

## Updating the Governance Structure Case Study

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Sue is the newest member of the board at Corn Growers Cooperative. During her first board meeting the cooperative's governance system became a topic of discussion. The discussion became very free floating and touched on numerous topics including whether enough members were voting, whether the "right" members were voting, whether to remove inactive members from the voting rolls. The youngest member on the board wondered why the cooperative did not have options for on-line voting. The board chair discussed the potential problems stemming from nominations from the floor at the annual meeting. The CEO expanded on that topic and wondered what would happen if a disenfranchised member made a motion to dissolve the cooperative. About half of the discussion seemed to focus on getting members more involved in governance while the other half focused on checks and balances against actions by factions of the membership. Seeking to contribute, Sue volunteered to review the cooperative's entire membership system and make a list of recommendations for the full board to consider. As Sue gets to work she makes the following notes:

### **Defining the member:**

**The issue:** Many of the cooperatives members have farming operations organized as LLCs, Trusts or family corporations. Those structures add complexity in defining the cooperative member. If the farm operation is multi-generational or multi-family there may be many active participants not represented on the membership roles. A related question is whether the spouses should be listed as separate members or co-members. The lack of female members obviously contributes to the lack of gender diversity in cooperative boards.

Options: Make the farming entity the member, or have each entity designate one member. This would be simple but might not involve the younger producers as members.

Designate everyone involved in the farming entity as a member. That would allow for more voting members, more membership stock and more potential board member candidates. A disadvantage of that option would be that some of the owners of farming entities might not be active farmers.

### **Patronage Threshold for Membership and Voting rights:**

**The issue:** The overall goal would be to keep voting rights in the hands of active members. Cooperatives also face the risk that inactive members will vote to liquidate the cooperative in order to realize the value of the unallocated equity. The roll of eligible voters also has implications for quorums, special meeting requirements and merger votes. Setting the bar too high might disenfranchise smaller producers while setting too low a threshold would defeat the

point. Multi-year average would lead to lag time in removing inactive members. Any change in the voting structure would have to be approved at the annual meeting, where inactive members are disproportionately represented. Voting structure reform could be controversial.

**Options:** Annual patronage at a specific threshold (\$5,000, \$10,000 or some other level) in order to retain membership. Loss of membership rights would not affect equity. Threshold could also be set as a 2 or 3 year average.

#### **Mail Nomination of Board Members:**

**Issue:** Mail nominations would ensure that every member perceives an opportunity to run for the board and makes it easier to check that the candidates meet the requirements. Mail nominations make it possible to circulate candidate information prior to the annual meeting. Mail nominations could discourage or even eliminate spur of the moment floor nominations.

**Options:** Mail nominations prior to the annual meeting retaining nominations from the floor, mail nominations with no floor nominations, mail nominations combined with on-line or mail voting and announce winner at annual meeting.

#### **Voting in Proportion to Patronage:**

**Issue:** Proportional voting would provide the users which account for the majority of the cooperative's business with more representation in board member elections and special issue votes. While one member-one vote is highlighted in cooperative principles, a number of regional cooperatives use proportional voting.

#### **Quorum Requirements for a Special Meeting:**

**The issue:** The cooperative's bylaws specify that the lower of 10% of the membership or 50 members can call a special meeting. That raises the possibility that a relatively small number of members could mount an effort to sell the cooperative to an outside firm.

**Options:** Raise the threshold to 20% for actions not supported by the board. A higher threshold might be a protection against impulsive actions by factions of the membership. Like a fire extinguisher it would be protection for an unlikely event. The change might be a difficult sell to the membership.

#### **Restricting Motions at the Annual Meeting:**

**The issue:** The cooperative has traditionally asked for motions on any new business at the annual meeting. This could potentially be a vehicle for factions of the membership to attempt to drive impulsive votes on special issues. Floor motions do not allow time for the CEO, board or legal council to research the issue and provide information.

**Option:** Require members to formally request that new business items be placed on the agenda prior to the meeting. The annual meeting format is restricted to entertain only motions related to agenda items.