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**An Integrated Theory of the Roles of Governing Boards of New Zealand
and Australian Co-operative Dairy Companies**

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by

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Abstract

Over recent times there has been significant interest in corporate governance by the popular press, regulators and academics after strings of spectacular corporate failures. Governance research, however, appears to have been contextually-bound, focussing mainly on organisations with freely traded shares. The governance of co-operatives, despite their significance to the world and New Zealand economies, has received scant research focus. The New Zealand dairy industry, which is dominated by co-operatives, contributes 25 percent of exports and ten percent of GDP to the local economy, yet there appears little understanding and empirical research of co-operative governance. Reviews of the managerial corporate governance and co-operative literatures also suggest there is currently no all-encompassing theory of the governance of co-operatives. Given these gaps in the literature, the aim of this research is to inductively develop a theory of the roles of governing boards of New Zealand and Australian co-operative dairy companies from the perspective of the participants.

In order to achieve this aim, a case study method inspired by Eisenhardt (1989a) is selected to guide the research. Fieldwork utilising semi-structured interviews with governance participants from six co-operative cases is used to gather a broad and deep picture of co-operative board roles. By analysing data within case and comparing across cases, the understandings from the empirical data provide the basis to develop the theoretical model.

Drawing from these understandings, this study will look at board member roles in terms of their activities and the process in which they engage. This research results in a theoretical model deeply informed from practitioners' views to provide a unified theory of governance. Upon theoretical saturation five unique theoretical concepts and relationships between them emerge from the analysis with an intimate link to the empirical data: Exogenous-Issues, Supplier-Shareholder-Needs/Benefits, Supplier-Shareholder-Controls, Board Architecture and Board Roles. Subconcepts within the Board Architecture concept are: Individual-Distinctions, Engagement-Forums, and Dynamics. Four Board Role concepts emerge Unite, Strategic-Involvement, Control and Serve. The resultant model of co-operative board roles presents new insights, is logically coherent, has a good fit with the data and is reasonably parsimonious.

A contribution to knowledge of corporate governance and agricultural co-operatives is achieved through an integrative and nuanced understanding of co-operative board roles. The findings also highlight individual director contributions to the role; a unique addition to governance studies. The model also begins to highlight the relationships between key actors and the processes used in decision making. The theoretical model's similarities to and divergences from existing theories of corporate governance are drawn to illustrate the contribution of the model.

This thesis provides researchers, practitioners, educators, regulators and policy makers in the corporate governance and agricultural co-operative fields, insights into the current and ongoing roles of co-operative boards. The theoretical model establishes foundations for further study into how directors can more effectively govern their co-operatives.

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For Mum
(1933-2002)

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CHAPTER 1 INTRODUCTION AND THESIS OVERVIEW

1.1 Introduction

This chapter gives an overview of the thesis. The aim of the research is clarified followed by an indication of the significance of the study. This is followed by a statement of the research problem and the research question. The research methodology and method chosen are introduced along with role theory. This is followed by a section discussing the scope and limitations of the thesis. A summary is then given.

1.2 The Research Aim

The aim of this research is to inductively develop a theory of the roles of governing boards of New Zealand and Australian co-operative dairy companies from the perspective of participants. That is, the purpose is to gain an insight into the “black box” (Leblanc & Schwartz, 2007) of co-operative governance¹ and understand from those involved what boards of directors actually do; their relationships and the processes they go through in making board decisions.

In inductively developing a theory, the research:

- Critiques the literature on corporate governance to gain an understanding of the current knowledge and theories driving corporate governance research.
- Contextualises the study from an analysis of agricultural co-operative structures and practices worldwide, with a particular focus on Australasian agricultural co-operatives.
- Evaluates prior studies.
- Selects and justifies an appropriate methodology and methods for the study.

¹ A term used in this thesis to distinguish the governance of co-operatives from corporate governance, a term often associated with the governing of publicly listed companies with freely tradable shares.

- Acquires knowledge and documents the internal workings of governing boards of dairy co-operatives in New Zealand and Australia to evaluate current role practices and expectations of role practices of dairy co-operative governing boards. By obtaining empirical data from key participants in governance relationships, practices and aspirations of actors are evaluated.
- Conducts within-case and cross-case analysis to compare and contrast board roles, processes, relationships and decision making.
- From this empirical data inductively develops a theory of the roles of governing boards within the context of New Zealand and Australian co-operative dairy companies.
- Concludes on the implications and opportunities for future research.

1.3 The Research's Significance

The significance of the subject area can be seen at different levels. Corporate governance is of importance to society in general, and business in particular, nationally and internationally. Yet little seems to be known about how boards of directors (boards) work in practice (Leblanc & Schwartz, 2007; Pye & Pettigrew, 2005). The co-operative sector, and the dairy industry in particular, are also very important.

1.3.1 Corporate Governance

Much of the world's economic activity is undertaken under the guidance and supervision of governing boards. The activities of companies affect almost every citizen (Leblanc & Gillies, 2005) and the "health of our organisations, economies and society rely on us understanding how boards can influence firm performance" (Nicholson & Kiel, 2004b, p. 442). Boards have legal responsibility for the activities of companies and all critical decisions regarding companies are made by boards (Leblanc & Gillies, 2005). Boards are the organisation's ultimate corporate decision makers (Nicholson & Kiel, 2004b) and have been described as the "apex of the firm's decision control system" (Fama & Jensen, 1983b, p. 311). Boards are considered vital to

organisations (Pye & Pettigrew, 2005) and collectively determine the organisation's fate, both positively and negatively (Leblanc & Gillies, 2005).

Internationally, corporate governance issues have increasingly been in the spotlight over the past few years after a “spectacular sequence of US corporate crises” with the collapses, among others, of Enron, WorldCom, Tyco and Arthur Anderson (Clarke, 2005, p. 598). Huse (2003) sees governance as being of overriding importance as these scandals are “essentially about corporate power and the lack of ability to control this power” (p. 212). Corporate governance issues are also regularly in the mainstream media in New Zealand (e.g., Bradley, 2008) and of interest to policy makers worldwide (Ingley & van der Walt, 2005; Vinten, 2002).

1.3.2 Co-operatives

In the broad context of this research, co-operatives are significant as they represent a substantial share of most developed market economies (Hansmann, 1999). Co-operatives are estimated to be responsible for one-third of the world's agricultural food supply (Pattison, 2000; Skurnik, 2002). Ranked by revenue, a dairy co-operative is by far New Zealand's largest company and there are five co-operatives in the top 15 New Zealand companies (Deloitte, 2008). In New Zealand, four of the five largest food and beverage companies are operated under the co-operative model and account for over half of the sector's total revenues (Nowell, 2006). The more specific context of this research, dairy co-operatives, is particularly significant to New Zealand. Fonterra Co-operative Group Limited (Fonterra), New Zealand's largest dairy co-operative, is the world's largest exporter of dairy products, with revenues of over NZ\$19.5 billion accounting for 25 percent of New Zealand's exports in the year ended 2008 (Fonterra, 2008), and over 10 percent of New Zealand's Gross Domestic Product (GDP).

The governance of co-operatives goes to the heart of the structure that makes co-operatives unique from other organisational forms (Barton, 1989b). Dunn et al., (2002) suggest that user-control is the most critical of the co-operative

principles when operating in a co-operative manner. They believe that it is through user-control that “members ensure business outcomes are consistent with their goals for their cooperatives” (Dunn et al., 2002, p. 34). At the core of the user-control principle is the board and its composition. So much so that Dunn et al., (2002) see the single most critical factor to co-operative success in the 21st century as being co-operatives having “highly competent directors who understand how to exercise effective control over their cooperatives and do so in a manner that promotes the best interests of the member-users” (p. 35).

Despite co-operatives’ undoubted success internationally, there has been doubt about the ability of directors on the governance boards of agricultural co-operatives. The criticisms include being too old, ill informed, unimaginative, lacking the necessary skills, being production rather than market-led and staying on the board too long unchallenged (Anderson & Henehan, 2003). New Zealand economist Gareth Morgan (2000) scathingly referred to farmer-politicians as “simpleton peasant politicians who would better serve making the tea” (p. 18).

Despite the importance of the co-operative model to New Zealand, there appears to be little understanding and empirical research of its governance. Beginning to understand co-operative governance may assist in understanding the spectacular success of the co-operative business form.

1.3.3 Practitioners and Policy Makers

This research may be significant to practitioners and policy makers. The importance of governance and the disillusionment of various stakeholders with current governance arrangements lead to a pressing need to understand how boards actually work. As Leblanc (2004) suggests, “uncovering how boards work has tremendous practical significance” (p. 440). The principal aim of this research is to conceptualise board roles from evidence obtained about dairy co-operative board practice within the New Zealand and Australian dairy industry. As such, this research may be of value to practising directors, particularly in the field of co-operative governance. It may also be of use to regulators as this

research provides evidence of the utility of existing theories upon which many of the laws, regulations and codes of practice are based.

1.3.4 Theory Precedent

The study of co-operative governance is significant theoretically, empirically and contextually. However, it is a complex area. There does not appear to be an all encompassing theory of corporate governance (Carver, 2007; Lockhart, 2006). Existing theories are said to be inadequate for their purpose (Leblanc & Gillies, 2005; Pye & Pettigrew, 2005; Stiles & Taylor, 2001; Zona & Zattoni, 2007). These inadequacies may be even more pronounced in the specific context of co-operatives (Cornforth, 2002; Jussila & Goel, 2006). This research contributes to knowledge by providing an empirically-informed theory of corporate governance contextualised to the agricultural co-operative sector.

The disappointment with current governance practices and its theories has led to a need for research on how boards behave (Pye & Pettigrew, 2005; Ruigrok et al., 2006). Boards are small decision-making groups who tend to meet infrequently and are secretive (Leblanc & Gillies, 2005). Even though their decision-making tasks are complex and multifaceted (Forbes & Milliken, 1999), little is known about what they do and how they do it. This research will add to the small but growing pool of qualitative research looking at understanding the processes of corporate governance (Finkelstein & Mooney, 2003; Pettigrew, 1992, 1997).

The study of corporate governance has traditionally been contextually bound and has concentrated on US corporations with freely tradable shares (Deutsch, 2005). Despite this concentration of research, other organisational forms carry out a vast range of the world's economic activities but may or may not require similar governance structures (Pye & Pettigrew, 2005; van der Walt et al., 2002). Co-operatives offer a significantly different ownership structure from which to study governance (Jussila et al., 2005). Cornforth (2004) sees the governance of co-operatives as an area that requires in-depth case studies

which “examine the dynamics of relationship between boards and managers and how they attempt to tackle the problems and dilemmas they face” (p. 27).

In summary, given the importance of corporate governance, the background of disappointment by stakeholders, the absence of co-operative-based governance development, and the lack of descriptive empirical data, it is believed that this study is significant as it makes an important contribution to the knowledge of the governance of co-operative businesses. The understandings to be developed may not only be of value to the dairy industry but also to the governance of all co-operative and mutual organisations. A theory on the roles of governing boards of New Zealand and Australian dairy co-operatives also potentially establishes a foundation for further theorisation into how directors can more effectively govern their organisations. This research may assist in closing what Brennan (2006) refers to as the “expectation gap” between “what stakeholders ... expect and what boards of directors can reasonably contribute” (p. 577).

1.4 Problem Statement

Little appears to be known about how boards of directors actually work in practice and how they make decisions (Leblanc & Gillies, 2005). Much of the existing literature is survey-based, looking at governing boards from the outside (Parker, 2007). Over a decade ago, Fox (1996) observed that empirical research on boards appears “more-or-less non-existent” and “the most promising area for international governance research” (p. 19). Ten years on, despite some tentative breakthroughs (see for example, Huse, 2007; Leblanc & Gillies, 2005; Stiles & Taylor, 2001), similar needs are still being expressed for in-depth qualitative research into governance (Leblanc & Schwartz, 2007; Levrau & Van den Berghe, 2007b; Parker, 2007). One of the reasons cited for this lack of progress is the difficulty in getting inside the “black box” of governance (Leblanc & Gillies, 2005; Leblanc & Schwartz, 2007; Levrau & Van den Berghe, 2007b; Lockhart, 2006; Long et al., 2005; Pettigrew, 1992; Rindova, 1999). As Leblanc & Schwartz (2007) note, “gaining access to corporate boardrooms is extremely difficult if not virtually impossible for most

researchers” (p. 846). The dearth of knowledge is even more pronounced in the co-operative sector despite their economic contribution.

1.5 Methodology and Method

Cognisant with the recognised gap in the literature and given the need for qualitative research in this area, this thesis uses a method inspired by Eisenhardt’s (1989a) multi-case approach (outlined in chapter 6). Fieldwork utilises semi-structured interviews with participants and archival data to document the roles and relationships of co-operative boards. The empirical data is used to inductively drive the construction of a theoretical model of the roles of governing boards of New Zealand and Australian co-operative dairy companies.

1.6 Role Theory

As the aim is to develop a theory of the roles of governing boards of co-operatives, an understanding of the concept of role and role theory (Biddle, 1979; Biddle & Thomas, 1966) is helpful. In this section, the concept of role is defined, role theory is discussed with an emphasis on organisational roles and its applicability to this research is highlighted. Although the term ‘role’ is widely used in the corporate governance literature, it is seldom defined there (see for example, Hung, 1998; Mintzberg, 1983; Zahra & Pearce, 1989). Role theory was developed in, and restricted to, 1970’s literature, with the notable exceptions of Stewart (1991) and Roberts and Stiles (1999). This study uses role theory to describe the essence on which this theory is being developed.

Role theory has its roots in social psychology, sociology, and anthropology (Biddle, 1979, p. ix). Biddle (1979) simply defines a role as “those behaviours characteristic of one or more persons in a context” (p. 58), or more comprehensively, as “a behavioural repertoire characteristic of a person or a position; a set of standards, descriptions, norms, or concepts held for the behaviours of a person or social position; or (less often) a position itself” (p. 9). O’Sullivan, et al., (1994) define roles as “socially defined positions and patterns of behaviour which are characterized by specific sets of rules, norms

and expectations which serve to orientate and regulate the interaction, conduct and practices of individuals in social situations” (pp. 270-271). Both Biddle (1979) and O’Sullivan et. al., (1994) highlight some essential features of roles as the behaviours of people, social positions, norms, and social situations (contexts).

Roles are also described by listing their characteristics (Biddle, 1979, p. 59). There are several criteria that can be used (often simultaneously) to identify roles: person-associated, contextual, functional roles and task analysis, complexity, expected roles and authority structures (Biddle, 1979). O’Sullivan et al., (1994) define role-players and roles in terms of their expected behaviours:

... individuals occupying certain positions or roles within society are expected to ‘act’ and behave in certain predictable ways, to follow and **conform** to certain **rules** and **norms** that may exist independently of the particular individual involved. (p. 271; their emphasis)

Roles are often associated with norms of behaviour. This study adopts this perspective on ‘role’ and is concerned with the norms of behaviour of dairy co-operative boards and their members. As a person’s total set of behaviours would be difficult (and probably not useful) to describe, role descriptions are usually limited by context in some way. This study limits the context to describing the behaviours characteristic of persons in their roles as governing directors of New Zealand and Australian co-operative dairy companies.

Within an organisational context Katz and Kahn (1978) also take a behaviouralist view:

specific forms of behaviour associated with given positions; they develop originally from task requirements. In their pure or organizational form, roles are standardized patterns of behaviour required of all persons playing a part in a given functional relationship, regardless of personal wishes or interpersonal obligations irrelevant to the functional relationship. (p. 43)

The emphasis again is on persons, behaviours, processes and contexts. This definition is useful for this study as it emphasises how behaviours are attached

to organisational 'roles'. Expanding on this theme, Biddle (1979) states that (behavioural-based) role theory is based on five underlying propositions:

1. Some behaviors are patterned and are characteristic of persons within contexts.
2. Roles are often associated with sets of persons who share a common identity (i.e., who constitute social positions).
3. Persons are often aware of roles, and to some extent roles are governed by the fact of their awareness (i.e., by expectations).
4. Roles persist, in part, because of their consequences (functions) and because they are often imbedded within larger social systems.
5. Persons must be taught roles. (p. 8)

Role theory generally views organisations as complex social systems set up to achieve tasks. Katz and Kahn (1978) link, for example, 'behaviour', 'activities' and 'systems' into their comprehensive view of 'roles'.

Katz and Kahn (1978) define human organisations as "open systems of roles" (p. 178) using the term "office" to describe an organisational position. Each office has relationships with other offices and to the whole system. Katz and Kahn (1978) believe that "associated with each office is a set of activities or expected behaviours. These activities constitute the role to be performed, at least approximately, by any person who occupies that office" (pp. 188-189). It is these "activities" within the context of dairy co-operatives in New Zealand and Australia that is of interest to this research.

Organisations usually have "partially shared norms, a task structure, an authority structure, and written documents that support the enterprise" (Biddle, 1979, p. 266). These notions are useful in defining the scope of what a study into 'roles' might involve. In particular, this study draws from those concepts of 'persons', 'activities' and the 'processes' in which they engage to understand role behaviour.

The concept of role is also helpful in defining context and motivation. The co-operative boards have powers under various acts of Parliament and from the supplier-shareholders under written documents, such as company constitutions and codes of practice that help define the roles of directors. Directors'

positions are largely thought to be “achieved positions” in role theory terms, attained through the endeavours of the persons as opposed to “ascribed positions” attained through “accidents of birth”. These achieved positions will have “entry, maintenance and exit conditions” attached to them (Biddle, 1979, p. 103). Roles are dynamic, they can change as circumstances change, they can be renegotiated, additional behaviours can be added, and the time allocated varied (Major, 2003, p. 48).

Each of the case study co-operatives have certain norms associated with governing positions. Biddle (1979) sees directors as having positional roles, which he defines as “behaviours characteristic of those sharing a commonly recognized identity or social position” (pp. 65-66). ‘Norms’ can be driven by regulation or corporate documents, or by shareholder voice and publicly expressed views.

The aim of this research is to describe and theorise on the roles of directors of dairy co-operatives. This study looks at what Katz and Kahn (1978) describe as role behaviour, which they define as “the recurring actions of an individual, appropriately interrelated with the repetitive activities of others so as to yield a predictable outcome” (p. 189). Utilising the concept of role and of role theory thus helps define the boundaries of the object of this investigation.

1.7 Scope and Limitations

Three issues are highlighted under the scope and limitations of this research; the generalisability of this study, its descriptive and theoretical nature, and the researcher’s interests.

This thesis focuses on the governance of New Zealand and Australian co-operative dairy companies. This method claims theoretic generalisation as opposed to statistical generalisation. Generalisations of these findings to other countries, organisational forms, ownership structures, or industries, must be done with caution. Indeed, it is the special context of the co-operative

ownership structure and the dairy industry that has given rise to the need for this research.

This research attempts to gain a deeper understanding of what the boards of co-operative dairy companies actually do. No attempt has been made to link these findings, and the corresponding theorising, to board or co-operative performance. Also, it is from the perspective of those who govern, or who have governed. Future studies may test the resultant theory.

The researcher is a dairy farmer, a supplier-shareholder and, at the time of data collection and writing, a director of the governing board of one of the cases that form part of this study. It is this interest that initially sparked the research. This may have had an effect on respondents' willingness to be open and candid (Perry, 1998; Pettigrew, 1997). Every attempt is made during the research process to limit the (negative) impact of this interest on the research findings², the interest needs to be acknowledged.

1.8 Thesis Outline

This thesis is divided into nine chapters. Chapter 2 looks at the context of this research, agricultural co-operatives, while chapter 3 reviews and critiques the corporate governance literature. The next chapter (4) identifies the gap in the literature that this thesis will begin to address. Chapter 5 discusses the chosen methodology for this research. Chapter 6 outlines the method used. Chapters 7 and 8 reveal the theoretical model constructed. Chapter 9 elaborates on the model formed, implications and suggests further research.

² These steps are outlined in Chapter 6, Research Methods, below.

CHAPTER 2 AGRICULTURAL CO-OPERATIVE CONTEXT

2.1 Introduction

In developing a theory of the roles of governing boards of New Zealand and Australian co-operative dairy companies, an understanding of agricultural co-operatives and their context in New Zealand and Australia is important to this thesis. The dairy industry and its co-operative processors are hugely important to the New Zealand economy. Dairy co-operatives historically have been a driver of export growth and in 2009 account for over 25 percent of total merchandise export value and 10 percent of GDP. Decisions made by dairy co-operative boards clearly have implications for the wider economy. This section considers the literature on agricultural co-operatives in analysing their role and place in New Zealand and Australian society. The section concludes with the implications of this content in expressing the need for study into New Zealand-Australia agricultural co-operative governance.

2.2 Scope and Limitations

Co-operatives take many different forms. This analysis is limited to agricultural co-operatives and will concentrate on those from developed countries, which both manufacture and market products, often internationally. Much of the agricultural co-operative literature is based in the field of economics³ and elements from that literature will be drawn upon as appropriate to convey the context of New Zealand-Australian agricultural co-operatives.

2.3 Co-operatives Defined

There is no consensus for the definition of a co-operative (Cotterill, 1987; Evans & Meade, 2005; Hind, 1997). Defining co-operatives is a difficult task as they vary widely, particularly in relation to their objectives. Evans and Meade's (2005) New Zealand definition of a co-operative is used in this thesis:

A cooperative is an organisation in which those who transact with (i.e. "patronise") the organisation also own and formally control the organisation, and derive significant benefits from those transactions over and above any financial returns they derive from their investment in the organisation. (p. 1)

³ For a review see Cook, Chaddad and Iliopoulos (2004).

This definition is useful as it covers all types of co-operatives. The definition highlights that patrons⁴ own, control and benefit from their use of the co-operative. The definition notes that patrons benefit by transacting with the co-operative and that the patronage relationship of users overwhelms the ownership relationship. Similarly, the New Zealand Co-operatives Association Inc. define a co-operative as “an organisation owned by and operated for the benefit of those using its services” (NZCA, 2000) and the United States Department of Agriculture (USDA) in 1987 defines an agricultural co-operative as “a user-owned, user-controlled, user-benefited agricultural producer organization”. Essentially, these definitions share an understanding that the owners have multiple and transaction-related relationships with the business. This is distinct from other types of businesses where a distance exists between ‘consumer’, ‘supplier’ and ‘owner.’

Co-operatives exist to benefit their owners by providing a vehicle for collective action (Katz & Boland, 2002; Skurnik, 2002). The most common justification for co-operatives is to correct market failures by avoiding being exploited by unscrupulous middlemen (Cook & Iliopoulos, 1999; Schrader, 1989; van Dijk, 1997). Most co-operatives try to capture the benefits of collective action through vertical integration by acquiring the assets of a purchaser for the purpose of control (Grossman & Hart, 1986, p. 716). Vertical integration is optimal when one firm’s investment is particularly important to the other firms (Grossman & Hart, 1986, p. 717). This is often the case in agriculture where there are significant “disparities between the minimum efficient scale of operation in farming in relation to the upstream and downstream industries” (Torgerson et al., 1998, p. 11). Agricultural co-operatives may also help producers with: access to capital and technology; economies of scale in

⁴ The terms patron, user, member, farmer, producer, owner, shareholder, member-owner, member-shareholder and combinations of these appear to be used interchangeably in the literature. While they differ, they all refer to those who patronise, own and control the co-operative firm. The term supplier-shareholder is utilised later in this thesis, as it more accurately reflects the patron’s relationship with a dairy co-operative. That is, they are first and foremost a supplier to the co-operative, but they also have a (less important) shareholding relationship with the co-operative.

production; coordinating production; processing and marketing; and capturing profits further up the value chain (Royer, 1995, p. 474).

The most important relationship in a co-operative is between the co-operative and its members, which creates the co-operative difference (Fairbairn, 2003, p. 5). Members of a co-operative are simultaneously patrons, owners, controllers and beneficiaries of the organisation (Nilsson, 1996, p. 635). As the customers are the owners, a higher standard of customer service is required of the co-operative than that of an investor-owned firm (IOF) (Rhodes, 1987, p. 168).

2.4 Co-operative Principles

The co-operative definition leads to a number of co-operative principles that are utilised in the running of co-operatives. As with co-operative definitions, there are no universally accepted principles of co-operation (Barton, 1989a; Hind, 1997). The International Cooperative Alliance (ICA) adopts a set of seven reasonably widely accepted co-operative principles: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and concern for community (ICA, 2007). Many modern agricultural co-operatives, including New Zealand and Australian dairy co-operatives, conform to some but not all of these principles.

In the agriculture co-operative literature there is some consensus around three underpinning co-operative principles: user-owned, user-controlled, and user-benefitted (Barton, 1989b; Katz, 1997; Kyriakopoulos et al., 2004; Nilsson, 1996). That is, firstly, those who own the co-operative are those who use it. Secondly, those who use the co-operative are those who control it and finally, the benefits from the use of the co-operative are distributed to the users on the basis of their use (Chaddad et al., 2005; Cook, 1994). These three co-operative principles have a substantial effect on the way the co-operative is organised, its objectives, culture, and its governance (Barton, 1989a; Dunn et al., 2002).

Co-operatives also share a set of social values: “co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others” (ICA, 2007, p. 1).

The co-operative principles and values tend to translate into the processes by which the owners (Evans & Meade, 2005; Kyriakopoulos et al., 2004), control (Albaek & Schultz, 1997; Hansmann, 1996; Hart & Moore, 1996) and benefit from (Nilsson, 1996) membership. History informs why and how these practices came about.

