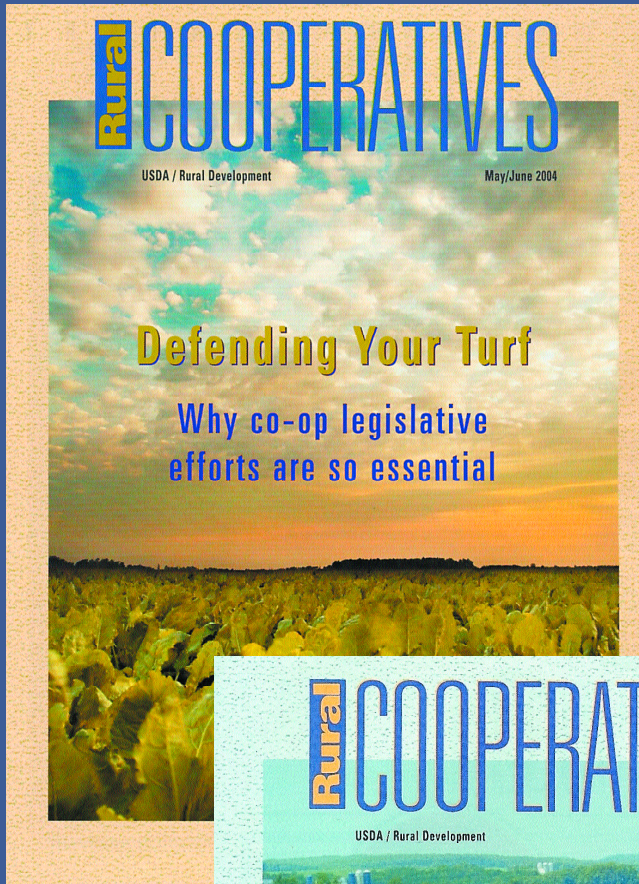




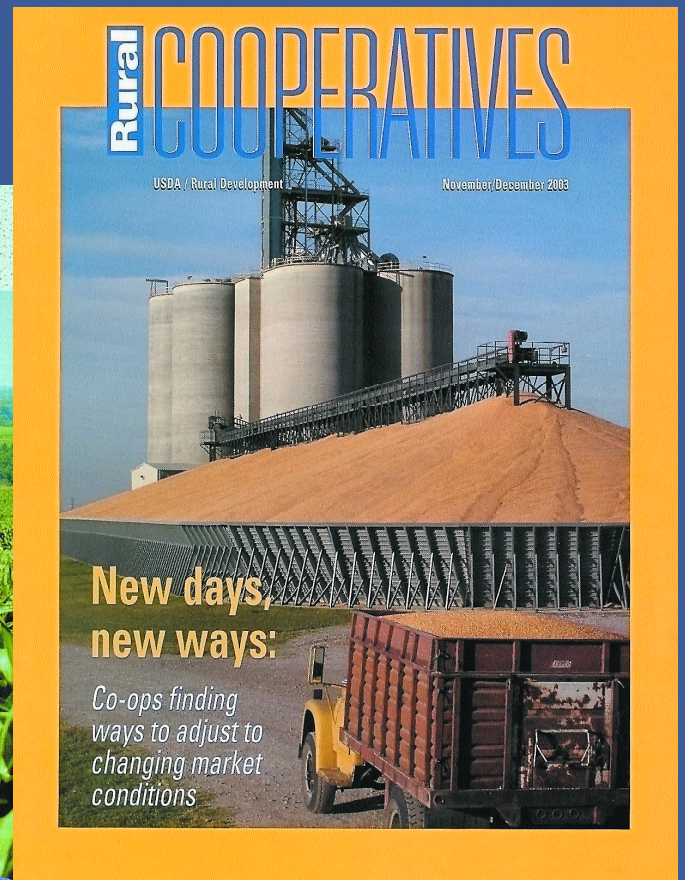
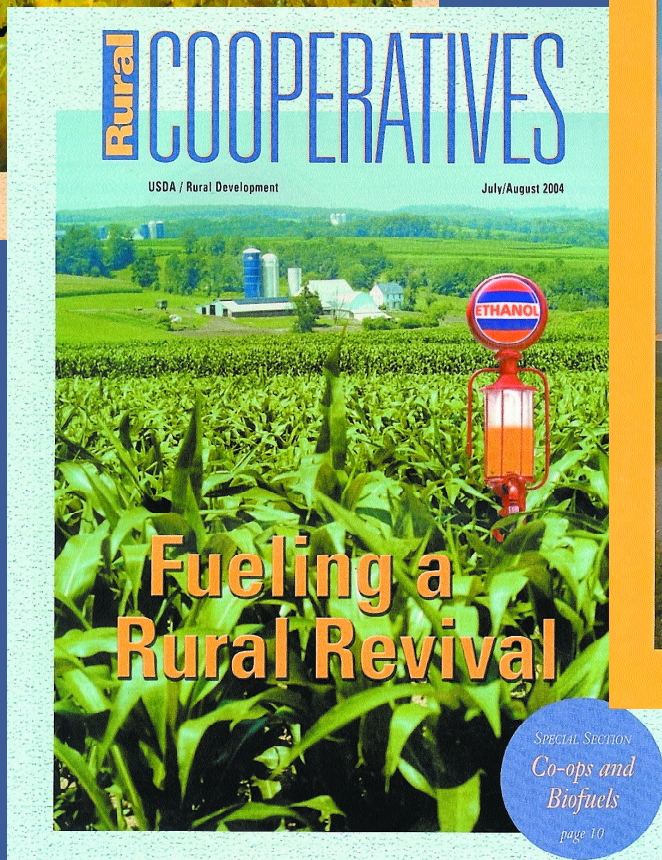
Committed to the future
of rural communities.

Nominating, Electing and Compensating Co-op Directors



Reprint

- How U.S. Farmer Cooperatives Recruit and Maintain Qualified Board of Directors
- Also: Seeking the Best: Skills Needed for Effective Co-op Directors



Foreword

Success in business for today's cooperatives is becoming increasingly complex, and it often hinges on the quality of people governing the business. An immutable skill in this regard is people making accurate judgments about other people. It's a very basic, but critically important, skill that no organization or business can take for granted.

The need for being a good judge of people comes into play in numerous ways: deciding who serves on the board; the board's choice of management; the manager's ability to hire good employees or to find the right business partners and major customers.

USDA conducted a survey in 2003 that focused on the ability of cooperative members and directors to make "people judgments," including selecting, electing and compensating directors. A series of three articles addressed the procedural aspects of trying to have the best possible people to serve on cooperative boards.

The survey did not address the important issue of actually forming judgments about potential board candidates—specifically, what are the leadership traits that make excellent directors? When *Rural Cooperatives* published the first article of the series, it included a companion piece by USDA Rural Development staff member James Wadsworth on that topic, which is also included in this reprint.

We hope the four articles included in this reprint help cooperatives secure the best individuals they can to serve on their boards.

—Bruce Reynolds
e-mail: bruce.reynolds@usda.gov

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (braille, large print, audiotope, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD).

To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, D.C. 20250-9410 or call (202) 720-5964 (voice or TDD). USDA is an equal opportunity provider and employer.

