

Boardroom Excellence

Corporate governance can be a tricky thing, and cooperative governance even more so. The need to balance the desires of members with the requirements of the business can place a strain on a cooperative's board of directors. The very best boards adhere to certain practices in their pursuit of excellence.

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Over the years, it has been observed that some cooperatives flourish while others flounder. Still, some others get by but never improve. Why the difference? Is it entirely due to the market, or perhaps competition? The factors of success are not entirely obvious when the weather is great, crops are bountiful, and prices are favorable, because all cooperatives can thrive in such conditions. As economic pressures mount however, small differences in organizational practices emerge as significant deficiencies in firm performance.

We suggest that the difference between mediocrity and excellence is embedded in the very foundation of the cooperative organization: boardroom governance by customer representation. Your board's adherence to sound business and cooperative principles will develop a quality of resilience that will guide you through turbulent economic circumstances. The following are five specific practices of a truly exceptional board of directors for any cooperative business.

1. Represent both the members and the cooperative

An exceptional cooperative board represents the interests of the members while simultaneously protecting the assets of the cooperative.

A cooperative has a potentially significant competitive advantage in the form of its members. These customers demonstrate their commitment to the extent that they are now investors. Through the board, the cooperative has tremendous insight as to the needs and desires of the customer. The cooperative was formed and exists to serve these two needs.

However, your cooperative is a business, and like any business, its continued existence is based on its ability to extract economic value from its competitive advantages. In short, it must be profitable. Members need to be reminded at times that they are investors in a business, and

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not participants in a discount club. Investors receive a share of profits, but only when profits have been made. When a board chooses to redeem member investments without the use of current year

profits, they are essentially making a decision to liquidate a portion of cooperative assets. It is the responsibility of the board to represent the members' interests as both customer and investor. The cooperative comes first in performance, and members come first in purpose.

2. Provide an example of personal and organizational integrity

An exceptional cooperative board adheres to a code of ethics that promotes a diverse culture where all can be heard without fear of punishment or retribution.

A cooperative is one-part business and one-part social group. Therefore, it is not surprising that each cooperative has a different culture or manifestation of its customs, attitudes and behaviors. At the most basic level, this culture is a reflection of the needs and desires of the members, but it won't flow through the company as a whole if the directors fail to define this for management and employees. In this light, the board can greatly influence the ethical behavior of employees by practices modeled in the boardroom.

Thus, ethical behavior is an unconditional expectation of board members. This includes standards of honesty, integrity, dependability, and confidentiality. Board conversations are not to be shared outside of the boardroom. A good rule of thumb is that when items from board meetings are shared with the public, it should be done collectively by the entire board or by the chairman speaking on behalf of the board.

Additionally, a characteristic of a flourishing cooperative is diversity. The cooperative must recognize the value and importance of all of its members regardless of gender, age, ethnicity, or size of operation. Differences in personalities and backgrounds provide new perspectives that will drive creativity and ultimately,

better strategy. A board that is trying to grow membership among a certain type of producer, would be aided by having that particular group represented on the board.

3. Promote accountability among board members and to the membership

An exceptional cooperative board follows a carefully planned agenda for board meetings, which includes reports on delegated responsibilities and previous assignments. They promote transparency while vigorously maintaining confidentiality.

Meetings can be wearisome to all involved when they are long, drawn-out, and disorganized. The board chairperson has the responsibility to ensure board meetings are both purposeful and progressive. In other words, meetings of the board of directors should be focused on providing direction to management, setting policy, establishing strategy, and overseeing the proper and effective use of assets. Each meeting should add to the progress of ones that came before.

The two primary tools to help with this are the agenda and the board minutes. A thoughtfully prepared agenda helps the board to focus their limited time on director responsibilities and avoid the temptation to spend time on managerial decisions. Meanwhile, the minutes of previous



meetings help the board to follow up on assignments and use time more effectively. The cooperative members have placed great trust in the board to protect their investment, and will hold board members accountable for this.

