

Is There a Healthy Level of Board Turnover?

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The CEO and board team is critical to the success of a cooperative. A new board member faces a daunting task of understanding cooperative governance, the cooperative's competitive environment and the current strategic initiatives. Still, there is a growing consensus in corporate America that the regular addition of new directors improves company performance. New directors can bring fresh perspectives, challenge perceptions and see new opportunities. In a cooperative, some amount of board turnover is necessary for members to perceive that they have any realistic opportunity to run for a board seat. That leads to the question of whether there is an optimum level of turnover on the board.

A recent study examined that issue among S&P 500 firms with data reflecting 50,000 director elections. The firms were placed in four categories with low turnover defined as 1-2 new directors per 3 year period, moderate at 3-4 new directors and high at 5 or more new directors per 3 year time slot. Firms that had moderate board turnover (3-4 new directors in 3 years) outperformed the low and high turnover firms. The worst performing group included the firms with virtually no turnover on the board.

Research finding from investor owned firms does not always transfer to the cooperative business model. The cooperative model has a great advantage in bringing customers into the board room. One disadvantage of our structure is that it is inherently more difficult for a new director to come up to full speed. Agricultural cooperatives also tend to have smaller boards relative to S&P 500 firms which have an average of 11 directors. That fact would suggest that the turnover categories would have to be tweaked before applying them to cooperatives. It would be interesting to research the correlation between board turnover and cooperative performance. My guess would be that the same pattern exists in cooperatives but the optimal level of board turnover is somewhat lower.

Board succession planning is a great topic to include in your strategic planning framework. In addition to discussing identifying and recruiting candidates for the board you might also consider whether the historic turnover on your board has been too little, too much or just right. The research on the S&P 500 firms also indicated that their average director compensation was \$277,000. I don't know if that statistic has any impact on board turnover but it probably explains why those firms have no difficulty finding board candidates!