CGRI RESEARCH BRIEF

The Role of Right Mix and Board Development Practices in Governance Outcomes

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INTRODUCTION

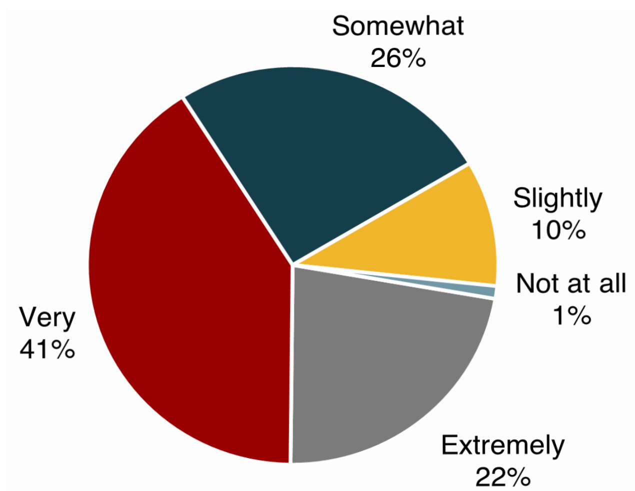
Many dynamics—internal and external, concrete and intangible—drive governance performance and cooperative health. There are so many factors at play that it can be hard to parse out which factors can move the needle and are therefore indicative of where to focus one's efforts. In this research brief, we present an analysis of data from the 2021 Cooperative Governance Research Initiative (CGRI) survey about the role of board composition and board recruitment and development practices in achieving key governance outcomes.[1] A total of 500 U.S. cooperatives of varied industries, sizes, and origins completed the 2021 CGRI survey. This research brief focuses on findings derived from the 67 participating ag sector cooperatives.

Unpacking the Concept of Right Mix

In recent years, we observe a growing interest among boards in understanding and achieving a mix of directors that can be most effective in creating and sustaining a high functioning board. CGRI respondents were asked, "How confident are you that the board has the right mix of people to perform its governance duties effectively?" As shown in Figure 1, 63 percent of ag sector respondents were extremely or very confident their board has the right mix.

As agricultural cooperatives evolve into larger and more complex organizations, and as their operating and market environments do the same, the notion of "right mix" becomes increasingly divergent and nuanced on co-op specific factors. The right mix is different for each board and perhaps even perceptively different to each member of a board because it concerns the propensity to effectively govern in the context of a business' unique structure, environment, complexity, and strategic orientation. The subjectivity of responses also derives from the respondent-dependent view of what effectiveness in governance—and governance duties—means. Most CGRI surveys (92 percent) completed by ag sector cooperatives were completed by one person. Nearly two-thirds (64 percent) of sole respondents who filled out the survey are CEOs, nine percent are board members, and 20 percent have another role.

Figure 1. How Confident Are You that the Board Has the Right Mix of People to Perform Its Governance Duties Effectively?



We conceive of the right mix as some combination of representation, expertise, and engagement, and an ideal that must be thoughtfully considered and fostered. This conception of right mix aligns with Johnston Birchall's cake metaphor and his assertion that to maximize cooperative performance and delivery of value to members, cooperatives should intentionally strive to balance three governance system elements: representation, expertise, and member involvement.[2]

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[1]For details about the Cooperative Governance Research Initiative and the data presented in this brief, please see https://uwcc.wisc.edu/cooperative-governance-research-initiative/.

[2]Birchall, Johnston. 2015. "The Design of Effective Democratic Governance Structures for Large Co-Operatives." Pp. 25–35 in Co-operative Governance Fit to Build Resilience in the Face of Complexity. Brussels: International Co-operative Alliance.

Birchall, Johnston. 2017. The Governance of Large Co-Operative Businesses. Manchester, UK: Co-operatives UK.