In order for a board to be viewed as trustworthy to its members, it must be candid, both among board members and (to the extent possible) with the public. An exceptional board treats the confidentiality of boardroom decisions as sacred – not something to be on public display. It is possible to be both transparent (by sharing what you are doing) and confidential (by not sharing intimate details of discussions and decisions). Members will respect the honest answer “I can’t talk about that.” Sensitive issues that need to be shared with members or the public should be done by the board as a whole or by the chairperson speaking on behalf of the board.

4. Develop a culture of continual learning

An exceptional cooperative board is firm in its practice of persistent and constant education. Profitability is found through sustained competitive advantage. Competitive advantage is found by individuals who are constantly improving their understanding of their business and the industry in which it operates.

Like most corporate boards, the premier cooperative boards make it a high priority to receive continuing education to stay current with business skills, strategies, and industry trends. A board can set itself apart from others by devoting time for training at each board meeting. Outside experts can offer a few minutes of thought provoking discussion that may lead to breakthrough strategies. In addition, board training can include the review of internal documents like employee handbooks, bylaws, and corporate policies. These should be continually reviewed, if even by a small amount at a time, to help keep the cooperative in line with modern business practices and the needs of current members. Strategic planning may be a crucial part of board education.

5. Establish a vision and strategy to guide management

An exceptional board of directors provides vision and strategy while letting the manager manage. Sometimes the most difficult task for directors is to step aside and let management do their job.

It is the duty of a director to establish the vision and mission of the firm, to determine strategy to achieve that mission, to set objectives and goals dictated by that strategy, to oversee the acquisition and use of assets, and to monitor the performance of the firm. In doing so, the board hires only one individual, namely, the general manager. In addition, the board contracts professional services related to the monitoring and administration of the firm. That is all.

Managers have the responsibility to establish budgets, use the firm’s assets to achieve stated objectives, monitor day-to-day operations, set short-term goals, hire and fire employees, and establish levels of pay and bonuses. In other words, decisions on the operation of the cooper-



ative or the use of its employees is the sole responsibility of the manager. If the board is making these decisions for the manager, they not only put the cooperative at risk by ignoring the hired expertise, but they also take time away from their fiduciary and strategic responsibilities. It would be like hiring a chauffeur without telling him where you are going, hopping in the front seat, and occasionally yanking on the steering wheel or stomping on the gas.

Directors then, have a great responsibility to establish strategy. An exceptional board of directors will periodically dedicate themselves to a strategic planning exercise.

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To be clear, strategy should be a common topic of board meetings, but strategic planning requires something more. Plans are meant to be evaluated from month to month, but to set that plan requires dedication of money, time, effort, and talent. Thus, by our definition, a strategic planning session includes the following characteristics:

1. The session lasts 1-3 days.
2. The manager is in attendance.
3. Meetings are held away from the co-

operative, preferably in a different city. Alternatively, ask your regional cooperatives if you could use their meeting space.

4. Meetings are facilitated by a professional from outside the cooperative.
5. Industry experts share information on topics of interest.
6. Bankers, lawyers, accountants, and other professionals associated with the cooperative may participate.
7. Board members dedicate uninterrupted time and park their phones at the door.

These then, are the hallmarks of an exceptional cooperative board: representation, integrity, accountability, education, and vision. By adhering to these qualities and being true to the role of directors, a truly exceptional board will be poised to lead their cooperative to achieve sustained competitive advantages and new heights of profitability.

Questions for discussion:

1. Do you agree with this list of practices? What behaviors or characteristics define excellence in your cooperative?
2. What goals can you set as a board to personally promote excellence in your cooperative?
3. How diverse is the composition of your board members? How does this affect the decisions you make?
4. What is your role as a director? What is the role of the manager? Why is it dangerous for the board of directors to make managerial decisions?