Co-ops follow more than one path for nominating board candidates

By **Bruce J. Reynolds,**
Economist
USDA/RBS Cooperative Services
bruce.reynolds@usda.gov

Editor's note: This article is the first in a series (to be continued in future months) on selecting and compensating directors.

Procedures for selecting candidates for boards of directors are seldom a central topic of “best practices” seminars for either cooperatives or investor-owned firms. But the recent wave of corporate scandals has moved this topic to center stage, at least when it comes to investing in corporations. Business journals and other media are abuzz with recommendations for more democratic methods of director selection.

Cooperatives are governed by democratic procedures, which strengthen trust and accountability. For cooperatives, it is important to identify candidates with solid business and planning skills and with good leadership traits. The current debate makes it an opportune time to review some of the alternative procedures agricultural cooperatives use for selecting directors.

No single selection procedure fits all

There is no single “best practice” for finding excellent board candidates. Each cooperative must explore what works best for its members. Clearly, large membership cooperatives often need a different procedure for candidate selection than those with relatively few members. Candidate selection and

nomination are two parts of the process of getting qualified candidates on an election ballot. Selection is a process of deciding who should be nominated, while nomination is the act of putting a candidate on the ballot.

Standard procedures for candidate selection and nomination often have to be adapted to local conditions. Bylaws usually authorize more than one procedure for nominating candidates, but they do not indicate which nomination methods are used most frequently.

A survey was recently distributed to learn more about how cooperatives select and nominate candidates for their boards. It listed some of the common procedures and provided blank space for “other” methods to be described. Several cooperatives described additional procedures or sent copies of policy statements related to these matters. Responses were received from 433 cooperatives. A summary of

these alternatives and their potential strengths and weaknesses may offer ideas to consider when reviewing your co-op's nomination practices.

Nominating committee

The survey showed that a nominating committee is by far the most widely used vehicle for selecting candidates. This method was used by 374 cooperatives, or 86 percent of the respondents, but most also use other procedures. A nominating committee is responsible for finding the best available candidates from a cooperative's membership and is often involved in other preparations for an election. For example, nominating committees must prepare the ballot, which includes their nominations and all others nominated by valid methods.

The strength of a nominating committee depends on the extent of deliberation and study that go into its



Whether overseeing the business affairs of a local farm supply cooperative (above) or a multi-state regional, success means having a good board of directors. That requires a well-planned nominating process. Photo by Sandi White, courtesy Tennessee Farmers Cooperative

choices. Both directors and other members can share valuable insight about the membership when serving on a nominating committee. Out of 376 cooperatives reporting on nominating committee composition, 163 (43 percent) use only non-director members on the committee. Another 131 (35 percent) use a mix of directors and non-directors, while 82 (22 percent) have only directors on the nominating committee.

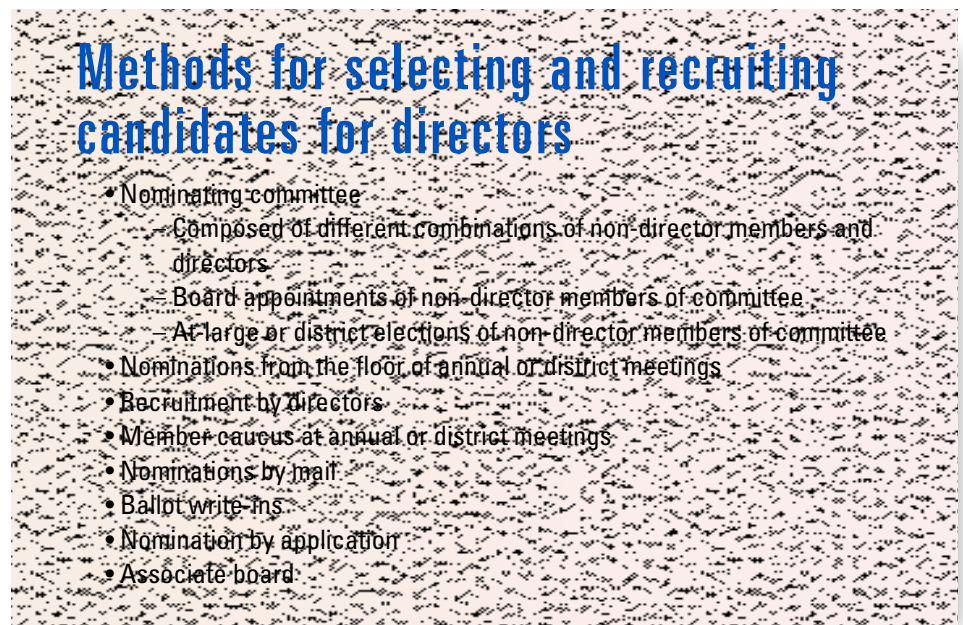
A director-only nominating committee can operate without conflicts of interest when there are board vacancies or when elections are staggered so that there are always some directors who are not running. However, a potential weakness of the board's involvement is that nominating committees may not be formed when elections involve incumbent directors.

About two-thirds of the cooperatives reported that they do not have a policy requiring that elections be contested, thus often allowing incumbents to run unopposed. Although many cooperatives reported difficulty finding members willing to challenge popular incumbents, nominating committees perform better if they are actively searching and recruiting candidates for all elections.

Directors, as well as managers, have experience in knowing what capabilities are most needed on their board. Managers often work in an advisory capacity with the nominating committees. Directors have an appreciation for certain attributes candidates would bring to the board. For those cooperatives which disallow directors on the nominating committee, information sharing between board and committee can contribute to better candidate selections.

Determining who serves on the nominating committee is often another way for directors to exercise influence. Most non-directors are appointed to the committee by directors.

Advantages of director influence on candidate selection may become a weakness if applied without checks and balances. Selecting for positive traits, such as a team player, may unintentionally



ally screen out “devil’s advocate”-type directors—those who contribute by questioning the status quo and who may offer valuable new ideas. Another possible weakness of director control over candidate selection might occur if members feel they have no real influence on the process of who can be elected to the board.

These kinds of weaknesses have inspired a manager of one rural electric cooperative to recommend “good riddance” to the nominating committee.¹ Yet, there are ways to capture potential strengths and minimize perceived weaknesses of nominating committees. For example, to address concerns by members of too much director control over candidate selection, nominating committees can be elected rather than appointed. At least 20 cooperatives reported holding elections during their annual meeting to select the nominating committee.

Several cooperatives issue a formal request for volunteers for the committee, and a couple reported using a random selection procedure to solicit non-director volunteers to serve. The purpose of these efforts is to find ways to get more members involved in the process of candidate selection.

Nominations from the floor

Nominating committees didn’t become the most widely used procedure

for selecting candidates until the latter part of the 20th century. A similar survey was last conducted by Cooperative Services in 1949.² At that time, only 19 percent of 962 respondent cooperatives used nominating committees, while nominations-from-the-floor during annual or district meetings were used by 64 percent of co-ops (which has now fallen to 36 percent).

The strength of floor nominations is in having increased member access to the candidate selection process. Its impact is likely to be greatest in cooperatives that report having no nominating committees, or which only occasionally use them, as was the case for 39 cooperatives.

Weaknesses of nominations-from-the-floor mirror the strengths of nominating committees. There is potential for too much spontaneity or lack of study and deliberation about potential candidates. But in those cases where members at annual or district meetings have substantial familiarity with one another, nominations from the floor are unlikely to result in neglect of the best candidates.