In exploring the elicited governance and performance factors of respondents, we contemplated whether right mix is influenced by the demographic characteristics of those who are elected to the board (the inputs) and how those directors are transformed through learning while on the board, whether through onboarding processes, formal director training, or experience serving as a director (treatments). We find little evidence in the data that respondents' view of right mix is influenced directly by inputs or treatments measured in the survey, including director tenure, age diversity on a board, director identification, and director development.[3]

Though we do not identify robust relationships between our selected inputs and treatments and a cooperative's confidence in having the right mix of directors, we do find compelling evidence that having the right mix can improve key measures of governance outcomes. Table 1 shows the empirical relationship we observe between respondents' perception of having the right mix in the boardroom and their ratings on three indices constructed to measure governance performance: Governance Efficacy, Board Culture, and Cooperative Performance. Participating cooperatives with a higher degree of confidence they have the right mix of directors score higher in all three dimensions. The remainder of this brief explores these three indices in greater detail, focusing on the effects of specific governance inputs and treatments.

Table 1. Relationship Between Right Mix and Key Governance Outcomes

	Confidence in Right Mix		
Index	**Below Average**	**Above Average**	**Difference**
Governance Efficacy	**2.55**	**3.12**	**+0.57**
Board Culture	**3.35**	**4.14**	**+0.79**
Cooperative Performance	**3.39**	**3.89**	**+0.5**

Note: *The difference between the below average and above average scores for each index are statistically significant at the 1% level, with p-values <0.001.*

Governance Efficacy

The effectiveness of a cooperative board's governance is multi-dimensional. Concepts of board strategic processes, oversight and control responsibilities, relationship with the CEO, culture, and others undoubtedly contribute to the broad picture of effectiveness in governance. Knowing that the right mix of directors contributes to greater governance efficacy among respondents, we wondered whether governance efficacy could be explained by analyzing governance practices elicited in the CGRI survey.

We distilled the measure of governance efficacy to its essence, focusing on four key practices essential for effective governance. They include utilizing processes to preserve institutional knowledge, having directors who consistently arrive well-prepared for board meetings, spending an appropriate amount of time on key board topics (e.g., organizational performance, management evaluation, member relations, risk management, strategy, and others), and employing a robust approach to supervising the manager or CEO. The CGRI survey questions utilized in the Governance Efficacy index are in Table 2.

[3]The "input" factors we examined are director age, gender, race and ethnicity. Across ag cooperative respondents, there is insufficient variation in gender, race, and ethnicity to explore statistically their effects on governance outcomes.

Table 2. Governance Efficacy Index

Index	CGRI Operationalized Measures *(measures weighted equally)*
Governance Efficacy	From your perspective, how effective are your cooperative's systems for preserving continuity of institutional knowledge on the board?
	For a typical board meeting in the past 12 months, about what proportion of board members arrived well prepared?
	Relative proportion of board meeting time spent on key topics
	Does the board use specific, quantifiable measures to evaluate the CEO's performance?

Note: *Each dimension of governance efficacy is measured on a five-point Likert scale, where 1 corresponds to "not at all effective" and 5 to "extremely effective." The mean score for the Governance Efficacy measure is 2.91 and the median score is 3.00.*

Based on the inputs of director recruitment practices and board demographics and treatments such as director training, development, and board experience, we analyzed respondents' subjective evaluations of their Governance Efficacy related to their board's governance.

We used basic statistical methods (differences in means of groups) to measure if and by how much the use of a specific governance practice influences the cooperative's Governance Efficacy score. In doing so, we find no evidence of a robust relationship, positive or negative, between director recruitment practices and our Governance Efficacy index. We do find that several of the surveyed director development practices, when utilized, contribute positively to effective governance. These practices are listed in Table 3, which shows the difference in average Governance Efficacy index scores, on a scale of one to five, between cooperatives that do and do not engage in these specific practices. In each case below, the improvement in efficacy rating when the practice is used is statistically significant.[4]

Table 3. Impacts of Governance Practices on Governance Efficacy

		Does the Co-op Use This Practice?			% Using This Practice
		No	Yes	Difference	
Onboarding for new board members includes...	...meeting with the CEO or senior management team	2.25	2.98	+0.73	83%
	...receiving a briefing on current issues facing the board, such as expansion plans	2.58	2.99	+0.41	80%
	...receiving key documents such as bylaws, policies, position descriptions, committee charters, or calendar	2.17	2.99	+0.82	89%
Board members receive training on...	...risk management	2.65	3.01	+0.36	64%
	...meeting facilitation	2.75	3.05	+0.30	48%
	...conflict resolution	2.76	3.15	+0.38	35%

[4] A t-test was used to assess statistical significance between the average *Governance Efficacy* rating for those that do and do not engage in a practice. Only practices for which the difference in means between those that do and do not use the practices is statistically significant at the 90% level of confidence are listed.

