Corporate Governance and Performance of Swedish Cooperatives
Board Structure and Mode of Working

Karin Hakelius
Assistant Professor
Department of Economics
Swedish University of Agricultural Sciences
750 07 Uppsala
Sweden
Telephone: +46 18 67 17 45
Fax: +46 18 67 35 02
Email: karin.hakelius@slu.se

Presented at the
Economics and Management of Networks Conference
(EMNet 2013)
(http://emnet.univie.ac.at/)

Robinson Hotel and University Ibn Zohr
Agadir, Morocco

November 21-23, 2013

1 The author is grateful to Professor Michael L Cook, University of Missouri, USA, whose idea for this research project, including some key references and a questionnaire etc, rendered research money and the possibility to perform this study in Sweden. The Swedish Farmers’ Foundation for Agricultural Research (SLF) is thanked for providing funding for this study.
Abstract
The aim of this paper is to distinguish which factors related to the composition and mode of working of the board, lead to a high overall performance in a cooperative. Based on theories from the corporate governance literature, assumptions are formulated. These are used as analytical tools when looking at the overall performance of thirteen Swedish farmer cooperatives, in different lines of business.

The empirical data comes from telephone interviews with thirteen board chairs of Swedish farmer cooperatives, carried out in 2012. The chairs were asked to rank the overall performance, using board size, number of external directors, director tenure and attitudes, frequency of board meetings, education of directors, and degree of agreement between the board and the CEO as independent variables. The conclusions are, for example, that boards educating the directors and boards having an agreement between directors and the CEO, tend to improve overall performance; that the successful cooperative boards tend to be large (on average c 13, while the less successful have 9), having fewer external directors, and on average fewer board meetings – results not supported by the general corporate governance literature, focusing IOFs.

Keywords: Board, CEO, corporate governance, farmer cooperative, IOF, overall performance.
1. Introduction
Farmer cooperatives have a history of c 150 years in most European countries. They were formed in order to make farmers stronger on the market, hereby generating a greater profit for farmers, compared to them acting on the market individually. Recently, many farmer cooperatives have grown and adjusted to a highly competitive market, often competing with Investor Owned Firms (IOFs). In both cooperatives and IOFs, the board is the key arena for the strategic management activity. Several studies have focused the structure, composition, size and ownership structure in IOFs (Daily & Dalton 1997; Hung 1998; Hermalain and Weisbach 2003; van den Berghe & Levrau 2004; Fich & Shivdasani 2006; Tang, Crossan and Rowe 2011). Similar studies, focusing cooperatives, are rare, but Cook (1994), Cornforth (2001a, b, and 2004), Kyriakopoulos, Meulenberg & Nilsson (2004), and Hendrikse (2005); Keeling Bond (2009); Nilsson, Svendsen & Svendsen (2012); Cook & Burress (2013); have dealt with these issues.

The signal between the owners and the board is rather straightforward and direct in an IOF, through the stock market: If shareholders are not satisfied, they can sell shares and invest in something else. Herein lays a critical difference between the IOF-shareholder and a cooperative member/owner (below referred to as “member”): There is no market for cooperative ownership rights, hence cooperative members, when acting as owners, do not have the same tools as a shareholder. Hirschman (1970) presents and discusses these tools, namely “voice” – trying to get the fellow members and the directors to listen, through discussions and voting – and “exit”, being the ultimate option if the member cannot cope with not being listened to. In some instances, though, dissatisfied members cannot exit the cooperative, since that would imply a need to stop farming, since there are no alternative cooperatives to join, nor IOFs to turn to, therefore becoming a non-committed member. When this happens, there will be a group of members not taking an active part in governing the cooperative.

Being a cooperative director implies getting multiple and sometimes conflicting signals from members, forcing directors to create acceptable and viable strategies from the member-signals (see Cook 1994; Nilsson, Kihlén & Norell 2009). The implementation of the strategy, breaking it down to sub-goals etc, is the responsibility of the CEO and his staff. According to the corporate governance literature, it is important to stick to this division of responsibilities and tasks. As is the case for the directors, the role of a CEO in a cooperative is more complex than that of a CEO in an IOF. One reason for this is that members expect revenue on the farm-level, at the same time as it is necessary to have a sufficient profit-level on the level of the cooperative (see Peterson & Anderson 1996, 376; Feng & Hendrikse 2012, 242). Another reason is that the members also are owners of the cooperative and hence have the formal power there; giving them a possibility to influence which investments should be made (Hendrikse & Veerman 2001, 54). This is to be compared to the situation in an IOF, where investment decisions lie in the hands of the board and CEO.

