The Impact of CEO Tenure on Cooperative Governance
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Abstract
This paper investigates whether long-tenured cooperative Chief Executive Officers (CEOs) are successful in negotiating less monitoring, resulting in the cooperative being agent-driven. Utilizing a sample of the 1000 largest U.S. agricultural cooperatives, we examine whether boards of long-tenured CEOs exhibit differences in composition, formal committees, or procedures that may indicate these boards are more lenient monitors. We find long-tenured CEOs experience less board monitoring. This result is primarily due to a difference in procedural mechanisms, rather than board composition. However, it is unclear whether monitoring leniency is an indication of the CEO’s ability to negotiate less monitoring. It remains a possibility that CEOs with shorter tenures also influence the board; but their recommendations may be heavily influenced by non-compulsory conformance with stricter corporate governance regulations, including Sarbanes Oxley legislation.

Introduction
Principals, as represented by boards of directors, play an important role in monitoring agents in the corporate governance literature. Agency arguments suggest the direction of control optimally flows from board to Chief Executive Officer (CEO) agent. Simultaneously, there is a growing literature that suggests the flow runs in the opposite direction (Adams, Hermalin and Weisbach 2010; Dey and Liu 2011), thus supporting the work of Mace (1971). Mace rejected the idea that boards can be an effective governing force in corporate control problems and suggested directors are co-opted and dominated by the CEO. In this paper, we probe this potential paradox as it relates to cooperative governance.

We begin by reviewing corporate governance frameworks employed to inform this query, then move the discussion to exploring how previous research informs what we know about cooperative governance. We are particularly interested in evaluating suppositions regarding agent driven organizations made or implied in the work of Fulton and Larson (2009), Bijman (2005), Craig (1993), and Hind (1999). Fulton and Larson (2009) emphasize agent dominance occurs due to CEO hubris and ineffective board oversight in the face of excessive diversification and complexity. Bijman (2005) indicates member heterogeneity paralyzes the board, shifting control from the board to management. Craig groups cooperative stakeholders into conflicting sub taxonomies that destroy the cooperative from within over time. This dynamic is hypothesized to result in agent control as member subgroups battle internally. Hind (1999), based on limited but in depth analysis of ten cooperative cases, concludes that cooperatives progress through a life cycle during which member heterogeneity increases. Increases in member heterogeneity render member goal congruence more difficult to achieve, allowing for the aspirations of their agents to be more easily met. Thus, organizational age of the cooperative may be an indicator of the degree of agent control.

In contrast, corporate governance scholars suggest a shift from principal to agent control may be more closely related to the duration of CEO tenure rather than organizational age. Dey and Lui (2011) show, empirically, that CEOs are successful in negotiating less board oversight over the duration of their tenure. Hermalin and Weisbach (1998) propose CEOs may be successful in negotiating less oversight through a decrease in board independence.
Given evidence generated from corporate governance findings, we seek to examine 1) whether cooperative data supports the notion that long-tenured CEOs are able to negotiate less monitoring and 2) if a shift in control is observed, what mechanisms are employed to facilitate a shift toward decreased monitoring activity. We introduce results of empirical work derived from a survey of the largest 1000 agricultural cooperatives in the United States. To the best of our knowledge, our study is the first to use survey data to examine whether and by what mechanisms the cooperative board may decrease their monitoring activities, leaving the organization at risk for becoming agent driven.

Testing whether board governance reveals a difference in agent control within the cooperative may give us greater insight regarding the relative power of the CEO position in the cooperative business structure. Institutionally, there does not appear to be a formally sanctioned mechanism by which CEOs are granted greater control over the duration of their tenure with the cooperative. For example, cooperative CEOs are not typically granted voting rights on the board or nominating rights for new director candidates. In addition, cooperative CEOs very rarely occupy the position of chairperson of the board. Therefore, we are particularly interested to determine which, if any, mechanisms may allude to a method by which long-tenured CEOs wield greater control in governance. A lack of significant association between CEO tenure and board composition or procedure would suggest cooperative CEOs may have relatively less influence over their boards of directors than their corporate counterparts. This finding may be consistent with the dynamics of representational, democratic boards: management tends to have minimal opportunity to shape the board or influence its composition. On the other hand, a significant association between CEO tenure and board composition may indicate the cooperative is at greater risk of becoming agent driven as CEO tenure increases. The same holds for procedure.