Among onboarding practices, meeting with the CEO or senior management team, receiving a briefing on current issues facing the board, and receiving key documents such as bylaws, policies, position descriptions, committee charters, or board calendars all have appreciable impacts on a cooperative's Governance Efficacy score. Development practices like training on risk management, meeting facilitation, conflict resolution, and legal/regulatory topics have a robust and positive impact on Governance Efficacy.

Board Culture

The culture of a group emerges from how the individuals within it think, behave, and interact with one another. Board culture is complex and ever-changing, and it plays a crucial role in the health and effectiveness of a cooperative's governance, perhaps even more so than structures and processes. Given the importance of board culture, we developed an index to explore if and how the inputs and treatments measured in the survey correlate with a positive (beneficial) board culture. The Board Culture index was calculated using the responses to five attitudinal questions designed to elicit information about the relational dynamics between board members and between the board as a whole and the CEO; these are listed in Table 4.

Table 4. Board Culture Index

Index	**CGRI Operationalized Measures** *(measures weighted equally)*
Board Culture	The board's level of understanding of their role in relation to management
	The level of balance between supporting and challenging the CEO
	The level of trust between the board and the CEO
	How well the board builds social and interpersonal dynamics that support it in its governance effectiveness
	How well board discussions allow for healthy dissent

Note: *Each dimension of Board Culture is measured on a five-point Likert scale, where 1 corresponds to "not at all effective" or "not at all" and 5 to "extremely effective" or "extremely well." The mean score for the board culture index is 3.85 and the median score is 4.00.*

Here again, we use a basic t-test to compare averages of the calculated Board Culture index based on the use of specific governance practices. Table 5 shows the difference in average Board Culture index scores, on a scale of one to five, between cooperatives that do and do not engage in the listed practices.[5] We find that participating agricultural cooperatives that engage in certain board recruitment and training practices rate higher on the Board Culture index.

[5]A t-test was used to assess statistical significance between the average *Board Culture* rating for those that do and do not engage in a practice. Only practices for which the difference in means between those that do and do not use the practices is statistically significant at the 90% level of confidence are listed.

Table 5. Impacts of Governance Practices on Board Culture

		Does the Co-op Use This Practice? No	Yes	Difference	% Using This Practice
Co-op identifies board candidates through...	...personal or professional networks of current board members	3.55	3.95	+0.40	76%
	...personal or professional networks of senior management	3.61	4.00	+0.39	59%
Onboarding for new board members includes...	...receiving a briefing on current issues facing the board, such as expansion plans	3.50	3.94	+0.44	83%
Board members receive training on...	...risk management	3.59	3.95	+0.37	64%
	...meeting facilitation	3.66	4.01	+0.35	48%
	...conflict resolution	3.70	4.10	+0.40	35%

Regarding input processes, the recruitment strategies of identifying candidates through personal or professional networks of current board members and through personal or professional networks of senior management both result in higher Board Culture scores. The finding that board culture is higher for those who recruit directors from existing networks—those who are plausibly likeminded individuals—is not unexpected; it is easier to build trust and foster positive interpersonal dynamics with people already in one's sphere. This aligns with existing research on this topic.[6] Unfortunately, these practices may not help a cooperative achieve board diversity.