To look closer into the similarities and differences between the IOF board and the cooperative board, would contribute to the corporate governance literature and especially give a valuable contribution to the literature on governance of cooperatives. The aim of this paper is to distinguish which factors related to the composition and mode of working of the board, lead to a high overall performance in a cooperative.
The primary empirical material is thirteen interviews with board chairmen of farmer cooperatives in Sweden, carried out 2012. Hence, these individuals have acted as spokespersons for the entire board they represent. The questions used and the overall idea behind the project comes from Cook and Burress (2013), who developed a mail survey including 1,000 board chairmen in cooperatives in the United States. Only having a total population of c. 18 Swedish farmer cooperatives, however, telephone interviews were used. Annual reports, academic reports and newspaper articles on the cooperatives included in the study are also used.

2. Historical Background

Many Swedish farmer cooperatives have their roots in the late 19th and early 20th century. The cooperatives gradually developed a federative structure, the local and regional entities acting in a specific geographic area. In the mid-1900’s, one federation existed in the following areas, respectively: Slaughter, crop and grain, dairy, farmer union, bank, and forest owners. During the second half of the 20th century, the traditional three-layer federative structure (local, regional, and national) has changed, reducing the importance of the local level. Following Sweden’s de-regulation of the domestic agricultural policy in 1990 and Sweden’s EU-membership in 1995, the established farmer cooperatives have restructured and merged, and in most cases acting on international markets2. Hence, the distance between members and directors has increased, leading to communication problems between these (Nilsson, Kihlén & Norell 2009; Österberg & Nilsson 2009).

As a reaction to the increased distance between members and directors, and in the case of the slaughter sector, as a reaction to the Swedish cooperative being sold to the Finnish sister organization HK Ruokatalo in the end of 20063, some small-scale cooperatives have developed, through a process labeled “cooperative bee-hiving” (see, for example Hakelius et al 2013). This new phenomenon is believed to partly being a reaction to the development of the established cooperatives: Members using their possibility to exit these.

Both the old and large and the small and new farmer cooperatives are represented in this study. As can be seen in Table 1, cooperatives from five different industries, having 90 – 51,000 members, and a turnover from about 2 million Euros to more than 8,500 million, are included. These thirteen farmer cooperatives represent a large share (c. 72%) of the total population of 18 cooperatives that was identified. The two cooperatives in the slaughter industry in Table 1 are so-called bee-hive cooperatives, being formed due to the developments in the slaughter cooperative sector (see above).

---

2 In the case of ArlaFoods, even having members in several countries.
3 HK Ruokatalo and the Swedish HK Scan AB are farmer controlled businesses, meaning that the majority of the votes lies in the hands of the farmer cooperatives – LSO in Finland, and Sveriges Djurbönder (Swedish Animal Farmers) in Sweden. The number of members in the Sveriges Djurbönder has decreased from c 20,600 in 2008 to c 15,300 in 2013.
Table 1: Basic facts on the cooperatives included in the study, numbers from 2012. Source: Annual reports.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Cooperative</th>
<th># members (circa)</th>
<th>Net turnover (million €, circa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crop, grain &amp; machinery</td>
<td>Lantmännen</td>
<td>35 000</td>
<td>1 331</td>
</tr>
<tr>
<td></td>
<td>Kalmar lantmän</td>
<td>2 000</td>
<td>140</td>
</tr>
<tr>
<td></td>
<td>Varaslättens lagerhus</td>
<td>1 600</td>
<td>66</td>
</tr>
<tr>
<td>Farmcredits</td>
<td>Landshypotek</td>
<td>49 000</td>
<td>8 529</td>
</tr>
<tr>
<td>Dairy</td>
<td>ArlaFoods</td>
<td>8 000</td>
<td>6 612</td>
</tr>
<tr>
<td></td>
<td>Skånemejerier</td>
<td>600</td>
<td>433</td>
</tr>
<tr>
<td></td>
<td>Norrmejerier</td>
<td>600</td>
<td>221</td>
</tr>
<tr>
<td>Slaughter</td>
<td>Upplandsbondens</td>
<td>90</td>
<td>1,7</td>
</tr>
<tr>
<td></td>
<td>Kaprifolkött</td>
<td>120</td>
<td>n/a</td>
</tr>
<tr>
<td>Forest owners</td>
<td>Södra</td>
<td>51 000</td>
<td>2 191</td>
</tr>
<tr>
<td></td>
<td>Mellanskog</td>
<td>33 000</td>
<td>449</td>
</tr>
<tr>
<td></td>
<td>Norrskog</td>
<td>13 000</td>
<td>220</td>
</tr>
<tr>
<td></td>
<td>Norra skogsägarna</td>
<td>16 000</td>
<td>203</td>
</tr>
</tbody>
</table>

In section 3, the conceptual framework is presented, having as a starting-point the corporate governance literature, based on IOFs. At the end of section 3, a tentative model and six assumptions are presented.