Theory
To investigate the impact of CEO tenure on cooperative governance, we develop hypotheses derived from corporate governance research. We rely primarily on two predominant theories used corporate governance research: agency theory and stewardship theory (Hung 1998).

Agency theory suggests owners may possess preferences distinct from those of their agents (Jensen and Meckling 1976). From an agency perspective, the board’s primary role, as fiduciary, is to monitor and control agents. Boards possessing independence from the CEO are viewed as optimal. Active, effective monitoring ensures agents will act in the best interests of shareholders and improves company performance. Insufficient monitoring may offer agents more freedom to pursue selfish objectives.

Agency theorists suggest long-tenured CEOs may become entrenched for three reasons (Hill and Phan 1991; Shen 2003). First, CEO influence may increase with tenure as a result of a good performance track record. Second, long-tenured CEOs may impact board composition. A long-tenured CEO may influence the nomination of a greater number of incoming board members, resulting in a board that is loyal and sympathetic to the CEO. Third, CEOs may increase their relative power as they gain control over procedure and internal information systems. Control over information systems and procedures may afford CEOs the ability to withhold relevant information or influence the board agenda.

Stewardship theory suggests agents are allegiant to the organization, genuinely seeking to further organizational goals rather than private motives (Muth and Donaldson 1998). Therefore, the board’s role is to empower managers. The board empowers management by lending technical expertise and insider knowledge regarding operations. Thus, insider boards that are committed to the firm are optimal. Insider boards are hypothesized to be associated with greater effectiveness due to their superior knowledge of the firm. In contrast, independent boards may have no incentive to ensure organizational success and inadequate knowledge of the firm. Therefore, independent boards may be more likely to utilize their position to enhance their own interests to the detriment of the firm and shareholders.
With regard to CEO tenure, stewardship theorists propose long-tenured CEOs may have greater commitment and firm-specific expertise, leading to enhanced performance with respect to their duties. In addition, long-tenured CEOs who have dedicated their career to shaping the firm and its strategy may identify their personal success and satisfaction with the success of the firm. Donaldson and Davis (1991) suggest long tenure promotes a “merging of individual ego and the corporation, thus melding individual self-esteem with corporate prestige.”

In the cooperative setting, researchers claim managerial entrenchment is of particular concern (Bijman 2005; Hind 1999). Cooperatives judged as having become dominated by management are often referred to as agent driven or staff centered (Murray 1983). However, most research on agent driven cooperatives is theoretical or supported by individual case studies (Fulton and Larson 2009; Hind 1997). There is little empirical research to determine to what extent cooperatives are agent driven. Furthermore, if long-tenured CEOs are indeed entrenched, it is not clear which mechanisms management has used to effectively negotiate greater control of the cooperative organization. In addition to maintaining a superior track record, agency theorists argue CEOs may negotiate greater control by influencing board composition or procedure (Hill and Phan 1991).

**Board Composition**

Do cooperative CEOs have as many opportunities to influence board composition as their corporate counterparts? Although corporate CEOs have historically been involved in nominating new directors (Hill and Phan 1991; Shivdasani and Yermack 1999), disclosure and independence requirements as dictated by NASDAQ and the Securities and Exchange Commission have curtailed CEO involvement in director nomination (Chhaochharia and Grinstein 2007). Spencer Stuart (2010) reports the CEO is the source of 12% of corporate board member nominations.

A cooperative CEO may influence the composition of the board by suggesting new candidates to members of the board, encouraging specific members to run for the board, weighing in on nomination criteria, managing enrichment programs for the development of potential board members, or suggesting candidates to serve as outsider directors or in an advisory capacity. Despite these informal avenues, there is little evidence to support the general proposition that cooperative CEOs influence board composition. Cooperative management is unlikely to play a dominant, formal role in nominating board members for election.

