EXTENSION

The Need for Board Diversity in Agricultural Cooperatives

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The board of directors is critical to the success of a cooperative. The board is responsible for approving major strategic and financial decisions. They also have the critical tasks of both monitoring and partnering with the CEO. In addition to these roles, the cooperative board is a resource. The board provides perspectives on member needs. They have knowledge about agricultural production and agribusiness industries. They are an important part of the cooperatives human capital, bringing their skills, perspectives and experiences to bear on the decisions facing the cooperative. Cooperatives and the general business community have long recognized the importance of the competency of the board of directors. In recent years, the composition of the board has come to be viewed as equally important. An important element of board composition is board diversity.

Benefits of Board Diversity

The basic argument for board diversity is that a board with a broader range of skills and backgrounds and one representing a broader range of stakeholders is better able to address the decisions facing the firm. Board diversity relates to the simple question of whether the board has the right balance of skills and perspectives. There are both non-observable (cognitive) dimension and observable (demographic) dimensions of diversity. Among the observable dimensions are diversity with respect to gender, age and racial background.

Management theory leads us to expect both benefits and cost to board diversity. A very straightforward benefit from diversity is access to a wider range of knowledge, resources and contacts. In the context of an agricultural cooperative board, a director who is a livestock producer is likely to have more contacts in the feed industry relative to a grain producer director. A director with political connections might be better able to guide the firm through regulatory issues. Murray (1989) examined Fortune 500 food and oil companies and concluded that boards that had diversity with respect to age, education, tenure and occupational history were more effective in dealing with organizational change. This argument is consistent with others who have postulated that diverse perspectives can produce a wider range of solutions and decision criteria for strategic decisions (Eisenhardt and Bourgeois, 1988; Schweiger, Sandberg and Ragan, 1986). Most boards, cooperative and corporate, have long recognized the benefits of diversity in skills and backgrounds. This dimension of diversity may or may not be related to the demographic diversity of the board.

Another potential benefit, which is more closely related to demographic diversity, is increased creativity. Individuals with diverse backgrounds and life experiences approach problems differently. Diverse groups tend to be more creative and identify a wider range of potential solutions. There is some evidence that diverse groups are less likely to suffer from "group think." Dissimilar groups also tend to gather information from a wider range of sources. Selby (2000) interviewed women board members from top US firms and concluded that the "questioning culture" of the board was improved by gender diversity. Boards with greater gender and age diversity appear to make better decisions, particularly when dealing with strategic issues or organizational change.

Other benefits of diversity relate to the board's role as a symbol of the organization and its insights into customer needs. Stakeholders may perceive the board as more legitimate and relevant when its composition is similar to their demographics. For example, female employees might perceive a better career path when the board has gender balance. Similarly, younger producers might be more likely to become involved in a cooperative when their age group has some representation on the board. This dimension becomes intertwined with the dimension of a more diverse skill set. Female directors might have new insights into human resource management or customer preferences as well as being perceived differently by those stakeholder groups. This rationale explains why consumer product firms were early pioneers in the quest for greater board diversity.

There are also disadvantages to greater board diversity. Groups with greater diversity tend to be slower in reaching decisions in times of turbulence. More diverse groups can have difficulty developing a consensus on strategic change (Walsh, Henderson and Deighton, 1988). If taken to an extreme, choosing directors mainly for demographic characteristics could result in board members who are less qualified, less experienced or more overcommitted. That argument is most relevant when the pool of potential candidates is limited. For example, an auto manufacturing corporation might find the pool of qualified female candidates with experience in their industry to be in short supply since the proportion of women in top positions in those firms is small.

Characteristics of the board of directors vary across industries. Women made up 18.7 percent of boards of S&P 500 companies in 2013, and the average number of women on the board was 1.9 (Stuart, 2014). The Household Goods and Personal Products industry has the highest proportion of

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women directors at 33 percent. Industries with above-average female representation include the food, beverage and tobacco industry (21 percent). The media; health care equipment and services; and the food and staples retailing industries, which all averaged 20 percent. Gender diversity in U.S. corporations is clearly increasing. Women accounted for nearly 24 percent of new board nominees at S&P 500 companies in 2014 (Price Waterhouse Coopers, (2014).