2.5 History, Concepts and Context of Co-operatives

In 1844, in the town of Rochdale, England a group of pioneers, unhappy with unscrupulous merchants, established a business trading in basic food commodities that emphasised fair and accurate measure and good quality produce. The principles enunciated by these pioneers became known as the Rochdale principles and laid the foundations for not only consumer co-operatives, but for all sorts of co-operative forms around the world (Mercer, 1931). The industrial revolution is credited with the growth of the modern form of co-operative with its objectives as a self-help vehicle to promote the interests of the less powerful in society. This form of collective action has obvious appeal to farmers. Co-operative businesses began forming in the 1800s in Europe (Ortmann & King, 2007). According to Rhodes (1987), in the United States of America co-operation came naturally on the American frontier as it was a short step from the shared labour and machinery used in say, barn raising, to shared enterprises to serve essential needs (p. 155). Co-operatives began forming in New Zealand in the 1880s (NZCA, 2000).

Co-operatives now represent a substantial share of most developed economies and have a greater share in developed than developing countries (Hansmann, 1999, p. 387). Co-operatives are particularly strong in agriculture in industrialised countries in Europe, Japan and the United States. It is now

estimated co-operatives are responsible for a third of the world's agricultural production and marketing (Pattison, 2000; Skurnik, 2002). Co-operatives today are a very important part of the New Zealand and Australian economies and are involved in businesses ranging from small consumer retailing groups to large financial, processor and marketing co-operatives. New Zealand's largest corporation is a co-operative (Maher & Emanuel, 2005). Agricultural co-operatives make up five of the top twenty, and eight of the top thirty companies in New Zealand by turnover (Deloitte, 2008). Within the New Zealand and Australian dairy industry co-operatives are the dominant organisational structure.

2.6 Agricultural and Co-operative Theory

According to Laidlaw (1974) there are four distinct schools of co-operative theory that have developed over time:

- The co-operative commonwealth school: This school of thought envisaged by the Rochdale pioneers saw no limits to co-operation and thought that the movement would embrace all fields of social and economic organisation. As such, this school saw the possibility of an all-inclusive 'totally co-operative social order'.
- The school of modified capitalism: This school of thought holds that co-operatives are used to mainly curb the excesses of capitalism or to correct market failures. This school of thought accepts capitalism as the model for business and views co-operatives as a special form of business working within this system.
- The socialist school: Dominant in the old Eastern European countries, this school of thought sees co-operatives as an integral part of the State's control over all economic activity.
- The co-operative sector school: The final school of thought proposes co-operation as a 'middle way', an economic sector distinct from both the public and private sectors. It foresees all three sectors 'co-existing' and 'complementing' one another.

It is from the modified capitalism school of co-operative thought that this thesis is based. This is because New Zealand and Australian dairy co-

operatives, the context of this research, operate in an environment where capitalism is accepted as the business model and the co-operative form of organisation is one that is utilised by dairy farmers to curb the excesses of capitalism or to correct market failures.

According to Torgerson et al., (1998) agricultural marketing co-operatives emerged during the nineteenth century with the advent of commercial agriculture. Two schools of thought emerge from these developments. The American schools of thought, based on pragmatism, and the European schools which appear to be more influenced by social reforms (Torgerson et al., 1998, p. 1). Within the United States, two branches of thought developed during the 1920s: the Californian and the Co-operative Yardstick schools. The Californian school, begun by Aaron Sapiro⁵ in the early 1920s, sought to “correct imbalances in grower treatment and to improve marketing coordination by using cooperatives organized along commodity lines to achieve more orderly marketing” (Torgerson et al., 1998, p. 2). Major points advocated by Sapiro are that co-operatives should be organised around a single commodity and that membership should be restricted to agricultural producers (Ingalsbe & Groves, 1989, p. 116). Sapiro maintains that by controlling commodities, co-operatives can exert influence on the market and extract higher prices for their members. In response Nourse (1922) developed the competitive yardstick school of thought in 1922. This emphasises local co-operatives organised to meet producers’ needs in a local community (Torgerson et al., 1998). These smaller local co-operatives are then able to act as a ‘competitive yardstick’ to other firms operating in the market. The major points advocated by Nourse (1922) are more market- and democratically-driven. In essence Sapiro believes that co-operatives should dominate markets along product lines where Nourse (1922) believes co-operatives only need to exist to ensure that other players in the market aren’t acting opportunistically at producers’ expense. New Zealand and Australia adopted practices from both these traditions.

⁵ Unpublished

The other major school of thought, the European model, is also employed to some extent in New Zealand and Australia. Social objectives, such as employment in, and reinvigoration of, rural communities are often cited as reasons for co-operation (Normark, 1996; Richards et al., 1998). The effect on communities of the closure of plants (Vilstrup & Groves, 1989) in rural New Zealand are often greeted with a great deal of angst within local communities. The effect of these upheavals is probably greater on the user-owners of a co-operative firm because of their geographic location.

Utilising the United States (US) schools of thought, Cook (1997, pp. 80-82) articulates a simple taxonomy of seven different “types” of US agricultural co-operatives existing currently, most of which are reflected in New Zealand and Australian practices:

1. Farm Credit.
2. Rural Utilities. To provide a missing service such as electricity or telephone.
3. Sapiro I Co-operatives: Bargaining co-operatives. Their main functions are to enhance margins and guarantee a market.
4. Sapiro II Co-operatives: Marketing co-operatives. These are a form of vertical integration and are designed to increase margins and to avoid market power.
5. Nourse I Co-operatives: Local associations. These are established to provide a missing service(s), to avoid monopoly power, reduce risk or achieve economies of scale.
6. Nourse II Co-operatives: Multi-functional regional co-operatives. As with Nourse I type co-operatives, Nourse II co-operatives are driven by Nourse’s ‘competitive yardstick’ objective. But the type II variant integrates forward or backward along the value chain.
7. New Generation Co-operatives (NGCs): NGCs address market failure situations, excess supply price depression; traditional co-operative property rights, structural weaknesses and free rider issues.

While elements of all these can be found in New Zealand and Australian agricultural co-operatives, the dairy co-operatives that are the subject of this study lie toward layers 4 and 7 of the classification. New Zealand and Australian dairy co-operatives are designed to combat market power, reduce risks and achieve economies of scale. They all vertically integrate along the supply chain to try to extract market rents. New Zealand and Australia have thus taken on the commodity dominance advocated by Sapiro and also operate to some extent in the competitive environment discussed by Nourse (1922) as well as trying to extract market rents.

Co-operatives undertake many functions in New Zealand and Australia (Evans & Meade, 2005; Lang, 1995). Agricultural co-operatives in New Zealand and Australia combine some or all of the following activities: 1) handling, such as warehousing grain and wool, or coolstores for perishables, such as horticultural products; 2) processing, particularly where this requires large amounts of capital and the produce is perishable, which exposes producers to unequal market power; 3) marketing, including negotiating prices, pooling, staged selling, and economies of scale in marketing and branding; 4) farm requisites, where suppliers have market dominance (e.g., fertiliser), where quality is critical (e.g., genetics), or have specific farm attributes (e.g., insurance and lending); 5) property right development (e.g., irrigation schemes); 6) advocacy, between farmers and regulators (e.g., in negotiating market access); 7) the delivery of social services, and 8) industry good activities (Evans & Meade, 2005, pp. 27-28).

2.7 Co-operative Board Roles

While the roles of co-operative boards in governing their organisation can be assumed to encompass many of the aspects outlined in the corporate governance literature (see Chapter 3, section 3.2) the special nature of co-operatives suggests an effect on the composition and roles of co-operative governing boards. Co-operative governance lies at the heart of the user-control principle. As such, the governing board is elected from and by the membership to express the members' interests (Cornforth & Edwards, 1999, p. 349). Co-

operative boards are expected to represent co-operative members, to understand their needs and ensure resources are employed to meet those needs (Baarda, 2002, p. 4). The democratic governance structure can be fundamental to the members' relationship with the co-operative. The relationship is different from investor relations, as members are a source of capital and control as well as sales and use of the co-operative (Fairbairn, 2003, p. 7). According to Cornforth and Edwards (1999), co-operative boards have a "political model of the role of boards as a means of resolving or choosing between the interests of different stakeholders, setting the overall policy of the organisation, holding staff to account for implementation, and being publicly accountable for the organisation as a whole" (pp. 349-350). The co-operative board may also have a task in preserving the co-operative character of the firm and keeping members informed about the co-operative (Baarda, 2002). The user-control principle also suggests co-operative boards are made up of lay co-operative members, not selected for their expertise in running businesses beyond farms.

New Zealand and Australian dairy co-operative boards may have roughly the same roles as expressed in the corporate governance literature and suggested by co-operative writers, although the means by which they operate is unknown. Although the co-operative form is in extensive use in most market economies throughout the world, academic understanding of its governance appears limited (Jussila & Goel, 2006; Skurnik, 2002). For example, co-operatives are assumed to have "severe agency problems" (Porter & Scully, 1987) due to the lack of external controls and are seen to need countervailing and substituting measures by boards to overcome these problems (Deutsch, 2005; Huse, 2007; Spear, 2004).

This study begins to explore perceptions of what governing boards of New Zealand and Australian dairy co-operatives do: their behaviours, their relationships, dynamics and processes by which governance operates within this economically important context. As King (1995) argues, scholars "have

much to learn from simply observing and describing the formation, evolution, and operation of successful cooperatives” (p. 1161).

CHAPTER 3 REVIEW OF THE LITERATURE: CORPORATE GOVERNANCE

3.1 Introduction

The literature on corporate governance is now reviewed and evaluated as to how it defines, classifies, distinguishes and understands the roles of boards of directors (boards). Three board roles are highlighted and discussed. Eight theories used in the corporate governance literature and their implications for board roles are explored. The literature review is used to discover gaps in the literature in order to identify the area of empirical study. This range of themes and rationales will be utilised as alternate lenses to make a theoretical contribution, based on observation, of the roles of governing boards of co-operative dairy companies. Conclusions are then drawn.

3.1.1 Corporate Governance Defined

There have been many attempts at defining corporate governance in the literature but with little consensus. The definitions tend to vary depending on the objectives of the writer and the dominant theory the writer ascribes to (see section 3.3, below). As such, any definition will be biased (Huse, 2005b, p. 42). Tricker (2000) suggests questions we should be asking when looking at corporate governance:

How is oversight to be exercised over those delegated to the task of running the venture; how are the owners' interests to be protected; who sets the direction of the enterprise and ensures its accountability; how is power over the enterprise legitimised; to whom is a company accountable and, ultimately responsible? Corporate governance is about the exercise of such power. (p. 289)

Or, in a more nuanced sense, Huse et al., (2005) see the study of corporate governance as seeking to understand:

who is making the most important decisions, why they are doing so, and how they are making them. It is thus concerned with the development of structures and norms that ensure that proper questions are being asked, and that necessary controls are in place to see that answers are provided that reflect what is best for long-term value creation in a company. (p. 285)

In this research, Aguilera's (2005) definition of corporate governance is utilised:

the distribution of rights and responsibilities among the different actors involved in the corporate organization. (p. S41)

3.1.2 History

According to Ticker (2000), the practice of corporate governance is "ancient", occurring whenever the management of an enterprise is separated from its owners (p. 289). Initially, it is of interest to note the origins of the name of "board" and "chairman". In the nineteenth century, because of the expense of furniture, meetings were conducted by men sitting on stools, around a long board laid across two sawhorses. The group of men became known as the "board". The board's leader who was given a chair, instead of a stool, became known as the "chair-man" (Monks & Minnow, 1995, p. 180).

Corporate governance as a field of academic study, especially its theoretical underpinnings, has, however, been more recent. In the early 1980s, the phrase 'corporate governance' is rarely found in the literature (Pye, 2000; Tricker, 1993a). The interest in corporate governance by academics and many other stakeholders such as practitioners, lawmakers and shareholders burgeoned in the late 1980s. In response to the 1987 share market crash, a plethora of reports were written resulting in the Cadbury and Greenbury codes, and the Hampel and Turnbull reports (Vinten, 2001a) in Great Britain. Malaysia (Ho et al., 2008), the US, Australia, Japan and Canada have all had similar reports (Vinten, 1998). More recently, high profile corporate collapses such as Enron (Vinten, 2002) and WorldCom led to further public and regulatory disapproval at the behaviour of corporate management and the quality of corporate governance. These concerns led to the Sarbanes-Oxley Act in the US and new governance rules around the world, including New Zealand where the Securities Commission and the New Zealand Stock Exchange have introduced codes of practice for corporate governance (Ingley & van der Walt, 2005). Company Annual Reports now report the governance practice of the companies' boards.

3.2 Roles of the Board of Directors

3.2.1 Introduction

In developing a theory of the roles of boards of co-operatives, the existing knowledge needs to be explored. Three “generally agreed” roles of boards - strategy, control and service - are examined to understand the scope, functions and terms attributed to these roles. The sometimes overlapping and often ambiguous nature of these roles are also highlighted.

Boards undertake a number of functions (Nicholson & Kiel, 2004a) or tasks (Huse, 2007; Ingley & van der Walt, 2005) which, when aggregated, are termed roles (van den Heuvel et al., 2006). Boards play multiple and critical roles in organisations (Finkelstein & Mooney, 2003), yet the roles of boards are not well articulated, or in fact well known, and their definitions are “surrounded by ambiguity” (van den Heuvel et al., 2006, p. 470). The lack of an integrated approach has led to board roles being conceptualised in many different ways (e.g., Dixon et al., 2005; Hung, 1998; Huse, 2007; Johnson et al., 1996; Mintzberg, 1983). These roles often overlap, are contradictory (Dalton et al., 1999) and the activities attributed to each role are dependent on the authors’ theoretical persuasion and what they are trying to discover (Hendry & Kiel, 2004; van den Heuvel et al., 2006). While this ambiguity perseveres there is some broad agreement around three key roles boards undertake - strategy, control and service (Brennan, 2006; Levrau & Van den Berghe, 2007a; Nicholson & Kiel, 2004b; Ruigrok et al., 2006; Stiles & Taylor, 2001). In the following sections these “generally agreed” roles are used as headings to explore the corporate governance literature’s notion of board roles.

3.2.2 Strategy Role

There seems to be fairly clear consensus in the literature that boards have a role to play in an organisation’s strategy (e.g., Brennan, 2006; Judge & Zeithaml, 1992; McNulty & Pettigrew, 1999; Molz, 1985; Rindova, 1999; Ruigrok et al., 2006; Scherrer, 2003; Schmidt & Brauer, 2006; Siciliano, 2005;

Toms & Filatotchev, 2004; Wadsworth, 2001). This expectation appears to cross theoretical and contextual boundaries; however the extent of a board's involvement in strategy, what influences it and how the role is fulfilled is far from understood (Hendry & Kiel, 2004; Ingley & Van der Walt, 2001; Judge & Zeithaml, 1992).

The range of tasks in the strategy role for the board vary but often include defining the organisation's business, developing the vision and mission, aligning the organisation's purpose with shareholders' needs, scanning the environment, selecting and implementing a choice of strategies (Hendry & Kiel, 2004; Ingley & van der Walt, 2005; Ruigrok et al., 2006; Stiles & Taylor, 2001). The chief executive has a large influence on an organisation's strategy. As it is one of the boards' tasks to appoint and dismiss the CEO, this gives the board a great deal of sway over the organisation's strategic direction (Hendry & Kiel, 2004; McNulty & Pettigrew, 1999; Stiles, 2001; Stiles & Taylor, 2001; Westphal & Fredrickson, 2001).

Expectations of the boards' tasks in strategy vary between rubber stamping (approving) management's proposals (Lorsch & MacIver, 1989; Mace, 1971; Westphal & Fredrickson, 2001) to setting the tone and working with management to initiate, analyse, develop and implement strategies (Judge & Zeithaml, 1992; O'Neal & Thomas, 1995; Siciliano, 2005; Stiles, 2001). Board involvement in strategy is characterised, usually as a continuum, from initiator to approver (Henke, 1986), minimalist and maximalist (Pettigrew & McNulty, 1995), active to passive (Golden & Zajac, 2001; Stiles & Taylor, 2001) and watchdog, trustee, and pilot (Demb & Neubauer, 1992). These divided conceptualisations lead to "very different conclusions regarding both prescriptions and descriptions of board behaviour" (Golden & Zajac, 2001, p. 1088). With a little more refinement, McNulty and Pettigrew (1999) identify three levels of board involvement in strategy; taking strategic decisions, shaping strategic decisions, and shaping the content, context and conduct of strategy" (p. 55). Boards are able to influence strategies through suggestions, advice, counsel (Goodstein & Boeker, 1991; Levrau & Van den Berghe,

2007a), establishing the context for the preparation and approval of strategies (Mizruchi, 1983; Schmidt & Brauer, 2006) and by executives self regulation through fear of rejection (Baysinger & Hoskinsson, 1990; McNulty & Pettigrew, 1999). Having set the corporate direction it needs to be maintained. Boards are able to do this by acting as a ‘gatekeeper’ by approving or refusing strategies (Stiles, 2001), monitoring the outcomes and allocating resources (Schmidt & Brauer, 2006).

Much of the literature (e.g., Forbes & Milliken, 1999; Nicholson & Kiel, 2004a) assumes strategic decision-making follows Fama and Jensen’s (1983b) four step process of: initiation, ratification, implementation and monitoring (p. 303). They term initiation and implementation steps as “decision management” and term ratification and monitoring as “decision control” (Fama & Jensen, 1983b). Boards are assumed to be charged with decision control. This sequential, formalised process has been challenged (Burgelman, 1983; Mintzberg, 1983; Mintzberg & Waters, 1985). Rindova (1999) believes strategies “evolve through complex, nonlinear and fragmented processes” that are “interactive and iterative” (p. 956). Moreover, Leblanc and Gillies (2005) find that strategies are constantly being developed. These strategies range from very complex, such as acquisitions and mergers (Lawler et al., 2002), to relatively simple and everything in between. This leads to a variety of possible participation modes by the board and directors (McNulty & Pettigrew, 1999).

3.2.3 Control Role

The second of the broadly agreed roles of the board is ‘control’. It is this role that receives the most frequent attention from all sources; the popular and business press, shareholders, regulators and researchers. Corporate scandals (Clarke, 2005; Vinten, 2002) and the dominance of agency theory (Fama & Jensen, 1983b; Jensen & Meckling, 1976) and their effect on governance codes and legislation lead to this being the most prominent of board roles (Dalton et al., 1999; Molz, 1985; Van den Berghe & Baelden, 2005). The control role is based around agency theory assumptions (Hillman et al., 2000; Hillman & Dalziel, 2003; Johnson et al., 1996; Keasey & Wright, 1993; Pearce & Zahra,

1991) in protecting shareholders' interests from errant managers. Protecting shareholders interests refers to the board's "wealth protection dimension" (Filatotchev et al., 2006, p. 259) to "safeguard the company's assets and resources, to ensure survival, and to avoid corporate trauma or consistent poor performance" (Stiles & Taylor, 2001, p. 27).

The governing board is one of several controls by which a company is disciplined. There are a number of external controls, such as the independent audit of company accounts, the corporate laws policed by different regulators and the capital markets (Dalton et al., 1999), product and labour markets (Johnson et al., 1996), exit (Keasey & Wright, 1993), and voice (Hirschman, 1970). The governing board is the key internal control mechanism. The board exercises this control largely through being the final arbiter on key decisions (Dixon et al., 2005; Forbes & Milliken, 1999). Through legislation, regulations, company constitutions and policies, the board has responsibility for managing the organisation. Boards delegate, as they are able, the day-to-day running of the business to specialist managers, most notably the CEO, under a series of delegated authorities, while retaining some decisions for themselves and carrying on an oversight task for the remainder (Useem & Zelleke, 2006). The board has a task in defining, adopting and reviewing appropriate delegated authorities (Molz, 1985; Van den Berghe & Baelden, 2005). This reserves a range of decisions to be made by the board, giving it "allocative control" and effective economic control (Stiles & Taylor, 2001, p. 121).

One of the major control mechanisms of the board is the dismissal and hiring of the CEO. Although this seldom happens, this latent power is important in disciplining management and setting the boundaries of decision making (Mizruchi, 1983; Stiles & Taylor, 2001; Useem & Zelleke, 2006). The board also has a task in management succession (Hillman & Dalziel, 2003). By designing and setting senior executive remuneration, the board can align management compensation to shareholders' interests (Johnson et al., 1996; Stiles & Taylor, 2001).

Another control task of the board is monitoring and evaluating company senior executive performance (Brennan, 2006; Ruigrok et al., 2006) and strategy implementation (Hillman & Dalziel, 2003). As well as monitoring compliance with laws and regulations, boards are expected to ensure risk management procedures and internal controls are in place and delegated authorities established (Ingley & van der Walt, 2005; Nicholson & Kiel, 2004a). The board also has a task in the evaluation of the board itself (Van den Berghe & Baelden, 2005). The board's control task relies heavily upon financial accounting measures (Dalton et al., 1998) and monitoring is often done on an exception basis (Stiles & Taylor, 2001).

Controls are conceptualised as operational and strategic (Stiles & Taylor, 2001), or strategic and financial (Baysinger & Hoskinsson, 1990). Strategic control involves controlling the boundaries of strategic decision making, and monitoring and evaluating strategies and their implementation. Operational or financial control involves financial targets and budgets, delegated authorities and the audit committee.

3.2.4 Service Role

The third broad role identified is the 'service' role. The tasks seen as part of this role include providing the organisation, particularly top management, with advice, counsel and knowledge, and providing legitimacy and prestige, as well as access to resources by utilising networks of contacts to assist the firm. Bezemer et al., (2007) and Huse (2007) distinguish between internal (providing advice and counseling to management) and external service tasks (boundary spanning). The internal tasks have theoretical underpinning in a resource-based view (Barney, 1991; Barney et al., 2001) and, to a lesser extent, stewardship theory (Davis et al., 1997; Muth & Donaldson, 1998) and the external tasks are underpinned by resource dependence theory (Pfeffer, 1972; Pfeffer & Salancik, 1978; Provan, 1980).

In the internal tasks, the board is seen to act as a sounding board and a confidant, particularly for the CEO (Lawler et al., 2002; Westphal, 1999), and

as a key source of knowledge, advice and experience to the organisation (Bezemer et al., 2007; Nicholson & Kiel, 2004a). Tasks may include scanning the internal and external environment and providing timely advice to executives (Murphy & McIntyre, 2007). As part of the service role, the board may also be tasked with conflict resolution (Cornforth & Edwards, 1999; Dixon et al., 2005).

As part of the external tasks, the board may provide access to scarce resources (Brennan, 2006; Johnson et al., 1996) such as information and physical resources, particularly capital (Nicholson & Kiel, 2004a; Stiles & Taylor, 2001). The literature also sees a task for the board in enhancing the credibility, legitimacy, reputation and prestige of the firm (Gabrielsson & Winlund, 2000; Mizruchi, 1996; Stiles & Taylor, 2001; Zahra & Pearce, 1989). The board (or individual directors) may act as a figure head in performing ceremonial functions to enhance the firm's legitimacy (Leblanc & Gillies, 2005; Ruigrok et al., 2006). The board has a task to interact with a broad array of the firm's stakeholders, both internal and external to the organisation, such as, maintaining relations with influential bodies (e.g., government), staff, customers and owners through meetings, AGMs, financial and other reporting (Stiles & Taylor, 2001). The network of personal and professional contacts that are utilised by the board in introductions, lobbying and in accessing experience or expertise that may assist the firm, is seen as a service task (Borch & Huse, 1993; Murphy & McIntyre, 2007). These tasks may assist in attracting resources to the firm. Hillman and Dalziel (2003) see the provision of resources as directly related to the performance of the firm as it reduces dependency, diminishes uncertainty, lowers transaction costs, and "ultimately aid in the survival of the firm" (p. 386).

3.2.5 Role Ambiguity

The tasks attributed to each role in the literature vary depending on the author's definition and their theoretical persuasion, leading to ambiguity around board roles (van den Heuvel et al., 2006). Many of the roles identified

in the literature are overlapping, parts of the roles seem synergistic and some seem contradictory (Brennan, 2006; Short et al, 1999).

‘Overlap’ presents itself in many forms. The board’s provision of advice and counsel around strategic issues (e.g., Forbes & Milliken, 1999; Rindova, 1999) and acting as “strategic consultants” (Carpenter & Westphal, 2001) to management can be seen as both service and strategy roles. Stiles and Taylor’s (2001) “setting strategic parameters” and Hendry and Kiel’s (2004) concept of “strategic control” are simultaneously strategic and control activities of the board. Baysinger and Hoskisson’s (1990) notion of utilising financial and strategic controls as ways the board influences strategic direction is another example. The appointment, removal and remuneration of the CEO could be seen simultaneously as part of control, strategy and service roles. The notion of similar behaviour being determined as strategic, service, and control by various writers highlights the complexity, interdependence and interrelatedness of board roles.

Some of the expectations around board roles appear contradictory. The most glaring is board independence from management. Independence is seen as very important by commentators, regulators and academics for board members to fulfil their control role (Hooghiemstra & van Manen, 2004a; Rindova, 1999). Others note the need for closeness and trust and deep involvement between board and management to fulfil their service and strategy tasks (Bezemer et al., 2007; Leblanc, 2004). Daily et al., (2003a) question whether a director can simultaneously have the independence and distance required for control and the closeness required for service and strategy. These issues introduce the concept of ambiguity (Van Peurse, 2005) and role conflict (Katz & Kahn, 1978).

Some note the increasing emphasis on one role (usually control) overshadowing others (Dalton & Dalton, 2005; Ingle & van der Walt, 2005; Van den Berghe & Baelden, 2005), others see it as important for boards to get the balance right (Lawler et al., 2002). Agency theorists suggest roles other

than control are superfluous (Carver, 2007). Some believe these roles are not in conflict and there is a need for boards to embrace this paradox (Fields, 2007; Leblanc & Gillies, 2005; Sundaramurthy & Lewis, 2003). Others believe the roles to be complementary.