Table 1 reviews agency theory expectations regarding corporate governance constructs and the associated degree of monitoring. From an agency perspective, we might hypothesize CEOs would strive to negotiate less monitoring during their tenure. Although the ability to include outside directors on the cooperative board may be limited by statutes and bylaws, we would expect fewer financial experts and outside directors serving on the board of those firms with entrenched, long-tenured CEOs. This would result in a board with less independence. Director tenure and age are more difficult to interpret. On the one hand, we may expect older board members with long tenures to become complacent, acting as a rubber stamp and allowing management to gain control of the organization (Cornforth 2004). However, a long-tenured board member is not likely to have had their nomination influenced by a CEO who did not hold office when the director was nominated. The nomination of younger board members with tenures shorter than that of the CEO may be more likely to have been influenced by the CEO (Dey and Liu 2011; Hill and Phan 1991). Finally, agency theory would posit that larger boards may be less effective in their monitoring capacity (Jensen 1993; Yermack 1996). A large board may 1) hinder coordination and communication 2) lead to “diffusion of responsibility” instigating second order free riding 3) allow insufficient time for directors to voice their position reinforcing the notion that directors should contribute only sparingly to board deliberations and 4) result in slow decision making or inaction (Dalton, et al. 1999; Eisenberg, Sundgren and Wells 1998; Lipton and Lorsch 1992; Poteete and Ostrom 2004; Yamagishi 1986).
**Table 1.**

<table>
<thead>
<tr>
<th>Construct</th>
<th>Variable</th>
<th>Expected Association</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Composition</td>
<td>Financial Experts Serving as Directors</td>
<td>+</td>
<td>Increased financial expertise may indicate better-equipped monitors</td>
</tr>
<tr>
<td></td>
<td>Director Tenure</td>
<td>-</td>
<td>Complacency may increase with tenure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+</td>
<td>Longer-tenured directors are less likely to have had their nomination influenced by CEO</td>
</tr>
<tr>
<td></td>
<td>Director Age</td>
<td>-</td>
<td>Complacency may increase with age</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+</td>
<td>Older directors are less likely to have had their nomination influenced by CEO</td>
</tr>
<tr>
<td></td>
<td>Board Size</td>
<td>-</td>
<td>Larger boards may be less effective monitors</td>
</tr>
<tr>
<td></td>
<td>Outside Directorships</td>
<td>+</td>
<td>Independent directors may be less likely to be commandeered by CEO</td>
</tr>
<tr>
<td>Formal Committees</td>
<td>Existence of Audit Committee</td>
<td>+</td>
<td>Audit committees may indicate greater board oversight</td>
</tr>
<tr>
<td></td>
<td>Existence of Members Relations Committee</td>
<td>+</td>
<td>Member relations committees may facilitate producer control</td>
</tr>
<tr>
<td></td>
<td>Existence of Executive Committee</td>
<td>+</td>
<td>Executive committees may indicate greater board oversight</td>
</tr>
<tr>
<td>Procedure</td>
<td>Full Board Training</td>
<td>+</td>
<td>An increase in board training may indicate better-equipped monitors</td>
</tr>
<tr>
<td></td>
<td>Monthly Board Meetings</td>
<td>+</td>
<td>A board that meets monthly may have a greater opportunity to effectively perform their duties</td>
</tr>
<tr>
<td></td>
<td>Board Highly Involved in Strategy Development</td>
<td>+</td>
<td>Greater board involvement in strategy development may signal greater control by principals</td>
</tr>
<tr>
<td></td>
<td>Frequent Executive Sessions</td>
<td>+</td>
<td>Frequent executive sessions may indicate greater board oversight</td>
</tr>
</tbody>
</table>

From a stewardship perspective, we might hypothesize CEOs would strive to include more financial experts on the board for the benefit of the company (See Table 2.). However, CEOs may not seek to include outside directors on the board, as stewardship theory holds that nominees with greater knowledge specific to cooperative operations would be of greater benefit to the firm. In addition, stewardship theorists argue younger board members with longer tenures are of greatest benefit to the firm. Thus, a CEO acting in the best interest of the firm would strive to influence composition of the board toward younger directors and to lengthen director tenure. Younger directors are perceived as having greater expertise due to their recent education (Muth and Donaldson 1998). In addition, younger board members may be more willing to take profitable risks. Boards with longer average tenure may be more cohesive, allowing them to make decisions in a timely manner. In addition, a longer tenure may be an indicator of high degrees of commitment and loyalty to the firm. Finally, stewardship theorists would agree with agency theorists, hypothesizing smaller boards to be more efficient and responsive (Muth and Donaldson 1998). The notion that larger boards are less apt to be commandeered by a powerful agent is primarily associated with resource dependency theory (Pfeffer and Salanick 1978). Resource
dependency theorists hold that the diversity of expertise present within a larger board may reduce managerial domination. However, the successful, larger boards may achieve monitoring and evaluation through specialized committees. For this reason, we examine the presence of formal committees (Zahra and Pearce II 1989).