The shift over time from nominations-from-the-floor to nominating committees as the most commonly used procedure may reflect the increasing complexity of business faced by cooperative boards. More cooperatives have responded to this complexity by

reducing their use of spontaneous procedures for selecting candidates.

Recruitment by directors

Candidate recruitment by directors is widely reported. Although 157 cooperatives reported such recruitment, some of it overlaps with the work of nominating committees that include directors. However, recruitment by directors is a distinctive procedure for candidate selection when nominating committees are not used by a co-op, or when they are exclusively composed of non-directors. These conditions apply to 45 cooperatives in the survey.

Member caucus

Member caucuses (usually held during annual or district meetings) can engage much broader participation in the nomination process than do nominating committees. In contrast to nominations-from-the-floor, more time is allotted for group deliberation. Although not listed as an option in the survey, three cooperatives reported using caucuses.

Usually, cooperatives do not have both member caucuses and nominating committees. While most cooperatives use the latter procedure, it should be noted that caucuses are used by some relatively large membership cooperatives, so that a fairly substantial number of farmers participate in this method of candidate selection.

Nominations by mail

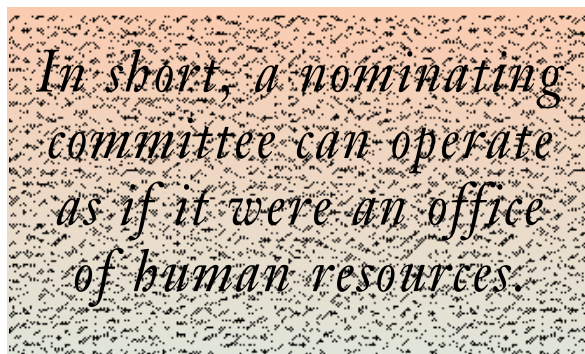
A cooperative's entire membership can function as a virtual nominating committee by soliciting nominations by mail, or via a newsletter. The mechanics of this procedure vary, but, as an example, one cooperative mails a response card to each member to make a nomination. All nominees listed on the returned response cards are put on the ballot. Ballots are then mailed to members. In the event of a tie, a run-off election is held. The procedure is applied in each of the cooperative's 22 districts.

The strengths of nominations by

mail are not only in having all members involved, but also in the opportunity for individuals to make nominations without the pressures for group consensus that prevail in meetings. A potential weakness for this procedure is that it misses the benefits of group discussion about potential nominees. But familiarity with potential nominees that often exists in membership districts enables a nomination-by-mail procedure to work well. Another potential weakness is plurality voting, where a candidate might lose when running against two or more contenders but would win in a one-on-one election against those same candidates.

Ballot write-ins

Provision is often made for writing-in candidates on ballots when members are dissatisfied with the official list of



nominees. Ballot write-ins can be regarded as more of a membership right than a candidate selection procedure. It recognizes the right to vote for who you want to, rather than being limited to the official nominees. It's applicable when using paper or other forms of a written ballot that are distributed by mail or at annual meetings.

Ballot write-ins are often disallowed when any number of nominations from the floor are included in the vote. The nominations-by-mail procedure does not accept ballot write-ins because members had their opportunity to nominate on the response card. Nevertheless, many cooperatives have bylaws that authorize ballot write-ins. Out of the survey response by 433 cooperatives, 52 reported frequent use and 132 have occasional use of write-in candidates on the ballot.

Nomination by application

Cooperatives generally prefer an open process of candidate selection, in the sense of not limiting any member from running for the board. Similar to the procedures of nominations from the floor and ballot write-ins, a member can be nominated without having major name-recognition among the membership, and may even get on the ballot primarily by self-selection. An applicant usually must submit pertinent information to the cooperative or nominating committee several weeks before the election.

In some cases, a signed petition by a specific threshold number of members is required. Its advantage over nominations-from-the-floor and ballot write-ins is that cooperatives often distribute a "bio" on each candidate so that members can use this information to help them decide whom to vote for. Frequent use of nomination by application was reported by 26 cooperatives, while 105 reported occasional use.

Associate board

An associate board is a practical method for developing quality candidates for directors. These members are usually young farmers who stand out as good prospects and are either appointed by directors or can apply to be confirmed by membership vote. Associate boards participate in selected meetings of the board and may have special committee assignments, with the primary objective being that they gain experience for becoming future directors. As a recruiting procedure, this has some similarities with candidate recruitment by directors, as well as being a member education program.

Although the survey did not specify associate boards as a candidate selection procedure, 17 cooperatives reported having this type of program, which suggests that it is relatively popular. A possible limitation is in having to make choices in the present about directors for the future, in contrast to a search procedure just prior

to an election. But it is an effective way to develop a competent board and to boost newly elected directors along the learning curve faster than would normally occur.

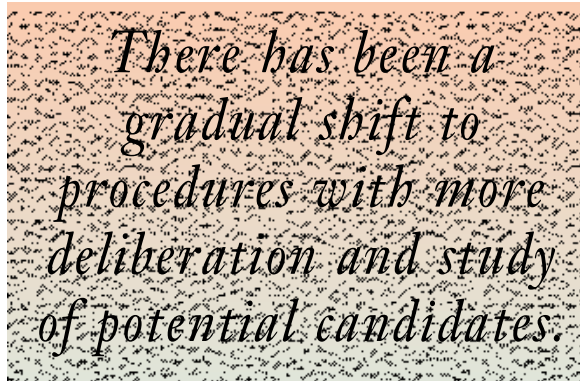
Searching for candidates

Procedures for selecting cooperative director candidates are not often scrutinized and changed. There has been a gradual shift to procedures with more deliberation and study of potential candidates and slightly less reliance on spontaneous methods of selection. This change is indicated by the rise of the nominating committee and the decreased use of nominations from the floor that occurred between 1949 and 2003.

Increased use of nominating committees reflects efforts to address some of the problems that many cooperatives have encountered in finding members who have an aptitude for serving and who are willing to serve. Many survey participants reported the latter consideration as a major problem. When substantially large numbers of members are reluctant to serve, there is need for more advanced planning to search for potential candidates and to hold discussions about the benefits of serving on the board.

Candidate recruitment by directors

outside of nominating committee work has also been driven by the need to find “willing and able” candidates. In addi-



There has been a gradual shift to procedures with more deliberation and study of potential candidates.

tion, associate boards address these problems more head-on than the more spontaneous methods of candidate selection.

The weaknesses of nominating committees are less in their design than in their execution, particularly when their search process is too narrow. The committee should not limit its considerations to a circle of friends or be satisfied when it has found a “willing and able” candidate, but must build a database of capable candidates. This exercise ought to be carried out, not only for board vacancies, but also to find challengers to the incumbent directors. Nominating committees could survey the membership for suggested candidates, as well as asking for information about members’ relevant

skills for serving on the board. In short, a nominating committee can operate as if it were an office of human resources.

Candidate selection procedures in cooperatives will continue to be driven by demand for skilled leadership in carrying out the increasingly challenging tasks of fiduciary duties and long-range planning. Furthermore, difficult issues of business ethics accompany the growing financial complexity of today’s cooperatives. In the wake of recent corporate financial scandals, business ethics are receiving more emphasis overall. In fact, investor-owned firms are being urged to apply democratic principles to reform their director candidate selection procedures. Good advice that has long been followed by cooperatives. ■

¹ Avram Patt, “Here’s a Novel Concept: Get Rid of Your Nominating Committee,” *Cooperative Business Journal*, NCBA, Aug/Sep 2002.