3. Conceptual Framework

The corporate governance-literature, as it has developed since Tricker presented the results of corporate organizational structures in 1984, is the starting-point. The importance of separating the governance, performed by the board, and the management, i.e., the CEO and his staff is stressed: “management runs the business; the board ensures that it is being well run and run in the right direction” (Tricker 2012, 44). Three reasons given by Johnson et al, explaining why this separation of governance and management is important are (2011, 123-124):

- The mere size of many modern firms requires some kind of structure, including governance chains, in order for the business activities to work in a viable manner.
- The scandals occurring on an international level – the bankruptcy of Lehman Brothers 2008, and the BP oil-spill in the Mexican Gulf 2010, for example – have highlighted how large corporations work, and how they collaborate with other market actors. Also, a focus has been on the relationship between shareholders and the corporate boards, for example. Scandals such as these have led to weaker confidence in corporate boards (Kim & Nofsinger 2004), which has led to investors looking for measures that can be taken in order to safeguard board efficiency and trustworthiness (Rauterkus 2003).
- The issue of Corporate Social Responsibility (CSR) has put a focus on the social and environmental considerations modern corporations have to make, leading to an increasing number of sustainability reports being presented alongside the annual reports.
Corporate governance has also become an issue of interest for researchers focusing on farmer cooperatives (LeVay 1986; Anderson 1994; Cornforth 2004; Fulton & Giannakas 2007) since the environment around these organizations has changed significantly during recent decades: Going from fairly stable towards more multi-faceted and quickly changing markets, facing fierce competition. When cooperatives try to adopt their structure strategies to the new environment, the traditional governance method of cooperatives – through a democratic process – is challenged.

3.1. Board Processes and Board Characteristics

The (IOF) board has four main processes and perspectives to focus on, according to Tricker (2012, 45 and 174), namely: distributing responsibility, follow up and controlling the management, strategy, and policy formulation. The first two focus creating and maintaining compliance, while the other two focus the performance. Balancing these two roles is difficult and crucial for the overall outcome. In addition, the four processes are part of a dynamic process – the board constantly having to work with creating and following up plans and policies, simultaneously having to allocate areas of responsibility between the board and the managers (especially important is the role and mandate for the CEO), as well as follow-up the work carried out by the managers (Tricker 2012). Hermelin & Weisbach (2003, 8) state that research in this field has found a relationship between firm performance and board characteristics.

Cooperative boards also have these four processes to handle and they also face the issue of what role and mandate the CEO shall have. One complicating factor here is that the members of the cooperative are both owners and users, and that the directors are not necessarily on the board due to specific knowledge or skills – in management or marketing terms, for example. It is far more likely that directors are experts in running a farm, perhaps also acting as leaders at the local community (Rhodes 1978, Staatz 1983, Lang 2000, Dunn et al 2002). An important criterion for directors ending up in a certain cooperative board is – or has at least been in the Swedish case – that they represent different geographical areas, or sit on another board, from which one director should come according tradition or statutes.

The studies within the field of corporate governance, focusing IOFs, have not conclusively shown any strong and generalizable causality between board characteristics such as size, structure, composition, etc, and firm performance. It seems like there are some causalities, however, such as certain board characteristics influence the actions of the board and ultimately the general performance, the problem being to define these board characteristics. Some of these will be discussed below.

3.1.1 Board Size

The size of a board has been suggested being a factor influencing the general outcome of a firm. The studies focusing this issue (see, for example Gilson 1990, Dehaene, van de Vuyst & Ooghe 2001), however, are inconclusive with respect to this correlation: There are studies showing small boards – often 8 to 10 directors - are best (see Lipton & Lorsch 1993; Jensen 1993; Yermack 1996; Eisenberg et al 1998; Hermalin & Weisbach 2003; Rauterkus 2003; van den Berghe & Levrau 2004; De Andres, Azofra & Lopez 2005), being small enough to coordinate the work forcing all directors to be committed, and have an active dialogue (van den Berghe & Levrau 2004), for example. If a board becomes too small, problems can develop, as stressed by van den Berghe & Levrau (2004, 462): “we
may not ignore the fact that a minimum number of directors are needed to guarantee the required countervailing power and diversity”. Expressed differently, a board has to have enough seats to make sure that the most important skills and knowledge is represented, as well as having representatives for the most important stakeholder groups (van den Berghe & de Ridder 2002; van den Berghe & Levrau 2004).