**Table 2.**

<table>
<thead>
<tr>
<th>Construct</th>
<th>Variable</th>
<th>Agency Theory</th>
<th>Stewardship Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board Composition</strong></td>
<td>Financial Experts Serving as Directors</td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td>Director Tenure</td>
<td>Indeterminate</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td>Director Age</td>
<td>Indeterminate</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Board Size</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Outside Directorships</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Formal Committees</strong></td>
<td>Existence of Audit Committee</td>
<td>-</td>
<td>Indeterminate</td>
</tr>
<tr>
<td></td>
<td>Existence of Members Relations Committee</td>
<td>-</td>
<td>Indeterminate</td>
</tr>
<tr>
<td></td>
<td>Existence of Executive Committee</td>
<td>-</td>
<td>Indeterminate</td>
</tr>
<tr>
<td><strong>Procedure</strong></td>
<td>Full Board Training</td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td>Monthly Board Meetings</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Board Highly Involved in Strategy Development</td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td>Frequent Executive Sessions</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Formal Board Committees and Procedure**

From an agency perspective, principals of organizations that have become agent driven would be less independent and less involved in monitoring. Indicators of a decrease in monitoring may include the lack of audit, executive, and member relations committees. Audit and executive committees may act as mechanisms to strengthen board oversight. A member relations committee is a mechanism to increase producer feedback and ensure producer voice and control. However, of the committees investigated, the executive committee may be the most collaborative in nature: executive committee members may be actively engaged in decision-making with the CEO between board meetings. In addition, board size is more likely to be correlated with the existence of an executive committee than other committees.

Executive sessions where the board has an opportunity to discuss matters without management present would be a mechanism by which the board, as principals, can fulfill their monitoring function. Thus, a decrease in the number of executive sessions may be associated with a decrease in monitoring and a more agent-driven organization.

A board that meets less frequently or is not engaging in training may be an additional indicator of a lack of monitoring. Lipton and Lorsch (1992) suggest a board needs to meet approximately 100 hours annually, roughly equivalent to once a month, to effectively perform their duties. An untrained board may be less equipped to perform. Finally, a board highly involved in strategy development is likely to be more assertive, exercising greater control and monitoring than an uninvolved board. A board highly involved in strategy making stands in stark contrast to the board Mace (1971) describes as simply going along with management’s proposals. However, of the procedural variables presented, involvement in strategy making would have the lowest association with monitoring, possibly indicating a greater degree of collaboration.
Given that stewardship theory hypothesizes lower levels of board independence and an active agent to be associated with more efficient boards, there is no specific reason to suggest stewardship theory should favor a greater number of committees or routine executive sessions. However, stewardship theory may suggest expert boards, well acquainted with the organization may not need to meet as frequently. As Vafeas (1999) suggests, independent boards may need to meet more often to educate non-executive directors. Finally, stewardship theory would agree with agency theory in suggesting a better-trained board and a board highly involved in strategy development would be most effective.

**Methods and Procedures**

We utilize data from a mail survey of U.S. cooperatives to investigate whether CEO tenure impacts board composition, committee structure or board procedures. The sample frame consists of 2,252 U.S. farmer, rancher, and fishery cooperatives listed in the USDA Cooperative Statistics database. We estimate the top 1000 cooperatives conduct at least 90% of U.S. agricultural cooperative business volume. Thus, we sample the top 1000 agricultural cooperatives, maintaining percentages of cooperatives by functional categorization (e.g. service, supply and marketing) similar to those in the population. To categorize, we determine whether a greater portion of 2009 cooperative revenue is attributed to marketing, supply, or service receipts. Categorization by sales receipts characterizes approximately 52.8% as marketing cooperatives, 41.2% as supply cooperatives and 5.9% as service cooperatives. We sort each functional category by total sales then total assets to determine ranking. From this ranking, we survey 529 marketing cooperatives, 412 supply cooperatives, and 59 service cooperatives. We survey cooperative board chairs. Chairs are selected by their peers. Their leadership position and organizational memory provide a well-informed director perspective. We receive 461 survey responses.

We perform categorical data analysis to determine whether there is a relationship between CEO tenure and board composition, formal committee structure, or process. The sample mean of CEO tenure equals 10.38 years. For categorical analysis of CEO tenure, cooperatives were divided into two categories 1) cooperatives with CEO tenure less than the sample mean of 10 years and 2) cooperatives with CEO tenure greater than or equal to the sample mean of 10 years. In corporate governance literature, significant changes in several aspects of board composition have been found to take place once CEO tenure extends beyond 10 years (Dey and Liu 2011). Therefore, using the 10 year mark also allows us to relate our findings to the corporate governance literature.

