

Board Characteristics versus Profitability

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I recently saw a research article investigating the linkages between characteristics of cooperative board of directors and the firm's return on assets and return on equity. As in any study of this nature, the existence of a relationship doesn't necessarily mean that the board characteristic caused the profitability difference. It is still interesting to see where there are apparent differences between the boards of more profitable cooperative and less profitable one.

The average board size of U.S. agricultural cooperatives is around 9 members. The average for the most profitable 25% of cooperatives was closer to 8. That's weak evidence that smaller boards may be more effective. The boards from the most profitable cooperatives also attend more educational programs on an annual basis. More profitable cooperatives were also more likely to have orientation sessions for new board members. While a subjective measure, the boards from the more profitable cooperatives also rated their board as more active on a general scale of passive to active.

It would be nice if research results would always clearly identify how we can make cooperatives more successful. The research study I discussed investigated other characteristics and found differences that were not statistically significant. That is research speak for differences that we cannot be sure are just noise in the data. The presence of outside directors or female directors did not appear to be linked to profitability. However there were relatively few cooperatives with either outside directors or female directors responding to the survey. The ratio of the total equity held by board members to the cooperative's total equity was weakly associated with more profitability. That raises the possibility that directors with more personal investment in their cooperative take their fiduciary duties more seriously.

Other board characteristics which might be expected to make a difference include frequency of board meetings, frequency of executive sessions and the tenure of the CEO and board chair. I report on whether those measures were linked with profitability in my next news letter.