Data on the board composition in agricultural cooperatives is limited. The University Center for Cooperatives conducted a study across a wide range of cooperative sectors on April 6, 2012. As in corporate boards, gender diversity varied across sectors (Table 1). Females make up just over 3 percent of board members in agricultural cooperatives, the lowest representation of any cooperative sector. Farm Credit and rural electric cooperatives, which also operate in rural America, had significantly higher representation at 7 and 9 percent, respectively. Credit Union, health care and education cooperatives had significant gender diversity and female board members were in the majority at arts and crafts cooperatives. Agricultural cooperatives clearly trail other cooperative sectors and investor owned firm in board gender diversity.

Table 1. Female representation on cooperative boards of directors.

Sector	*Average Percentage Female Directors*
Agriculture	3.1
Arts & crafts	70.8
Credit union	31.5
Education	50.9
Farm credit	7.2
Grocery	46.7
Healthcare	33.5
Media	14.3
Mutual insurance	6.4
Other	25.9
Rural electric	8.9
Telecommunications	9.6

University of Wisconsin Center for Cooperatives, 2012

Age diversity of corporate boards is more difficult to characterize, since there is no simple benchmark. In 2013, the average age of directors in S&P 500 firms was 62.9 years old (Stuart, 2014). Ninety percent of the firms indicated that their youngest director was over the age of 40. Eighty percent of the firms reported age limits for directors with the most common age being 72 years old. A separate study reported the average age of newly appointed corporate directors at 57 years old (Heidrick and Struggles, 2014). There is little available data on age diversity in agricultural cooperatives. Antidotal evidence would suggest that cooperative boards also have a very mature age profile. The average age of U.S. farmers is 58.3 years and only 10 percent of farm operators are 35 years old or younger (USDA, 2014). The age profile of cooperative boards is likely fairly representative of the membership.

Impact of Board Diversity on Performance

Numerous studies have examined the impact of diversity—particularly gender diversity—on corporate performance. The research group Catalyst (2007) published a widely quoted report which concluded that Fortune 500 companies with a higher number of women directors has higher return on equity, higher return on sales and higher return on invested capital. Burke (2000) found a positive correlation between the number of women directors and profit margins in Canadian firms. Erhardt, Werbel and Schrader (2003) found that board of director diversity was positively associated with both return on investment and return on assets of large U.S. corporations. While numerous studies find that higher performance is associated with board gender diversity, it is obviously difficult to determine causality. Firms with higher returns could feel more secure, hence willing to experiment with new board structures. Some firms may be more progressive than others. More progressive firms may have better overall governance as well as more female directors. Potential female director candidates could also be more likely to accept board positions on profitable firms. The percentage of female board members also varies across industry sectors and those sectors also have different profitability and business cycles.

Adams and Ferreria conducted a more robust study that controlled for many of those factors. They found greater gender diversity improved performance for firms with otherwise weak governance but decreased performance in firms with strong governance. They hypothesized that female directors are more engaged in monitoring. Additional monitoring can be beneficial in some firms but can be counterproductive in firms that are well governed. They concluded that while board gender diversity is positively correlated with performance, adding women board members does not automatically improve performance. That observation would appear to be a good summary of the literature on gender diversity and firm performance.

Benefits of Board Diversity for Agricultural Cooperatives

Agricultural cooperatives could benefit from greater board diversity. Given the demographics of cooperative membership, the potential for more age diversity may be limited. However, there is a clear opportunity to add women to cooperative boards. In investor-owned firms, there are no restrictions on board eligibility. Those corporations are free to recruit and select board members with specific skills sets. In agricultural cooperatives, a board member must be a member of the cooperative. This structure ensures that customers' perspectives are reflected in the board room. The disadvantage is that the pool of potential directors is limited and fairly homogeneous. Targeting women as potential directors doubles the size and increases the diversity of the talent pool.

The role of the cooperative board is also shifting into areas where board diversity could be beneficial. Cooperatives have become larger and more diversified. Many cooperatives are exploring new markets and customer bases. Cooperative boards are shifting from an operational to a more strategic focus. Most agricultural cooperatives are navigating a period of organization change, which is the environment where diverse boards are shown to make better decisions.

Board diversity can also help a cooperative relate to its internal and external stakeholders. Women make up a significant what is CHS?? (in red)

portion of the cooperative workforce. Female representation on the board gives those employees a greater sense of connection with the cooperative and improves the perception of a career path. Many cooperatives are implementing programs to attract younger producers. Today's younger farmers (admittedly few in number) operate as a family team. It makes no sense to send young couples to the CHS "Young Leaders" program and only consider half of the team as future board members. An appropriate commitment to diversity is the table stakes in the effort to connect with younger member/customer groups.

Why Aren't There More Women on Cooperative Boards?

