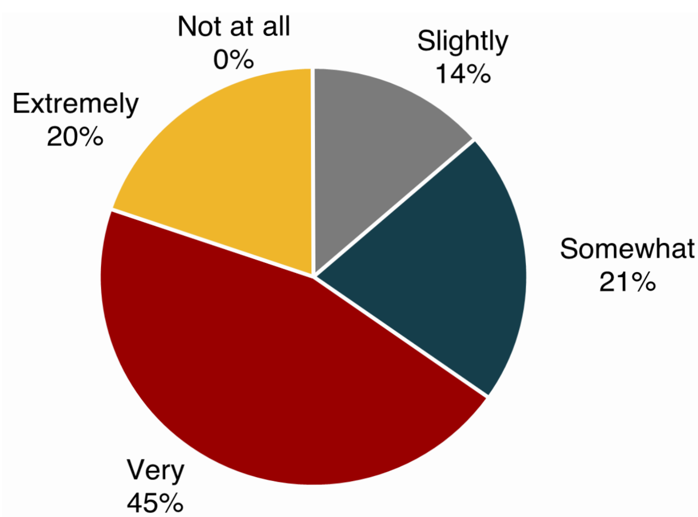
An overarching theme in the interviews was the importance of interpersonal dynamics such as trust, open and honest communication, and respect for the board's ability to be accountable and strategic. "Transparent and trusting relationships where people are free to speak their minds is the most important thing," said Conor, the CEO of a regional agricultural cooperative, "Everyone battles the issue of people not speaking up once you have reached a certain level of consensus in the room because they're afraid they'll be wrong."

Appropriate interpersonal dynamics and trust permit healthy dissent. We wanted to assess the perception of this among agricultural cooperatives. The survey asked, "How well do board discussions allow for healthy dissent?"

Overall, 64 percent of participating agricultural cooperatives say their board discussions allow for healthy dissent "very" or "extremely" well (Figure 38). Not surprisingly, we found high degrees of correlation between several of the metrics related to social and cultural dynamics.

> **"Transparent and trusting relationships where people are free to speak their minds is the most important thing."**

Figure 38. How Well Do Board Discussions Allow for Healthy Dissent?



Participating agricultural cooperatives that report higher levels of healthy dissent during board discussions were also more likely to report:

- the board understands its role in relation to management,
- the board builds social and interpersonal dynamics that support governance effectiveness,
- the board strikes an appropriate balance between supporting and challenging the CEO, and
- a higher level of trust between the CEO and board.

Given the changing board sizes of agricultural cooperatives, we were curious if board size correlates to measures of board culture and interpersonal dynamics. Board size had no obvious statistical relationship with the healthy dissent or interpersonal dynamics responses, but it does appear that respondents who believe their board has a "great deal" of trust have, on average, fewer board members.

We were also curious about the relationship between cooperative performance—as a proxy for board performance—and healthy dissent. **In general, agricultural cooperative respondents with higher self-reported ratings of healthy dissent in the boardroom also tend toward higher ratings on having "the right mix" in the boardroom and on their strategic growth performance.** It is interesting, but not entirely anomalous, that other measures of cooperative performance are not more strongly positively correlated with the dissent measure. One explanation is that the other dimensions of performance (e.g., financial performance, member value, crisis management, risk management, member satisfaction, and reputation) tend to be less contentious and are dimensions upon which it is more straightforward to generate consensus.

There are times when 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 board conflicts in agricultural cooperatives were related to one of the following themes:

- Major financial or strategic decisions (e.g. merger, expansion, patronage allocation)
- Personnel issues (e.g. pay, performance, hiring and termination decisions)
- Changes to the governance or membership structure (e.g. adding term limits, changing committee structure, updating member eligibility or approval process)
- Personal or political issues between board members

In most cases, the board responded to the conflict by seeking additional information and engaging in discussion until a resolution could be reached. One respondent said their group referenced their "board code of conduct to guide positive actions." When the conflict was related to personnel or operational matters, the outcome often involved updating policy.

In the interviews, several people emphasized the importance of leaning into conflict 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. He noted, "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." Marcus's example highlights the difference between unhealthy and healthy dissent.

Ultimately, the survey and interview findings reiterate that even the best systems and intentions can be derailed by unhealthy group dynamics. A key takeaway is that boards will be more effective at dealing with conflicts and avoid serious degradation of board culture and dynamics if they have and regularly review codes of conduct, policies, and agreements intended to establish appropriate board behavior in and outside of the boardroom. When cooperatives are intentional and diligent about the intangible aspects of governance, they discover that a strong culture is both a cause and a consequence of realizing their potential.

APPENDIX A - REFERENCES

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