For each relationship tested, we report chi-square values and odds ratios. The chi-square value compares the observed frequency in each category to the frequencies that would be expected by chance. This allows us to determine whether there is a significant association between CEO tenure and the categorical variable in question. The odds ratio illustrates the size of the effect. The ratio is reported as the odds of an event occurring in one category as compared to another. Therefore, an odds ratio of 1 indicates the odds of a particular outcome are equal in both categories (Field 2005).

**Results**

We report results regarding the relationship between governance constructs and CEO tenure according to the following categories: 1) variables showing no association, 2) variables showing a slight association, and 3) variables showing a significant association.

**Variables Showing No Association**

We begin by reporting those variables for which categorical analysis indicated no significant association with the length of CEO tenure.
Financial Experts Serving as Directors

No significant association was found between CEO tenure and whether or not at least one financial expert serves on the cooperative board. Twenty-one percent of cooperative CEOs with tenure 10 years or greater have at least one financial expert on the board. Twenty-five percent of cooperative CEOs with tenure of less than 10 years have at least one financial expert on the board.

Director Tenure

For categorical analysis of director tenure, cooperatives were divided into those with average director tenure less than the sample mean, 10 years, and those cooperatives with average director tenure greater than or equal to the mean. No significant association was found between CEO tenure and director tenure. The average director tenure is roughly equivalent to average CEO tenure. Thirty-five percent of cooperative CEOs with tenure 10 years or greater have a board with average director tenure of 10 years or more. Thirty-one percent of cooperative CEOs with tenure of less than 10 years have a board with average director tenure of 10 years or more.
Director Age

For categorical analysis of director age, cooperatives were divided into those with average director age less than or equal to the mean, 52 years, and those cooperatives with average director age greater than the mean. No significant association was found between CEO tenure and average director age. Forty-seven percent of cooperative CEOs with tenure 10 years or greater have a board with an average director age above 52 years. Forty-three percent of cooperative CEOs with tenure of less than 10 years have a board with an average director age above 52 years.

Percent of Cooperatives with Average Director Age above 52 Years

Board Size

For categorical analysis of board size, cooperatives were divided into those with board size less than or equal to the mean, 9 directors, and those cooperatives with board size greater than the mean. No significant association was found between CEO tenure and board size. Twenty-six percent of cooperative CEOs with tenure 10 years or greater have a board consisting of more than nine directors. Twenty-eight percent of cooperative CEOs with tenure of less than 10 years have a board consisting of more than nine directors.

Percent of Cooperatives with More than Nine Directors
Variables Showing Slight Association

Outside Directorships

There was a slight association between CEO tenure and whether or not outside directors serve on the board $\chi^2(1) = 3.17, p < .10$. This seems to represent the fact that, based on the odds ratio, CEOs with shorter tenure were 2.50 times more likely to have at least one outside director on the cooperative board. Thus, as CEO tenure increases, cooperative boards may become less independent. Three percent of cooperative CEOs with tenure 10 years or greater have at least one outside director serving on the board. Six percent of cooperative CEOs with tenure of less than 10 years have at least one outside director serving on the board.

Existence of an Audit Committee

There was a slight association between CEO tenure and whether or not the cooperative’s governance structure included an audit committee $\chi^2(1) = 2.72, p < .10$. This seems to represent the fact that, based on the odds ratio, boards of cooperatives with CEO tenure of less than 10 years were 1.38 times more likely to have an audit committee as part of their governance structure. Thirty-five percent of cooperative boards whose CEO’s tenure is 10 years or greater include an audit committee as part of their governance structure. Forty-three percent of cooperative boards whose CEO’s tenure is less than 10 years include an audit committee as part of their governance structure.

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1 By slight association, we refer to the p-value which indicates there is less than a 10 percent chance this result occurred by random coincidence.
Full Board Training

There was a slight association between CEO tenure and whether or not the cooperative conducted full board training $\chi^2(1) = 3.00$, $p < .10$. This seems to represent the fact that, based on the odds ratio, boards of cooperatives with CEO tenure of less than 10 years were 1.44 times more likely to engage in at least 1 hour of full board training each year. Sixty-eight percent of cooperative boards whose CEO’s tenure is 10 years or greater engage in full board training. Seventy-five percent of cooperative boards whose CEO’s tenure is less than 10 years engage in full board training.

