

Professors in the Board Room

Phil Kenkel

Bill Fitzwater Cooperative Chair

A recent research study investigating S&P 500 firms caught my eye. Around 1500 of the firms had at least one academic outside director. Those firms had around a 3% higher Return on Assets relative to firms without academic directors. Interestingly enough the study's further analysis showed that the effect came almost exclusively from academics that were not in administrative positions. I always rejoice in any study that indicates that professors are good for anything! I'll also refrain from comments on the administration angle. However the most interesting aspect of the study and the possible implications for cooperative come from pondering the underlying causes.

Investor owned corporations have utilized outside directors for years with both positive and negative results. Professors in the board room are a fairly extreme case of an outside board member since they are both not linked to the firm and not even linked to corporate business. Professors are trained to be independent and critical thinkers and have developed their own opinions and judgments. They likely think through problems differently relative to corporate directors and have different specialized expertise. On the other hand they might be relatively uninformed about how the business works and its environment. I imagine the effect found in the study came because the directors brought fresh perspectives, not because they were academics.

In earlier newsletters I discussed the need for and benefits of diversity on cooperative boards. Getting more women and more younger members in the board room, either on the elected board or as advisory board members brings similar benefits in fresh thinking. The cooperative board needs to operate as a cohesive team. It also needs a diverse skill set. Cooperatives are facing new issues ranging from changing consumer preferences to big data. The right amount of outside the box thinking can be an asset.

In all fairness I should also note some of the differences revealed in the firms with academic outside directors. The academic directors were often added as part of improved monitoring committees. The presence of the directors could therefore also be an effect of a greater commitment to monitoring. Firms with academic directors were also more likely to file new patents and be involved in acquisitions. Firms could have been adding specialized expertise in the board room in response to ongoing activities. Finally, the study noted that "professor effect" could be intertwined with gender diversity. Because females are underrepresented in higher management positions corporations seeking greater gender diversity may seek non-business expertise.

Your cooperative probably doesn't need a professor in the board room but it can benefit from fresh perspectives. You can even invite those perspectives into the board room from time to time without changing the board. Of course if I get invited, I have one question: Is the coffee pot on?

11-13-2015