Among the treatments we analyzed, respondents that train directors in the areas of risk management, meeting facilitation, and conflict resolution have higher Board Culture ratings. It is notable that director training in meeting facilitation and conflict resolution—the two topics surveyed that are most related to culture and interpersonal dynamics—are least common in participating ag co-ops compared to all CGRI respondents. Fewer than half of those surveyed provide training in meeting facilitation for their directors, and only 35 percent offer conflict resolution training. Training in risk management, the other training area associated with higher Board Culture ratings, is more common among agricultural cooperatives than CGRI respondents as a whole. Nearly two-thirds (64 percent) of participating ag cooperatives report offering training in risk management.

Cooperative Performance

Our final governance outcome is an index created to capture, at a high level, cooperative performance. Measuring the performance of a cooperative business is a notoriously tricky endeavor, as traditional financial metrics are inadequate when considering the performance of enterprises that exist to meet the needs of members.[7] Thus, in addition to gathering data on objective financial performance metrics such as gross revenue, net profit, and patronage allocation and distribution, the 2021 CGRI survey asked respondents to evaluate their cooperative's performance in seven areas: financial performance, delivering value to members,

[6]McPherson, Miller, Lynn Smith-Lovin, and James M. Cook. 2001. "Birds of a Feather: Homophily in Social Networks." Annual Review of Sociology 27(1):415–44.

[7]Benos, Theo, Nikos Kalogeras, Martin Wetzels, Ko De Ruyter, K., and Joost M. E. Pennings. 2018. "Harnessing a 'currency matrix' for performance measurement in cooperatives: A multi-phased study." Sustainability, 10(12): 4536.

crisis management, strategic growth, risk management, member satisfaction, and reputation. See Table 6. To help us explore quantitatively the relationship between specific governance practices and performance, we equally weighted respondent's self-ratings for each of the seven performance dimensions to calculate a Cooperative Performance index. Despite the limitations inherent in evaluating this type of subjective performance data, these metrics are valuable for starting to understand the relationship between governance and long-term performance dimensions that are unique to cooperative enterprises.

Table 6. Cooperative Performance Index

Index	CGRI Operationalized Measures *(measures weighted equally)*
Cooperative Performance	Self-rated financial performance
	Self-rated performance in delivering value to members
	Self-rated performance in crisis management
	Self-rated performance in strategic growth
	Self-rated performance in risk management
	Self-rated performance in member satisfaction
	Self-rated performance in reputation

Note: *Each dimension of cooperative performance is measured on a five-point Likert scale, where 1 corresponds to "poor" and 5 to "excellent." The mean and median scores for the cooperative performance index are 3.71.*

We applied the same basic statistical methods to assess if and by how much the use of specific governance practices influences the respondents' Cooperatives Performance score. We do not find robust relationships between director recruitment strategies and Cooperative Performance. While few practitioners would argue against the benefits of a well-planned and executed board recruitment strategy, none of the specific practices measured in the survey can be associated with higher or lower than average self-rated performance. A different story emerges, however, for the treatment practices. Table 7 identifies the director onboarding and training practices for which a positive and robust relationship with Cooperative Performance exists for those that engage in the practice.[8]

Cooperative Performance is higher in ag co-ops that included meeting with the board chair, meeting with the CEO or senior management, or completing an internal training process in their director onboarding activities. Two of the director training topics were positively associated with higher self-rated performance: risk management and meeting facilitation.

[8]A t-test was used to assess statistical significance between the average Cooperative Performance rating for those that do and do not engage in a practice. Only practices for which the difference in means between those that do and do not use the practices is statistically significant at the 90% level of confidence are listed.

Table 7. Impacts of Governance Practices on Cooperative Performance

		Does the Co-op Use This Practice?			% Using This Practice
		No	Yes	Difference	
Onboarding for new board members includes...	...meeting with the board chair	3.43	3.79	+0.36	79%
	...meeting with the CEO or senior management team	3.55	3.87	+0.32	83%
	...completing an internal training process	3.41	3.86	+0.45	52%
Board members receive training on...	...risk management	3.58	3.85	+0.27	67%
	...meeting facilitation	3.43	3.79	+0.36	48%