Potential barriers to the cooperative board room are both structural and social. Among the potential structural barriers is membership status. The requirements to become a cooperative member and to run for the board of directors are generally specified in the bylaws. Typically, an individual must be an agricultural producer and have purchased or earned a share of membership stock in order to apply for membership, which is approved by the board of directors. Any member of the cooperative can generally run for the board although some cooperatives have restrictions relating to conflicts of interest. It is not always obvious whether a wife, farming with her husband, is eligible to run for the board of directors. In some cooperatives, both the husband and wife are voting members, while in others, only the husband is listed as a member. A woman who is interested in running for the board can obviously apply for membership but the ambiguous status likely discourages participation.

Another potential barrier is the structure of the nominating committee. Reynolds (2003) examined the nomination process for board elections in rural cooperatives. Eighty six percent of the responding cooperatives had a formal nominating committee. Among those with committees, 22 percent were composed of directors, 35 percent had a mix of directors and non-directors and 43 percent had only non-directors on the committee. In most cases, the non-director members were appointed by the directors. Board members have a strong influence into the nomination process and they may, consciously or unconsciously, select candidates similar to the existing board. Two-thirds of the cooperatives responding indicated they did not have a policy requiring multiple board candidates. That structure often leads to incumbents running unopposed. Board recruitment and nomination processes appear to be biased toward maintaining the status quo.

Some agricultural cooperatives have a long history of women board members, while others are yet to experience their first female board member. The culture of the cooperative obviously has an impact on board composition. In most cooperatives, members are not fighting over an opportunity to run for the board of directors. Members are heavily committed in their farming operation and in community and farm organizations. Scholl (2009) described the pyramid of involvement in a cooperative by which members gradually transition their involvement in the cooperative. Members do not instantaneously decide to run for the board, but rather gradually become more engaged. In cooperatives where women and younger members have not traditionally served on the board of directors, those members do not have a board role in their long-term plans. Their energies and talents will be allocated to other areas unless they perceive that they are needed and valued by the cooperative.

Addressing Board Diversity

There are a number of strategies for increasing the diversity of cooperative boards. The first step is obviously to address or clarify any membership procedures that disenfranchise females. The specifics would be unique to each cooperative, and could require the advice of legal counsel. In some cooperatives, it could be as simple as an article in the cooperative newsletter encouraging women to apply for a separate membership. In others—particularly those using an age of patron equity retirement plan—it could be more complex. The board would need to consider whether the ownership of previously earned equity would be affected since the member's age impacts the equity retirement date.

The next logical strategy is to examine the recruitment and nomination process. The existing nominating committee can be encouraged to identify qualified female and younger candidates. An even better approach is to increase the diversity of the nominating committee. A woman serving on the nominating committee is more likely to be able to identify high-quality female board candidates. Serving on the nominating committee can be one of the steps on the pyramid of involvement that helps to develop a future board candidate. A woman or younger member who may not have time to commit to the board might be willing to serve on the nominating committee. In the process, they would learn more about board functions. The nominating committee is typically selected by the board of directors, so changes can be easily implemented.

An increasing number of cooperatives are implementing an associate board structure. Associate members are typically non-voting but attend board meetings and take part in discussions. The associate board, which is usually appointed by the board, is another logical avenue to increase diversity. Serving on the associate board can prepare an individual for a future board role. At the same time, it allows them to understand the time commitment and responsibilities involved. Most cooperative boards operate through discussion and consensus decision making. The associate board member's contribution in terms of insights and perspective is not diminished by the lack of voting status. A cooperative pursuing diversity through the associate board should make it clear that serving on the associate board does not guarantee a nomination for a board slot or election to the board. Those decisions are the responsibilities of the nominating committee and membership.

The most drastic approach to increasing board diversity is for the board itself to conclude it needs to speed up the turnover process. A board member who decides not to run for re-election creates the opportunity for a new perspective. This strategy is extreme as the cooperative is sacrificing experience and continuity on the board. The cooperative board needs dedicated, experienced board members who function as a team. It also needs a healthy amount of turnover. Every cooperative must find the right balance.

Final Remarks

The board of directors drives the success of a cooperative. Cooperatives in other sectors, along with corporate firms, have discovered benefits from board diversity. Agricultural cooperatives are somewhat behind the power curve. Women have always been important team members on farm operations. For some reason, cooperatives have not historically included them on their leadership teams. In today's business environment, perspectives from women are particularly valuable. In some cooperatives, there may be structural barriers to address. In most, we simply need to invite them to the board table.

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