Other studies are showing signs that a large board is to be preferred (Goodstein et al 1994; Conyon & Peck 1998, Forbes & Milliken 1999; Kiel & Nicholson 2003). Dalton et al (1999), found in a meta-study covering 27 studies in this field that “having more directors was associated with higher levels of firm financial performance” (Finegold et al 2007, 868-869). This conclusion proved to be valid for all firm-sizes, but firm performance was affected to a greater extent in small firms (ibid, 869). Based on a study of boards in non-profit organizations, O’Regan & Oster (2005) present the idea that large boards may work well, provided that sub-groups are created within the board, specializing on different functions and tasks. Having a large board, creates a larger pool of skills and knowledge, and may lead to that the monitoring of the CEO is carried out more efficiently (Goodstein et al 1994; Forbes & Milliken 1999). As expressed by van den Berghe and Levrau (2004, 466): “A board of directors including only ‘clones’ does not work and is even dangerous.” One problem mentioned by researchers in this field, when discussing large boards, is that opportunistic behavior – or free riding - is likely to develop. This leads to less commitment from board members and, in the long run, there is a risk that the monitoring of the CEO suffers (Keeling Bond 2009, 24).

The conclusions are also inconclusive when looking at boards in cooperatives (see for example, Lang 2000; Dunn et al 2002; Reynolds 2003; Keeling Bond 2009), but high board commitment and an active dialogue are stressed as important features. In a study reported 2000, Lang, emphasizes that the leaders of the studies on cooperatives believe that having a fairly small board leads to more efficient meetings, greater accountability, and less anonymity, since having only a few chairs to fill makes members more careful who to put on these.

### 3.1.2 External Directors

Going back to the recent corporate scandals, some researchers advocates that having external directors may be a way to avoid these, or at least getting more effective boards (see for example Mizruchi 1983; Lorsch & MacIver 1989; Zahra & Pearce 1989; Rosenstein & Wyatt 1990; Dalton et al 1998; Hanson and Song 2000). Other studies show that having external directors may lead to worse overall performance (Agrawal & Knoeber 1996; Coles et al 2001). There are even signs of “a curvilinear relationship between insider/outsider composition and performance measured as return on assets” (Wagner III et al 1998, 655), since boards with low or high share of insider directors showed a better performance than boards with an even distribution of externals and internals (Wagner III et al 1998; Finegold et al 2007). Herein lays an uncertainty, though, since other studies (Barnhart, Marr & Rosenstein 1994; Barnhard & Rosenstein 1998) show an opposite relationship: “firms where boards have a clear majority of independent directors or very few independent directors had lower stock market performance” (Finegold et al 2007, 868).

Also in the cooperative case, external directors have been seen as beneficial for the work of boards, bringing “fresh eyes” into the boardroom (Reynolds 2003), preventing the tendency observed in
many cooperatives to make decisions based mainly on political aspects within the cooperative, rather than on sound economic thinking (Staatz 1983; Dunn et al 2002).

Fich & Shivdasani (2006, 689) found that busy boards – i.e., boards having “a majority of outside directors holding three or more directorships” – lead to “weak corporate governance” measured in terms of weak profitability, low market-to-book ratios, as well as “lower sensitivity of CEO turnover to firm performance” (ibid). In addition, these directors have a tendency to leave the board, should the economic result be weak (ibid). A positive result of using directors with multiple seats is that these bring “valuable information networks” (Bøhren & Strøm 2006, 1).

3.1.3 Director Tenure and Attitudes

In order for a board to perform its task satisfactorily, directors have to be active and committed (see van den Berghe & Levrau 2004). The chairman has a responsibility to create a working climate that allows the board to work as efficiently as possible, making sure information is sent to directors in due time before the meetings and also allowing directors to discuss and ask questions during the meetings (ibid). In addition, the board has to monitor the CEO and his staff. This is a difficult task and some studies show that there are problems in this relationship, sometimes due to a lack of independence – in social and/or formal terms – between the directors and the management, sometimes the reason being that the directors and the managers have developed friendship ties (Kesner, Victor & Lamont 1986; Hill & Snell 1988; Wade et al 1990; Mallette & Fowler 1992; Boeker & Goodstein 1993; Baliga, Moyer & Rao 1996; Carpenter & Westphal 2001). Also, some studies show that directors may have problems monitoring the CEO as well as contributing to the development of the corporate strategies, irrespective of their relationship to the CEO (Lorsch & MacIver 1989; Demb & Neubauer 1992; Westphal & Zajac 1997; Westphal 1999). One reason for this observation is that many directors act on several boards, making it difficult for them to inform themselves to a degree where they can contribute (Carpenter & Westphal 2001, 640).