Close involvement is important as it is only through involvement in strategy and service that boards gain the knowledge to fulfill their control role (McNulty et al., 2005; Pye, 2002; Roberts et al., 2005). Early participation in the strategic decision making process enables boards to offer advice and exert a controlling influence (Fields, 2007; Huse & Rindova, 2001; Levrau & Van den Berghe, 2007b; McNulty & Pettigrew, 1999; Rindova, 1999; Schmidt & Brauer, 2006; Westphal, 1999).

The roles enacted by boards also vary according to context (Baysinger & Hoskinsson, 1990; Cornforth & Edwards, 1999; Goodstein & Boeker, 1991; Hendry & Kiel, 2004; Zona & Zattoni, 2007). Board roles may vary between companies (Nicholson & Kiel, 2004a) due to institutional environments (Aguilera, 2005; Jonsson, 2005), the existence of external monitoring (Dalton et al., 2003; Nicholson & Kiel, 2004b), firm lifecycle (Filatotchev et al., 2006; Lynall et al., 2003), firm size (van den Heuvel et al., 2006), ownership structure (Long et al., 2005, p. 668) and the composition and processes of the board (Golden & Zajac, 2001; Huse, 2007; Leblanc & Gillies, 2005). Board roles also change over time (Bezemer et al., 2007; Graebner & Eisenhardt, 2004; Huse et al., 2005; Shen, 2003; van den Heuvel et al., 2006). For example, the emphasis and involvement of particular board roles may increase at times of poor performance, crisis and uncertainty (Mace, 1971; McNulty & Pettigrew, 1999; Radin & Stevenson, 2006; Rindova, 1999; Siciliano, 2005).

An expectations gap between various stakeholders' expectations of board roles and actual board roles is also evident (Brennan, 2006; Coulson-Thomas, 1991; Heracleous, 1999; Hooghiemstra & van Manen, 2004b; Mace, 1971). This gap is hardly surprising given the lack of consensus around what boards are supposed to do, and little understanding of what boards actually do. Differing

stakeholders (e.g., owners, the public, customers, regulators, researchers, the media) have differing expectations of board roles, some of which may be unrealistic (Gabrielsson & Winlund, 2000; Leblanc & Gillies, 2005).

In summary, the range of themes and rationales relating to the possible roles of boards in the corporate governance literature are both complex and often contradictory. While three main roles are generally identified; strategy, service and control, this review indicates that the role processes of board members are not well articulated or commonly specified. This lack of cohesion may possibly be due to a lack of contextual understanding or conflicting theoretical perspectives. The literature highlights the need for further empirical research, drawn from case-based fieldwork experiences, to better understand processes relating to the actual roles of board members.

3.3 Theories of Corporate Governance

Although there is no integrated theory of corporate governance (Carver, 2007; Kiel & Nicholson, 2003; Letza et al., 2004; Nicholson & Kiel, 2007; Pettigrew & McNulty, 1995; Tricker, 2000), there are many theories that are used to inform the field. These are essentially all ‘normative’ and the overwhelming majority of literature in corporate governance is based on the agency theoretical perspective (Daily et al., 2003a), however, an increasing portion of the literature is looking at corporate governance through different theoretical lenses. Stiles and Taylor (2001) identify six “major theoretical traditions” utilised in the corporate governance literature; agency theory and transaction cost economics (TCE) (which they group together), stewardship theory, resource dependency theory (RDT), class hegemony theory, and managerial hegemony theory (p. 10). The resource based view (RBV) also emerges from the literature (Huse, 2005b, 2007) summarised in Table 3-1. These theories, discussed below, allow insights into normative expectations of the composition and roles of boards. The implications of these theories to this research are highlighted.

Table 3-1 A Comparison of Theoretical Perspectives on Governance

Theory	Interests	Board members	Board role
Agency theory	'Owners/members' and managers have different interests	'Owner/members' representatives	Conformance: - safeguard 'owners' interests - oversee management - check compliance
Transaction cost economic theory	Transacting members have different interest	Transacting members with transaction specific assets	Economise transaction costs - ensure a market - safeguard transaction specific assets
Managerial hegemony theory	'Owners/members' and managers have different interests	Owners/members' Representatives	Symbolic: - ratify decisions - give legitimacy (managers have real power)
Stakeholder theory	Stakeholders have different interests	Stakeholder representatives	Political: - balance stakeholder needs - make policy - control management
Resource dependence theory	Stakeholders and organisation have different interests	Chosen for influence with key stakeholders	Boundary spanning: - secure resources - stakeholder relations - external perspective
Resource based view	'Owners/members' and managers share interests	Chosen for specific competence knowledge and skills	Provide advice, counselling and expertise to management
Stewardship theory	'Owners/members' and managers share interests	'Experts'	Improve performance: - add value to top decisions/strategy - partner/support management
Class hegemony theory	The ruling elite and the public have different interests	Members of the ruling elite	Serve as a function of the corporate elite
Co-operative perspective	Members/the public contain different interests	'Lay/member' representatives	Political: - represent member interests - make policy - control executive

Revised and adapted from Cornforth (2004), p. 20.

3.3.1 Agency Theory

Since Berle and Means' (1932) noting of the separation of ownership and control, the principal-agent problem has been debated. Agency theory has its theoretical origins in economics and finance and underlies organisational theory (Cornforth & Edwards, 1999). Agency theory is regarded as the "Bible" (Huse, 2007, p. 45) of corporate governance; it dominates the academic

literature (Gabrielsson & Huse, 2004) and has a major influence on regulators in underpinning the majority of reform activity (Stiles & Taylor, 2001).

An agency relationship exists where principal(s) engage an agent to perform a service on their behalf by delegating the agent some decision making authority (Jensen & Meckling, 1976, p. 308). Agency theory is based on the contract as a unit of analysis (Eisenhardt, 1989b) with the central contracts specifying the residual claims and the allocation of decision process steps amongst actors (Fama & Jensen, 1983b, p. 302). Investors exchange capital for control rights in the organisation (Shleifer & Vishny, 1997). This decision control is further delegated to a board (thus creating a second agency relationship) (Fama & Jensen, 1983b, p. 309). Boards, while retaining ultimate control, then in turn, usually delegate most decision management and some decision control to professional managers (Fama & Jensen, 1983b, p. 313). Under agency theory, decision management should be separated from decision control, with the board charged with decision control.

Agency theory holds that if the principal and agent have conflicting goals the agent(s) will opportunistically maximise their utility at the expense of the principal(s) (Eisenhardt, 1989b). Agency theory uses the notions of bounded rationality and opportunism leading to self-serving behaviour with guile (Eisenhardt, 1989b, p. 64). Examples of possible agency issues are “excessive perquisites, underinvestment, overinvestment, risk shifting, asymmetric information, bankruptcy and financial distress” (John & Senbet, 1998, p. 376). Principals bear a number of agency costs; made up of monitoring expenditures, bonding expenditures and residual losses (Jensen & Meckling, 1976, p. 308) and the costs of structuring, monitoring and enforcing contracts (Fama & Jensen, 1983b, p. 304).

Information asymmetry occurs when one party in an exchange has information the other does not (Zahra & Filatotchev, 2004, p. 889). Agency theory argues that professional managers are able, through access to such information and its flow, to impose a disproportionate amount of power over the board (Brennan,

2006; Ingley & van der Walt, 2005; Radin & Stevenson, 2006; Rutherford & Buchholtz, 2007). This makes the monitoring and assessment of management by the board difficult (Walsh & Seward, 1990). Much of the board's information relies upon (easily manipulated) financial accounting measures put together by management, which are in turn is used to monitor and evaluate, and remunerate management (Dalton et al., 1998, p. 274).

Agency theory proposes a number of internal and external controls to encourage management to act in the best interests of shareholders (Walsh & Seward, 1990, p. 421) such as decision hierarchies, boards of directors and incentive structures (Fama & Jensen, 1983a, pp. 331-332). Decision hierarchies involve separating decision management (management task) from decision control (board task) (Fama & Jensen, 1983a). The board is seen as an internal governance mechanism to monitor and, if needed, control management behaviour (Baysinger & Hoskinsson, 1990; John & Senbet, 1998). Incentive controls are executive remuneration packages designed to align management and shareholders' interests. Agency theorists note a number of external controls for self-serving agents: the sale of stock (Baysinger & Hoskinsson, 1990); the stock market itself acting as an "external monitoring device" (Fama & Jensen, 1983b, p. 313); the market for corporate control (the takeover market) (Grossman & Hart, 1986; Letza et al., 2004; Shleifer & Vishny, 1997); competitive labour and product markets (Stiles & Taylor, 2001); corner stone shareholders (Short et al., 1999); and external audits (Cohen et al, 2002). These external market-based controls are activated if internal controls fail (Walsh & Seward, 1990, p. 434). Internal controls are viewed as a cheaper option than external controls (Davis et al., 1997, p. 22).

Control mechanisms (internal and external) may substitute for each other (Coles et al., 2001; Deutsch, 2005; Filatotchev, 2007; Huse, 2007; John & Senbet, 1998). If, for example, the takeover market is weak there may be need for stronger internal controls, such as more independent boards (John & Senbet, 1998, p. 391), high information disclosure and a rigorous system of auditing (Filatotchev, 2007, p. 1048).

Critics claim agency theory focuses on the board's role in reducing agency costs, while ignoring the board's other roles, particularly wealth creation (Daily et al., 2003a; Huse, 2005b). Agency theory ignores the complexity of organisations (Clarke, 2005; Davis et al., 1997; Donaldson, 2003; Eisenhardt, 1989b), poorly conceptualises how boards make decisions (Pettigrew & McNulty, 1995; Rindova, 1999; Stiles & Taylor, 2001; Zahra & Pearce, 1989), and fails to take into account organisational context (Aguilera & Jackson, 2003; Short et al., 1999). Agency theory is also based on questionable assumptions about human values and motivations (Borgen, 2004; Letza et al., 2004; Zahra & Pearce, 1989). Agency theory formally discounts trusting relationships with management (Roberts et al., 2005; Sundaramurthy & Lewis, 2003; Tricker, 2000), though this lack of trust may not always be the case (Clarke, 2005; Eisenhardt, 1989b). Agency theorists believe that firm performance is enhanced by utilising agency theory prescriptions. Empirical results have been equivocal with some studies finding empirical support (e.g., Brickley et al., 1994; Core et al., 1999; Cosh & Hughes, 1997; Cotter et al., 1997; Kosnik, 1987; Rosenstein & Wyatt, 1990) and others not (e.g., Conyon & Peck, 1998; Daily et al., 2003a; Dalton et al., 2003; Dalton et al., 1998; Deutsch, 2005; Donaldson & Davis, 1994; Farrer & Ramsay, 1998; Rhoades et al., 2000).

Agency theory implies the composition and roles of boards should be to reduce the agency costs associated with self-interested management behaviour (Bezemer et al., 2007; John & Senbet, 1998; Zahra & Pearce, 1989). Agency theory is seen as the basis for a control role of the board (Carver, 2007; Filatotchev et al., 2006; Hillman & Dalziel, 2003; Johnson et al., 1996; Pearce & Zahra, 1991; Stiles & Taylor, 2001).

Under agency theory, the board has a task to ensure the survival and success of the organisation (Gabrielsson & Huse, 2005, p. 29). More specific tasks of the board are to: monitor managers on behalf of shareholders (Dalton et al., 1998; Filatotchev & Toms, 2003; Hillman & Dalziel, 2003; Huse, 2007; Nicholson &

Kiel, 2004b; Radin & Stevenson, 2006; Rhoades et al., 2000; Zahra & Pearce, 1989); take critical decisions (Deutsch, 2005); ratify and monitor other decisions (Fama & Jensen, 1983b, p. 311); ensure controls are in place to minimise the potential abuse of delegation (Davis et al., 1997); ensure funds are not expropriated or wasted (Shleifer & Vishny, 1997); evaluate the performance of the company and strategy (Huse & Rindova, 2001, p. 157); assess the ability and efforts of top managers (Walsh & Seward, 1990, p. 424); and, if necessary, control management behaviour (Cornforth & Edwards, 1999, p. 349). The assessment of management may be difficult due to asymmetry of information, the complexity of top managers' jobs, the time lag between managerial effort and outcomes (Walsh & Seward, 1990, p. 425) and the need to disentangle the person and the environment (Walsh & Seward, 1990, p. 425). Formal monitoring of the board may be buttressed with informal monitoring (Fama & Jensen, 1983b, p. 323).

Another of the board's tasks under agency theory is to identify and hire management (Fama & Jensen, 1983b; Stiles & Taylor, 2001; Walsh & Seward, 1990). Boards must also remove poorly performing management (Carpenter & Westphal, 2001; Daily et al., 2003b; Fama & Jensen, 1983b; Long et al., 2005; Walsh & Seward, 1990) and involve themselves in succession planning (Long et al., 2005, p. 674). Under agency theory prescriptions, a board task is to design and enforce compensation systems that align management incentives to shareholders' objectives (Davis et al., 1997; Eisenhardt, 1989b; Fama & Jensen, 1983b; Filatotchev, 2007; Jensen & Murphy, 1990; Radin & Stevenson, 2006; Walsh & Seward, 1990) to reduce the board's need to monitor (Westphal, 1999, p. 10). Mechanisms used by the board for this purpose might include performance-based bonuses, salary revisions, stock options, performance-based dismissal, and stock ownership (Jensen & Murphy, 1990, p. 226).

Under agency theory, director compensation should be aligned with shareholders' interests to incentivise directors to monitor managers (Dalton et al., 2003; Jensen, 1994; Letza et al., 2004; Lynall et al., 2003; Zahra et al.,

2000). Following this line of thought, the amounts of equity held by directors and management in the firm should not be trivial (Jensen & Murphy, 1990, p. 225) to make them “think like shareholders” (Muth & Donaldson, 1998, p. 8). This is practised in dairy co-operative governance where board roles are carried out by directors who generally have large amounts of their income and equity tied to co-operative performance.

Agency theory also sees a role for the board in strategy. Boards are expected to contribute to and shape the strategic direction of the organisation (Hendry & Kiel, 2004; McNulty & Pettigrew, 1999; Zahra & Pearce, 1989), to monitor strategies and overturn poor decisions (Carpenter & Westphal, 2001, p. 639) and ensure the strategies pursued are not at the expense of shareholders (Baysinger & Hoskinsson, 1990). Agency theory overall suggests an adversarial relationship between board and management (Stiles & Taylor, 2001).

As to the composition of the board, first and foremost, agency theorists seek a board that is independent from management to be effective in improving firm performance (Clarke, 1998; Dalton et al., 1998; Dalton & Dalton, 2005; Dulewicz & Herbert, 1999; Firstenberg & Malkiel, 1994; Hillman et al., 2000; John & Senbet, 1998; Leblanc & Gillies, 2005; Lynall et al., 2003; Sundaramurthy & Lewis, 2003; Udueni, 1999; Van den Berghe & Levrau, 2004). The board should consist of a majority of non-executive directors. Some executive directors are required due to information asymmetry, to make collusion more difficult, and as an internal monitoring function (Baysinger & Hoskinsson, 1990; Fama & Jensen, 1983b; Johnson et al., 1996; Walsh & Seward, 1990). Social ties between the board and management would impair the board’s ability to effectively monitor (Westphal, 1999, p. 8). The need for independence raises the “independence paradox” - by being independent of management, the board is more exposed to information asymmetry (Hooghiemstra & van Manen, 2004a, p. 314). Agency theorists also advocate the separation of the role of chief executive and chairman (Dalton et al., 1998; Muth & Donaldson, 1998; O'Connor & Peel, 1995; Sundaramurthy & Lewis,

2003). Jensen (1994) argues that if it is the function of the chair to hire, fire, evaluate and compensate the CEO, this cannot be done when both roles are combined (p. 20). Following on from that, agency theory would look at having board members with expertise in monitoring (John & Senbet, 1998; Johnson et al., 1996).

Agency theory appears to extend to co-operatives in the sense that boards should ensure that managers act in the interest of members (Cornforth, 2002, p. 53). Co-operatives are assumed to have severe agency problems because of their special structures (Porter & Scully, 1987). Some of the usual monitoring or control mechanisms available to investor owned firms (IOFs) may not be so available to co-operatives. Co-operative members lack: easy exit, monitoring through a stock exchange (Baysinger & Hoskinsson, 1990), an effective takeover market (Fama & Jensen, 1983b, p. 319), and an ability to diversify their risk away (Fama & Jensen, 1983a). Co-operative members' goal functions are usually multidimensional, and not primarily that of an investor (Borgen, 2004, p. 389) making it difficult to design incentive schemes for management. Co-operative board members may not normally be expert monitors. On the other hand, co-operative board members tend to be independent of management, and are highly incentivised by way of "wealth at risk" to monitor management.

3.3.2 Transaction Cost Economics

Transaction Cost Economics (TCE) (Bainbridge, 2002; Williamson, 1971, 1979, 1981, 1983, 1984) shares theoretical underpinnings with agency theory, in particular, assumptions around human behaviour, such as bounded rationality, opportunism, self-seeking behaviour (Eisenhardt, 1989b; Stiles & Taylor, 2001) and information asymmetry (Hennessy, 1996). TCE differs in its focus on transactions (as opposed to contracts) as the basic unit of analysis. TCE also focuses on market failure and has asset specificity, unequal bargaining power (Eisenhardt, 1989b; Huse, 2007) along with uncertainty, and frequency of transaction (Sykuta & Cook, 2001, p. 1275) as its driving forces.

Under TCE solutions, an organisation should arrange itself to economise on transaction costs over time to survive (Williamson, 1984). Under TCE, special governance structures may be required if parties must invest in transaction-specific assets to ensure the relationship is not terminated or abused (Williamson, 1984, p. 1202). TCE focuses on the governance structure as a means of managing transaction costs (Huse, 2007, p. 52).

TCE is mainly associated with the board's control role (Stiles & Taylor, 2001; Williamson, 1984). The main task of the board, therefore is to define and safeguard property rights (Huse, 2007, p. 42), particularly the protection of specialised assets (Williamson, 1983). TCE has been criticised for giving little guidance beyond a strong control role as to how boards should be structured or organised, or how boards make decisions (Stiles & Taylor, 2001). Williamson (1984) identifies costs associated with TCE-inspired governance arrangements, such as supplying of information - "huge educational needs arise if specialized constituencies are to be informed participants on the board" (p. 1206). Other costs include the risk of "squandering valuable resource" by "deflecting strategic decisionmakers from their main purpose by forcing them to redress operating-level complaints" (Williamson, 1984, p. 1206).

While TCE shares many of the governance tasks with agency theory expectations, TCE advocates see the need for a board dominated by those with relation-specific investments at risk to ensure reliable company behaviour (Huse & Rindova, 2001, p. 164). TCE proponents do not see the need for other stakeholder representation (Williamson, 1984, p. 1197) and only minimal management representation (Williamson, 1984, p. 1216).

Within the (dairy) co-operative context, TCE may be able to explain some reasons for the composition and roles of boards as dairy farmers have highly transaction-specific investments combined with high degrees of uncertainty. Furthermore, the daily need for a market (perishability of milk) may expose members to opportunistic behaviour. Members, who are dairy farmers are said

to dominate the governing board to reduce their transaction costs and protect themselves from transacting cost opportunism (Borgen, 2000, p. 20).

3.3.3 Managerial Hegemony Theory

Hegemony refers to the “pre-eminence of one group among other groups” (Donaldson, 2003, p. 37) while managerialism refers to self serving behaviour by managers (John & Senbet, 1998, p. 375). Managerial hegemony has its theoretical roots in institutional theory drawing on sociology and psychology (Huse, 2007, p. 45). Managerial hegemony theorists hold that boards are dominated by management and as such are not a useful mechanism for aligning management and shareholder interests (Brennan, 2006; Kosnik, 1987; Lorsch & MacIver, 1989; Mace, 1971; Molz, 1985; Useem & Zelleke, 2006).

Under managerial hegemony it is claimed that management have effective control of the board. Management, due to the intimate knowledge gained from the day-to-day running of the firm utilise information asymmetry (Brennan, 2006; Ingley & van der Walt, 2005; Radin & Stevenson, 2006; Rutherford & Buchholtz, 2007), retained earnings (Mizruchi, 1983, p. 427) and the control of the selection and perquisites of directors to control the board (Hendry & Kiel, 2004; Kosnik, 1987; Latham, 1999; Mizruchi, 1983). With power over the board, management will act in their own best interests and expropriate wealth from shareholders (Kosnik, 1987, p. 169).

Empirical studies (e.g., Bosch, 1995; Coulson-Thomas, 1991; Demb & Neubauer, 1992; Ingley & van der Walt, 2005; Lorsch & MacIver, 1989; Mace, 1971; Monks & Minnow, 1995; O'Neal & Thomas, 1995; Pettigrew & McNulty, 1995; Useem & Zelleke, 2006) lend some weight to managerial hegemony's existence. However, it has been criticised for ignoring board processes, roles other than the board's control role, and that it overemphasises the link between board structures and performance (Zahra & Pearce, 1989).

Managerial hegemony theory proponents see the role of the board as passive, dominated by management with little input into firm decision making (Stiles &

Taylor, 2001, p. 19) or in directing the company (Hendry & Kiel, 2004, p. 502). As such, the board is effectively a “rubber stamp” for management (Jonsson, 2005, p. 711) or empowers the board only in a stewardship role to manage corporate assets (Muth & Donaldson, 1998, p. 6) or to provide advice to management (Huse, 2005a; Huse & Rindova, 2001). Under this view, the board is selected by management (Mizruchi, 1983; Stiles & Taylor, 2001) and as such is made up of inside directors or directors beholden to management (Kosnik, 1987, p. 163). Their role is likely to be one that is distant, less likely to hold managers to account and may be less accountable to shareholders.

3.3.4 Stakeholder Theory

Stakeholder theory (Freeman, 1984) holds that the interests of other stakeholders associated with the business, not just shareholders, should be taken into account in corporate decision making. Stakeholder theory has its theoretical origin in politics, law and management theory and has been in ascendancy in the study of corporate governance in recent years (MacMillan & Downing, 1999) to some extent taking over from economic theories (Key, 1999, p. 320). Stakeholder theory rejects shareholder wealth maximisation as morally untenable (Donaldson & Preston, 1995; Jones & Wicks, 1999) and sees human behaviour as more complex than self-serving and opportunistic characteristics would suggest (Jones & Wicks, 1999, p. 212). Stakeholder theory asserts that those companies that look after stakeholders, act morally, and serve social purposes will be more successful (Jones & Wicks, 1999; Letza et al., 2004).

Those who could be considered stakeholders, and for whom account should be rendered, appear virtually endless (see for example, Donaldson & Preston, 1995; Freeman & Reed, 1983). According to Freeman (1984), a stakeholder is “any group or individual who can effect, or is affected by, the achievement of a corporation’s purpose” and includes “employees, customers, suppliers, stockholders, banks, environmentalists, government and other groups who can help or hurt the corporation” (p. vi). Stiles and Taylor (2001) distinguish between a weak and a strong version of the roles of stakeholders in

organisations where the stronger version shareholders are displaced from their primary position (p. 96). Consensus as to stakeholder theory's value is absent. Sternberg (1998) describes stakeholder theory as "fundamentally misguided" and that requirements to account so widely "undermines both private property and accountability" (p. 93). Stakeholder theory is effectively seen as "very fuzzy" (Antonacopoulou & MERIC, 2005, p. 22) offering no guidance to the board as to who are legitimate stakeholders (Donaldson & Preston, 1995; Sternberg, 1998), being over-ideological (Antonacopoulou & MERIC, 2005, p. 24) and better seen as a "corporate governance philosophy" (Tricker, 2000, p. 295).

Under stakeholder theory, a role of the board may be to act as representatives of stakeholders in the corporation (Freeman & Reed, 1983; Letza et al., 2004). The board may have a task to explore, explicate, review, discuss, and compare stakeholder expectations of board roles (Huse & Rindova, 2001, p. 154) and to assess the importance and power of stakeholders (Freeman & Reed, 1983; Huse, 2007). As it is likely that the various stakeholders' expectations as to board roles will diverge (Huse & Rindova, 2001, p. 174), a board task will be to maintain a suitable balance between various stakeholder demands (Vinten, 2001b, p. 36), and to make tradeoffs between stakeholders (Key, 1999, p. 320). This may suggest a political role for the board in negotiating and resolving conflicts (Cornforth, 2002, p. 54) and advocating for stakeholders (Huse, 2007, p. 54). The board will need to be aware of the impact of decisions on stakeholder groups (Freeman, 1984, p. 196). The board will also require different measures to judge firm performance such as "the generation of goodwill" (MacMillan & Downing, 1999, p. 19) and "corporate social responsibility" (Jones & Wicks, 1999, p. 209). Stakeholder theory would see the right to seats on the board as owed to a wide range of stakeholder groups (Kochan, 2003; Rindova, 1999).

3.3.5 Resource Dependence Theory

Resource dependence theory (RDT) (Pfeffer & Salancik, 1978) has its roots in economics and sociology. Its users claim that organisations use governing

boards to try to exert control over their external environment by co-opting scarce resources and potentially hostile elements in the environment through directors' external relationships or putting representatives of those institutions on the board (Muth & Donaldson, 1998; Pfeffer, 1972; Provan, 1980). RDT sees directors' contribution as being "boundary spanning" agents between the company and its environment (Daily et al., 2003a, p. 372) that "act to buffer the organization from the uncertainties of its environment" (Provan, 1980, p. 221).

The four primary resources co-opted are said to be advice and counsel; communication channels to external firms; assistance in obtaining resources; and legitimacy (Hillman et al., 2000; Lynall et al., 2003). Through the provision of timely advice and counsel to management on the external environment, outside directors can reduce uncertainty (Hendry & Kiel, 2004; Hillman et al., 2000; Stiles & Taylor, 2001; Zahra & Pearce, 1989) and aid firm survival by dealing with external threats (Dalton et al., 1998, p. 273).