² Nelda Griffen, H. N. Weigandt and K. B. Gardner, *Selecting and Electing Directors of Farmers’ Cooperatives*. USDA/Farmer Cooperative Service, General Report #14, 1955. (Note—the survey was taken in 1949, but the report was not published until 1955).

Election and voting policies of agricultural cooperatives

By **Bruce J. Reynolds,**

Economist

USDA Rural Development/RBS

bruce.reynolds@usda.gov

Editor's note: This article is the second in a three-part series on selecting and compensating directors. The first article discussed methods cooperatives use to select and nominate board candidates (see page 21 of the November-December 2003 issue, on line at: www.rurdev.usda.gov/rbs/pub/openmag.htm). This second article examines election and member voting policies.

The critical trade-off in cooperative voting policies is the need to establish sufficient voice for members in electing their directors, while at the same time providing for a certain amount of board independence from disruptive member pressures. Election and voting policies are designed to choose directors who will exercise leadership in reconciling member interests and prioritizing goals that will yield the most long-term benefits for membership as a whole.

Survey results of election and voting policies show different ways that cooperatives have sought to establish leadership that both represents members and achieves business success. The following six policies influence this balance:

- board size in relation to membership;
- term lengths;
- term limits;
- competitive elections;
- outside directors;
- member voting power.

Table 1: Size of board of directors for 437 respondent cooperatives in 2003, expressed as a percent of membership size intervals and in total.

Members	Number of directors on respondent boards						Cooperatives
	5	7	9	:	6&8	>9	
<800	13%	52%	19%	:	6%	10%	144
800-1,499	10%	35%	23%	:	10%	22%	107
1,500-2,999	8%	26%	25%	:	6%	35%	106
>3,000	9%	17%	20%	:	15%	39%	80
Total	11%	35%	22%	:	8%	24%	437

Many of these policies have various kinds of interrelations. For example, in the first policy issue, the number of board seats is influenced by the size of the membership. As another example, cooperatives with the longest director terms more often apply limits on the number of times a director can be re-elected. In addition, the much-debated issue of member voting power centers

on whether larger producers should have more votes than provided by a one member-one vote policy. This point was raised in an article about preparing for the future in the Nov-Dec 2003 *Rural Cooperatives*. A question for research is whether voting method influences a tendency for either relatively large or small farmers to serve on cooperative boards of directors. To help answer this question, data were collected on the farm size of directors in relation to the membership as a whole.

Board size

Table 1 reports the number of director seats on cooperative boards, sorted by different membership size intervals. Seven-member boards are the most popular board size, with nine and five-member boards being the next most popular sizes. Only in the largest membership size interval, 3,000 and above, are nine directors the most frequent board size (occurring in 16 out of 80 cooperatives).

Election and voting policies are designed to choose directors who will exercise leadership in reconciling member interests and prioritizing goals.

As membership size increases, so does the frequency of boards with more than nine directors (see column >9, table 1). For boards that exceed nine directors, no particular board size predominates, being widely dispersed in the range from 10 to 51 directors. But the fact that nine directors is the median for co-ops with 1,500 or more members shows that large organizations also tend to restrain the size of their boards.

that at the time these cooperatives organized there, the state incorporation statute may have specified that particular term length.

Term limits

Limits on the number of consecutive times directors can serve (term limits) are used by 154 cooperatives (35 percent), while 281 (65 percent) have no limits on consecutive terms (based on 435 responses). Term limits are now

only practical, since the incumbents have to run for election so frequently. Three of the seven respondents having a seven-year term prohibit directors from running for a second term, but the other four have no term limits.

Of the 154 cooperatives reporting the use of term limits, 149 also reported the maximum number of consecutive terms directors may serve. Four of these respondents prohibit election to consecutive board terms, i.e., a one-term limit. Table 4 reports the number of respondents with term limits. In each of six instances where co-ops limit directors to five or six consecutive terms, the term length is three years. Many cooperatives allow members who have reached the limit on consecutive terms to run again after they have been off the board for one term.

Competitive elections

Many democratic organizations, including some cooperatives, have nominating committees that follow the

Table 2: Size of board of directors for 437 co-ops surveyed in 2003, expressed as a percent of co-ops without districts and with districts.

Cooperatives	Number of directors on the boards					
	5	7	9	:	6&8	>9
Without districts	17%	48%	22%	:	5%	8%
With districts	7%	29%	22%	:	10%	32%
Total	11%	35%	22%	:	8%	24%

Table 2 reports the data for survey respondents that have only at-large directors (no districts), and for those with districts. There were 145 respondents without districts and 292 with districts. The latter generally have larger boards, with a much higher percent having more than nine directors, while 48 percent of cooperatives without districts have a board size of 7 directors. Another distinction, though not reported in Table 2, is cooperatives with membership districts where members, or delegates, elect only the director for their district (and perhaps one or two at-large directors), vs. those where directors are elected by district, but all members get to vote for all directors, regardless of which district they live in.

Term lengths

Length of board terms varied between one to seven years, with three years being the overwhelmingly popular choice. The survey results for this question are reported in table 3. The seven cooperatives with seven-year terms are all in Tennessee, suggesting

Table 3: Length in years of an elected term on the board, reported by 434 cooperatives, 2003.

Term length (years)	1	2	3	4	5	6	7
Number of cooperatives	19	12	382	9	4	1	7

Table 4: Single term and consecutive terms that members may serve on the board, reported by 149 cooperatives with term limits, 2003.

Number of terms	1	2	3	4	5	6
Number of cooperatives	4	17	90	32	5	1

more frequent than in the past, as indicated by comparison with the 1949 survey.¹ In that survey, 76 cooperatives (8 percent) had term limits, while 827 cooperatives (92 percent) let incumbents run for election to board seats for an unlimited number of terms.

Furthermore, out of 31 respondents with term lengths of one or two years (those in the first two columns of table 3), none have term limits. This seems

recommendations of Robert's Rules of Order in submitting only one candidate for each board vacancy.² However, cooperatives have traditionally been advised to run more than one candidate per seat, usually by encouraging open and flexible processes for nominating candidates.³ About one-third (148) of respondent cooperatives require that at least two candidates run for each board seat.

There is no practical reason for nominating committees to limit their selection and nomination to one candidate per seat. Robert's Rules have for more than a century been a useful procedural guide, but their applications ought to be flexible. The rules have influenced some organizations to adopt governance policies that might be impractical for many applied situations, as noted by one scholar.⁴

One survey respondent from a cooperative without an opposing candidate requirement commented that it still always has two candidates run for board seats. Ten other respondents commented that, although not required, they still make extra efforts to recruit second candidates, but do not always succeed.

Several respondents commented that two opposing candidates are preferable, but finding members to run for the board is difficult. Another respondent mentioned that the cooperative recently terminated the policy

An equally important trade-off is to have a board that can pursue independent deliberation, and not simply deliver mandates from their supporters or districts.

of having at least two opposing candidates because “members got tired of getting beat” when running against incumbents.