In the cooperative case, directors tend not to solely focus on economic outcome, as discussed by (Dunn et al 2002; Keeling Bond 2009), one reason being that directors are elected by members and hence want to appear in good stead, in the eyes of members. CEO-monitoring is not always successful, though, which can be explained in free-rider terms, allegedly due to (1) that there are no individual economic benefits to do so, from a director’s point of view (Rhodes 1978, 223), but at the same time (2) many directors want to be re-elected and hence they want to appear at least somewhat active in the task to monitor the CEO (Biggs 1978; Staatz 1983; Fama & Jensen 1983). Other features, such as friendship between directors and managers (Holmstrom 1999) especially common when directors and CEOs have long tenure (Fredrickson et al 1988; Wiersema & Bantel 1992; Daily & Dalton 1997; Orlikoff & Totten 2005), or a fear among directors not having the knowledge and skills to carry out this task (Lang 2000), and a frustration concerning what tools to use when evaluating the work of the managers (Richards, Klein & Wallburger 1998) are also important here.
3.2 The Mode of Working of a Board

Generally, board meetings have to have certain characteristics in order to be constructive and efficient (van den Berghe & Levrau 2004, 465-466):

- **Information:** Directors need relevant, correct, and well-presented information well in advance before the board meetings and directors need to be interested in the activities of the organization – also between board meetings.

- **Quality of discussions and debates:** Efficient board meetings require in-depth, open, and real discussions – held during board meetings – directors being critical and at the same time striving for a constructive and comfortable climate in the board.

- **Role of chairman:** The chairman has to take the lead role, being impartial, and keeping overall control both during and between meetings, not taking it so far as to becoming dominant. He has to be the dynamo of the board, and monitor that directors come to meetings well-prepared and with a reasonable presence degree.

- **The decision processes:** Important issues, on which important decisions are based, must be defined and discussed thoroughly; leading to that such issues may occur on the agenda several times. When making decisions, these should not favor shareholders or management, or any other stakeholder and once decisions are made, these have to be respected by all and recited correctly in the minutes.

- **Director involvement and engagement:** It is essential that all directors are present at board meetings, and once there, they have to be actively involved and mentally present in the discussions and decisions.

Below, three aspects related to the mode of working in a board are treated, namely: The frequency of the board meetings, the effort put into educating both old and new directors, and the degree of agreement within the board. Then, the section is ended by a presentation of a tentative model and some assumptions.

3.2.1 Frequency of Board Meetings

Sometimes, the success and efficiency of a board is measured by the frequency of board meetings, hypothesizing that frequent meetings lead to better overall performance both on markets and internally in the organization (Vafeas 1999; Uzun Szewczyk & Varma 2004; Jackling & Johl 2009). It is sometimes pointed out, however, that having frequent meetings is not enough, per se, these have to be used in a wise manner, being planned, prepared and carried out in a professional way (see above). When this is done, there are evidence that "an active, collaborative board is expected to improve performance" (Burress & Cook 2013 – see also Judge & Zeithaml 1992; Fried, Bruton & Hisrich 1998; Westphal 1999), but having solely the meeting frequency as a proxy for good board work should perhaps be supplemented by also looking at the frequency of contacts between directors and the management between board meetings (Westphal 1999).

3.2.2 Education of Directors

Following the development of markets – growing increasingly larger, having an increased competitive pressure, and specific consumer demands (van den Berghe & Levrau 2004) – directors need to constantly develop and learn in order to have the capacity to make decisions that lead to a prosper-
In the case of cooperative boards, director education and training is perhaps more called for than in IOF-boards, mainly due to that the directors are elected by their fellow-members and the criteria for the votes put on a candidate are not primarily based on business knowledge etc, as mentioned above (Cornforth 2004). Hence, to put an effort into educating both old and young cooperative directors may prove to be very rewarding, leading to more professional work during meetings, to wise strategies leading to good economic results, and also to directors knowing their role vis à vis the CEO (Sivertsen 1996; Cornforth 2004).

3.2.3 Degree of Agreement between the Directors and the CEO

As mentioned earlier, the board has as a focal task to formulate a vision, goals and strategies, and make sure that the CEO and his staff implement these. Also, the chairman has the ultimate responsibility to ensure that the work of the board runs as smoothly and efficiently as possible. Mace, described already in 1971 that the CEO sometimes becomes very powerful, more or less managing both the firm itself and the board. In the cooperative case, Bijman (2005), even described a possible situation being that the board is paralyzed, due to getting disparate and vague signals from members, hereby opening for the CEO to take over.