Related to RDT are directors' networks⁶ of connections. Directors' networks of connections can reduce firm dependence or increase performance (Heracleous & Murray, 2001; Hillman & Dalziel, 2003; Muth & Donaldson, 1998; O'Neal & Thomas, 1995). Networks may be wide ranging: from simply letting management know the correct people to contact or influence; involvement in industry associations (Heracleous & Murray, 2001, p. 142); or links to customers, suppliers, and expertise (Muth & Donaldson, 1998). Director networks can be used to increase innovation, access new markets, decrease transaction costs and manage uncertainty (Heracleous & Murray, 2001, p. 137).

More formalised than network connections are interlocking directorates (Battiston et al., 2003; Boyd, 1990; Harris & Shimizu, 2004; Heracleous & Murray, 2001; Mizuchi, 1996; O'Neal & Thomas, 1995). An interlocking

⁶ Networks are defined here as "long-term contacts between persons or organizations in order to obtain information and building resources" (Borch & Huse, 1993, p. 23)

directorates is where “a person affiliated with one organization sits on the board of directors of another organization” (Mizruchi, 1996, p. 271). Interlocking directors provide access to important resources, opportunities to co-operate with other firms, legitimacy and information on business practices (Harris & Shimizu, 2004, p. 778). Through their prestige, the directors’ role can enhance the firm’s legitimacy in society (Hillman et al., 2000; Pfeffer, 1973; Zahra & Pearce, 1989) in order to extract resources for the firm.

RDT theorists argue that RDT will raise firm performance and increase returns to shareholders (Dalton et al., 1998; Hillman & Dalziel, 2003; Muth & Donaldson, 1998; Zahra & Pearce, 1989). There appears to be empirical support for a link between the board’s boundary spanning activities and firm performance (Hillman, 2005; Hillman et al., 2000; Kula, 2005; Stiles & Taylor, 2001). RDT, however, largely ignores other roles of the board, the inner workings of the board (Stiles & Taylor, 2001; Zahra & Pearce, 1989), and resource use through focussing only on resource attainment (Provan, 1980, p. 224). It is not a theory that has been tested against board role processes therefore.

RDT invokes an external focus for the board (Provan, 1980, p. 226). Much of the board’s service role is drawn heavily from RDT prescriptions (Gabrielsson & Winlund, 2000; Levrau & Van den Berghe, 2007a). RDT proponents also see boards as strategists in their role of providing advice to the CEO and in aiding strategy development (Hillman & Dalziel, 2003; Zahra & Pearce, 1989). RDT does not envision boards as evaluators of management (Hillman & Dalziel, 2003, p. 386).

Under RDT prescriptions, the board’s tasks may include: a ‘linking task’ to important external resources, particularly finance (Bezemer et al., 2007; Filatotchev & Toms, 2003) and influential groups (Borch & Huse, 1993; Hillman, 2005; Pfeffer, 1973; Rhoades et al., 2000); supplying information, knowledge, experience and skills to management (Hillman & Dalziel, 2003; Huse, 2007; Zahra & Filatotchev, 2004); networking and door opening (Huse,

2005a, 2005b, 2007); maintaining good relations with external stakeholders (Cornforth & Edwards, 1999); enhancing legitimacy and prestige (Hillman et al., 2000; Pfeffer & Salancik, 1978; Provan, 1980), and lobbying regulatory bodies (Bezemer et al., 2007; Heracleous & Murray, 2001; Huse & Rindova, 2001). Overall, RDT proponents would expect a very collaborative relationship between the board and management.

Under RDT, the composition of the board will reflect the demands and uncertainties of the firm's external environment (Borch & Huse, 1993; Boyd, 1990; Hillman, 2005; Pfeffer, 1972; Provan, 1980; Toms & Filatotchev, 2004). These demands will change over time (Heracleous & Murray, 2001; Hillman et al., 2000). For example, the requirements of an "entrepreneurial threshold firm" (Zahra & Filatotchev, 2004) will differ from those of a declining industry (Toms & Filatotchev, 2004). RDT requires well-connected and well-networked directors with each director having differing networks (Huse, 2007; Lynall et al., 2003). The board will also consist of stakeholders (Huse & Rindova, 2001, p. 156) and community influential parties (Hillman, 2005; Hillman et al., 2000) that provide legitimacy and prestige (Filatotchev et al., 2006; Provan, 1980) with experiences and skills aligned to environmental dependencies (Hillman, 2005; Westphal, 1999). A board driven by RDT principles will predominantly be composed of external directors with some executive directors for firm-specific information (Hillman et al., 2000). RDT may require larger boards with greater external linkages to resources and higher quality advice to improve firm performance (Dalton et al., 1999; Pfeffer, 1973; Provan, 1980) or smaller boards consisting of "resource rich individuals" (Boyd, 1990, p. 428). For a co-operative, that may implicate members who are major suppliers.

The strong link to one stakeholder group limits access to resources to the detriment of the organisation (Nicholson & Kiel, 2007, p. 601). The co-operative board may have strong linkages with supplier-shareholders to reduce uncertainty of supply (milk and capital) (Muth & Donaldson, 1998; Nunez-

Nickel & Moyano-Fuentes, 2004). This could isolate the co-operative from the environment and competition.

For the supplier-shareholder's firm, RDT board representation could limit external risk by ensuring a market for their highly perishable goods, protecting transaction specific investments (Nunez-Nickel & Moyano-Fuentes, 2004, p. 1134), collectively achieving economies of scale in production, distribution and marketing (Katz & Boland, 2002), and by ensuring reliable behaviour of the company (Huse & Rindova, 2001, p. 164). This could secure favourable treatment for both sides of the transaction (Muth & Donaldson, 1998, p. 11).

3.3.6 Resource Based View

Closely aligned to RDT is the resource based view (RBV) of the firm (Barney, 1991; Barney et al., 2001). Both theories relate to the board providing resources to the firm. The difference relates to the external focus of the RDT compared to the internal focus of the RBV (Huse, 2005b, 2007). RBV advocates the need for experienced outside directors with professional and personal qualifications to complement management skills or knowledge (Gabrielsson & Huse, 2005, p. 29). RBV non-executive directors may provide valuable advice and counselling during corporate decision-making processes (Bezemer et al., 2007; Johnson et al., 1996; Pettigrew & McNulty, 1995; Rindova, 1999; Stiles, 2001). This allows the firm access to valuable, rare and sustainable resources (Barney, 1991; Filatotchev et al., 2006), such as professional competencies (e.g., finance, legal), personal networks, employment, market and industry knowledge (Gabrielsson & Huse, 2005, p. 35). Under the RBV, corporate governance is a source of competitive advantage (Barney et al., 2001, p. 632) and the board is envisaged as a sounding board for executives (Hillman et al., 2000, p. 241).

From a co-operative perspective the domination of the board by members (Cornforth, 2002) with knowledge mainly in farm production could pose problems. They may not necessarily have the knowledge to provide the sort of advice and expertise management might need.

3.3.7 Stewardship Theory

Stewardship theory (Davis et al., 1997; Donaldson & Davis, 1994; Muth & Donaldson, 1998) has its basis in organisational theory and sees managers as stewards whose motives are aligned with the objectives of shareholders (Davis et al., 1997). Stewardship theory differs from agency theory (Letza et al., 2004; Muth & Donaldson, 1998) in assuming managers are driven not solely by self interest but by motives such as “the need for achievement and recognition, the intrinsic satisfaction of successful performance, respect for authority and the work ethic” (Muth & Donaldson, 1998, p. 6). Under stewardship theory the core concept is that managers can be trusted to act in the best interests of shareholders (Huse, 2007; Muth & Donaldson, 1998). In a less radical version of stewardship theory it is suggested that managers and shareholders’ interests often merge and that by serving shareholders interests management often serve their own interests; for example, to preserve their reputation as expert decision makers (Daily et al., 2003a; Davis et al., 1997). Under stewardship theory shareholders can maximise their returns by empowering management and allowing them effective control of the organisation. This indicates a limited role for the board in overseeing managers (Letza et al., 2004; Muth & Donaldson, 1998).

Not surprisingly, given its contradictory assumptions to the dominant agency theory, not all writers are comfortable with stewardship theory. Stewardship theory does not take account of those times when managers do not act as good stewards (Nicholson & Kiel, 2007, p. 601). As Clarke (2005) succinctly notes, the “tenets of stewardship theory – the capacity and willingness of managers to balance different interests in the professional pursuit of company strategy – would appear to be more than a little challenged by the Enron events” (p. 604). Empirical support for stewardship theory predictions seem, at best, to be mixed (Davis et al., 1997; Muth & Donaldson, 1998; Stiles & Taylor, 2001). Stewardship theory also does not offer how boards might make decisions (Stiles & Taylor, 2001), though it does implicate a more hands-off role for the board with managers making most decisions.

Stewardship theory focuses on the boards' strategic and service roles (Carpenter & Westphal, 2001; Hendry & Kiel, 2004; Nicholson & Kiel, 2004a) through adding value to the organisations' decisions by offering advice and expertise (Levrau & Van den Berghe, 2007a, p. 13), rather than monitoring and controlling (Davis et al., 1997, p. 26). Directors are stewards to shareholders' interests (Tricker, 2000, p. 295) motivated by their reputational effects (Carpenter & Westphal, 2001, p. 639). Stewardship theory suggests equity ownership by directors as fostering firm identification (Sundaramurthy & Lewis, 2003, p. 399). Under stewardship theory the relationship between the board and management is characterised by trust, cohesiveness, partnership, and mentorship (Huse, 2007).

Stewardship theory would suggest that firm control and hence board membership should be firmly in management's hands (Dalton et al., 1998, pp. 270-271). As such, stewardship theory favours chief executive duality and a dominance of management representation on boards (Davis et al., 1997; Hendry & Kiel, 2004; Muth & Donaldson, 1998). Board independence from management is seen as counterproductive (Muth & Donaldson, 1998) as executive dominated boards will have a depth of knowledge, expertise, ease of communication and commitment to improve firm performance (Hendry & Kiel, 2004, p. 503). Stewardship theorists believe that CEO duality "empowers the CEO and stimulates the motivation to achieve" (Muth & Donaldson, 1998, p. 9) and gives a unity of command, reduced role conflict and clear decisions making authority (Stiles & Taylor, 2001; Sundaramurthy & Lewis, 2003). Directors are selected for their expertise and contacts and their ability to operate as a team with each other and managers (Cornforth & Edwards, 1999).

In the co-operative context, the stewardship recommendations appear to run counter to the "user-control" co-operative principle in which members, not executives, are elected as directors to control the co-operative leaving minimal room for management representation on the board.

3.3.8 Class Hegemony Theory

Class hegemony theory holds that boards serve as a function of the corporate and social elite to which they belong. With its roots in Marxist sociology there is a belief that corporate governance is a system to perpetuate the ruling elite (Kosnik, 1987; Useem, 1982). By having only members of one social group serving on boards, all other social groups are effectively excluded, thus protecting the “values and interests of the ruling capitalists” (Zahra & Pearce, 1989, p. 293). This perpetuation is often achieved through interlocking directorates (Huse & Rindova, 2001; O'Neal & Thomas, 1995; Useem, 1982). Class hegemony theory “suffers from a general lack of detail on what it is that boards actually do and the characteristics of actual corporate governance practices” (Stiles & Taylor, 2001, p. 21).

Nonetheless, class hegemony theory holds that there are two broad roles for the board; service and control. The board will provide legitimation and support to the organisation (Huse & Rindova, 2001, p. 157). Tasks for the board may include reviewing the CEO's initiatives to ensure consistency with the interests of the ruling elite and utilising networks to promote favourable legislation (Huse, 2007, p. 60). Class hegemonists would expect to see selective recruitment of directors in terms of social status and influence, with close connections to management (Stiles & Taylor, 2001, p. 18).

From a co-operative perspective, a broad view would see supplier-shareholder directors as maintaining and supporting existing power elites (Huse & Rindova, 2001, p. 156). This does seem to contradict a rationale for co-operatives as they are self-help organisations designed to bring economic balance back into the hands of disempowered actors in the economy.

3.3.9 Discussion

Corporate governance does not have a single accepted theoretical base that fully explains the role of governing body members (Carver, 2007; Kiel & Nicholson, 2003; Letza et al., 2004; Nicholson & Kiel, 2007; Pettigrew &

McNulty, 1995; Tricker, 2000). Furthermore, corporate governance researchers note the poor explanatory power of existing theories (Dalton et al., 1998; Dalton et al., 1999; Heracleous, 2001; Huse, 2005b; Letza et al., 2004; Lynall et al., 2003; Tricker, 2000). The different theoretical perspectives suggest different and sometimes conflicting rationales, expectations and emphasis on board roles (Cornforth, 2004; Gabrielsson & Huse, 2005; Huse, 2007; Huse & Rindova, 2001; Nicholson & Kiel, 2004a; Stiles & Taylor, 2001). Yet some theories concentrate on specific board roles while ignoring others (Clarke, 2005; Kiel & Nicholson, 2003; Nicholson & Kiel, 2007; Tricker, 2000). While all normative prescriptions can explain elements of board performance, each is limited in its scale and scope resulting in an incomplete understanding of board behaviour (Cornforth, 2002; Hung, 1998; Judge & Zeithaml, 1992; Levrau & Van den Berghe, 2007a; Tricker, 1993b). A more encompassing theory of board roles is needed (Nicholson & Kiel, 2007, p. 601).

Furthermore, multiple theoretical foundations lead to often contradictory role explanations (Dalton et al., 1999; Johnson et al., 1996). These theories offer “competing perspectives and assumptions”, and this can make board task expectations “a struggle between ideologies” (Huse, 2007, p. 68). According to Huse (2007) all theories have “something right” in their understanding of board tasks. Many authors reject the notion of a universal governance theory. Some suggest a combination of theories to understand board behaviour (e.g., Clarke, 2005; Daily et al., 2003a; Davis et al., 1997; Eisenhardt, 1989b; Filatotchev et al., 2006; Gabrielsson & Huse, 2005; Golden & Zajac, 2001; Hendry & Kiel, 2004; Hillman & Dalziel, 2003; Hung, 1998; Huse, 2005a, 2007; Pye, 2000; Stiles, 2001; Stiles & Taylor, 2001; Zahra & Pearce, 1989). This may be important to attempt, but it would seem to be sensible to begin such an effort in practice (as is done here), not in theory, so as to ensure that a real grounding and a practice foundation are the basis for theoretical induction.

There is a degree of overlap between, and incompleteness of, each of the various theories. Agency, TCE, and managerial hegemony share assumptions about: the separation of ownership and control; goal conflict between

management and shareholders; self interested behaviours of managers; the need for oversight and the control of management; and the alignment of management and shareholder goals. These theories indicate a general distrust of management and emphasise the need for board independence, and skills in monitoring and control. In contrast, stewardship, class hegemony and the resource theories emphasise trust and collaboration between management and board and highlight service and strategy roles. Stewardship and class hegemony theories emphasise the need for management-dominated boards. Resource theories emphasise non-management directors. RDT looks to a board with external networks, and RBV seeks out internal support for management. Finally, stakeholder theory sees the boards' task as representing constituent groups.

Cornforth (2002) identifies four "key tensions" for co-operative boards, all of which are reflected in one or another of these normative theories: between the board as representative or experts; between conformance and performance roles; between control and support of management; and between multiple stakeholders and multiple and ambiguous accountabilities (p. 52). Some writers find that these seemingly contradictory theoretical prescriptions can co-exist in a trust-based environment (Stiles & Taylor, 2001; Sundaramurthy & Lewis, 2003; Westphal, 1999). Others merely see the need to balance the various tasks (Huse, 2007; Spear, 2004).

Other writers highlight the need to take into account the organisation's context when applying these theories (e.g., Baker & Thompson, 2000; Filatotchev, 2007; Filatotchev et al., 2006; Gabrielsson & Huse, 2004; Provan, 1980; Turnbull, 1997). Issues such as board power, environmental uncertainty, information asymmetry (Hendry & Kiel, 2004, p. 500), firm ownership structure, industry (Taylor et al., 2008), firm complexity (Gabrielsson & Huse, 2005), stage in a firm's evolution (Lynall et al., 2003; Zahra & Filatotchev, 2004), institutional background (Aguilera, 2005; Baker & Thompson, 2000), country (Aguilera & Jackson, 2003; Huse et al., 2005) and the executives'

motivations (Davis et al., 1997, p. 25) may all influence the applicability of the various theories to specific situations.

Normative in nature and specifying what roles the boards should perform, these theories could be enriched by taking into account what boards actually do (Huse & Rindova, 2001, p. 155). Normative theories may simplify rationales which can only be understood by documenting the inner workings of the board - how they make decisions, and how they work in practice (Stiles & Taylor, 2001, p. 10). Fieldwork and theorising on board practices would enrich understanding of governance, while normative theories contribute to knowledge, they also may ignore the “black box” of practice. There is therefore a call for empirical research into actual board behaviour (Cornforth & Edwards, 1999; Hendry & Kiel, 2004; Huse, 2005b; Leblanc & Schwartz, 2007; Letza et al., 2004; Nicholson & Kiel, 2007).

In summary, eight theories utilised in the corporate governance literature are discussed to gain an insight into the possible roles of the governing boards of co-operative dairy companies. Findings are as to the knowledge they provide and gaps they leave and point to a need for inductively-developed theory on corporate governance practice.

CHAPTER 4 GAP IN THE LITERATURE

4.1 Introduction

The purpose of this chapter is to identify prior and similar studies and to evaluate these studies. This purpose is to identify a gap in the literature in which to frame this study, allowing this thesis to make a contribution to the corporate governance literature.

The prior studies selected are those that begin to explore inside the boardroom, that is, the study of board relationships, behaviours and/or processes. Outcome and effectiveness studies are only included if it is felt that a substantial portion of the study sheds light on the boards, relationships, behaviours and processes. Studies of governing boards in all types of contexts, particularly differing ownership structures, are included. The search began in the business management literature utilising the following databases: Google Scholar; ProQuest; ABI/INFORM Global; Emerald Management Xtra; Blackwell's Synergy; and Elsevier Science direct. No publication date time limits were set on the search. The searches were limited to articles in the English language. The keywords used are: Corporate Governance; and combinations of the keywords (Agricultural) Co-operative (Cooperative) Governance. Careful scrutiny of references concluding journal articles also proved a rich source. The 53 prior studies that meet the criteria are in Table 4-1.

Table 4-1 Prior Studies in Governance Processes

Author, Source	Year	Purpose of study	Theoretical context	Methods Used	Context	Results / Findings
Mace, M. L.	(1971)		Managerial hegemony	Interviews (50 directors)	US	Boards are dominated by managers
Pearce, J. A., & Zahra, S. A.	(1991)	Empirically validate a typology of CEO -board relative powers and their association with corporate performance	Power perspective –Managerial hegemony?	Survey	US 139 Fortune 500 companies	Significant difference in board types. Participative boards are associated with superior financial performance
Stewart, R.	(1991)	Exploring the relationship between chairmen and chief executives	Role theory	Longitudinal study 20 General Managers and their chairmen Action research	UK National Health Service Not for profit	The two roles are dependent with overlapping domains. The relationships varied. Five different chair roles identified
Judge, W. Q., & Zeithaml, C. P.	(1992)	Measure the level of board involvement in strategic decisions	Institutional Strategic choice	Interviews (114) with board members and archival data. Quantitative	US Four industrial sectors	Board size and levels of diversification and insiders are negatively related to board involvement in strategy. Board involvement positively related to firm performance
O'Neal, D., & Thomas, H.	(1995)	Gain insights into the board's strategic role		Interviews ethnography	US for-profit; publicly listed and private	Boards are selected and dominated by management
Huse, M.	(1998)	Identify and understand the processes which influence the behaviour of boards	Stakeholder	Participant observation Chair of 3 small companies for 15 months	Europe Norway – small companies at different stages of their lifecycle	Board roles depend on relationships between the external and internal stakeholders

Author, Source	Year	Purpose of study	Theoretical context	Methods Used	Context	Results / Findings
van Hamel, J. A., van Wijk, H. E., de Rooij, A. J. H., & Bruel, M.	(1998)	Gain a better understanding of how supervisory and advisory processes take place in Dutch boardrooms	Qualitative Exploratory	Interviews - 25 in-depth interviews with top executives and directors	Europe Holland; large, often listed Dutch companies	Descriptive findings
Cornforth, C., & Edwards, C.	(1999)	Examine what boards do in practice	Institutional theory	Multiple case study – observations, interviews, board documents	UK Not for profit	Boards vary considerably in how they interpret their roles and contribution
Maassen, G. F., & van den Bosch, F. A. J.	(1999)	Assess the independence of two tier boards in the Netherlands	Agency	Survey - Structured questionnaire	Europe Netherlands 50 largest companies listed on Amsterdam stock exchange	Challenges the agency belief that two tier boards are independent from management
McNulty, T., & Pettigrew, A.	(1999)	How Chair's and NED ⁷ 's influence strategy	Multiple	Interviews	UK publicly listed companies	Part time board members influence strategy – Relevance to agency, RDT and strategic management scholars
Roberts, J., & Stiles, P.	(1999)	Study the relationship between chairmen and chief executives	Role, leadership, agency and negotiated order theories Theory development	Interviews - semi-structured in-depth with 30 chair/CE dyads	UK major corporations	Dimensions of the relationship are multifaceted. The roles need to be complementary

⁷ Non-Executive Director

Author, Source	Year	Purpose of study	Theoretical context	Methods Used	Context	Results / Findings
Westphal, J. D.	(1999)	Develop and test theoretical framework Examines how social ties between top managers and NEDs may facilitate board involvement by encouraging the provision of advice and counsel in the strategy making process	Resource dependence theory	Survey 243 CEOs And 564 NEDs	US 600 companies Forbes 1000 index industrial and service firms	Lack of social independence can increase board involvement and firm performance by raising the frequency of advice and counsel interactions between CEOs and NEDs. Challenges agency theory
Adrian, J. L., & Kiser, S. L.	(2000)	Provide information about directors' attitudes and perceptions toward their roles as directors and their understanding of the co-operative environment	Unstated From the co-operative literature	Questionnaire Board survey - Mail and in person (79 respondents)	US Alabama 48 agricultural and 31 rural electric co-operative directors	Provides indications of the strength and limitations of actual and perceived knowledge directors possess and use and presents opportunities to enhance director training
Gabrielsson, J., & Winlund, H.	(2000)	Examine the importance of structures and process in the boardroom	Unstated	Mail Survey to CEOs Hypothesis testing	Europe Sweden; small and medium sized industrial firms	Board member involvement and formal structures are important for the board to perform effectively
Hillman, A. J., Cannella, A. A., & Paetzold, R. L.	(2000)	Examines the resource dependence role of the directors To present a taxonomy of classifying directors that reflects the resource dependence role	Resource dependence theory	Secondary data	US 14 airline firms	The board's function as a link to the external environment is an important one, and that firms respond to significant changes in their external environment by altering board composition

Author, Source	Year	Purpose of study	Theoretical context	Methods Used	Context	Results / Findings
Pye, A.	(2000)	Contribute to the descriptive data on corporate governance	Descriptive	Interviews Qualitative data Longitudinal (13 years)	UK large organisations	The Chair and CEO relationship provides a powerful axis around which boardroom (r)evolves and corporate governing takes place
Carpenter, M. A., & Westphal, J. D.	(2001)	Examines how external network ties determines a board's ability to contribute to the strategic decision making process	A socio-cognitive perspective	Survey	US 600 large and medium Forbes 1000 NEDs and CEOs	The monitoring and advising behaviour of directors depends on the strategic perspective and base of expertise provided by their appointments to other boards
Cornforth, C.	(2001)	Examines the relationship between board inputs, structures, processes and board effectiveness	Unstated	Survey Stepwise logistic regression	UK England and Wales; Charity boards Not for profit	Board inputs and process variables are important in explaining board effectiveness
Golden, B. R., & Zajac, E. L.	(2001)	Analyses the influence of the board on strategic change. Test model whether boards are active or passive in strategy by demographic and processual features	Multiple Demography Agency Power Quantitative	Survey Archival data	US 3000 hospitals Not for profit	Strategic change is significantly affected by board demography and board processes
Huse, M., & Rindova, V. P.	(2001)	Explore different stakeholders expectations of board roles	Stakeholder theory	Case study – survey and interviews	Europe Norway - subsidiary boards of a single bank	Key stakeholder groups have different expectations of board roles
Ingle, C. B., & Van der Walt, N. T.	(2001)	Examine issues relating to board capability, effectiveness and organisational performance	Build and test model	Interviews Survey Focus groups	New Zealand	Need for strategic vision and leadership in director capability

Author, Source	Year	Purpose of study	Theoretical context	Methods Used	Context	Results / Findings
Stiles, P.	(2001)	Gain directors' perceptions of their role	Multiple Grounded methodology	Interviews; survey; multi-case;	UK Public companies	Support for a number of theoretical frameworks – need multiple perspectives
Stiles, P., & Taylor, B.	(2001)	Present a detailed picture of how boards operate from directors perspective	Grounded Theory building	Multiple cases Interviews	UK Large public companies	A theoretical framework Highlights multi-functional nature of board activity
van der Walt, N., & Ingley, C.	(2001)	Highlight aspects of board process that inform efforts to improve director performance	Theory development	Interviews Survey Focus groups	New Zealand Broad range of companies	An integrated model of board effectiveness. Not enough evaluation and review of boards
Finkelstein, S., & Mooney, A. C.	(2003)	Develop ideas of board process – interactions among board members influences their effectiveness	Theory building	32 structured interviews	US Large companies	Five interrelated process goals (e.g. engage, teamwork, avoid destructive conflict)
Nowak, M. J., & McCabe, M.	(2003)	Examines perceptions of directors about their access to information for their role	Grounded research Agency theory Stewardship theory	Interviews 45 semi-structured director interviews	Australia Publicly listed companies	Found demonstrable evidence of information asymmetry Executives have controlling power over information
Graebner, M. E., & Eisenhardt, K. M.	(2004)	Explore acquisitions from the sellers perspective	Theory building inductive	Eisenhardt (1989) method Multiple case	US 12 successful technology companies that are acquired	Reframe corporate governance as a syndicate (interdependent peer relationship between the board and managers)