Outside directors

One of the traditional requirements for directors is that they are members of the cooperative. Various objectives can be accomplished by requiring cooperative boards to exclusively consist of members, with member control being especially important. Members can also establish control when a minority of non-members may serve on a board, so long as member directors can exercise a majority under all voting and decision rules where more than a simple majority might be required.

In this survey, 18 cooperatives reported having outside, or non-member, directors with the power to vote on decisions. Two of the 18 cooperatives define their outside board members as “public directors,” while 16 cooperatives select outsiders to serve from the general community of business leaders and professionals. Four of the 16 had more than one seat on their boards designated for outside directors.

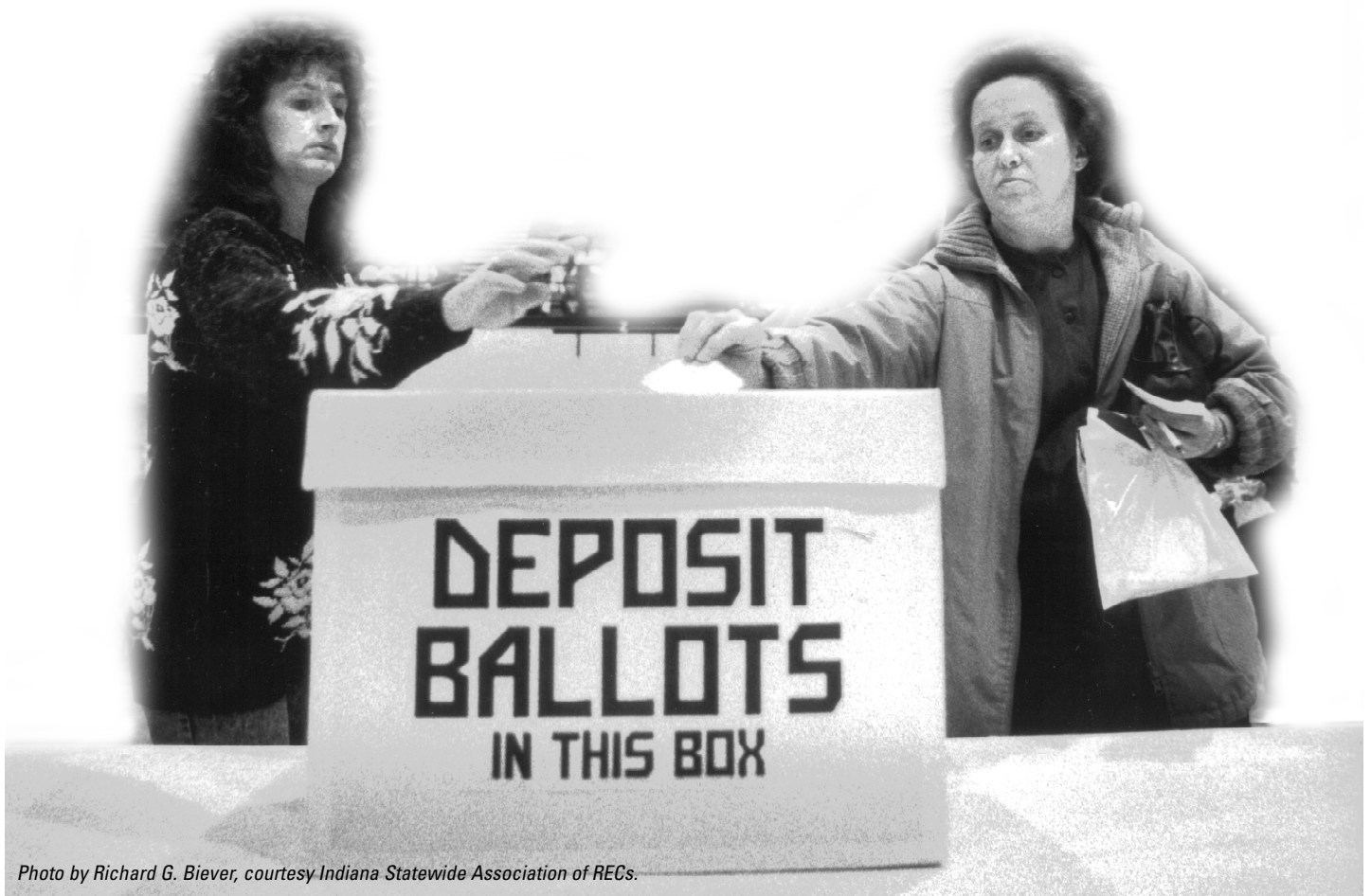


Photo by Richard G. Biever, courtesy Indiana Statewide Association of RECs.

Some respondents commented that their bylaws permit outside directors, but that they did not exercise that authority. Others said they were studying the use of outside directors. In surveys completed by co-op managers, several wrote that having one seat on the board designated for a non-member with special business or professional experience would be very helpful to management.

Farm size and voting method

Does a policy of one member-one vote result in disproportionate influence by relatively small farmers? This question can only be answered on a case-by-case basis, but the composition of boards in terms of relative farm size is worth a look. The survey results show the extent to which boards are made up of the largest farmers in a cooperative's membership. There are no presumed advantages or disadvantages of directors having either large or small farms. Of course, the critical distinction is differences in patronage volume, and farm size is only an approximation. But above all, electing the best directors possible is the key task.

The issue of member voting power is often debated under the assumption that the one member-one vote procedure results in boards with under-representation for large farm operators (large volume patrons). Some argue that proportional voting corrects such imbalance, and feel that this method is used too infrequently. Out of the 379 survey responses on the relative farm size of directors, only 27 have proportional voting.

Table 5 reports the percent of directors in the four quartiles (the smallest 25% of members are in the 1st quartile). The percent of directors in the largest and smallest halves for cooperatives with proportional voting and for those with one member-one vote are also reported in table 5. Even though the size of the two comparative groups is lopsided, it shows that proportional voting resulted in more of the larger producers being elected to boards of directors. The 4th quartile of farm

operators by size held 37% of the board seats in 27 proportional voting cooperatives, in contrast to 26% in the 352 one member-one vote cooperatives. Still, most one member-one vote cooperatives also prefer to elect directors from among the relatively largest farmers in their membership. About 63% of one member-one vote cooperatives elect directors who are among the largest half of farm operating size in the membership.

the importance of election and voting policies that support the development of strong team-building on the board. Yet, brought to an extreme, a cohesive team can be complacent and unresponsive to new ideas that challenge the *status quo*.

Election and voting policies used most frequently are not necessarily the best. That evaluation has to be made in the context of each individual organization. When members are involved with designing or revising their poli-

Table 5: Percent of directors in farm size quartiles of the membership for cooperatives with proportional voting and with one vote per member.

	Proportional voting (27 co-ops)	One member-one vote (352 co-ops)
	<u>Percent</u>	<u>Percent</u>
1st quartile	9	12
2nd quartile	17	25
3rd quartile	37	37
4th quartile	37	26
	100%	100%
Smallest half	26	37
Largest half	74	63
	100%	100%

Policy by design

Designing policies for board elections and member voting can be a simple matter of adopting commonly reported practices or implementing the recommendations from manuals such as Robert's Rules. It can also be more demanding when members take it upon themselves to design a system that reflects their values and, more specifically, try to balance attributes that while creating some friction, can induce more pressures for superior leadership. Election and voting policies usually try to offer members good choices and enough influence from voting so that elected directors will represent their interests. But an equally important trade-off is to have a board that can pursue independent deliberation, and not simply deliver mandates from their supporters or districts.