Constant conflicts in a board lead to waste of time and energy, and it is important that the directors and the CEO agree upon what has to be done in order to reach the overall vision of the firm (Cook & Burress 2013). In the cooperative case, being an organization based on commitment, dialogue and mutual understanding, it most probably os important to have a good balance between the board anf the CEO.

3.3 Tentative Model and Hypotheses

Based on sections 3.1 and 3.2, and using the statement from Hermalain and Weisbach (2003, 8), saying that there is a relationship between firm performance and board characteristics, as a starting-point the tentative model in Figure 1 is created. It is hypothesized that (1) board characteristics such as board size, the presence of external directors, and director tenure and attitudes, in combination with (2) the board's mode of working, expressed as frequency of board meetings, education of directors, and the degree of agreement between the directors and the CEO, lead to the overall performance of the firm.
The assumptions, based on the tentative model in Figure 1, to be investigated are:

\[ \text{A1: Smaller boards (8-10 directors) lead to a better overall performance.} \]
\[ \text{A2: Having external directors in the board lead to better overall performance.} \]
\[ \text{A3: Directors with a long tenure lead to a worse overall performance.} \]
\[ \text{A4: Frequent board meetings lead to a better overall performance.} \]
\[ \text{A5: Director education leads to a better overall performance.} \]
\[ \text{A6: Having a high agreement between the directors and the CEO leads to a better overall performance.} \]

Using these assumptions, formulated based on the findings in the corporate governance literature focusing IOFs, as analytical tools for the empirical material of the present study, follows in section 4.

4. Empirical findings

The chairmen were interviewed during the spring and early fall of 2012. A questionnaire, developed by Burress and Cook (2013), was used. The original questionnaire was translated from English to Swedish, then translated back to English again. The original set of questions was compared to the new set, hereby safeguarding a minimum of language errors. The Swedish questionnaire was tested on a former chairman, having been active in many boards for at least 40 years, in order to see whether some adjustments were needed. It turned out that there was a need to adjust a few questions, mainly due to that some Swedish cooperatives have a system of direct democracy still.

The questionnaire was sent to the chairmen, together with a letter asking them to participate. Later, they were contacted and a time and date for the interviews was set. Two chairmen filled in the questionnaire and sent it via mail, one chairman sent answers via e-mail, the additional ten chairmen were interviewed via phone. These interviews lasted between 25 and 55 minutes, all answers
were written down and the respondents were asked to (1) approve the summary of their answers, and (2) state their opinion whether they could be quoted (all agreed to this).

First, the overall performance of the cooperatives are presented, through the opinion held by the chairman of each cooperative, second, results dealing with the board characteristics (size, externals, and tenure) are presented, third the mode of working of the board (frequency, education, and agreement) is treated. Finally, a summary of the results, based on the assumptions presented above, is made.

4.1. Statements on Overall Performance
The chairmen were asked to indicate – on a 10 step scale, ranging from “Poor” to “Excellent” – the overall performance of their cooperative. Table 2 below summarizes the results, if answers given are divided into two types: “High overall performance”, and “Low overall performance”, respectively. As can be seen in the table, eight of the chairmen say their cooperative have a high overall performance, while five say the performance is not so good. Needless to say, these statements are subjective opinions held by the chairman, but since this is the case for all of them, these statements are viewed as the starting-point of this analysis.

Table 2: Summary of answers given by the chairmen, concerning whether the cooperative in question has a high or low overall performance. Source: Interviews with 13 chairmen 2012.

<table>
<thead>
<tr>
<th>High overall performance</th>
<th>Low overall performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lantmännen (crop &amp; grain)</td>
<td>Skånemejerier (dairy)</td>
</tr>
<tr>
<td>Kalmar lantmän (crop &amp; grain)</td>
<td>Mellanskog (forest owners)</td>
</tr>
<tr>
<td>Varaslättens lagerhus (small crop &amp; grain)</td>
<td>Norra skogsägarna (forest owners)</td>
</tr>
<tr>
<td>Landshypotek (farm credit)</td>
<td>Upplandsbondens (small slaughter)</td>
</tr>
<tr>
<td>ArlaFoods (dairy)</td>
<td>Kaprifolkött (small slaughter)</td>
</tr>
<tr>
<td>Norrmejerier (dairy)</td>
<td></td>
</tr>
<tr>
<td>Södra (forest owners)</td>
<td></td>
</tr>
<tr>
<td>Norrskog (forest owners)</td>
<td></td>
</tr>
</tbody>
</table>

4.2. Board Characteristics
Table 3 summarizes the results on board characteristics, in relation to the statement on overall performance, presented in 4.1 and Table 2. The values given in the table are the average answer on each item. As can be seen, those cooperatives performing well have larger boards, the chairman has been a board member almost eight years, and these boards have more economic experts, on average, than the low performing boards. The low-performing cooperatives, on the other hand, have chairmen holding their seats for a longer period; they have a greater on-average number of external directors, and seem to have more committees.