Author, Source	Year	Purpose of study	Theoretical context	Methods Used	Context	Results / Findings
Harris, I. C., & Shimizu, K.	(2004)	Examine the impact of 'overboarded' directors upon key strategic decisions (such as acquisitions)	Unspecified	Quantitative Secondary data	US Top 100 deals reported in Mergers & Acquisitions magazine – Market listed	Overboarded directors are important sources of knowledge and enhance acquisition performance
Hooghiemstra, R., & van Manen, J.	(2004a)	Examine NEDs' opinion regarding their roles and limitations	Agency	Questionnaire Survey – 250 Dutch NEDs - telephone and mail	Europe Holland	Monitoring is the main board task but limited by information asymmetry. The 'independence paradox'
Hooghiemstra, R., & van Manen, J.	(2004b)	Examine whether NEDs face an expectations gap	Agency	Questionnaire Mail survey – (directors; works councils; institutional investors)	Europe Holland	Gaps are found in stakeholders expectations of NEDs functioning and whom they should serve
Pye, A.	(2004)	Draw attention to context and time for understanding and theorising about actual board behaviour	Social capital Grounded theorising	Interviews Qualitative data Longitudinal (13 years)	UK large organisations	Boards are not static homogenous groups. External relations impact on the internal workings of boards
Van den Berghe, L. A. A., & Levrau, A.	(2004)	Identify what constitutes a good board of directors	Theory building	60 in-depth interviews	Europe Belgium; listed companies	Practitioners see "soft" elements (that are absent from the literature and governance ratings agency) as important to good governance
Huse, M., Minichilli, A., & Schoning, M.	(2005)	Develop ideas for effective functioning boards	Unstated multiple - suggests stakeholder theory	Single case Direct observation	Europe Norway; dairy co-operative	Process orientation may be crucial to the boards contribution to strategy and value creation

Author, Source	Year	Purpose of study	Theoretical context	Methods Used	Context	Results / Findings
Ingle, C., & van der Walt, N.	(2005)	Evaluates directors' perceptions of fellow directors' contribution as defined by the Companies Act 1993	Multiple	Survey 3000 directors Statistical analysis	New Zealand	Directors may not have the influence over outcomes that they need to deliver their duties
Jonsson, E. I.	(2005)	Distinguish between different board roles Fit theoretical debate into a framework	Multiple	Qualitative Questionnaire and interviews	Europe Iceland; 11 companies	Boards have various roles or patterns of roles that can change with circumstances
Kula, V.	(2005)	Investigate the impact of board roles, structure and process on the performance of Turkish companies	Multiple Agency focus	Survey questionnaire Quantitative	Europe Turkey; 386 small and non listed stock ownership companies	Separation of chair and CEO and the resource acquisition role of the board have a positive impact on firm performance
Leblanc, R., & Gillies, J.	(2005)	Investigates how board decision making is conducted	Grounded theory building	Attendance and observation Interviews Qualitative	US (North America) Broad range of ownership structures and sectors	Decision making processes are greatly influenced by the characteristics of individual directors
Long, T., Dulewicz, V., & Gay, K.	(2005)	Comparison of NEDs' roles on listed and unlisted companies compared to Combined Code guidelines	Interpretive	Interviews - 25 semi-structured in-depth interviews with NEDs serving simultaneously on listed and unlisted boards	UK listed and large unlisted companies	There are differences in NED roles
Roberts, J., McNulty, T., & Stiles, P.	(2005)	Examines board effectiveness through the work and relationships of NEDs	Various Accountability	40 in-depth interviews	UK FTSE 350	Actual conduct of NEDs vis-à-vis the executive, determines board effectiveness. Supports theoretical pluralism

Author, Source	Year	Purpose of study	Theoretical context	Methods Used	Context	Results / Findings
Siciliano, J. I.	(2005)	Examines board participation relative to that of senior management in strategic decision-making and evaluation	Unspecified	Survey CEOs and board members	US credit unions 275	Board involvement in strategic activities varies in relation to the organisation's financial performance
Van den Berghe, L. A. A., & Baelden, T.	(2005)	Present a framework to tailor the monitoring role of the board to the company's situation and needs	Agency	Questionnaire Semi-structured interviews	Europe Belgium; 81 listed companies	Two main monitoring decisions – which responsibilities are delegated to management and to whom
Wan, D., & Ong, C. H.	(2005)	Investigate whether board process serves as an intervening variable between board structure and performance	Multiple Agency; strategic choice and RDT	Questionnaire Secondary data	Singapore 212 publicly listed companies	Board structure does not affect board process, while board process is related to board performance
Ravasi, D., & Zattoni, A.	(2006)	Increasing the visibility of social and political dynamics surrounding strategic issues	Grounded theory building	Multiple case (9) Comparative study Semi- structured interviews	Europe Italy; large mixed ownership institutions (2 or more large shareholders)	Boards may act as a negotiating forum in reconciling diverging shareholders' interests
Ruigrok, W., Peck, S. I., & Keller, H.	(2006)	Developing and testing the relationship between board characteristics and involvement in strategic decision making	Agency theory Network perspectives	Questionnaire Primary and secondary data Hypothesis testing	Europe Switzerland; stock exchange listed (62 responses to questionnaire)	Board involvement in strategy is lower when boards are highly interlocked

Author, Source	Year	Purpose of study	Theoretical context	Methods Used	Context	Results / Findings
Useem, M., & Zelleke, A.	(2006)	Extract the major decision-making process in board decisions on what they decide and what they delegate to management	Grounded theory building	Interviews Archival data	US 31 large financial services companies	Executives set much of the board's decision making agenda. Directors are reliant on executive judgement on what to bring to the board
van den Heuvel, J., Van Gils, A., & Voordeckers, W.	(2006)	Empirically determine board roles in SME family businesses and CEOs importance of these roles	Multiple	Survey	Europe Flemish (part of Belgium); small and medium sized family businesses	Indispensible to differentiate between boards' control and service roles. CEOs perceive the service role as most important
Bezemer, P., Maassen, G. F., Van den Bosch, F. A. J., & Volderba, H. W.	(2007)	Investigate how NED's service tasks have evolved between 1997 and 2005	Multiple Agency, social network, RDT, RBV	Published data – use of proxies	Europe Netherlands; top 100 listed companies – seven industries	Service task has shifted from 'boundary spanners' to providing advice and counsel to executives
Huse, M.	(2007)	Combination of many research projects	Theory building	Various Mostly case studies	Europe (largely)	Theoretical framework
Nicholson, G. J., & Kiel, G. C.	(2007)	Examine hypothesised links between board demography and firm performance predicted by agency stewardship and resource dependence theories	Agency Stewardship RDT	Multiple case study (7) Pattern matching explanatory	Australia Broad range of organisations (1 co-operative)	Each theory can explain a particular case , no single theory explains the general pattern
Parker, L. D.	(2007)	Inductively identify the key characteristics of nonprofit boardroom internal governance processes	Inductive theory development	Participant observation. Longitudinal Two case studies	Australia Not for profit governance	Boardroom culture is a potent ingredient in governance process

Author, Source	Year	Purpose of study	Theoretical context	Methods Used	Context	Results / Findings
Rutherford, M. A., & Buchholtz, A. K.	(2007)	Examines the relationship between boards' demographic characteristics and information gathering behaviour variables	Agency	Survey 149 firms	US Public firms	An increase in NEDs is associated with increase in boards' information quality
Zona, F., & Zattoni, A.	(2007)	Develop and test a model relating group processes to three board tasks	Multiple Group dynamics	Questionnaire – targeting CEOs	Europe Italy; 301 large manufacturing firms	Process and demographic variables significantly influence board task performance; board task performance varies depending on the firm and industry

4.2 Findings

Analysis of the 53 prior studies (Table 4-1) suggests that apart from the seminal Mace study in 1971, research into the internal workings of boards did not begin in earnest until the early 1990s. The studies have since gained pace with 41 of the studies (77%) published in the present decade and half of the studies in Table 4-1 only in print since 2004. Academic study of these issues is therefore relatively recent.

The prior studies may also highlight the inadequacy of existing theories in explaining board roles with 11 of the studies choosing theoretical contexts broadly characterised as theory building, and a further 13 utilising multiple theoretical lenses in their studies. Nine studies are unspecified as to theoretical orientation and could broadly be characterised as descriptive. Seven studies are agency focused, three utilise managerial hegemony and two resource dependence theory. Five 'other' theoretical focuses are also used in the prior studies.

Consistent with a lack of adequate theoretical context to explain board roles, the methods used in many of the prior studies aim to gain understanding of participants' views, as 20 studies predominantly use interviews; six use multiple methods; one uses action research; two employ participant observation and only three use secondary data. Eight of the prior studies utilise case studies. Possibly highlighting access issues, 19 of the prior studies use questionnaires.

These prior studies tend to focus on one specific board role. Ten studies focussed on the boards' role in strategy, three on the boards' service/resource dependence role, and one on the control role. Other prior studies focus on specific relationships such as the Chair/CEO relationship (3 studies) and stakeholder expectations (2) or on specific issues, such as; access to information (3), specific decisions (2), and context (1). Relatively few of the prior studies (17) look at governing boards' role in a more holistic sense. Few

prior studies examine all board roles, relationships and processes within a particular context.

In geographic terms, 16 are based in (continental) Europe with a further 11 from the United Kingdom. Sixteen of the prior studies are from the United States of America, three from Australia, three from New Zealand (all from the same data / project) and another three from other parts of the world. As context may be important in understanding the roles of governing boards, the European and US dominance of the corporate governance literature suggests a gap in the literature that may be filled by the study of governance in geographically specific locations.

When ownership type is analysed we see 33 of the prior studies examine the governance of large, predominantly publicly listed, companies, while four study small and medium enterprises. A further five do not distinguish between a broad range of ownership structures in their data. Five examine not-for-profits while three look at other types of ownership structures.

4.3 Conclusion

There are only two prior studies examining co-operative governance and only one is a dairy co-operative (based in Europe). No prior studies combine all aspects of governance examined in this thesis. That is, utilising theory building to understand board roles within the context of co-operatives positioned in New Zealand and Australia. This suggests a gap in the literature and a need for an understanding of the roles of governing boards of co-operative dairy companies in New Zealand and Australia. The thesis now turns its attention to the methodology utilised to explore this gap in the literature.

CHAPTER 5 RESEARCH METHODOLOGY

5.1 Introduction

The following chapter discusses the methodology used in this thesis. A discussion of various philosophical views of research is undertaken. The current methodologies used in corporate governance and co-operative research are covered. The selected methodology is then set out. A theory-building case study method is chosen based on Eisenhardt's (1989a) multi-case framework as it is considered to be the most suitable method to achieve the aims of this thesis. A discussion of theory and the proposed outcomes of the research, along with ways this research could be evaluated, are noted before conclusions are drawn.

5.2 Methodology Discussion

The methodology, method and research question are inextricably linked. The research methodology chosen has a bearing on the methods and research tools used by the researcher. The discussion of methodology is important in research as it covers the assumptions researchers bring to their investigations (Burrell & Morgan, 1979). These assumptions are "always present" even when they are unspecified (Lowe, 2001, p. 14). It is important that these assumptions are explicitly stated to allow readers to interpret the results of investigations. As Hines (1989) asserts:

researchers generally are trained within a paradigm, unselfconsciously adopt the implicit assumptions of that paradigm, experience the worldview of that paradigm as "real", and carry on their research in the company of others holding a similar view. (p. 57)

Burrell and Morgan (1979) notably attempt to conceptualise social science theory "in terms of four sets of assumptions related to ontology, epistemology, human nature and methodology" (p. 1). Ontology refers to whether "reality" is "objective" and "external to the individual" or "subjective" and "the product of one's mind" (p. 1). Epistemology relates to the assumptions about the "grounds of knowledge", whether knowledge is "hard, real and capable of

being transmitted in tangible form” or “based on experience and insight of a unique and essentially personal nature” (p. 1). Assumptions about human nature relate to whether humans are the creators of their environment or the products of their environment. Burrell and Morgan (1979) argue that different assumptions about ontologies, epistemologies and human nature lead to different methodologies (p. 2). Methodology is “the nature of ways of studying” phenomena (Parkhe, 1993, p. 235). Llewelyn (2003) notes “methodologies (and espoused theories) reflect the epistemological and ontological assumptions of researchers” (p. 692).

Burrell and Morgan (1979) go on to identify four separate, mutually exclusive paradigms reflecting different views of social reality based on assumptions about both the nature of science and society (p. 21). These paradigms are functionalist, interpretive, radical structuralist and radical humanist (Burrell & Morgan, 1979, p. 22). According to Orlikowski and Baroudi (1991), functionalist studies tend to assume “a priori fixed relationships within phenomena”, while at the other end of the continuum, interpretive studies “attempt to understand phenomena through accessing the meanings that participants assign to them” and critical studies (the radical structuralist and humanist) “aim to critique the status quo, through the exposure of what are believed to be deep-seated, structural contradictions within social systems, and thereby to transform these alienating and restrictive social conditions” (p. 5). Quantitative research is usually associated with Burrell and Morgan’s (1979) functionalist paradigm while qualitative research is more closely related to the interpretive and other paradigms.

While often cited and useful in identifying methodological alternatives, the Burrell and Morgan (1979) matrix has been extended and criticised since its publication (see for example, Deetz, 1996; Lowe, 2001; Morgan & Smircich, 1980). Lowe (2001) states that the criticisms of Burrell and Morgan (1979) revolve around the “clear distinction between the methodologies and of an incommensurability between different paradigms” (pp. 7-8). Morgan and Smircich (1980) build on the work of Burrell and Morgan (1979) and argue

that “the dichotomy between quantitative and qualitative methods is a rough and oversimplified one” (p. 491). They go on to break down the functionalist and interpretive paradigms into a “rough typology” based on social scientists’ core ontological and human nature assumptions that underlie social scientists’ research. According to Morgan and Smircich (1980):

Once one relaxes the ontological assumption that the world is a concrete structure, and admits that human beings, far from merely responding to the social world, may actively contribute to its creation, the dominant methods become increasingly unsatisfactory, and indeed, inappropriate. (p. 498)

Morgan and Smircich (1980) somewhat relax the “mutually exclusive” nature of the four paradigms.

A qualitative approach to research generally asserts that human behaviour is “best understood from the actor’s own perspective” as opposed to the quantitative perspective where human behaviour is viewed from outside (Atkinson & Shaffir, 1998, p. 43). Different methodologies lead to the use of different research methods. A quantitative approach will tend towards methods such as questionnaires that yield data that are amenable to statistical analysis and inference. Alternatively, a qualitative approach may use methods such as semi-structured interviews or observation, that try to capture an individual’s “process of interpretation” (Atkinson & Shaffir, 1998, p. 43).

Debates about the relative merits and distinctions between quantitative and qualitative research methodologies have been vigorous since the publication of the Burrell and Morgan (1979) book (see for example, Aherns & Dent, 1998; Atkinson & Shaffir, 1998; Crotty, 1998; Dyer & Wilkins, 1991; Eisenhardt, 1991; Hines, 1989; Orlikowski & Baroudi, 1991; Parkhe, 1993). Lowe (2001) in discussing how field researchers in accounting select a method and methodology in order to frame a research question notes:

Despite over two decades having passed since the appearance of the Burrell and Morgan matrix there still appears to be considerable confusion in the accounting literature over what role methodology plays in research and the related issue of what manner of rules might sensibly be applied to govern the conduct of field research. (p. 3)

The debate about the relative merits and usefulness of different methodological approaches looks set to rage and consume academic communities for some time to come.

Miles and Huberman (1994) believe that the “quantitative-qualitative argument is essentially unproductive” (p. 41). In more pragmatic fashion, Eisenhardt and Graebner (2007) suggest the approach for coping with the varied meanings of ‘qualitative research’ is to “avoid using the term” (p. 28). They suggest instead that researchers clarify their research strategy and be explicit about the theory building⁸ in order to avoid “confusion, philosophical pitfalls, and unrealistic reader expectations” (Eisenhardt & Graebner, 2007, p. 28).

The different methodologies chosen by researchers lead to different assumptions, methods and ways of viewing knowledge in research. Before returning to the implications of this debate on the selection of methodology and method for this research, it is useful to review the methodological approaches and methods commonly utilised by corporate governance and co-operative researchers.

5.3 Methodologies in Governance and Co-operative Research

Most research in corporate governance and agricultural co-operatives research is functionalist. This is quantitative work often based on economic theory (Cook et al., 2004) or agency theoretical assumptions (Gabrielsson & Huse, 2004) frequently utilising archival data from large US firms (Gabrielsson & Winlund, 2000).

Functionalist assumptions about the nature of social science lead to research using a nomothetic methodology (Burrell & Morgan, 1979, p. 2) placing emphasis on systematic measurement and identification in order to “search for universal laws which explain and govern the reality which is being observed” (Burrell & Morgan, 1979, p. 3). Positivists seek to “predict what happens in

⁸ The type of research to be carried out in this thesis

the social world by searching for regularities and causal relationships between constituent elements” (Burrell & Morgan, 1979, p. 5). This predominantly positivist research tradition utilising existing theories may have led to inconclusive results in the theories explanatory and predictive power (for summaries see, Dalton et al., 1998; Deutsch, 2005), and to an incomplete understanding of the roles of governing boards (Stiles & Taylor, 2001).

Most governance research attempts to link firm performance with a particular aspect of board composition of interest (Stiles & Taylor, 2001). Roberts et al., (2005) note that “whilst researchers remain wedded to the testing of theoretical models and assumptions against large quantitative data sets, they remain at considerable distance from the object of their inquiry, and as a result are inevitably obliged ... to make huge inferential leaps” (p. S20). This has seen calls for board process studies (Huse, 2007; Leblanc & Schwartz, 2007; Lockhart, 2006) as these “can help to bring a measure of sophistication and balance to an area of corporate governance that is all too often fraught with contention and ideology” (Forbes & Milliken, 1999, p. 502).

Daily et al., (2003a) believe much governance research is limited because of its “near universal focus on a direct relationship between corporate governance mechanisms and firm financial performance” (p. 376). Short et al., (1999), for similar reasons, believe that this type of research may be flawed (p. 346). The focus by researchers on simplistic, easily measurable structural dimensions of governance has shown no relationship to board or firm performance (Schmidt & Brauer, 2006). This may be due to what Huse (2000) refers to as the “lamp syndrome” where “those issues that are easiest to get access to are the most researched” (p. 282).

This research aims to gain an understanding of the roles actually pursued by directors, their processes, relationships, and influences on the governing boards of dairy co-operatives in New Zealand and Australia. The usual approaches do not appear ideal for this understanding. As this field of research can be viewed as being in the early stages of development, there is a need for descriptive data

(Huse, 2000; Pettigrew, 1992; Stiles, 2001). There is a compelling need to get closer to the action, to gain insight into how boards actually work. Scholars have been calling for methodologies and methods that enable the research to be undertaken as close to the action and context as possible (Leblanc & Gillies, 2005; Levrau & Van den Berghe, 2007a; Pye & Pettigrew, 2005) to understand how boards are run, their processes, directors' behaviours, and how they interact with management (Schmidt & Brauer, 2006). To acquire such an insight, the perspectives and realities of those involved in the governance of dairy co-operatives are required to gain an in-depth understanding of board roles. Such an understanding places emphasis on inductive, qualitative research approaches (Roberts et al., 2005).

A decade and half ago Pettigrew (1992) noted that in governance research there are "few theoretical, empirical, or methodological guideposts to assist the optimistic yet wary researcher through the prescriptive minefield" (p. 169). Brennan (2006) sees "a need for a different approach to researching governance, based on more qualitative approaches" (p. 587), as do others (Leblanc & Schwartz, 2007; Roberts et al., 2005) to study the dynamics of governance relationships (Huse, 2000).

In order to answer the research question, qualitative research will be appropriate in gaining an understanding of the roles, processes, decision making and relationships of governing boards of dairy co-operatives from the participants' perspective.

Within the corporate governance literature there are existing theoretical models (see Chapter 3) that border the subject area relating to board roles (Hung, 1998). Existing theories and research have had some disappointing results (Daily et al., 2003b; Dalton & Dalton, 2005) so it has been suggested that descriptive empirical research may throw light on the topic (Gabrielsson & Huse, 2004; Leblanc & Gillies, 2005; Leblanc & Schwartz, 2007; Nicholson & Kiel, 2007). Parker and Roffey (1997) see the need to relate theories developed by grounded theory (or similar) methods to existing theories, thus "amplifying

and extending our current understandings of the phenomena in question” (p. 241).

5.4 Selected Methodology

For research to be undertaken, at some point a researcher needs to make a choice of methodology and method that they feel is most appropriate to the research question. The clear articulation of the methodology and the method in the text answers calls by Pye and Pettigrew (2005) for “greater attention to the assumptions that underpin the researchers’ choice of methods, as well as greater clarity about techniques for analysing data and process of theorizing” (p. S36). This articulation should leave the reader in no doubt as to the orientation and bias of the researcher (Crotty, 1998; Ferreira & Merchant, 1992).

The methodology chosen for this research is Eisenhardt’s (1989a) theory building foundation. The methodology utilised for the research leads to the selection of the information to be collected and the research techniques used (Lowe, 2001).

The single most important condition for selecting data collection methods is the research question asked (Lockhart, 2006; Yin, 1994). Field research would be particularly useful here because the “existing theory cannot explain phenomena” (Atkinson & Shaffir, 1998, p. 50) to do with corporate governance and co-operative structures.

Lockhart (2006) suggests case research represents a “substantial shift in the lens through which we conduct governance research” (p. 40) which may be required to progress the field. Cornforth (2004) also sees the need for more in depth case study research into co-operatives (p. 27). Lockhart (2006) believes case studies are the “preferred technique when there is some focus on contemporary or current events. Board activities and subsequent performance is such an event” (pp. 33-34). In order, to gain insight and understanding of what actually happens inside the “black box” of co-operative board rooms the

perspectives of governance participants are required. This suggests that case study field research with qualitative research techniques is an appropriate methodological approach (Eisenhardt, 1989, 1991; Ferreira & Merchant, 1992; Parkhe, 1993; Yin, 1994, 1997).

5.4.1 Case Studies

A case study is an investigation of a “contemporary phenomenon” within a “real-life” context where the boundaries between the phenomenon and the context are not clear (Yin, 1994, p. 13). Case studies have a number of uses and advantages over other research methods. Case studies are useful in understanding complex social phenomena (Yin, 1994) around which there has been little academic research published (Perry, 1998, p. 785). Case studies are appropriate where behaviours cannot be manipulated (Yin, 1994, p. 8) and there is a need to emphasise the context in which the phenomena occur (Eisenhardt & Graebner, 2007, p. 25). Case research has a distinct advantage where research and theory are in their formative stages (Graebner & Eisenhardt, 2004) and where the actors and the context are critical (Benbasat et al., 1987). Eisenhardt (1989a) suggests theory-building case study research should be conducted when a fresh perspective is needed on a topic as existing theory, or “current perspectives seem inadequate because they have little empirical substantiation, or they conflict with each other or common sense” (p. 548). Case research is well-suited to generating theories from practice, that is, capturing knowledge from practitioners in unexplored areas and developing theory from it (Benbasat et al., 1987; Eisenhardt, 1989a; Eisenhardt & Graebner, 2007).

The case study method is particularly relevant in explaining how and why contemporary events occur over which the researcher has little control, such as co-operative governance. Lockhart (2006) goes further to suggest “only the case study method is appropriate to provide an in-depth understanding of why” (p. 34).

Another advantage of the case study is its ability to employ multiple methods of data collection to gather information (Benbasat et al., 1987) and a commensurate ability to cope with a variety of evidence such as documents artefacts, interviews and other observations (Yin, 1994, p. 8).

Finally, the case study method is seen as producing robust findings. Eisenhardt and Graebner (2007) claim theory building from case studies is “an increasingly popular and relevant research strategy that forms the basis of a disproportionately large number of influential studies” (p. 30). Likewise, Sterns et al., (1998) suggest case study research is “capable of generating a robust, comprehensive array of “knowledge” about complex, highly interdependent and dynamic economic and social phenomena” in agribusiness research, particularly in firm decision making (p. 311). For these reasons, the method favoured for this research in order to develop a theory of the roles of governing boards of New Zealand and Australian dairy co-operatives, is the case study.

There are four broad types of case studies: exploratory (or descriptive), theory building, exemplar, and hypothesis testing (Atkinson & Shaffir, 1998; Ferreira & Merchant, 1992; Stablein, 1996). Theory building cases are used in this thesis to fulfil the aim and are most appropriate for a theory of corporate governance contextualised in agricultural co-operatives.

Doolin (1994) identifies three categories of case studies: single, multiple, and case survey (p. 13). The multiple-case design is utilised in this study as it is desirable when the intent of the research is description and theory building (Benbasat et al., 1987). A multiple case study design increases the generalisability of the findings and develops “more sophisticated descriptions and more powerful explanations” and deepens understanding (Miles & Huberman, 1994, pp. 172-173). Eisenhardt and Graebner (2007) suggest multiple-case studies typically generate theory that is “better grounded, more accurate, and more generalizable (all else being equal)” that yields more robust and testable theory than single-case research (p. 27).