Another trade-off, discussed in the article on selecting candidates, involves

cies, a fresh and creative approach can make the difference between the merely functional and the achievement of excellence in the governance of cooperatives.

¹ Nelda Griffen, H. N. Weigandt and K. B. Gardner, *Selecting and Electing Directors of Farmers' Cooperatives*. USDA/Farmer Cooperative Service, General Report #14, 1955.

² Henry M. Robert III, *et al*, *Robert's Rules of Order*. 10th edition, 2000, (1st edition, 1876) p. 419.

³ Helim H. Hulbert, David Volkin, and Nelda Griffen, *Bylaw Provisions for Selecting Directors of Major Regional Farmer Cooperatives*. USDA/Farmer Cooperative Service, General Report # 78, 1960, p. 12-13.

⁴ Russell Hardin, *Liberalism, Constitutionalism, and Democracy*. Oxford University Press, 1999, p. 110.

Compensating co-op directors

USDA study reveals wide range of pay plans

By Bruce J. Reynolds, Economist
USDA Rural Development
bruce.reynolds@usda.gov

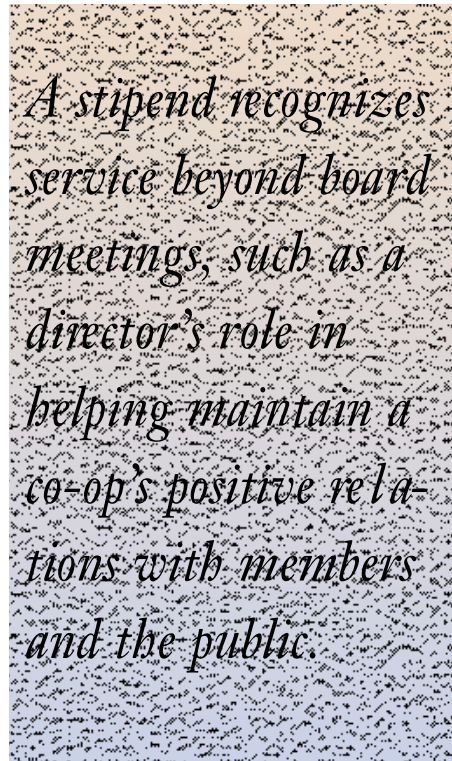
Editor's note: This article is the third in a three-part series on selecting and compensating cooperative directors. The first article was published in the Nov.-Dec. 2003 issue, and the second part in the May-June 2004 issue. These and other past issues can be accessed online at:

www.rurdev.usda.gov/rbs/pub/openmag.htm.

Service on the board of directors of cooperatives involves a significant commitment of time and mental energy. Some members who would make excellent directors may not seek election to the board because of these demands. Financial recompense may offset the reluctance of some members to serve as directors.

Cooperatives of a similar type, business volume and geographic location tend to adopt similar policies as to method and amount of compensation for directors. A recent survey identifies differences in the amounts and terms under which director compensation is paid. The survey identified three general types of financial compensation: (1) per-meeting payment or per diem, (2) annual stipend or retainer, and (3) reimbursement of travel expenses. There were 419 responses to financial compensation questions. Farm supply (205) and grain (173) cooperatives were the predominant types of cooperatives that shared compensation information. Several large, high-value marketing cooperatives also shared this information.

Only two of the surveyed cooperatives indicated that no compensation is paid to directors. Travel expense is often negligible for directors of local cooperatives. Reimbursement is available in 247 out of 419 survey cooperatives. Twenty-five cooperatives cover travel expenses but do not pay any additional compensation. Survey results for per-meeting and stipend compensation,



but not travel reimbursement policies, are summarized below.

Compensation amounts are influenced by a cooperative's volume of sales. Responses are in three sales volume intervals: \$2 million to \$26 million; \$27 million to \$89 million; \$90 million to \$8 billion and for all respondents. The mode (the most frequently occurring number), median and range

of compensation amounts, as well as the number of cooperatives in each sales-volume interval are summarized. The 27 cooperatives without per-meeting or stipend compensation are excluded from the calculations of the summary statistics.

Policies for directors and members are established with an eye toward fairness and comparability with general practices of other cooperatives. For this reason, the mode — which measures the most frequent or common value — is an especially relevant summary statistic. Furthermore, the “mode count,” or number of observations represented by the mode, shows the relative predominance of certain compensation amounts. There are a few cases of ties for the mode (bimodal values), and several commonly used compensation values are almost as frequent as the mode. In fact, compensation data are multi-modal in the sense that there are different strings of identical per-meeting rates or stipend amounts which cooperatives adopt. This multi-modal distribution of compensation is displayed in stem-and-leaf plots in an on-line report at the NCR-194 Web site (<http://www.agecon.ksu.edu/accc/ncr194/>).

Per-meeting compensation

A per-meeting payment applies for each day of a meeting's duration. Most co-ops reported that their board meetings usually do not extend beyond one day. Many cooperatives have variations in the payment amount for half day or for evening meetings. A few cooperatives mentioned that this payment was only for meetings attended and was therefore not automatic. Cooperatives

Table 1: Per-meeting compensation for directors, reported for cooperatives in sales ranges and in total, 2003

Sales range* (\$ million)	Co-ops (No.)	Mode (\$)	Mode count (No.)	Median (\$)	Range (\$)
2-26	145	100	31	75	4 – 400
27-89	113	100	26	80	20 – 300
90-8,000	42	**	**	150	10 – 700
Total	300	100	63	75	4 – 700

* Total sales in 2001 as reported by cooperatives in the RBS annual survey.

** A two-way tie for the mode between \$100 and \$200 with each having 6 responses.

often have monthly board meetings, but several have more than twelve meetings per year, and for many co-ops the number of meetings varies from year-to-year. Therefore, annual compensation is variable for cooperatives with a per-meeting payment policy.

The mode per-meeting rate is \$100 in the three sales groups. There is a tie at \$200 for the mode in the largest sales class (Table 1). A double asterisk (**) indicates bimodal values, reported in a footnote to the table. Also note that these per-meeting rate summaries do not include higher amounts that are often paid to officers of the board.

The median is \$75, as compared to the mode of \$100, which suggests that per-meeting rates less than the mode are also popular. In fact, 45 cooperatives paid \$50 and 42 paid \$75 per-meeting, as compared to 63 paying \$100. Per-meeting compensation is generally higher for directors of the 42 cooperatives in the sales range \$90 million to \$8 billion, as indicated by its median of \$150.

Stipend

The term “stipend” describes fixed annual payments as a method of compensation. Although stipends are often paid-out monthly, the amount does not change when greater or fewer meetings are held in any given year. This method recognizes the fact that board meetings are not the only occasions for a director’s work.