Percent of Cooperatives Engaging in Full Board Training

<table>
<thead>
<tr>
<th>CEO Tenure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥ 10 years</td>
<td>68%</td>
</tr>
<tr>
<td>&lt; 10 years</td>
<td>75%</td>
</tr>
</tbody>
</table>

Variables Showing a Significant\(^2\) Association

Monthly Board Meetings

There was a significant association between CEO tenure and frequency of board sessions $\chi^2(1) = 12.76$, $p < .001$. This seems to represent the fact that, based on the odds ratio, boards of cooperatives with CEO tenure of less than 10 years were 2.29 times more likely to meet at least once a month. Seventy-one percent of cooperative boards whose CEO’s tenure is 10 years or greater meet at least 12 times a year. Eighty-five percent of cooperative boards whose CEO’s tenure is less than 10 years meet at least 12 times a year. These results suggest monitoring of the CEO in terms of the number of board sessions held each year tends to decrease with CEO tenure.

Percent of Cooperatives with Boards in Session 1 day a Month or More

<table>
<thead>
<tr>
<th>CEO Tenure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥ 10 years</td>
<td>71%</td>
</tr>
<tr>
<td>&lt; 10 years</td>
<td>85%</td>
</tr>
</tbody>
</table>

\(^2\) By significant association, we refer to the p-value. For this section, all associations included have a p-value of less than .05, which indicates there is less than a 5 percent chance this result occurred by random coincidence.
**Frequency of Executive Sessions**

There was a significant association between CEO tenure and frequency of executive sessions $\chi^2(1) = 6.51$, $p < .05$. This seems to represent the fact that, based on the odds ratio, boards of cooperatives with CEO tenure of less than 10 years were 1.80 times more likely to hold at least 4 executive sessions a year. Eighteen percent of cooperative boards with CEO tenure 10 years or greater hold at least 4 executive sessions a year. Twenty-eight percent of cooperative boards with CEO tenure less than 10 years hold at least 4 executive sessions a year. These results suggest that monitoring of the CEO in terms of the number of executive sessions held each year tends to decrease with CEO tenure.

![Percent of Cooperatives Holding at Least 4 Executive Sessions Each Year](chart)

**Existence of a Member Relations Committee**

There was a significant association between CEO tenure and whether or not the cooperative governance structure included a member relations committee $\chi^2(1) = 7.94$, $p < .05$. This seems to represent the fact that, based on the odds ratio, cooperatives with CEO tenure of less than 10 years were 1.93 times more likely to include a member relations committee as part of their governance structure. Seventeen percent of cooperative boards with CEO tenure 10 years or greater include a member relations committee as part of their governance structure. Twenty-eight percent of cooperative boards with CEO tenure less than 10 years include a member relations committee.

![Percent of Cooperatives with a Member Relations Committee](chart)
Existence of an Executive Committee

There was a significant association between CEO tenure and whether or not the cooperative’s governance structure included an executive committee $\chi^2(1) = 9.81$, $p < .05$. This seems to represent the fact that, based on the odds ratio, boards of cooperatives with CEO tenure of less than 10 years were 1.91 times more likely to have an executive committee as part of their governance structure. Sixty-three percent of cooperative boards with CEO tenure 10 years or greater include an executive committee as part of their governance structure. Seventy-six percent of cooperative boards with CEO tenure less than 10 years include an executive committee as part of their governance structure.

![Graph: Percent of Cooperatives with an Executive Committee]

Board Highly Involved in Strategy Development

There was a significant association between CEO tenure and the board’s level of involvement in strategy development $\chi^2(1) = 4.54$, $p < .05$. This seems to represent the fact that, based on the odds ratio, boards of cooperatives with CEO tenure of less than 10 years were 1.52 times more likely be highly engaged in strategy development (ranking ≥ 5 on a scale of 1-6). Thirty-four percent of cooperative boards with CEO tenure 10 years or greater report being highly involved in strategy development. Forty-four percent of cooperative boards with CEO tenure less than 10 years report being highly involved in strategy development.

![Graph: Percent of Cooperatives with Boards Highly Involved in Strategy Development]

Conclusions

In corporate governance literature, significant changes in board composition have been found to take place in organizations where CEO tenure extends beyond 10 years. Changes in corporate board composition are identified as a mechanism by which corporate CEOs negotiate less monitoring (Dey and Liu 2011). We find long-tenured cooperative CEOs also seem to negotiate lower levels of monitoring. However, the mechanisms by which cooperative CEOs experience a decrease in monitoring is primarily...
due to formal committees and procedural aspects of governance, rather than board composition (See Table 3).