5.4.2 The Eisenhardt (1989a) Method

The research method chosen here is inspired by Eisenhardt's (1989a) case study method. The Eisenhardt (1989a) multiple case study method is selected because it is designed to construct a "roadmap for building theories from case study research" (p. 534). It has been cited as authoritative and has the capacity to produce meaningful knowledge (see for example, Brown & Eisenhardt, 1997; Eisenhardt & Bourgeios, 1988; Graebner & Eisenhardt, 2004).

5.4.3 Criticisms of Selected Method

Case study research has been criticised on a number of a levels. It is important to understand these criticisms in order to a) be aware of them as a researcher and reader and b) to undertake 'tactics' to minimise these weaknesses. This section firstly explores general criticisms of the case study method and secondly, specific criticisms of the Eisenhardt (1989a) method.

5.4.3.1 General Criticisms of Case Study

Yin (1989) identifies a number of 'prejudices' against case studies; they take too long and are too difficult, they have poor quality findings resulting in a mass of documents, they lack rigour, and allow for little generalisation. Each of these points is discussed in turn.

Case research can be resource consuming, particularly in terms of time (Lockhart, 2006; Yin, 1989). Case studies require research to be conducted within organisations (Lockhart, 2006) thus highlighting the difficulties of access to board information (Leblanc & Schwartz, 2007; Pye & Pettigrew, 2005; Wan & Ong, 2005). There also needs to be an empathy with the businesses being researched (Lockhart, 2006). Case study research is also criticised for the quality of its findings, in particular, overly complex theories at the cost of parsimony (Eisenhardt, 1989a; Parkhe, 1993) and "result in massive unreadable documents" (Yin, 1994, p. 11). Faced with "vivid, voluminous data", researchers can be tempted to build theory which tries to capture everything (Eisenhardt, 1989a, p. 547). The complexity of social systems by their very nature almost defy modelling (Key, 1999).

Alternately, case study research can produce “narrow and idiosyncratic theory” with an inability to raise its “level of generality” (Eisenhardt, 1989a, p. 547). There is “almost by necessity” a need to simplify what is being explained and “complexity may be lost in the trade off” (Key, 1999, p. 317).

Finally, the method has the ability to merely replicate prior theory or produce “no clear patterns from the data” (Eisenhardt, 1989a, p. 545) and can be ultimately “repetitive” (Lockhart, 2006, p. 40). Yin (1994) also cites “lack of rigour” by researchers who allow “equivocal evidence” and “biased views” to influence their findings (p. 9). Sample selection and data collection biases are also an issue. Sample selection bias can occur because those willing to be involved aren’t representative (Ferreira & Merchant, 1992). Interviewing is particularly prone to data collection biases, both response and interpretation biases (Atkinson & Shaffir, 1998; Ferreira & Merchant, 1992).

Case studies, particularly single cases, have limitations as to the generalisability of their findings (Ferreira & Merchant, 1992; Golden & Zajac, 2001). Yin (1997) however, highlights that generalisation from case study research is a matter of analytical generalisation, “using single or multiple cases to illustrate, represent, or generalize to a theory” as opposed to statistical generalisation, “generalizing from a sample to the universe” (p. 239). Analytical generalisation will be attempted here from the six cases used.

Yin (1989) believes these prejudices can largely be overcome with good design (also see, Atkinson & Shaffir, 1998; Eisenhardt, 1989a; Eisenhardt & Graebner, 2007; Yin, 1994; 1997). These design challenges and techniques to address them are discussed in Chapter 6 (see, section 6.2.3).

The Eisenhardt (1989a) method specifically has not been without its critics in the literature. It is these criticisms (and defences) that will now be investigated.

5.4.3.2 Criticisms of the Eisenhardt (1989a) Method

The Eisenhardt (1989a) method has been criticised in the literature (Aherns & Dent, 1998; Dyer & Wilkins, 1991; Parkhe, 1993). Dyer and Wilkins (1991) and Aherns and Dent (1998) have concerns around depth of understanding in multiple cases compared to single cases and the use of a priori constructs. Eisenhardt (1991), in a stinging rebuttal to Dyer and Wilkins (1991), argues that multiple cases are “a powerful means to create theory because they permit replication and extension” and for the need for “methodological rigour” (p. 620). It seems likely that the two critiques, (Aherns & Dent, 1998; Dyer & Wilkins, 1991) and Eisenhardt’s (1991) response have to do with philosophical perspectives about how knowledge is acquired, and are thus not inhibitory to its use as long as the paradigm is acknowledged. Eisenhardt and Graebner (2007) themselves champion the need to make the method more explicit.

Parkhe (1993) criticises Eisenhardt’s (1989a) assertion that “theory-building research is begun as close as possible to the ideal of no theory under consideration and no hypotheses to test” (p. 536). Parkhe (1993) argues that this approach “may in many cases amount to ‘reinventing the wheel,’ and [fail] to exploit and build upon previous scientific achievements” (p. 253). This is probably true; nonetheless, given an absence of case-based theory for co-operative governance, there is a need here for grounded development.

5.4.3.3 Methodological Confusion

Eisenhardt (1989a) sits on the edge of the functionalist paradigm and states “the process described here adopts a positivist view of research. That is, the process is directed toward the development of testable hypotheses and theory which are generalizable across settings” (p. 546). Eisenhardt (1989a), for her method draws heavily on the ideas associated with grounded theory (Glaser & Strauss, 1967), case study design (Yin, 1984) and the analysis of qualitative data (Miles & Huberman, 1984) to develop her framework (pp. 546-547). Parker and Roffey (1997) interestingly draw upon the same five authors (Glaser & Strauss, 1967; Miles & Huberman, 1984, 1994; Yin, 1989) as

offering a “potentially valuable part of the qualitative interpretive field research tradition” (p. 243). This thesis will do the same.

Eisenhardt (1989a) envisages a great deal of flexibility in her method. For example, she uses the seemingly contradictory notions of “a priori specification of constructs” and that of “theory building is begun as close as possible to no theory under consideration” (Eisenhardt, 1989a, p. 536). It is at the later end of this continuum that this research is undertaken. While still respecting Eisenhardt’s (1989a) insistence on a functionalist paradigm, this research focuses on the theory development aspect of it.

In a later work Eisenhardt suggests building theory from case studies involves using case-based empirical evidence to inductively create theoretical constructs and that the resultant theory is ‘emergent’ (Eisenhardt & Graebner, 2007, p. 25). This remains consistent with the direction of her previous work generally and remains relevant to the purpose of this study.

In summary, a multiple-case study method based on the Eisenhardt (1989a) framework is adopted as the method to fulfil the aims of this thesis. The proposed outcomes of the research are now addressed.

5.5 Research Outcomes

The stated aim of this research is to develop a theory of the roles of governing boards of New Zealand and Australian dairy co-operatives. In this section, the concept of theory is discussed, what can be expected from theory-building case research and means of evaluation of case research are considered.

5.5.1 Theoretical Outcome Expectations

There are various types and levels of theories (Llewelyn, 2003). Of import here is the distinction between descriptive and normative theories (Zikmund, 2003). Theories representing phenomena as it exists are descriptive theories and those that describe the world as it ought to exist are seen generally to be normative theories. This research develops a descriptive theory of the roles of governing

boards of New Zealand and Australian dairy co-operatives. Accordingly, Key's (1999) simple definition of theory as a "systematic attempt to understand what is observable in the world" is utilised here (p. 317).

Theories provide understanding and explanation by attempting to make complicated things understandable by showing how their components fit together (Miles & Huberman, 1994) thus creating order and logic (Key, 1999) and meaning and significance of social phenomena within context (Llewelyn, 2003). Theories can also generate expectations about the world (Llewelyn, 2003) and are therefore useful for prediction (Leblanc & Gillies, 2005) by generalising beyond individual situations (Zikmund, 2003). Normative theories allow predictive insights into general patterns of behaviour (Zikmund, 2003).

Theory developed from case study research is likely to be novel, testable and empirically valid due to its "intimate linkage with empirical evidence" (Eisenhardt, 1989a, p. 548). This is because the theory is emergent in the sense that "it is situated in and developed by recognizing patterns of relationships among constructs within and across cases and their underlying logical arguments" (Eisenhardt & Graebner, 2007, p. 25). Case study research can result in "fresh theory that bridges well from rich qualitative evidence to mainstream deductive research" (Eisenhardt & Graebner, 2007, p. 30). Theory founded on functional assumptions should be able to be scientifically verified and testable to allow it to either confirm or refute observations or discredit rival theories (Atkinson & Shaffir, 1998, p. 47), either by generating testable empirically established hypotheses (Key, 1999) or by matching predicted patterns against empirical ones (Miles & Huberman, 1994).

Eisenhardt (1989a) suggests the final product of her method can be concepts, a conceptual framework, propositions or possibly a mid-range theory (p. 545). Models are used to represent complex empirical phenomena without losing their essential characteristics and to assist in the development of theory (Leblanc & Gillies, 2005) or in the representation of theory (Miles & Huberman, 1994). A model can be described as "a set of integrated concepts

and principles that form a conceptually coherent whole” (Carver, 2007, p. 1034). The resultant theory of this research emerges in this form (see Chapter 7).

5.5.2 Case Evaluation

There does not appear to be any generally accepted guidelines for the evaluation of case study research, although many writers have offered pointers (see for example, Eisenhardt, 1989a; Eisenhardt & Graebner, 2007; Miles & Huberman, 1994; Yin, 1994) around literature, significance, method and findings of the case research effort.

Eisenhardt and Graebner (2007) see the need for sound empirical research to begin with “strong grounding in related literature, identifies a research gap, and proposes research questions that address the gap” (p. 26). This is done here in chapters two, three and four.

The research should also be assessed on the strength and documentation of the methodology and method (Yin, 1994). This is carried out by relying on Eisenhardt and her colleagues.

Case studies must display sufficient evidence for the reader to have confidence that all cases are treated equally. Equality is addressed in the method (Chapter 6) and the findings (Chapters 7 and 8). The researcher should know the subject. This is the case as the researcher is a member and director of a co-operative board. Suggestions from Eisenhardt and Graebner (2007) and others on the conduct and presentation of evidence are followed (see Chapter 6).

Eisenhardt (1989a) suggests the outcome of good theory-building research is theory that is “parsimonious, testable, and logically coherent” (p. 548). Miles & Huberman (1994) suggest a good theory is one where “categories fit (or have come to fit) the data; that is relevant to the core of what is going on; that can be used to explain, predict, and interpret what is going on; AND that is modifiable” [their emphasis] (p. 144). A strong theory-building study may also

present “new, perhaps framebreaking insights” (Eisenhardt, 1989a, p. 548). These characteristics will be used to assess the resulting framework (Chapter 7).

5.6 Conclusions

In this chapter the methodology used is discussed. The methodologies used in current research in corporate governance and co-operatives are considered. It is posited that the research question to be answered and the current stage of development of the field of co-operative governance research is appropriate to the methodology and method chosen. A discussion of the research method utilising Eisenhardt’s (1989a) eight-step case study method follows (Chapter 6).

CHAPTER 6 RESEARCH METHOD

6.1 Introduction

This chapter sets out the method and tools utilised in this research. As outlined, the Eisenhardt (1989a) multi-case study method is chosen for its ability to fulfil the aims of this thesis. Eisenhardt's (1989a) method is broken down into each of its eight steps and the activities associated with each are discussed. The eight steps are: getting started, selecting cases, crafting instruments and protocols, entering the field, analysing data, shaping hypotheses, unfolding literature and reaching closure (Eisenhardt, 1989a, p. 533). The constant iteration between steps is highlighted. The chapter is rounded out by discussing the presentation of the thesis before conclusions are drawn.

6.2 Eisenhardt (1989a) Method and Research Design

Eisenhardt (1989a) provides a framework for a method of case study research, an overall direction. In the following chapter some of Eisenhardt's (1989a) steps are necessarily fleshed out by reference to other writers (in particular Glaser & Strauss, 1967; Miles & Huberman, 1984; Yin, 1984) and their later works (Miles & Huberman, 1994; Strauss & Corbin, 1998; Yin, 1989, 1994, 1997). Indeed, Eisenhardt (1989a) states that she draws ideas from these five authors and her intention is to "synthesize" and "extend" their work to construct a "roadmap for building theories from case study research" (pp. 532–534). The method is further enhanced by reference to Eisenhardt and Graebner (2007), a follow up article to Eisenhardt's (1989a) original piece. In this section, each of the eight steps of Eisenhardt's (1989a) framework's application to the research are discussed. An outline of the method is reproduced below in Table 6-1.

Table 6-1 Process of Building Theory from Case Study Research

Step	Activity	Reason
Getting Started	Definition of research question Possibly a priori constructs Neither theory nor hypotheses	Focuses efforts Provides better grounding of construct measures Retains theoretical flexibility
Selecting cases	Specified population Theoretical, not random, sampling	Constrains extraneous variation and sharpens external validity Focuses efforts on theoretically useful cases – i.e., those that replicate or extend theory by filling conceptual categories
Constructing Instruments and Protocols	Multiple data collection methods Qualitative and quantitative data combined Multiple investigators	Strengthens grounding of theory by triangulation of evidence Synergistic view of evidence Foster divergent perspectives and strengthens groundings
Entering the Field	Overlap data collection and analysis, including field notes Flexible and opportunistic data collection methods	Speeds analysis and reveals helpful adjustments to data collection Allows investigators to take advantage of emergent themes and unique case features
Analyzing Data	Within-case analysis Cross-case pattern search using divergent techniques	Gains familiarity with data and preliminary theory generation Forces investigators to look beyond initial impressions and see evidence thru [sic] multiple lenses
Shaping Hypotheses	Iterative tabulation of evidence for each construct Replication, not sampling, logic across cases Search evidence for “why” behind relationships	Sharpens construct definition, validity, and measurability Confirms, extends, and sharpens theory Builds internal validity
Enfolding Literature	Comparisons with conflicting literature Comparisons with similar literature	Builds internal validity, raises theoretical level, and sharpens construct definitions Sharpens generalizability, improves construct definition, and raises theoretical level
Reaching Closure	Theoretical saturation when possible	Ends process when marginal improvement becomes small

Source: Eisenhardt (1989a, p. 533).

The steps, one to eight, and the activities associated with each are as follows:

6.2.1 Getting Started

The first step in Eisenhardt's (1989a) framework is getting started. Eisenhardt (1989a) suggests in theory-building from case studies that it is initially important for the researcher to (at least broadly) define the research question (p. 536). Yin (1994) advances this, stating that "defining the research questions is probably the most important step to be taken in a research study" in that it helps identify the research strategy to be undertaken (p. 7). The aim of the research is to inductively develop a theory of the roles of governing boards of New Zealand and Australian co-operative dairy companies. The "tentative" research question in this research is therefore:

What roles do the governing boards of dairy agricultural co-operatives in New Zealand and Australia pursue?

Eisenhardt's (1989a) method offers a range of starting positions for research between "a priori classification" of data gathering and "no theory under consideration" (p. 533). As the research on co-operative governance is an emerging field, and substantially normative, *a priori* classification of data gathering is limited. This research begins as close as possible to the "ideal of no theory under consideration and no hypotheses to test" end of the spectrum (Eisenhardt, 1989a, p. 536).

Conceding that it is impossible to achieve this ideal, Eisenhardt (1989a) advises avoiding thinking about specific relationships between variables and theories at the outset of the research (p. 536). Pettigrew (1997) also suggests few researchers "enter the field with an empty head waiting to be filled with evidence" and that scholars carry "assumptions, values and frames of reference which guide what they are capable of seeing and not seeing" (p. 339). As Perry (1998, p. 788) muses "common prior knowledge gained through the process of socialization will inevitably influence the researcher ... thus starting from scratch with an absolutely clean theoretical slate is neither practical or preferred" (p. 788). These notions are understood and highlighted, and as discussed, the topic is of immense interest to the researcher.

While no theory is under consideration initially, the literature reviews are still important at the getting-started stage of this research. The literature is used to identify the gap and the research question (see Chapter 4). Yin (1994) sees the literature review as useful in developing “sharper and more insightful questions about the topic” (p. 9). Eisenhardt (1989a) cautions, however, that the specification of a research question at the outset, while helpful, is only “tentative” and it may “shift during research” (p. 536). In this research, the emphasis shifts over the course of conducting the research as it becomes apparent that to understand board roles it is also necessary to understand board behaviour in a larger sense.

The starting point also does not deny Parkhe’s (1993) notion of the “current stage of the evolution” of the research area of interest. Although there is no single integrative theory of the roles of governing boards of co-operatives, previous research and the researcher’s interests provide direction to some “potentially important variables”. For example, Hung (1998) believes any integrative theory of the roles of corporate governance should be able to integrate the six roles and theories highlighted in his typology (p. 109). This perception is also consistent with Miles and Huberman (1994) who state that “much qualitative research lies between these two extremes. Something is known conceptually about the phenomenon, but not enough to house a theory” (p. 17).

In summary, this research begins with no *a priori* theoretical framework under consideration, nor does it force any particular *a priori* specification of constructs. This allows the constructs and their relationships to be induced from the empirical data. The second step of selecting cases follows.

6.2.2 Selecting Cases

The second of Eisenhardt’s (1989a) steps is selecting cases. This section covers the dairy co-operatives who participated and the underlying reasons for their selection. The unit of analysis is covered in section 6.2.2.1 below. Careful theoretical, not random, selection is required so that co-operatives and their

boards that contribute the most in terms of ‘information richness’ to the research, are selected.

The method suggests that the cases be selected from a specified population (Eisenhardt, 1989a, p. 537), which in this instance is New Zealand and Australian dairy co-operatives. The selection is purposeful and strategic, allowing greater focus on the research question and answering calls for more focussed contextual research (Cornforth, 2004; van der Walt et al., 2002). By concentrating on New Zealand and Australia, co-operatives and the (bovine) dairy industry, the selection from the specified population helps control “extraneous variations” (Eisenhardt, 1989a, p. 537). Golden and Zajac (2001) observe that a single industry study substantially minimises the “confounding effects of external contextual variables (e.g., industry life cycle, regulation)” (p. 1095). This is important as contextual and environmental variables may affect the various functions performed by the board of directors (Ravasi & Zattoni, 2006, p. 1699). By sampling from a specified population, the risk of creating overly complex theories at the cost of parsimony is reduced (Eisenhardt, 1989a; Parkhe, 1993). Doing so also “sharpens external validity” and “helps to define the limits for generalizing the findings” (Eisenhardt, 1989a, p. 537).

The cases represent theoretical not opportunistic, random or statistical sampling. This focuses the research effort on cases that are theoretically useful. As Eisenhardt (1989a) states, “the goal of theoretical sampling is to choose cases which are likely to replicate or extend the emergent theory” or to fill “theoretical categories” and provide “examples of polar types” (p. 537). Eisenhardt and Graebner (2007) extend the understanding of theoretical sampling suggesting “cases are selected because they are particularly suitable for illuminating and extending relationships and logic among constructs ... replication of findings from other cases, contrary replication, elimination of alternative explanations, and elaboration of the emergent theory” (p. 27). That is, cases within the scope of the investigation and which contribute the most in terms of “information richness” to the research, are selected.

The companies selected each represent co-operatives, in that they conform to USDA co-operative principles (i.e., they are user-owned, user-controlled and user-benefited (Barton, 1989a), as outlined in Chapter 2). All cases are in the dairy industry with each co-operative involved in the collection, (extensive) manufacture and marketing (internationally) of its supplier-shareholders' milk and milk products. This vertical integration, being part of co-operative economic theory, also allows directors to display a variety of roles relating to the governance of their co-operative. The selection criteria and rationale are highlighted in Table 6-2.

Table 6-2 Case Selection Criteria

Criteria	Measure	Reason	Distinctions
Co-operative	User-owned User-controlled User-benefitted	The focus of this study The context of this research	Differences in levels of shareholding value ranging from 'nominal value' to 'fair value'. Variations in the timing of withdrawal of capital from the co-ops. Differences in voting ranging from 'one-farm-one-vote' to 'proportional-to-patronage'
Dairy	Over 50% of income from dairy related products	The context of this research To reduce extraneous variables	Differing product ranges, markets and distribution channels
User dominated board	Supplier-shareholders make up over 50% of the board composition	The focus of the study – user-controlled	Differences in percentages of users on the board. See section 7.6.1.1 'Composition', in particular, Table 7.7 for details of distinctions
Vertically integrated	Markets a proportion of its own processed products	To allow a range of governance roles For comparative purposes	Differences in in-market infrastructure
New Zealand and Australian	Milk supply and main processing reside in New Zealand or Australia	Limit extraneous variations or non-contextualised co-operatives	Three cases in each of New Zealand and Australia. Some offshore processing

All co-operatives selected meet the case selection criteria and provide a large sample of the population of concern. While these co-operatives are distinct in that they vary in size, geography, strategically, by product offerings and by distribution channels (e.g. with revenues from over \$100 million to over \$19 billion (2007/2008 Annual reports)), they are all similar in that they concentrate on the collection, processing and marketing of milk products for the benefit of their supplier-shareholders. All cases fit within the scope of the study.

The number of cases selected for this study is a mix of the need for “information richness” (Perry, 1998), “careful comparison” (Pettigrew, 1997), “theoretical saturation” (Glaser & Strauss, 1967) and pragmatism. The need for pragmatism occurs at two levels; first, by the limited number of possible cases in the population and secondly, the need to avoid death by “data asphyxiation” (Miles & Huberman, 1994). Various case study writers suggest differing numbers of cases in multi-case research. Perry (1998) suggests between four and ten cases, Pettigrew (1997) between six and ten, Yin (1994) four to six, and Eisenhardt (1989a) sees the need for between four and eight cases. For this research, six co-operative dairy companies are selected; there are three each from New Zealand and Australia. Initial cases are analysed and extra cases added in line with the criteria outlined by the Eisenhardt (1989a) method to “extend or replicate emergent theory”. Cases stop being added at the point where theoretical saturation is reached (Glaser & Strauss, 1967) (covered in section 6.2.8.1 below).

While this study uses theoretical sampling, the research frame encompasses the entire population of New Zealand (bovine) dairy co-operatives. The inclusion of both New Zealand and Australian dairy co-operatives allows an adequate number and range of cases to be chosen. There are a limited number of dairy co-operatives from which to source cases. Continued amalgamations (driven largely by economies of scale) and industry dynamics have led to a reduction in the number of dairy co-operatives generally.

6.2.2.1 Unit of Analysis

The unit of analysis relates to the “fundamental problem of defining what the ‘case’ is” (Yin, 1994, p. 21). The most appropriate unit of analysis for research is often indicated by the research questions (Benbasat et al., 1987; Yin, 1994). Previous literature may also be an important guide (Yin, 1994, p. 25). Miles and Huberman (1994) define a case “as a phenomenon of some sort occurring in a bounded context. The case is, in effect, your unit of analysis” (p. 25). The unit of analysis selected in this research is the governing boards of directors of the dairy companies in the cases (co-operatives) outlined above. The persons included within the unit of analysis are the board of directors (as listed in annual reports). The boards comprise a variety of director “positions” including the chairperson (and possibly a deputy chairperson), supplier-shareholder directors, outside non-executive non-supplying-shareholder directors bought on for their specialist skills, and any executive directors.

In summary, theoretical sampling from a specified population is used to identify six cases for the development of a theory of the roles of governing boards of dairy co-operatives in New Zealand and Australia. The six cases are in the New Zealand and Australian dairy industry and, in line with Eisenhardt’s (1989a) framework, represent both theoretical and literal replication. The reasons for the cases selection are given. The unit of analysis for this research is described. The crafting of instruments and protocols is now addressed.

6.2.3 Crafting Instruments and Protocols

The third of Eisenhardt’s (1989a) steps is the crafting of instruments and protocols. This section covers the sources of evidence that constitute data in case studies and the combination of data used in this research. The data collection methods are then elucidated. The respondents targeted and the reasons for their selection are outlined along with ethical issues. The crafting of instruments and protocols is important to overcome the criticisms of the

method as outlined in section 5.5.3 (Yin, 1994). Tactics employed to ensure quality research are outlined in section 6.2.3.4.

The data needs of research are dependent on the research questions and the unit of analysis (Benbasat et al., 1987). The aim is to obtain rich data around the research topic and its context. The case study method allows multiple sources of data and collection techniques. A strength of case study research is its ability to cope with a variety of evidence to gain an understanding of the phenomena under investigation (Eisenhardt, 1989a; Yin, 1994). Yin (1994) identifies six sources of evidence that constitute data in case studies: “documents, archival records, interviews, direct observation, participant observation, and physical artefacts” (p. 79). Yin (1994) sees these six sources of evidence as complementary and believes that as many sources as possible should be used in case studies (p. 80). Eisenhardt’s (1989a) method suggests multiple data collection methods, combining qualitative and quantitative data and multiple investigators. These activities allow a synergistic view of evidence, fosters divergent perspectives and strengthens the grounding of theory (p. 533). As a doctoral thesis, this research has both resource and academic constraints that limit the ability to use multiple researchers, but other techniques are employed.

Several data sources are utilised in this research. By far the largest is from semi-structured interviews and follow-up interaction with participants (outlined below, section 6.2.4). Documents, archival data and some observation also form an important element in this research. Documentation is likely to be applicable in all cases (Yin, 1994, p. 81) and is utilised in this research. Archival data systematically collected and found useful include co-operative constitutions, annual reports, and variously; company websites, reports to shareholders, some internal documents sourced from respondents, newspaper articles, industry and business publications and other published articles. Archival data is utilised in a variety of ways; to influence collection methods, to focus on contemporary events (Lockhart, 2006), to “corroborate and augment evidence from other sources” (Yin, 1994, p. 82), to make

inferences and to triangulate with interview data to increase the reliability of the findings. Documentary evidence proves to be a rich source of data to supplement the chief source of data, semi-structured interviews to document the roles of governing boards of dairy co-operatives.