Director compensation with a stipend or fixed annual payment is less frequent than per-meeting payments, with only 69 cooperatives reporting this method for non-officers of the board (Table 2). Several cooperatives pay these annual stipends to their directors monthly and others make a single payment. A stipend recognizes

Table 2: Annual stipend for directors, reported for cooperatives in sales ranges and in total, 2003

Sales range* (\$ million)	Co-ops (No.)	Mode (\$)	Mode count (No.)	Median (\$)	Range (\$)
2 - 26	40	1,200	7	735	150 – 6,000
27 - 89	20	1,200	8	1,200	360 – 5,300
90 - 1,880	9	**	**	1,200	480 – 25,000
Total	69	1,200	17	900	150 – 25,000

* Total sales in 2001 as reported by cooperatives in the RBS annual survey.

** A two-way tie of 2 responses for \$600 and for \$1,200.

service beyond board meetings, such as a director’s role in helping to maintain a cooperative’s positive relations with members and the public.

The stipend mode value is \$1,200, which is paid by 17 of the responding cooperatives. The median stipend is \$900. Stipends of less than \$1,000 are paid to directors by 37 out of the 69 cooperatives having a fixed annual compensation. Note that a \$1,200 stipend is equivalent to the annual compensation of cooperatives with a per-meeting rate of \$100 and monthly

board meetings. However, several cooperatives with a per-meeting method only pay for meetings attended, whereas those cooperatives with an annual stipend, even if disbursed on a monthly basis, pay their directors regardless of meeting attendance.

Compensation for board officers

Compensation is often higher for officers of the board. Furthermore, eight cooperatives provide compensation only to board officers. The 300 cooperatives with a per-meeting payment include 52 that also pay stipends to board officers. For the 248 cooperatives that exclusively compensate with a per-meeting payment, 79 have a higher per-meeting rate for the board chair than for other directors. The median for the board chair is \$100, which compares to \$75 per-meeting paid to non-officers of the board (Table 1).

Eighty responding cooperatives pay stipends to board chairs, which include 11 cases where they are not paid to non-officer directors. In another 36 cases, chair stipends are higher than the amounts paid to non-officer directors. The median stipend for the board chair is \$1,000, compared to \$900 for non-officer directors.

Board secretaries are paid higher per-meeting rates than non-officer directors in 52 cases, with a median of \$95 as compared to \$75. In addition, board secretaries receive per-meeting

payments in 10 cases when either no such payments are made, or stipends are paid, to non-officer directors. In fact, eight of those 10 have a per-meeting payment exclusively for the board secretary.

Stipends for board secretaries are higher than for non-officer directors in 28 cases. In addition, there are eight cases where stipends are paid to board secretaries but not to non-officer directors. The median secretary stipend is \$930, compared to \$900 for non-officer directors.

Combined compensation policy

Combined or mixed compensation, i.e., paying both a per-meeting amount and a stipend, was reported by only 15 cooperatives for all members of the board, while 88 cooperatives apply this policy exclusively to officers. These variations for officers primarily apply to the board chair and secretary. Results for cooperatives with a mixed compensation policy are summarized in a more detailed report, available on the NCR-194 web page.

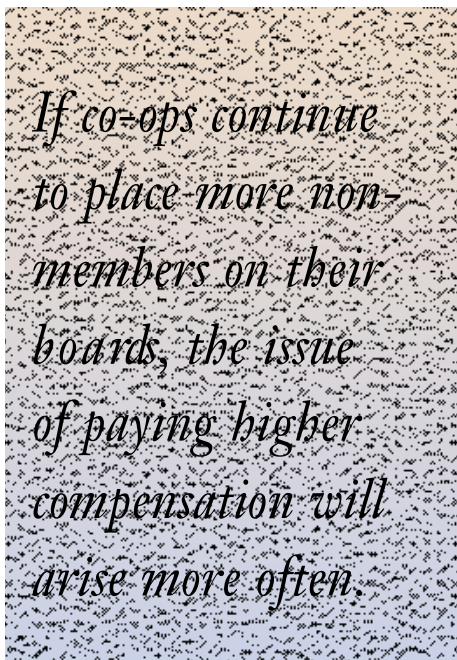
A combined compensation policy is more exacting than necessary for many cooperatives. Nevertheless, an examination of the 88 cooperatives with a combined policy for officers reveals the different economic purposes of per-meeting payments vs. stipends that are less evident when a single method of compensation is used.

When cooperatives provide higher compensation for officers, the chair is usually the highest compensated position on the board. Yet, cooperatives with a combined policy more often use a stipend to pay higher compensation to the board chair than a higher per-meeting payment. In contrast, a higher per-meeting rate is more frequently used to increase the compensation for board secretaries. This difference may reflect the fact that the added burden of secretary work involves board meetings, whereas the chair not only has more work in running the meetings, but may also be involved in a lot of member relations and public affairs work. These kinds of services are often

difficult to track in terms of time spent, so are more accurately compensated with a stipend than a per-meeting rate.

Compensating non-member directors

Farmer cooperatives usually have members exclusively as their directors, as indicated by the survey results showing only 18 out of 437 with non-members on the board. Three of these 18 cooperatives were incorporated in Virginia, where state statutes require farmer cooperatives — under certain conditions — to appoint a public director. As discussed in the second article of this series, several coopera-



tives were considering revisions in their bylaws to allow appointment, if not election, of a non-member to the board. If cooperatives increasingly decide to place non-members on their boards, especially if such non-members are professionals or business leaders, the issue of paying higher compensation will arise more often.

Only two of the responding cooperatives with non-members on their boards reported compensation above what is paid to member directors. These cooperatives compete in high-value commodity industries and their non-member directors are selected for the purpose of providing business expertise that would unlikely be available from a board that included only

members. Each cooperative faces its own set of challenges, and director selection and compensation policies must take such individual circumstances into account.

Although it is not unusual for many privately owned and publicly traded companies to have the flexibility to compensate directors differently, especially high-profile public figures, cooperatives operate with more constraining business objectives. In cooperatives, the emphasis on fair and equitable treatment gives some salience to the idea of compensating member and non-member board members the same.

Board excellence

Policies for selecting, electing and financially compensating cooperative directors are the topics of this three-part series of articles. These topics all relate to the goal in cooperative governance of getting the best directors possible to serve on the board.

The payments to directors — whether per-meeting, stipends or a combination — are intended to be a financial compensation for the extra time and effort they give to their cooperatives. In many non-cooperative businesses, directors often seem to receive excessive compensation, as frequently reported in the news media. For cooperatives, the challenge is far more to ensure that director payments are adequate, rather than one of keeping compensation in-check.

Some survey respondents commented that even though they have policies for director candidate selection and encourage competition for board elections, a large proportion of members are unwilling to consider serving on the board. Such member reluctance raises a question about the adequacy of director compensation.

The challenges of electing the best directors possible involve diligence in reviewing and updating governance policies, attending conferences to discuss best practices and participating in surveys that provide an opportunity for the cooperative community to share information. ■

Seeking the best Director leadership: what does it take?

By Jim Wadsworth, Program Leader, Education
and Member Relations
USDA Rural Development

The Greek philosopher Diogenes is said to have walked city streets, lantern in hand, looking for an honest man. While honesty is one quality cooperatives should seek in their leaders, there are many others.

As the statement at right implies, cooperatives need strong leadership to meet present and future challenges. But serious questions arise. What does leadership mean for a cooperative? What makes an effective cooperative leader? Precisely what skills or traits are required? What type of people fulfill this need?