One aspect of board composition showed a slight association with CEO tenure: long-tenured CEOs have fewer outside directors serving on the board. Yet these compositional results are overwhelmed by the formal committee and procedural variables associated with CEO tenure. Specifically, we find boards of long-tenured CEOs tend to meet less often, engage in less board training, and have fewer executive sessions. In addition, boards of long-tenured CEOs are less likely to include formal audit and member relations committees as part of their structure. These results suggest long-tenured CEOs experience less board monitoring.

We caution against speculation that long-tenured CEOs and their boards experience lower levels of monitoring because they have simply worked together longer and 1) are highly familiar with each other and cooperative operations or 2) board members have become complacent given their long tenures. Our results do not support either hypothesis. Specifically, we find no association between CEO tenure and director tenure or age.

Among variables that investigate levels of collaboration between the board and management, in addition to simple monitoring, we find some evidence to support the hypothesis that the relationship between long-tenured CEOs and their board is less collaborative. Specifically, we find boards of long-tenured CEOs are less likely to be highly involved in strategy development and less likely to include an executive committee as part of their governance structure. Decreases in levels of monitoring and collaboration seem to support the hypothesis that cooperatives with long-tenured CEOs maybe at risk for becoming agent driven.

And yet, there may be additional, plausible explanations for the incidence of more lenient boards among long-tenured CEOs. First, boards of long tenured CEOs may adopt more of a stewardship approach, rather than an agency approach, to fulfilling the role as board members. In other words, boards with long-tenured CEOs may perceive that the CEO has acquired superior firm-specific knowledge over the length of his or her tenure. Thus, the board chooses to capitalize on this knowledge for the benefit of the principals. A stewardship approach to governance may explain why boards of long-tenured CEOs are less likely to include outside directors, engage in fewer board meetings, and conduct fewer executive sessions.

**Table 3.**

<table>
<thead>
<tr>
<th>Construct</th>
<th>Variable</th>
<th>Association</th>
<th>Boards with CEO tenure &lt; 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Composition</td>
<td>Financial Experts Serving as Directors</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Director Tenure</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Director Age</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Board Size</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Outside Directorships</td>
<td>Slight, p &lt; .10</td>
<td>2.50 times more likely</td>
</tr>
<tr>
<td>Formal Committees</td>
<td>Existence of Audit Committee</td>
<td>Slight, p &lt; .10</td>
<td>1.38 times more likely</td>
</tr>
<tr>
<td></td>
<td>Existence of Executive Committee</td>
<td>Significant, p &lt; .05</td>
<td>1.91 times more likely</td>
</tr>
<tr>
<td></td>
<td>Existence of Members Relations Committee</td>
<td>Significant, p &lt; .05</td>
<td>1.93 times more likely</td>
</tr>
<tr>
<td>Procedure</td>
<td>Full Board Training</td>
<td>Slight, p &lt; .10</td>
<td>1.44 times more likely</td>
</tr>
<tr>
<td></td>
<td>Monthly Board Meetings</td>
<td>Significant, p &lt; .001</td>
<td>2.29 times more likely</td>
</tr>
<tr>
<td></td>
<td>Board Highly Involved in Strategy Development</td>
<td>Significant p, &lt; .05</td>
<td>1.52 times more likely</td>
</tr>
<tr>
<td></td>
<td>Frequent Executive Sessions</td>
<td>Significant p, &lt; .05</td>
<td>1.80 times more likely</td>
</tr>
</tbody>
</table>
Second, we cannot rule out the possible influence of stricter government regulations regarding board composition and procedures. Shorter-tenured CEOs in our sample were appointed subsequent to the Sarbanes Oxley Act of 2002. Even though the large majority of cooperatives in our sample are not obligated to abide by Sarbanes Oxley or similar standards for publicly traded companies, shorter-tenured CEOs may be more apt to be influenced by the evolving norms embodied in this legislation. If shorter-tenured CEOs also have some influence over their boards, this may explain why boards of shorter-tenured CEOs are more likely to include outside directors, employ an audit committee, engage in training, meet at least once a month, and have frequent executive sessions. One Sarbanes-Oxley related variable that did not show significance, however, was the number of financial experts serving on the board.

