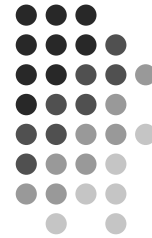


Advising the CEO: Case study

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Role of the board

Mace (1971): skeptical

1. The board provides advice and counsel
2. The board serves as some sort of discipline
3. The board acts in crisis situations



Advisory role of the board



- Management literature: “At its core, corporate governance is not about power; it’s about effective decision-making” Pound (1995)
- Recent studies:
 - Carpenter and Westphal (2001): the value of a director’s service on other boards, when fulfilling their advisory role
 - Song and Thakor (2006): modeled the relationship between CEO’s willingness to share strategic information with the board, and the economic environment

Case study



- Focus on the role of the board
- Large and successful farm input and marketing co-op
 - Steady increase in sales
 - Profitable
 - Mergers in last decade
- Observations at board and committee meetings, interviews with directors and manager; during 3 months in 2007.

The board



- 9 members – white male farmers
- Most recent merger mandated transition from the merged board of 13 to 9 – this was accomplished in the most recent board election.
- Voting is at large, but 3 directors must be from the trade territory of the last merger partner. Only producer-members can vote.

Elements of the advisory role



- Board structure
- Decision-making

Board structure: expertise



“I think every person in there is a pretty good thinker, a pretty high end guy, as far as I’m concerned” And I think everybody has a pretty good sense of what’s going on in their community. And so if there’s something going in their area, that’s good, bad or otherwise, they seem to know it and they bring it up.”

Board structure: relationships



“It used to be only the manager at the meetings. And here, the credit manager gives this report, someone else gives that report, and the board likes it. The staff feels much more connected with the co-op. It isn’t the CEO and the board way off in the distance and then everybody else.”

Board structure: role of the chair



“And another example, our chair spends way more time than the average board president. He’s involved with things like this soy bean crushing plant. This is tough stuff and he jumps right in on it. He’s sending me emails, meeting with people.”

Sets agenda; 2/3 of board meeting is on issues

Decision-making: Value of discussion



“Once in awhile, somebody will gripe, boy these meetings last a long time, but when we’re in a meeting, and we’re discussing something, nobody ever says, it’s getting late, and we need to get going.”

Decision-making: Committees



- Staff and board discussions – aspect of a staff meeting
- Joint decision-making
- Build relationships

Decision-making: directors as customers and owners



“The biggest bitch in the country is the elevators shutting down at 5 – 6:00. Farmers want to dump later in the evening. Even if you can go to 9 or 10 at night, you’d be a hero. But the guys that bring it in late are the guys that you want to be a hero to.”

Decision-making: call on experts



“And we spent the whole day, with our banker, trying to get into his head, and trying to get him into ours.”

Decision-making: issues focus



Change in equity revolvment plan:

“We got a few flutters from a few people, but we knew that, we expected it. It’s one of those political decisions. I don’t want to say 51%, you want to satisfy a lot more than that, which we did. I think it was positive to 80 or 90% of the people”

Decision-making: issues focus



Ad hoc committee toured a crushing facility:

“There were three board members that went on this trip, and we were able to come back, and by the end of that day, we walked out of there saying, man, we have to really think about this. We had a whole different perspective on this thing.”

Decision-making: issues focus



Succession planning

“I think the board has probably been encouraging that position for a couple of years. I don’t know if we even encouraged it as strong as we should have, but it’s come up for a couple of years.”

Summary



- Directors are significant users of the co-op's services
- Directors are engaged with staff
- Committees are used strategically
- Board meetings focus on decision-making