There are many definitions for cooperative leadership. These may include: having the ability to lead the board of directors toward sound decisions; being loyal to the cooperative and inspiring loyalty in others; being unselfish and trustworthy; having courage to take on hard problems and the integrity to stand by decisions; understanding and upholding cooperative principles and concepts.

But do these definitions go far enough to enable members and directors to successfully identify and choose future leaders? To a degree. But other leader characteristics should also be considered.

Many would agree that effective leaders often have important personality traits that are intangible, or that lie below the surface. Indeed, there's often something inexplicable that makes some people leaders. The strength of their personality—be it charm or stature (i.e., they connect to people and carry themselves well)—in itself makes them effective leaders. These people usually stand out from the crowd. They possess traits that are difficult to learn, since they often come naturally to such people. There may be some who try to “act out” these traits, but they are usually seen as just that: as actors.

However, certain leadership traits, behaviors and methods can be learned or acquired through experience, education, training and self-study. The following are traits commonly found among effective leaders.

Enthusiasm—Does the person show consistent enthusiasm toward the cooperative, people and life in general? Is the person positive and upbeat when challenged with difficult circum-



“Little positive can happen for cooperatives unless they have leadership able to meet the challenges of the 21st century. Skills required to lead cooperatives must be identified and developed in directors and managers.”

—Excerpted from *“Agricultural Cooperatives in the 21st Century”*
(RBS Cooperative Information Report 60, pg. 17).

stances and issues? An effective leader confronts business and life with enthusiasm, isn't a pessimist or a complainer. These people are willing to take on tough issues with the same enthusiasm that they display going about their everyday lives.

Listening ability—A leader listens to people and hears what they have to say. The listening is sincere and patient and shows respect for different opinions. A good listener listens to learn, rather than listens only to await a chance to talk. This trait inspires trust and confidence.

Think before speaking—Effective leaders are those who have the ability to think things through before constructing their words and phrases. Speaking very quickly or off the cuff works for some people, but others often find themselves saying things they didn't actually mean or intend to say. Leaders need to have the ability to analyze information, and then form logical conclusions before articulating their thoughts.

Stubbornness vs. flexibility—Leaders often learn when to stick to their guns and when to be more flexible. This usually takes experience, because every situation is different. Effective leaders are those who have learned when to stay the course in their opinions and decisions and when to be flexible. Leaders must be careful not to be indecisive, stubborn or

overly flexible. Rather, they should use a blend of those traits, depending on the situation. Consistency is key—those being led must come to understand and know the decision-making processes of their leaders.

Complete tasks—Leaders complete things when they're supposed to be done, or make sure that those responsible get it done. Leaders are prepared for action and are able to instill in others the need to be prepared. Completing work and projects in a timely manner creates respect and allows people to witness the ability and integrity of their leaders.

Take responsibility—"The buck stops here" is a slogan good leaders adopt. They are willing to take responsibility for negative events or occurrences that fall under their jurisdiction. They don't try to pass problems off on someone else, but take them on. They also know how to graciously take credit for success and—even more important—know how to give credit to others when it is due.

Thought provoking—A good leader is able to get others to think about things rather than just follow blindly. A leader involves people by provoking thoughts through challenges and by providing information. This trait often allows a leader to build rela-

tionships that will endure and create commitment needed to complete tasks.

Effective leaders will have many of the qualities or traits outlined here, and probably some others as well. Often, various traits compliment each other, giving the person even greater leadership stature and ability. If some traits are lacking, an effort should be made to improve in those areas.

Understanding and knowing what traits to look for while identifying perspective leaders is critical. In addition, it is also important to understand whether an identified leader will be a good fit in a specific situation. Even though a person may be identified as a suitable leader, it does not necessarily mean that the person will thrive in all leadership roles.

Indeed, a person may be a tremendous leader in one situation, but not a good leader in a different situation, such as in a cooperative. These questions may need to be asked:

■ How well will the prospective leader fit into the situation given the circumstances? Will the leader be likely to succeed in the environment?

■ How well will he or she fit, given the other leaders and personalities involved?

■ Will the person be liked and accepted by the other cooperative play-

ers, be they members, directors or employees?

■ Does the situation seem to be one where the person will have an adequate opportunity to grow into the leadership position and thrive?

■ Does the person have the right educational background, experience and knowledge of cooperatives and business?

■ Is the person open minded about learning more about being an effective director? Will he/she be willing to be further educated, partake of training workshops and attend conferences, etc.?

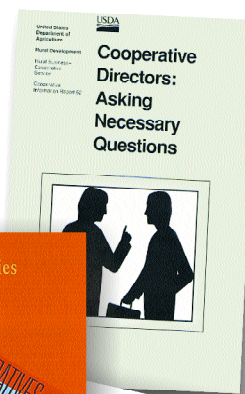
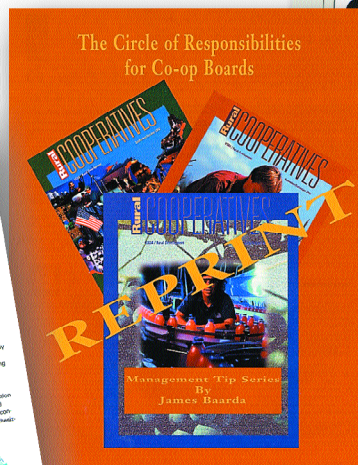
■ Does the person have the vision, values and staying power necessary to fit the opportunities afforded by the cooperative?

These and other pertinent questions must be addressed when working to select quality leaders for cooperatives in the current competitive environment. Leader-quality people should be sought out, even though it may be a challenge to recruit them because they are often very busy and lack the extra time to take on additional responsibilities and leadership roles. Knowing the traits to look for and the questions to ask can help identify the best people to lead cooperative boards and cooperatives as we go forward into a challenging and competitive future. ■

Vital Info for Co-op Boards

Co-op board members owe it to themselves and their members to be familiar with the issues detailed in these USDA Rural Development publications.

All Publications Free



The Circle of Responsibility for Co-op Boards: CIR 61 – Originally published in *Rural Cooperatives* magazine, these three articles lay out fundamental guidelines for cooperative directors. They explain underlying principles and suggest specific actions for co-op directors to improve their service to their members.

Cooperative Business Management Functions: CIR 45, Sec. 11 – Basic information about the responsibilities and functions of co-op business managers and the boards of directors who hire them.

Who Runs the Cooperative Business? Board of Directors: CIR 45, Sec 5 – How a co-op board of directors oversees the management of the business.

Cooperative Directors: Asking Necessary Questions: CIR 62 – This report guides directors in asking the right questions to invoke informative responses from managers, staff, auditors, other directors, etc. In invaluable resource for directors with limited business experience.

Download from our website at www.rurdev.usda.gov.
Or, mail or fax order form to:

USDA/Rural Business-Cooperative Service
1400 Independence Avenue, SW
STOP 0705
Washington, DC 20250-0705

Telephone: (202) 720-8381
FAX Number (202) 690-4083
E-mail: coopinfo@usda.gov

Copies of CIR 61: **The Circle of Responsibility for Co-op Boards**
 Copies of CIR 45, Sec 11: **Co-op Business Management Function**
 Copies of CIR 45, Sec 5: **Who Runs the Co-op Business?**
 Copies of CIR 62: **Co-op Directors: Asking Necessary Questions**

Name _____
 Address _____
 City _____ State _____ Zip _____