Direct observation, both formal and casual, is used during these case studies as sites are visited. Although there is no observation of board meetings (apart from the co-operative the researcher participates in⁹) direct observation is utilised before, during and after interviews. At least one of each case interview is undertaken in the co-operative's offices and includes, in some cases, manufacturing plant tours. These observations are recorded in field notes as soon as practicable after the completion of interviews (Kvale, 1996). The types of data utilised in triangulating each resulting theoretical concept are displayed in Appendix C.

6.2.3.1 Interviews

Interviews are considered a highly efficient way to “gather rich, empirical data” (Eisenhardt & Graebner, 2007, p. 28), to help explain “complex organizational processes” (Judge & Zeithaml, 1992, p. 786) and to understand how, when and why boards act or fail to do so (Leblanc, 2004, p. 437). Fontana and Frey (1994) identify three major types of interviewing – structured, group and unstructured (p. 361). A fourth type could easily be added to this group, semi-structured interviewing (Kvale, 1996). The lack of flexibility with structured interviews, lack of depth with group interviews, and the lack of a ‘framework’ with unstructured interviews, discounted these types for this study. Semi-structured interviews are used in this research.

The interviews are to collect rich empirical evidence on board and director roles, processes and relationships based on participants' own co-operative governance experience. As such, this research utilises semi-structured, in-depth

⁹ Due to the difficulties in gaining access to boardrooms and the need to treat cases consistently through a multi-case approach, these observations are not deliberately used by the researcher.

interviews with key governance participants as the primary data and collection method for this thesis. Consistent with the aims of the research, insights, understandings and perspectives of participants are required to gain an appreciation of a poorly researched phenomenon; the co-operative board's processes and dynamics. According to Yin (1994), informants answering open-ended questions are "often critical to the success of case studies" (p. 85). Semi-structured interviews allow respondents to talk freely and candidly about their roles and relationships within the context of their co-operative positions (Long et al., 2005).

The use of semi-structured, in-depth interviews also enables flexibility allowing the researcher to tailor interviews to interviewees, to explore themes raised by the interviewees, as well as themes highlighted in the literature and previous data collection. This is consistent with the Eisenhardt (1989a) method which sees the use of semi-structured interviews as important as they allow researchers to "probe emergent themes" and to "improve the resultant theory" (p. 539). The interviews with informants are also in line with the qualitative interpretive methodology outlined as researchers attempt to understand the informant's world from their perspective.

An interview guide (or schedule) is utilised in the field to guide the interviews (see Appendix A for an example interview guide). The semi-structured interview schedule is initially developed utilising the aims of the research, "suggestions" from the existing literature and archival research. All these notions are 'held lightly' by the researcher. A purely grounded theory approach to interviewing is rejected due to the methodological consistency (Eisenhardt & Graebner, 2007), and the interest in cross-case comparisons (Miles & Huberman, 1994). The interview schedule is revised, amended and enhanced regularly, but not unsystematically, through the course of the study. This is done to tailor each interview to each respondent's governance position. It is also updated for each subsequent case (and often interviewee) as theoretical issues or themes emerge. As the data collection progresses, the researcher is able to inform ongoing data collection and explore issues and "serendipitous

findings” that are raised in previous interviews and initial analysis (Eisenhardt, 1989a). Further description of the interview process is covered in entering the field (section 6.2.4 below).

6.2.3.2 Respondents

As noted earlier with the selection of cases, the selection of respondents is not random, it is strategic and theoretical. The informants targeted to obtain empirical data are selected because: (a) they can reasonably be expected to contribute most in terms of “information richness” to the topic under research; (b) they are most likely to capture a range of views and special insights on the board’s roles, processes and relationships; and (c) they may shed light on the distinction between “board” and “individual” director’s roles.

For each co-operative case at least three respondents are interviewed. In each case the chairperson (who is a supplier-shareholder director in all but one of the cases), a lead supplier-shareholder director (often the deputy chairman), an appointed¹⁰ director brought on for their specific skills (in all but one of the cases) and the incumbent CEO¹¹ in the New Zealand cases, and MD¹²s (in one case the immediate past MD) in the case of the Australian co-operatives, are interviewed. Most, but not all, respondents come from the board. The CEO, in cases where they do not have a seat on the board, is interviewed as they have a key relationship with the board. The strategic targeting of respondents also allows insights into individual directors’ roles on the board as well as board roles per se. This utilises “within role categories”, a subject area the literature suggests is under-researched (Pettigrew, 1992; Pye, 2004). Theoretical selection also allows for a variety of views on board and director roles enabling the extension of the emergent theory. This also reduces the risk of a biased representation and permits respondent triangulation (Eisenhardt & Graebner, 2007). The ‘quality’ of respondents leads to high ‘information richness’ of empirical data. Interviewing multiple directors from the same board also

¹⁰ The term “appointed” director is used here to describe directors that are both non-executive and non-supplier-shareholders directors.

¹¹ Chief Executive Officer

¹² Managing Director

enables a subtle view of board practices (Van den Berghe & Levrau, 2004) and a “richer more elaborate model” (Graebner & Eisenhardt, 2004, p. 371).

6.2.3.3 Ethical Issues

As the research involves human participants, approval is gained at each appropriate stage of the research from the Waikato Management School ethics committee to ensure that the research follows the nine primary principles of conducting research projects. Prior to each interview respondents are taken through an outline of the study and asked to sign a consent form outlining, among other things, the researcher’s position on a competitive dairy co-operative, confidentiality, the ability of the interviewee to ask any questions, review the transcribed interviews and to withdraw at any time (see Appendix B for sample forms). Each interviewee is asked if the interview could be recorded and copies of transcribed interviews are returned to interviewees before analysis for any corrections, deletions or additions they may wish to make.

6.2.3.4 Research Quality

Yin (1994) identifies four “tests” that are commonly used to judge the quality of empirical case research: construct validity, internal validity, external validity and reliability (p. 32). “Case study tactics” can be employed at various stages of the study to enhance the quality of the research. In Table 6-3 below Yin’s (1994) tests, case study tactics and the phase of the research that the tactics are employed are displayed.

Table 6-3 Case Study Tactics

Tests	Case study tactic	Phase of research in which tactic occurs
Construct validity	- use multiple sources of evidence - establish chain of evidence - have key informants review interviews	During data collection multiple sources of evidence is obtained - A chain of evidence was established - All interviewees were given transcripts of their interviews for comment and correction
Internal validity	- do pattern-matching - do explanation-building - do time-series analysis	Pattern matching and explanation building formed an important part of the analysis
External validity	- use replication logic in multiple-case studies	The research design allows replication logic using six co-operative cases
Reliability	- use case study protocol - develop case study data base	During data collection a case study protocol is used along with a computer software package as a case study database

Source: adapted from Yin (1994), p. 33

6.2.3.4.1 Construct validity.

Construct validity refers to the establishment of “correct operational measures for the concepts being studied” (Yin, 1994, p. 33) and is considered one of the primary strengths of field research (Atkinson & Shaffir, 1998). To enhance construct validity, Eisenhardt (1989a) suggests the grounding, triangulation, and iterative tabulation of evidence, along with comparisons with the literature for each construct. This research is deeply grounded in the varied empirical evidence, most notably, the experience of co-operative governance participants. This, according to Eisenhardt (1989a), is likely to “result in a theory that is empirically valid because of its intimate tie with the evidence” (p. 547). The multi-case research design allows accurate definition and precise delineation of constructs (Eisenhardt & Graebner, 2007, p. 27). The utilisation of multiple sources of data and multiple collection methods facilitates firmer grounding of the emergent theory (Eisenhardt, 1989a, p. 538) and allows an in-depth understanding of the research subject (Denzin & Lincoln, 1994, p. 3).

Triangulation of data, or allowing different evidence to converge on the findings of the study, enhances construct validity (Benbasat et al., 1987; Yin, 1994) by providing “stronger substantiation of constructs” (Eisenhardt, 1989a, p. 538). As outlined, this research uses data triangulation by collecting evidence from documentation (section 6.2.3), from interviewing (section

6.2.3.1) and from direct observation of directors' place of work. The utilisation of a number of key informants from each case, as outlined in Table 6-4, also allows for triangulation (Eisenhardt & Graebner, 2007; Ferreira & Merchant, 1992) as informants subtly differing perspectives triangulate into the emerging constructs.

Yin (1994) suggests a chain of evidence to improve construct validity. This thesis acts as a chain of evidence. The tabulation of evidence helps to ensure that constructs fit with the data (Eisenhardt, 1989a, p. 542). Atkinson and Shaffir (1998) see having the people interviewed read and confirm what is observed as an important way of limiting possible bias of the researcher, possible misunderstanding interviewees' perspectives and adding credibility to the findings (p. 60). These tactics are utilised in the data collection phase.

6.2.3.4.2 Internal validity.

The internal validity of this research is enhanced during the data analysis by the use of a number of tactics: first, by clearly documenting the philosophical foundations of this research and the research approach used (Sterns et al., 1998, p. 314); secondly, by using the qualitative data "for understanding why or why not emergent relationships hold" and the "dynamics underlying the relationships" (Eisenhardt, 1989a, p. 542); and finally by tying the emergent theory to the existing literature (Eisenhardt, 1989a, p. 545).

6.2.3.4.3 External validity.

External validity refers to "establishing the domain to which a study's findings can be generalized" (Yin, 1994, p. 33). To establish whether the research findings can be generalised beyond the immediate case study, replication logic must be used (Yin, 1994, p. 35). Eisenhardt (1989a) pursues both literal and theoretical replication. Literal replications confirm the theoretical propositions from earlier case studies. If repeated cases confirm the emergent relationships, external validity is enhanced and creates "more robust theory" (Eisenhardt & Graebner, 2007, p. 27). Replication of the findings is achieved by using six cases from the specified population to replicate the emergent theory.

This research also attempts to maintain a chain of evidence, in the form of this thesis, from initial aims to conclusions with supporting empirical evidence to enhance the generalisation of these findings. The tying of evidence to the extant literature also enhances the generalisability of the findings (Eisenhardt, 1989a, p. 545).

6.2.3.4.4 Reliability.

According to Yin (1994) the goal of reliability is to “minimize the errors and biases in a study” (p. 36). Yin’s (1994) main tactics to enhance reliability are to document procedures through the use of a case study protocol and the development of a case study database.

Yin (1994) considers the case study protocol as essential in multiple-case studies. The protocol should contain the following in-depth sections: an overview of the case study project, the field procedures, the case study questions and a guide for the case study report (p. 64). This research utilises a case study protocol based on the Eisenhardt (1989a) framework.

The reliability of this research is enhanced by a detailed description of the study, its philosophical underpinning, the basis of case and interviewee selection and the context for the gathering of data and the researcher’s role in that process. The techniques used in the analysis of data are clearly articulated inclusive of the use of computer software to provide a case study database. The reporting of findings and supporting evidence are all designed to enhance reliability. Supervisors (qualified researchers) provide input and review of each stage of the research process, and presentation of aspects of the research to academic audiences is undertaken. This “chain of evidence” (Yin, 1994) and the presentation of these issues here are designed to facilitate the readers’ judgement as to the reliability of these findings.

The evidentiary case study database enhances the reliability of this thesis and is made up of “notes, documents, tabular materials, and narratives” (Yin, 1994, p. 95). Case study notes in this research include transcripts of interviews,

observational notes and documentary evidence. The computer software QSR NVivo version 2 (www.qsrinternational.com) is utilised to act as a case study database.

A number of potential biases need to be kept in mind. First, sample selection bias can occur where organisations prepared to be involved are more likely to be proud of their achievements in the areas researched or are looking for help in a problem area (Ferreira & Merchant, 1992, p. 26). While most respondents are justifiably proud of their co-operatives achievements, given the coverage of the specified population, the availability of supporting (or refuting) documentation, and multi-respondents per co-operative, it is not believed that sample bias occurred in this research.

Secondly, interview bias is a challenge to reliability. Yin (1994) cautions that interviews, the main source of data in this research, are “subject to the common problems of bias, poor recall, and poor or inaccurate articulation” (p. 85). Interview bias is minimised in this research by using other sources of evidence to corroborate the empirical data. Multiple respondents from the same case who view the phenomena from diverse perspectives also mitigate respondent biases (Graebner & Eisenhardt, 2004, p. 371). Amongst the multiple respondents from each case, no significant differences are found in their descriptions of board roles. All respondents are highly knowledgeable and influential members of their communities. Information bias is further decreased by ensuring confidentiality and by providing them with the opportunity to review the transcribed interviews. Some documentary evidence is also used with a degree of scepticism, understanding “that it was written for some specific purpose and some specific audience other than those of the case study being done” (Yin, 1994, p. 82). Finally, the researcher is aware of researcher bias and undertakes to minimise this by being open to contrary findings (Yin, 1994, p. 59).

In summary, the third of Eisenhardt’s (1989a) steps, crafting instruments and protocols is discussed. Multiple data and collection techniques are used in the

data collection stages of this research to document and theorise on the roles of co-operative governing boards in the New Zealand and Australian dairy industry. Semi-structured interviews and document analysis are the main sources of evidence utilised in this research. Ethical issues are discussed as are applied tactics for producing quality case study research.

6.2.4 Entering the Field

The fourth of Eisenhardt's (1989a) steps is entering the field. In this step Eisenhardt (1989a) foresees activities of overlapping data collection and analysis, including the use of field notes and flexible and opportunistic data collection methods (p. 533).

The combination of data analysis and collection is important as it allows the researcher to speed analysis and also allows advantage to be taken of "special opportunities" and to "probe emergent themes" by adjusting the data collection instruments (Eisenhardt, 1989a, p. 539). This flexibility enhances the emerging theory (Eisenhardt, 1989a; Glaser & Strauss, 1967). During the research themes emerging from early data collection and analysis are explored in later interviews. Examples in this research are the exploration of directors being "educated" by management, the "super" role of the chair and the conflicting nature of board roles in later interviews.

Eisenhardt (1989a) sees field notes as an important means of achieving the overlap between data collection and analysis. Field notes are "an ongoing stream-of-consciousness commentary" of observation and analysis (Eisenhardt, 1989a, p. 539). Observations and reflections, in the form of field notes, are recorded as soon as practicable after the interviews and as memos during analysis. Analysis of the interviews begins immediately upon transcription and this, along with analysis of documents and field notes, is used to inform further data collection largely through the revision of the interview guide. Documentary evidence is systematically collected and analysed throughout the research process to corroborate evidence collected from other sources.

6.2.4.1 Gaining access

One of the greatest problems in the study of governance can be gaining access to informants (Leblanc & Schwartz, 2007; Leblanc, 2004; Lockhart, 2006). Initial contacts are important as it is critical that the individuals approached have sufficient knowledge and authority to support the research. The chairperson of the governing board of each co-operative is approached. In most instances colleagues are utilised in assisting with initial introductions. This is followed by telephone contact with the chair outlining the research, followed by email correspondence including a more in-depth depiction of the study and the researcher's requirements. This is generally followed by differing amounts of correspondence with executive personal assistants to make suitable arrangements to conduct the interviews. This approach allows the researcher deep access to the leaders in each of the co-operative cases, enabling theorisation from a significant base of cases from a large proportion of the population of interest.

Benbasat et al., (1987) see two key points that need to be addressed to gain the co-operation of respondents: confidentiality and benefits (or lack of harm) to the organisation (p. 373). Confidentiality issues are addressed during the initial approach stage and prior to each interview. Although respondents revealed little concern for confidentiality each case and participant are assigned letters and numbers. Confidentiality may also encourage the expression of more candid views (Leblanc, 2004). Thus the findings of this study are focussed on "what was said" as opposed to the slightly more personalised notion of "who said what."

The researcher also provides assurances that the co-operative will not be harmed by its participation and that the researcher will not betray the interviewee's confidence (Benbasat et al., 1987). In this research, the lack of empirical understanding of co-operative governance, particularly in New Zealand and Australia, and the benefit of a greater understanding of the actual roles of governing boards in dairy co-operatives, is highlighted. It is likely that

the co-operative nature of the industry and a very real willingness by respondents to discuss and explore issues of co-operative governance made access to such high quality respondents easier.

6.2.4.2 The interviews

The main source of empirical data for this research is 23 in-depth, semi-structured interviews. Interviews are undertaken individually, face-to-face, between the interviewee and researcher. Each interview typically lasts between one and two hours, with 90 minutes the norm. After permission is granted all interviews are tape-recorded. In one interview the recorder malfunctioned, leaving the researcher to write notes from memory immediately after the interview concluded. Thus, 22 useful full interview transcripts are available for subsequent data analysis. See Table 6-4 for a summation of cases and informants. Following recommendations from Miles and Huberman (1994), field notes, including a contact summary sheet summarising reflections, key issues, and key themes requiring further investigation, are completed as soon as practicable after each interview.

Table 6-4 Case Informants and Positions

Informant	Co-operative						Total
	A	B	C	D	E	F	
	✓	✓	✓	✓	✓	✓	6
Chair	✓	✓	✓	✓	✓	✓	6
Lead farmer director	✓	✓	✓	✓	✓	✓	6
Appointed director	✓	✓	✓	✓		✓	5
CEO/MD	✓	✓	✓	✓	✓	✓	6
Total	4	4	4	4	3	4	23

As outlined, the interview guide is updated on reflection from earlier interviews, initial analysis, and tailored for the ‘type’ of director and the archival data accessed prior to each interview. This allows focused interview questions which can be important for corroborating or dismissing facts (Yin, 1994), teasing out understanding and pursuing emergent themes (Eisenhardt, 1989a). This flexibility is used for a number of emergent themes as data collection and analysis progresses.

Interviews are conducted in a variety of venues – from co-operative premises, respondents' homes, hotel rooms, and on two occasions, restaurants. The majority of interviews, and at least one interview from each case, are conducted in the co-operative's head offices allowing the researcher some direct observation of contextual data to record in field notes. In some cases, social interactions also occurred outside the interview which allowed themes to develop further.

Interviews typically followed a pattern as outlined below (see Appendix A for a sample interview guide): Under the suggestions of Kvale (1996), interviewees are provided a context and purpose of the interview, asked if they can be tape recorded and if they have any concerns or questions before commencing the interviews (p. 128). Confidentiality and ethics issues are addressed (see Appendix B for an example copy). Rapport with the interviewee is established by showing understanding through being prepared, showing interest, and having respect for the interviewee's views (Kvale, 1996, p. 128). The interview guide and researcher preparation is designed to allow participants to reveal their perceptions concerning their governance activities in a non-threatening, non-judgemental way.

The interviews commenced with an initial question around the respondent's governance experience designed for background information and to put the interviewee at ease (Kvale, 1996). The next open ended question is designed as much as possible to ignore the extant literature and the researcher's views and invites respondents to tell of their own experiences with the research topic. The question in all interviews is:

In your experience as a director¹³ at case x¹⁴ what does the governing board do?

This led to varying contributions. All the initial roles identified by the respondent are then explored in more depth with the use of follow up

¹³ Or whatever their position is.

¹⁴ The actual name of the co-operative was used for each respondent.

questions. Where appropriate, in areas that are not commercially sensitive, interviewees are invited to use examples to explore a board's role and trace the story of a decision or activity. Respondents are encouraged to talk, in as much depth as they like, around issues that are important to them, their companies, the industry, and governance as a whole, largely without interference from the interviewer.

After initial comments are explored, the interview schedule is then utilised with a number of prompts to explore any areas not brought up by the respondents that the literature or previous respondents have identified. In doing so, the researcher endeavours not to lead the interviewee. Initial prompts cover areas such as the board's role in strategy, monitoring, co-operative performance, accountability and relationships with supplier-shareholders and management. Terms used are easy to understand and devoid of academic language (see the Appendix A example).

These prompts often lead to new avenues of insight. The researcher is sensitive to the need to be cognisant of "serendipitous findings". Serendipitous findings, new ideas and areas of interest are explored with follow up "probing" questions to elicit deeper understandings. This requires some flexibility to allow new insights and contradictory evidence to emerge (Roberts & Stiles, 1999); although this is not seen as a licence to be unsystematic (Eisenhardt, 1989a).

Toward the end of the interviews respondents are asked to reflect on the interview and rank the three most important things they thought their boards did. Finally, the respondents are given an opportunity to bring up any other issues that have not been raised but that may be of use to the researcher's study. This often leads to more valuable data and follow up questions by the researcher. The result of this process is rich qualitative data upon which to interpret and theorise.

In summary, Eisenhardt's (1989a) fourth step of entering the field is covered. The methods of gaining access and the conduct of the interviews are discussed. Interviews sought respondents' descriptions of the roles, processes and relationships of dairy co-operative governing boards from the interviewee perspectives. The overlapping of data collection and analysis is highlighted to allow the researcher to take advantage of emergent themes and unique features of the cases. The thesis now turns to a discussion of analysis.

6.2.5 Analysing the Data

The fifth step of Eisenhardt's (1989a) method is the analysis of data. Eisenhardt (1989a) breaks the analysis process into two parts; within-case analysis and cross-case pattern search. The within-case analysis gains familiarity with the data and allows preliminary theory generation. The cross-case pattern search forces the researcher to look beyond initial impressions (Eisenhardt, 1989a, p. 533). Eisenhardt (1989a) sees analysing data as the "heart of building theory from case studies" but warns that it is also the "most difficult and least codified part of the process" (p. 539).

The computer software package QSR NVivo version 2 (www.qsrinternational.com) is utilised to assist in the analysis and data management of this research. The use of computer software in the analysis, particularly the coding, classification and pattern forming from large volumes of data is seen to have clear advantages over manual systems in terms of both speed and rigour. QSR NVivo also acts as a case study database, to underpin the reliability of the research.

6.2.5.1 Grounded

While this research begins as close as possible to 'no theory under consideration' specific grounded theory techniques (Glaser & Strauss, 1967; Strauss & Corbin, 1998) are not utilised in this analysis. In Eisenhardt's later work in conjunction with Graebner (2007), she specifically distances herself from the grounded theory method. Eisenhardt and Graebner (2007) see confusion around the multiple meanings of 'grounded theory building' and

view ‘grounding’ as the strength of the theory’s empirical grounding rather than the “specifics of the theory-building process” and suggest avoiding the use of the term “grounded theory building” (p. 30). As such, this analysis uses Eisenhardt and Graebner’s (2007) meaning of ‘grounded theory building’ as simply “creating theory by observing patterns within systematically collected empirical data ... [including] some notion of recursively iterating between (and thus constantly comparing) theory and data during analysis, and theoretically sampling cases” (p. 30). This pattern of observation forms the basis for analysis (Chapters 7 and 8).

6.2.5.2 Within-case Analysis

Eisenhardt (1989a) does not suggest a standard format for within-case analysis, but encourages the researcher to allow “the unique patterns of each case to emerge” (p. 540). Within-case analysis focuses on developing constructs and relationships within the co-operative case, through case write-ups, coding and pattern coding to inductively allow constructs to emerge from the data (Graebner & Eisenhardt, 2004).

Within-case analysis, initially involving descriptive detailed case write-ups, is utilised to help the researcher deal with the volume of data and to “become intimately familiar” with each case (Eisenhardt, 1989a, p. 540). After “getting a feel” for the transcribed interviews¹⁵ initial case study write-ups are completed. These write-ups utilise many sources of data, including interviews and archival data, particularly annual reports, company constitutions and published company documentation. Case familiarity assists in later cross-case comparisons and encourages the resultant theory to be firmly grounded in the empirical data (Eisenhardt & Graebner, 2007).

Deeper within-case analysis commences with the initial interview transcriptions coded sentence by sentence. Initial codes are sometimes

¹⁵ Analysis of interviews began after the return of transcribed interviews from participants and any corrections, deletions or additions are incorporated.

inductively derived from the respondent's frame of reference and on occasion field notes, including contact summary sheets, are used to highlight initial codes. This again assists in grounding the resultant theory in the empirical data. Codes are assigned "clear operational definitions" (Miles & Huberman, 1994). Codes, once created, are used in the coding of subsequent interviews. During analysis some codes prove superfluous and are dropped; others flourish in light of their fit and descriptive power as data collection and analysis progresses in tandem. As theory development is "a process of describing phenomena at increasingly higher levels of abstraction" (Zikmund, 2003, p. 41) codes are then grouped together into common categories (or themes). To develop categories, memoing is used to question data and clarify ideas about the relationships between codes (Miles & Huberman, 1994). These categories are labelled and defined. The empirical data coded under a category is compared and contrasted with data previously coded under the category. In the iterative process entire interviews are regularly recoded as different thinking emerges. During the analysis, categories grew or dissipated and merged as evidence supported or challenged the categories to capture higher levels of abstraction. In this manner, initial descriptive codes became increasingly interpretive.

In order to move to a more inferential and explanatory level the initial coding, memoing, categories and writing are employed to induce patterns of behaviours, or pattern codes and constructs (Miles & Huberman, 1984). Pattern codes revolve around "themes, causes/explanations, relationships among people, emerging constructs" (Miles & Huberman, 1994, p. 70). Initially, the roles or what boards actually do is utilised in pattern recognition, however the importance of processes, relationship dynamics and decision making process became increasingly apparent in the understanding of co-operative board roles. Once pattern codes are developed they are employed on the next lot of empirical data to test for fit and explanatory power.

In line with the method, data collection and analysis are carried out simultaneously in an iterative way. New data is continually tested against the

emerging interpretations and explanations as they develop to enlighten and extend the emergent theory. “Serendipitous findings” and provisional analysis of the data inform further data collection, in particular, revisions to the interview schedule to fill in gaps and pursue new leads. As an example, the initial focus of the research is on board roles, but the analysis and subsequent data collection suggest that an understanding of relationships both within the board and between key stakeholders - the board, management and supplier-shareholders - are an important aspect of understanding it.