As an attempt to gauge the director attitude – mentioned as important in 3.1.3 – the chairmen’s opinion concerning whether their boards have directors having a patron or investor mentality, or whether they represent individual members or the entire cooperative have been added to Table 3.
As can be seen, the well-performing cooperatives tend to have directors seeing their role as patrons, rather than investors; and both groups have directors seeing themselves as representatives for the cooperative entity.

**Table 3:** Differences board characteristics in relation to overall performance. Source: Interviews with 13 chairmen 2012.

<table>
<thead>
<tr>
<th>Item</th>
<th>High overall performance</th>
<th>Low overall performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of board members</td>
<td>11,8</td>
<td>9,0</td>
</tr>
<tr>
<td>Chairman’s number of years on the board</td>
<td>7,8</td>
<td>5,3</td>
</tr>
<tr>
<td>Number of years as chairman</td>
<td>3,4</td>
<td>5,3</td>
</tr>
<tr>
<td>Number of external directors</td>
<td>0,5</td>
<td>1,7</td>
</tr>
<tr>
<td>Number of economic experts</td>
<td>4,5</td>
<td>1,8</td>
</tr>
<tr>
<td>Number of committees</td>
<td>2</td>
<td>2,4</td>
</tr>
<tr>
<td>Patron mentality – investor mentality*</td>
<td>4,6</td>
<td>5,2</td>
</tr>
<tr>
<td>Represents individual members – represents the cooperative entity*</td>
<td>5,5</td>
<td>5</td>
</tr>
</tbody>
</table>

* Here, a six-step scale is used, (not 10 steps).

Going back to the assumptions formulated based on the corporate governance literature presented in chapter 3, the results from this study does not support **A1**, saying that small boards lead to a better overall performance, neither is **A2** supported, since the cooperatives with the higher number of external directors say they have a low overall performance. The third assumption, saying that having directors with long tenure lead to worse overall performance, have to be comment on: The only director studied here is the chairman; hence, **A3** is only analyzed in relation to the chairmen. As can be seen in Table 3, there are two sub-questions in relation to the tenure of the chairmen: the number of years on the board (as a director), and the number of years as chairman in the board. Interestingly, when looking at the former, the result of this study seems to reject A3, while when the latter is in focus, A3 holds.

### 4.3 The Mode of Working of the Board

Table 4 summarizes the results on how the boards work, in relation to the statement on overall performance, presented in section 4.1. The values given in the table are the average answer on each item. The most striking result here is the amount of hours spent on educating new directors in the high performing and low performing cooperatives, respectively: The former group spends more than 35 hours, on average, to educate new directors, while the latter does not even invest in five hours in this activity. A similar result, albeit not as extreme, is the number of hours spent in educating the sitting directors: 18 hours are spent in the high performing cooperatives, while only 6,5 hours are spent in the low performing cooperatives. On average, the low performers have about eight board meetings per year, while the high performers have c seven.

Rows 4 and 5 in Table 4 show some board attributes, presented as continuums with six possible steps in between the end-points: Whether the board is passive or active, and difficult to engage or not. As can be seen, the high performing cooperatives’ chairmen say their boards are active and engaged.
The fourth assumption (A4) stated that having frequent board meetings would lead to better overall performance. This assumption is not supported by the results in this study. Adding the information about whether the chairmen think their board is passive or active; and difficult or easy to engage, respectively, seem to support the idea behind A4, since the well-performing cooperatives indicate that the board is active (5.3 of 6), and engaged (5.9 of 6). Putting an effort into educating directors, on the other hand, i.e., A5, is supported - especially when it comes to educating the new directors.

Finally, the chairmen’s’ answers when it comes to the issue to what degree the board has been in agreement with the CEO and the management are presented in Table 5. Here, the well-performing cooperatives seem to have full agreement between the directors and the CEO when it comes to the purpose of the cooperative, the overall goals, and the importance of change. The agreement in the less-well performing cooperatives is also complete when it comes to the general purpose of the cooperative, less so – but still a fairly high degree of agreement between directors and CEO when it comes to overall goals and importance of change for this group. For both groups, the level of agreement is high and similar when it comes to firm expansion, and lower but similar when it comes to risk taking. The conclusion is that A6, saying that when the level of agreement is high between the directors and the CEO, the overall performance will be better, holds.