This study advances the important subject of agent versus principal control in patron owned cooperatives. As scale economies, scope economies, and organizational complexities increase, the governance burden on representational fiduciaries is predicted to shift toward the CEO and senior staff because of accumulated data and knowledge. This study does not directly address this question but informs related concerns of CEO tenure and the degree of monitoring exercised by the governing body. It also highlights the need for more testable hypotheses and definitive studies. The corporate governance literature is an excellent place to start. But, as the results of this study suggest, governing cooperatives created by a unique set of circumstances, institutional ambiance and guided by a strong set of organizational principles commands a unique approach to honing mechanisms of governance.

**Future Research**

The hypothesis that cooperative CEOs are able to bargain for less monitoring based on changes in board composition is not supported by the current data. However, we do find support for the hypothesis that CEOs may utilize procedural and formal committee aspects of board governance to negotiate decreased monitoring. These findings are plausible considering CEOs of cooperatives have limited formal avenues to influence board composition. And yet, the apparent influence of cooperative CEOs over formal committees and procedural aspects of governance may put the cooperative at risk for being agent driven. These results indicate further research into this topic may be warranted. Thus, we propose lines of inquiry for future research.

First, if CEOs in fact utilize procedural and formal committee mechanisms as identified in this dataset to reduce monitoring, can reversal of these mechanisms reduce the risk of the CEO dominating the board? For example, if the CEO gains greater latitude through policies that reduce board meeting frequency, can boards regain monitoring capacity through policies designed to increase meeting frequency? These proxies may be too simplistic. And yet, awareness of the effect procedural mechanisms have on monitoring may induce boards to reconsider policy. Consider the board payment structure: a per meeting fee may act as an incentive for board members to meet more frequently while an annual retainer may act as an incentive for boards to meet less frequently. Further research may wish to explore whether those cooperatives that switch from a per meeting fee to an annual retainer experience a decline in board meeting frequency. This would help determine whether there is a correlation between board payment structure and meeting frequency. If meeting frequency is suboptimum, can frequency be improved by adopting the appropriate payment structure? For example, would a per meeting fee effectively induce board members to have more meetings thereby increasing monitoring? And, if a reduction in the frequency of board meetings is a mechanism by which the CEO gains control, can CEO control be decreased by increasing meeting frequency?

Second, in our future research, we plan to investigate the impact of decreased monitoring on cooperative performance. Agency theory hypothesizes that effective monitoring activity which serves to align the agent’s interest with the principals’ improves firm performance. And yet, it is not clear from this current study whether CEOs that seem to have negotiated less monitoring have had a positive or
negative impact on cooperative performance. CEOs with greater influence may use their influence to refocus the board’s activities thereby 1) developing an exemplary, “expert” board or 2) bargaining for a compliant, “rubber stamp” board. In addition, long-tenured CEOs may have developed a credible commitment to pursuing cooperative objectives rather than selfish interests. In this case, high levels of monitoring may have a cumbersome, negative impact on cooperative performance whereas low levels of monitoring may allow the CEO greater flexibility to respond to opportunities in a timely manner. The relationship between CEO influence over the board and cooperative performance merits further inquiry.

Throughout this paper we have assumed the roles and functions of agents and principals are well defined. However, defining principal and agent roles may be an organizational design issue to challenge. The traditional assumption is that the board of directors is or represents the principal and the CEO is the agent. Consequently, the flow of control is from principal to agent. However, Eilers and Hanf (1999) posit that the reverse might be more correct, particularly in marketing cooperatives. When a manager offers a contract to a farmer, he may be acting as a principal. When the farmer accepts a contract with the cooperative, he may be acting as an agent. Considering such role reversals might inform cooperative governance design and stimulate research on this complex and vaguely defined relationship.

A third area of research that would further inform the principal or agent driven controversy in cooperative firms is improving the understanding of the institutional mechanisms utilized in agent monitoring. Detailed analysis of each mechanism would 1) increase researchers’ ability to quantify employment of different forms of control mechanisms, 2) identify the range of control mechanisms given different types of cooperative organizational forms, 3) explore by whom and why each mechanism was instituted, 4) clarify how the mechanism acts as a monitoring device, and 5) improve our knowledge of rule based and procedural mechanisms versus board composition. Mixed method approaches might add a depth of understanding that would inform researchers’ ability to more rigorously address these issues. This initial study appears to only whet our appetite with regards to perhaps one of the most understudied yet important area of cooperative governance.

References