CONCLUSIONS

Conceptually and practically, the endeavor to get the right mix of directors in a boardroom is key to setting up the cooperative for governance success. In our examination of the relationships between right mix and governance outcomes, we are surprised to find limited impact of “inputs” such as board composition and director recruitment strategies. Only one recruitment strategy measured in the CGRI survey has a statistically significant relationship with right mix: ag co-op respondents that recruit candidates from committees or an associate board were more confident their board has the right mix of directors. That this particular recruitment strategy positively influences the sense of right mix is not surprising. Cooperative boards with committees that utilize the membership more broadly or use associate boards have undoubtedly spent time thinking about the skills, knowledge, and perspectives needed within those two structures. This is part of achieving right mix. When we examine right mix in the context of our three governance measures—Governance Efficacy, Board Culture, and Cooperative Performance—it is abundantly clear that having the right mix improves outcomes. Co-ops should feel compelled by this finding to think about what right mix means for them. An appropriately structured board assessment process can be a powerful on-ramp to those discussions.

Honing our understanding of how and to what extent the three governance outcomes are impacted by board inputs (i.e., demographics, director recruitment, and promoting board service) and board treatments (onboarding and training approaches), we find that treatments move the needle more often than inputs.

Recruitment practices and the promotion of board service to members are important facets of a co-op’s governance system and have a have a clear positive impact on Board Culture. Recruiting directors from the personal and professional networks of board members and the management team—the two most common recruitment strategies among agricultural cooperatives and across all CGRI respondents—are both associated with higher Board Culture scores. These two board recruitment practices are the only inputs that have a statistically significant relationship with our three governance indices.

Moving to how boards transform themselves and individual directors through training and development, we find clear evidence that governance outcomes are positively impacted by development practices. Both thoughtful director onboarding processes and a robust training program can make a difference. Among the onboarding activities in the survey, several have a positive impact on Board Efficacy, Board Culture, and Cooperative Performance. While basic director training is certainly a necessary step in director development, it alone is insufficient to move the needle in generating better governance outcomes. Our findings identify that none of what the industry has traditionally considered “basic director training” topics—cooperative model and principles, fiduciary responsibilities, financials, or ethics and compliance—can be attributed in these data to improvements in Governance Efficacy, Board Culture, or Cooperative Performance.

The finding regarding basic training topics provides compelling evidence in support of the emerging recognition of the need for access to more advanced development topics. Today’s agribusiness environment requires that directors understand, align, and engage in higher-level enterprise oversight and nuanced interpersonal and communication skills in the boardroom. Thus, it follows that the three trainings topics measured in the CGRI survey that are attributed to better governance outcomes are considered the more “advanced” topics around meeting processes, board dynamics, and ensuring directors have a higher-level view of the cooperative and its operating environment.

One of the advanced director training topics measured in the 2021 CGRI survey is meeting facilitation. Just 48 percent of agricultural cooperative respondents said board members in their cooperative receive training on meeting facilitation. Yet, those that did reported statistically significant higher ratings in Governance Efficacy, Board Culture, and Cooperative Performance. Even fewer participating agricultural cooperatives reported providing directors with training in conflict resolution—only 35 percent said they do—yet those that offer it reported a higher rating in Governance Efficacy and Board Culture. This is added evidence that effective governance outcomes are predicated on a board’s ability to collectively navigate board dynamics.

Risk management, an oversight skill that helps directors gain perspective on the internal and external risk factors a cooperative faces and how to assess and manage that risk, is the other advanced training topic measured in the CGRI survey that resulted in higher ratings across all three indices.

Every cooperative has a unique culture, unique operational and governance structures, and a unique relationship between and among the board, the management, and the membership. As such, each board will have its unique sense of an ideal right mix for meeting its governance mandate, and this will evolve as the cooperative’s stakeholders, its value proposition to members, and its strategic orientation change over time. Despite the subjectivity in defining right mix, the CGRI survey data are directionally clear in showing that cooperatives with greater confidence they have the right mix of directors in their boardroom and a commitment to developing those directors through thoughtful onboarding and advanced training practices rate their Governance Efficacy, Board Culture, and Cooperative Performance higher than those that do not.