Looking at the patterns described in the corporate governance literature, the six assumptions at the end of chapter 3 were formulated. Now, an attempt has been made to see to what extent these assumptions hold.
assumptions, based on IOFs, seem to be valid also in the thirteen farmer cooperatives studied. Table 6 below summarizes the results found.

Table 6: Summary of assumptions

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1: Smaller boards (8-10 directors) lead to a better overall performance.</td>
<td>Not supported</td>
</tr>
<tr>
<td>A2: Having external directors in the board lead to better overall performance.</td>
<td>Not supported</td>
</tr>
<tr>
<td>A3: Directors with a long tenure lead to a worse overall performance.</td>
<td>Inconclusive</td>
</tr>
<tr>
<td>A4: Frequent board meetings lead to a better overall performance.</td>
<td>Not supported</td>
</tr>
<tr>
<td>A5: Director education leads to a better overall performance.</td>
<td>Supported</td>
</tr>
<tr>
<td>A6: Having a high agreement between the directors and the CEO leads to a better overall performance.</td>
<td>Supported</td>
</tr>
</tbody>
</table>

In the final section, these results will be discussed with a focus on why some of the assumptions, based on general findings from the corporate governance-literature, does not hold. Also, conclusions concerning what factors lead to an improved performance in a cooperative will be drawn.

5. Summary and Conclusions
First, it seems like educating cooperative directors and having a high degree of agreement between the directors and the CEO benefits the overall performance, just like in IOFs. When the thirteen chairmen’s number of years as director, and chairmen, respectively, were focused in relation to overall performance, it turned out that the A3 was not valid for the former, while valid for the latter. Due to the size of the study, it is not possible to go further into this issue, since the only director looked at is the chairman and not the entire boards of the thirteen cooperatives. Hence, the only supposition to be made is that it seems like the studied cooperatives with fairly new chairmen rank the overall performance lower.

Turning to the three assumptions not supported by the present study, these deal with board size, external directors, and board meeting frequency, and the effect these characteristics have, according to the general corporate governance literature. Judging from the results of this study, the cooperatives with a high overall performance on average have close to 12 directors, ranging from 15 to 5, while the low-performing ones average 9 (ranging from 7 to 12), (see Table 3). Hence, it seems like these cooperatives benefit from having somewhat larger boards than suggested as optimal in the literature. How could this be explained? Going back to the Swedish cooperative history, one explanation could be that directors used to represent different geographical areas and to a certain extent this still remains an important issue for members. In addition, the directors are non-professionals in many cases, which also contribute to a need for larger boards in order to ensure that a broad range of skills is represented.

---

4 At the point of the interview, ArlaFoods had 24 board-members, as a result of the mergers and acquisitions made. The size has now shrunk to 15.
Also, looking at Table 4 and 5, it is possible to guess that having an engaged and active board, as the high-performers do, and the board agreeing upon the purpose, goals, need of change, etc, perhaps act as a counterweight large enough to the negative effects of large boards on overall performance. Similarly, the finding that the high performing cooperatives on average have 7.5 meetings per year, the low-performers having one more meeting (8.4 – see Table 4), leading to the conclusion that A4 is not supported, may be explained by the results presented in Tables 4 and 5.

In a similar vein, it may be possible to guess that the tendency not to see a clear relationship between many external directors and a good overall performance could be explained by the special traits of the cooperative organization: members being both owners and users. This leads to a unique situation for directors, requiring that they listen to members as well as to the markets and this seems confusing to many external directors⁵. Hence, this could be the explanation to why the second assumption does not hold in the cooperative case.

A general conclusion can be drawn, namely that there is a need for further studies in this field. This conclusion is mainly drawn on two phenomena: (1) the results from studies focusing IOFs often are inconclusive, and (2) it is logical to expect that there are differences, in corporate governance terms, between IOFs and cooperatives.

It seems reasonable to conclude from the present study that the overall performance of a cooperative is positively correlated with director education and having boards and CEOs in agreement with each other, and that the successful cooperatives in this study on average have larger boards, fewer external directors, and somewhat fewer yearly board meetings.

---

⁵ In the Swedish case, some cooperatives have labeled directors coming from a sister cooperative as “external”.
References


Rauterkus, SY. 2003. “Do weak internal corporate control systems lead to failure?”, White paper, Department of finance, Louisiana State University.


**Internal documents**

Annual reports 2011 from:
- Lantmännen
- Kalmar lantmän
- Varaslättens lagerhus
- Landshypotek
- ArlaFoods
- Skånemejerier
- Norrmejerier
- Upplandsbondens
- Kaprifolkött
- Södra
- Mellanskog
- Norrkog
- Norra skogsägarna