As data is continuously reduced, care is taken to return to the original transcripts and documents to ensure that theorising remains grounded in the empirical evidence. Initially, all explanations and conclusions emerging are held lightly “maintaining openness and scepticism” (Miles & Huberman, 1994, p. 11) until rival explanations are discounted and to prevent premature theoretical closure. Through the inductive process the categories are strengthened and reduced by seeking corroborating and disconfirming evidence until the weight of evidence supporting concepts¹⁶ emerge as an abstract of reality. Concepts are the primary building blocks of theory (Llewelyn, 2003; Zikmund, 2003). Concepts “subsume a mountain of particulars” and by determining the relationships between them lead to a conceptual framework (Miles & Huberman, 1994, p. 18).

6.2.5.3 Conceptual Framework

As patterns start to appear networks are formed to try to make the analytic progression to understand the explanations behind the particular patterns. From the “what” and “how” to the “why” (Miles & Huberman, 1994, p. 90). Qualitative interview data is important in gaining an understanding of these emergent relationships. Diagrams, including boxes and arrows, are then used to try to establish relationships between variables of interest. The patterns are then compared against the transcripts to ensure they are not drifting from the

¹⁶ Zikmund (2003) defines a “concept (or construct) is a generalized idea about a class of objects, attributes, occurrences, or processes that has been given a name” (p. 41). The term concept is used in these findings. Eisenhardt (1989a) seems to use the terms concepts and constructs interchangeably.

empirical evidence. This leads to a conceptual framework (displayed in Figure 7.1, Chapter 7) which is at the heart of building theory, showing “how the variables are connected, how they influence each other” (Miles & Huberman, 1994, p. 91). Due to its inductive nature, the model emerges on a piecemeal basis with the initial version “amended and refined” as it is “tested against empirical events and characteristics” (Miles & Huberman, 1994, p. 155).

6.2.5.4 Cross-case Patterns

The second step in analysing data in Eisenhardt’s (1989a) framework is searching for cross-case patterns. Tactics suggested for cross-case analysis can involve looking for and listing similarities or differences across categories, dimensions, between matched pairs or by data sources (Eisenhardt, 1989a, p. 540). Cross-case analysis began at the conclusion of within-case analysis to begin to draw conclusions on the entire study (Eisenhardt, 1989a; Yin, 1994). Similarities and differences among cases are noted during data collection and within-case analysis, although further analysis is deferred until all cases have been analysed “in order to maintain the independence of the replication logic” (Graebner & Eisenhardt, 2004, p. 373).

Pattern matching across-cases is utilised. Parkhe (1993) sees pattern-matching as comparing an empirically based pattern induced from one case with other cases, so that they either match or are predictably different than the initial case patterns (pp. 249-250). In the analysis of qualitative data “gross matches or mismatches” are sought (Yin, 1994). Pettigrew (1997) also suggests cross-case pattern comparison to “find the underlying mechanisms which shape any patterning in the observed processes” and notes teasing out these mechanisms “represents one of the greatest inductive challenges for process scholars and an area of intellectual challenge which is as difficult to describe as it is to achieve and publically justify” (p. 339). The data are looked at in many divergent ways to force the researcher beyond his preliminary impressions (Eisenhardt, 1989a). Rival explanations for patterns are tested within and across-cases to allow new insights and to “improve the likelihood of accurate and reliable theory” with a close fit to the empirical data (Eisenhardt, 1989a, p. 541). Rival

explanations are either countered, thus strengthening the developing model, or cause revision of the empirical model and thus firmer grounding of the findings. Eisenhardt's (1989a) suggestions of cross-case searching for patterns of "within-group similarities and intergroup differences" from dimensions suggested by the "research question or by existing literature" are utilised to strengthen internal validity (p. 540).

In summary, the empirical data is analysed both within-case and across-case to inductively develop a theory of the roles of New Zealand and Australian co-operative boards grounded in the empirical data.

6.2.6 Shaping Hypotheses

Eisenhardt's (1989a) sixth step is shaping hypotheses. Eisenhardt (1989a) suggests this step involves the iterative tabulation of evidence for each concept, replication logic across cases and the search for evidence for the 'why' behind relationships. The reason for this is to sharpen concept definition, validity and measurability; confirm, extend, and sharpen theory and build internal validity (Eisenhardt, 1989a, p. 533).

During the shaping hypothesis stage, the tentative concepts emerging from the data and analysis are sharpened so that the concepts are well defined. This involves refining the definition of the concepts and also building evidence which measures the concepts. This is achieved through "constant comparison between data and constructs so that accumulating evidence from diverse sources converges on a single well-defined construct" (Eisenhardt, 1989a, p. 541). The emerging concepts need to fit the evidence of each individual case. This is important as "cases which confirm emergent relationships enhance confidence in the validity of the relationships" (Eisenhardt, 1989a, p. 542). In this highly iterative process, the relationships that emerge from the within-case and cross-case analysis are compared with the evidence of each case to iterate toward the theory refinement (chapters 7 and 8).

6.2.6.1 Replication Logic

Emerging concepts and relationships are refined using replication logic. The multiple-case design allows replication logic where provisional explanations are checked across cases, thus using cases to confirm or disconfirm provisional inferences drawn from other cases (Graebner & Eisenhardt, 2004). Replication logic is central to case study theory-building as each case stands as its own analytic unit that serves to replicate, contrast and extend the emergent theory (Eisenhardt & Graebner, 2007, p. 25). Those cases that disconfirm the emerging relationships “can provide an opportunity to refine and extend the theory” (Eisenhardt, 1989a, p. 542). According to Yin (1994), a “rich theoretical framework” needs to be developed so that the framework states “the conditions under which a particular phenomenon is likely to be found (a literal replication) as well as the conditions when it is not likely to be found (a theoretical replication)” (p. 46). If the cases do not give predictable results the theory must be modified. When the theory does give predictable results it can then be used for generalising to new cases (Yin, 1994, p. 46). This replication is revealed using NVivo functions and classification comparison across cases.

Eisenhardt (1989a) suggests replication logic develops confidence in the relationships validity. Tabulation and display of evidence underlying the concepts (see Chapter 7) is necessary to allow readers to form their own views on the strength of relationships. Eisenhardt (1989a) sees these processes as analogous to hypothesis testing, except that in theory-building researchers rely on the demonstration of evidence and procedures as opposed to the statistical tests used in hypothesis testing (pp. 542-544).

6.2.7 Enfolding Literature

Eisenhardt’s (1989a) seventh step, enfolding literature, entails comparisons with conflicting and similar literature to build internal validity, raise the theoretical level and sharpen concept definition and generalisability (p. 533). The literature from corporate governance has been reviewed (the agricultural co-operative literature has been considered, Chapter 2) and this forms an

important part of informing this process. Comparisons with conflicting and similar literatures throughout the research process are undertaken to gain deeper insights and to increase confidence in the findings.

Although outlined as Eisenhardt's (1989a) seventh step, enfolding the literature is carried out at many stages of the theory-building research. As we have seen in section 6.2.1 (above) it is important at the "getting started" stage. The literature is used to identify an area of study that is of interest to the researcher and the gap in the literature. It is then tentatively used as an indication to the sorts of questions that may have been of interest in the early stages of data collection although these notions are always "held loosely" by the researcher.

During the analysis stage, concepts and relationships are thus initially induced from the empirical data to ensure the grounding of the resultant theory. This, however, does not deny the need to reference against current literature (Parkhe, 1993) which is used more comprehensively later in the analysis stage. As Eisenhardt and Graebner (2007) explain, the "theory-building process occurs via cycling among the case data, emerging theory, and later, extant literature" (p. 25). Yin (1997) requires the comparison of findings to "as much prior research as possible" (p. 255). Ferreira and Merchant (1992) also see the need to "explicitly link the observations to a pre-existing body of knowledge" (p. 6). Following Eisenhardt's (1989a) indications, the emergent theory is compared with the corporate governance and co-operative literature to find similarities and contradictions. Contradictory literature occurs; for example in the assumption of distrust between the board and management seen in agency (Fama & Jensen, 1983a) and managerial hegemony (Kosnik, 1987) theories, neither of which is apparent in these findings. The use of literature in this research is described before reaching closure.

6.2.8 Reaching Closure

Reaching closure is the eighth and final step in Eisenhardt's (1989a) framework. Eisenhardt (1989a) seeks to achieve theoretical saturation¹⁷ and end the theory-building process when marginal improvement becomes small (p. 533). Eisenhardt (1989a) identifies two important issues in reaching closure; when to stop adding cases and when "iterating between theory and data" should cease (Eisenhardt, 1989a. p. 545).

6.2.8.1 Cases

According to Eisenhardt (1989a), no further cases should be added at the point of theoretical saturation, however, she does acknowledge time and money are limiting factors and suggests somewhere between four and ten cases work well in theory building (p. 545). Eisenhardt (1989a) believes that fewer than four cases leads to poorly empirically grounded theory that lacks complexity, and with more than ten cases it "quickly becomes difficult to cope with the complexity and volume of the data" (Eisenhardt, 1989a, p. 545). Yin (1997) more pragmatically suggests that the number of cases "depends upon the certainty you want to have about your multiple-case results" (p. 241). Yin (1994) believes the number of cases depends on the number of theoretical and literal replications you would like in your research (p. 50).

In this research, following Eisenhardt's (1989a) method, six cases are used, at which point theoretical saturation is reached. It is felt that any extra cases will not materially add any new information (Eisenhardt, 1991, p. 622). It is also likely that any new cases will considerably broaden the scope of the research beyond the governance of New Zealand and Australian co-operative (bovine) dairy companies. Likewise, after 23 interviews, the researcher's main source of data, it was felt that 'theoretical saturation' occurred (Glaser & Strauss, 1967) and that additional interviews will not provide new or contradictory data and any further improvement will be marginal.

¹⁷ Theoretical saturation is the point at which incremental learning is minimal (Glaser & Strauss, 1967).

6.2.8.2 Iterating Between Data and Theory

The second closure issue is when to stop iterating between data and theory. Data analysis of categories continues until theoretical saturation occurs (Glaser & Strauss, 1967). Analysis concludes at the point where “the analysis itself appears to have run its course – when all the incidents can be readily classified, categories are ‘saturated,’ and sufficient numbers of ‘regularities’ emerge” (Miles & Huberman, 1994, p. 62). This is consistent with the Eisenhardt (1989a) method. She believes saturation is the key idea, that is, “when the incremental improvement to theory is minimal” (p. 545). This point is kept in mind as the iterative processes of analysis form, develop and come to a close. In this study all interview data to do with board roles is classified in one or another of the concepts or subconcepts described in the findings.

The Eisenhardt (1989a) method involves constant iteration between the eight steps outlined above as the empirical evidence converges into a “single theoretical framework” (p. 547). According to Eisenhardt (1989a) this is likely to “result in a theory that is empirically valid because of its intimate tie with the evidence” (p. 547). Indeed, Eisenhardt (1989a) sees “that the accumulation of knowledge involves a continual cycling between theory and data” (pp. 548-549) and later the extant literature (Eisenhardt & Graebner, 2007, p. 25). The findings form an inductively developed conceptual framework, with supporting evidence, of the roles of governing boards of New Zealand and Australian co-operative dairy companies from the perspective of the participants. It is to how these findings are presented that the thesis now turns.

6.3 Presenting Empirical Evidence

As the most tangible outcome of this process, the thesis’ presentation of findings is critical to the confidence readers have in the research effort. The presentation of the findings in this thesis closely follows the recommendations of Eisenhardt and Graebner (2007). They see presenting each case as infeasible. The challenge is within spatial limits to convey both the “research

objective and the rich empirical evidence that supports the theory” (Eisenhardt & Graebner, 2007, p. 29).

In presenting the emergent theory Eisenhardt and Graebner (2007) suggest sketching the theory in the introduction, providing “a visual theory summary such as a ‘boxes and arrows’ diagram” (p. 30). They believe the theory should be used as the “overarching organizing frame” of the document (Eisenhardt & Graebner, 2007, p. 29). Eisenhardt and Graebner (2007) advise developing the theory in sections in a way that each part of the theory is demonstrated by evidence from at least some of the cases (p. 29). To facilitate this, Eisenhardt and Graebner (2007) judge the use of extensive tables to signal the depth and detail of the empirical grounding as central. They suggest a “separate table that summarizes the evidence for each theoretical construct” as a particularly effective way to present the case evidence (p. 29). The supporting evidence needs to be “drawn from the case evidence (e.g., an informant explaining the logic)” (Eisenhardt & Graebner, 2007, p. 30). As Yin (1994) suggests, a “linear-analytic structure” is utilised in this thesis with a statement of the “problem being studied, a review of the relevant prior literature, the methods used, the findings from the data collected and analysed, and the conclusions and implications from the findings” (p. 138).

All these suggestions are utilised in the presentation of these findings. A diagram, or theoretical model, is displayed (Figure 7-1, Chapter 7) and utilised as an “overarching organising frame”. Each of the theoretical constructs that make up the model are tabulated with supporting empirical evidence from at least some of the cases shown.

6.4 Conclusions

In this chapter the method used and research design are discussed. Each of Eisenhardt’s (1989a) eight steps undertaken in this research are elucidated as to how they enable the research aims to be achieved. How the findings of the theory-building process are to be presented is outlined. The following two

chapters, 7 and 8, present the conceptual model and findings and empirical evidence from this process.

CHAPTER 7 FINDINGS I

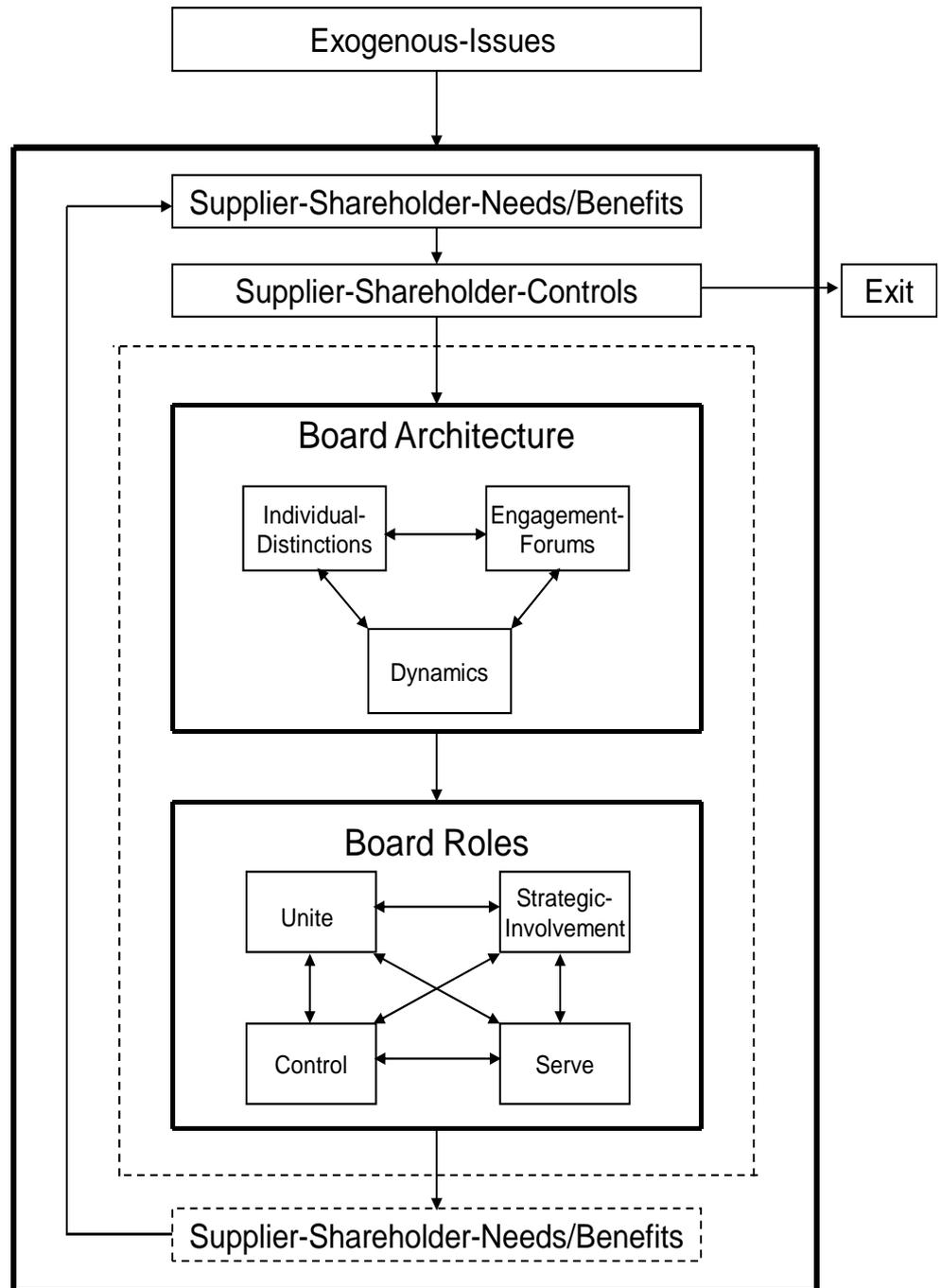
7.1 Introduction

This chapter introduces the theoretical model. Outlined below in Figure 7-1, the model of New Zealand and Australian dairy co-operative governance is induced from the empirical field data utilising Eisenhardt's (1989a) multi-case method. Examples of interim steps in the development of the data driven-induced conceptual model are shown in Appendix D to illustrate the conceptual development process. In line with Eisenhardt and Graebner's (2007) suggestions, this chapter sets out the basic framework and its rationale; the remaining sections in this chapter and Chapter 8 evaluate, and provide evidence of each concept of the model.

Five main theoretical concepts are elucidated; Exogenous-issues, Supplier-Shareholder-Needs/Benefits, Supplier-Shareholder-Controls, Board Architecture, and Board Roles. Seven subconcepts are also evaluated. Within this chapter (7) the subconcepts of Individual-Distinctions, Engagement-Forums, and Dynamics are defined along with supporting evidence. In Chapter 8 the four key subconcepts of Board Roles; Unite, Strategic-Involvement, Control and Serve are similarly highlighted with supporting evidence.

Evidence from the interviews is presented in italics, and is largely verbatim. Questions from the researcher during interviews are presented in brackets to enhance understanding. The quotations are ascribed to individuals using the researchers coding to protect anonymity. Evidence from documentation is presented as noted.

Figure 7-1 A Theoretical Model

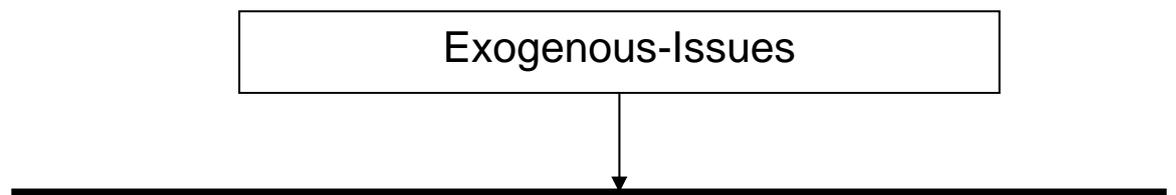


The large box in dark outline in the theoretical model represents the “boundaries” of the dairy co-operative. Inside of which are the key stakeholders of dairy co-operative governance. The theoretical framework is driven by Supplier-Shareholder-Needs/Benefits. The concepts of Supplier-Shareholder-Needs/Benefits, and Supplier-Shareholder-Controls relate to “why” the governing boards do what they do. The dotted box within the large box focuses on the governing board. Within this dotted box two more solid boxes are highlighted. The first of these solid boxes is Board Architecture, the second Board Roles.

The Supplier-Shareholders -Needs and -Controls influence the Board Architecture and Board Roles. The first of these influenced structures, Board Architecture, conceptualises “who” the board are (Composition), and the skills, knowledge and abilities they bring to the board table (Competencies). How the board organises itself and goes about its decision-making is elucidated under Engagement-Forums. The third concept within the Board Architecture box is Dynamics. This concept describes the relationships, behaviour, conduct, and decision making processes or the “how” the board goes about its business. The theoretical concepts in the Board Architecture box give the board the “capacity” to undertake the second internal box portrayed in the model, the Board Roles. Board Roles, conceptualise “what” the directors actually do. The boards researched have conceptual roles in Unite, Strategic-Involvement, Control, and Serve. Each of the main theoretical concepts and supporting evidence is outlined below.

7.2 Exogenous-Issues

Figure 7-2 Exogenous-Issues



The first theoretical concept is Exogenous-Issues which is defined as:

all those contextual issues that have an effect on the co-operative, its supplier-shareholders in their relationship with the co-operative, and by implication the co-operatives' governance roles that are external to the control of the co-operative governing boards.

While Exogenous-Issues could cover a vast array of actual and potential issues, those repeatedly raised in this fieldwork (see Appendix E for further evidence) are classifiable within three categories formed from an analysis of the data: the Competitive-Environment, the Regulatory-Environment, and the Physical-Environment. Judging from the frequency and intensity with which they are raised, these emerge most powerfully in terms of their impact on actual governing Board Roles. They therefore comprise the subconcepts of Exogenous-Issues.

Exogenous-Issues are present as a conceptual theme in all cases studied, and are referred to by all but one of the participants during the semi-structured interviews (see Table 7-1 for a summary).

Table 7-1 Evidence of Exogenous-Issues

Concept	Frequency of mention				Examples from interviews
	Cases		Respondents		
	No.	%	No.	%	
Exogenous-Issues	6	100	21	95	<i>[The board needs] to have a very good understanding of the markets that we are operating in and I mean that in a quite wide sense, the market for our products, I mean the market for dairy farmers in a competitive situation with [another co-operative], the market for staff, the market for everything we deal with, the financial markets and everything else (A3, appointed director)</i>
Competitive-Environment	6	100	15	68	<i>So if you are not competitive you are going to lose milk supply, the moment you lose milk supply you start to lose your fundamental base of operation (F3, appointed director)</i>
Regulatory-Environment	6	100	17	77	<i>Recognising that deregulation was on the horizon; how would we position ourselves to take on the demands of a deregulated market? (D4, MD¹⁸)</i>
Physical-Environment	5	83	12	55	<i>Whether they can buy the school clothes this year or not. All those things in the drought were obviously pretty emotional from that point of view. But you know why you are here and I think that's a great thing and from a co-operative, a huge strength (E4, MD)</i>

The effect of Exogenous-Issues on co-operative governance roles varies between the cases studied creating some of the cross-case distinctions¹⁹. Discourse demonstrating the nature and existence of each of the sub-concepts of Exogenous-Issues: Competitive-Environment, Regulatory-Environment and Physical-Environment is presented and analysed below.

7.2.1 Competitive-Environment

The Competitive-Environment is defined as:

the (dairy) industry environment within which the co-operative company has to compete to both retain (or expand) milk supply and to compete for customers of the products the co-operatives choose to produce and market.

¹⁸ Managing Director

¹⁹ Cross-case distinctions are understood as lying along dimensions of the properties which define each concept.

The Competitive-Environment is raised in 100% of the co-operative cases studied and by 68% of respondents (see Appendix E-1 for evidence and Table 7-1 for summaries). This appointed director highlights the need for directors to understand the Competitive-Environment to undertake their governance roles:

About 75 percent of a board meeting is management educating its board. Educating them in what's going on, how the business is changing what's going on in the world, how customers are changing, how competitors are changing, what it means for the company, what things could be coming up in the future, what's the technologies involved, how are they changing, all those sort of things (A3, appointed director)

The Competitive-Environment relates to issues raised around the threat of takeover as a takeover effectively takes over the co-operative's milk supply and governance. The following reflects how the Competitive-Environment underlies a supplier-shareholder²⁰ chair's comments on their own role during a takeover attempt:

It was a very big role, it was an interesting one ... we have been ... a very successful company for quite some time and we actually pitched our price \$2 a share less than the raider and we lived on our record (E1, supplier-shareholder chair)

The Competitive-Environment relates to competition for milk supply (or suppliers' patronage):

There is competition for that milk out there ... you have got to get your raw materials, and if you are not prepared to pay the price you may find yourself short of the fundamental raw material (F3, appointed director)

The competition for milk appears more acute in Australian than New Zealand cases. Product market competition has an important bearing on Board Roles, in this case, Strategic-Involvement²¹, as this CEO outlines:

²⁰ [For ease of understanding the definition of supplier-shareholder is repeated here] The terms patron, user, member, farmer, producer, owner, shareholder, member-owner, member-shareholder and combinations of these appear to be used interchangeably in the literature. While they differ, they all refer to those who patronise, own and control the co-operative firm. The term supplier-shareholder is utilised as it more accurately reflects the patron's relationship with a dairy co-operative. That is, they are first and foremost a supplier to the co-operative, but they also have a (less important) shareholding relationship with the co-operative.

²¹ Covered in Chapter 8

[The] added value strategy ... has its origins ... as the company was thinking through how it was going to be competitive with the changing nature of the dairy industry of the time (A4, CEO)

Also raised within this category are issues around changes in markets that drive the Competitive-Environment such as changes in global supply and demand and the internationalisation of food markets and its influence on the Board's Role:

What about China? Or what about free trade agreement in the States? But what does that all mean in strategic terms? And what are we going to do? (E4, managing director)

Customer preferences around issues such as animal welfare, food safety, traceability and sustainable production systems concerns also fall within this category:

GMO free policy ... customers who do not trust GMO ... they just don't want to see GM material in the food chain" (E4, managing director)

The Competitive-Environment is defined here and shown in this research to be an important subconcept of Exogenous-Issues that are required to be understood when theorising on co-operative governing Board Roles.

7.2.2 Regulatory-Environment

The second sub-concept is the Regulatory-Environment which is defined as:

changes in legislation / regulation (either inside or outside the domiciled country) that affect the co-operative and its governance roles and that are outside the control of the co-operative's board.

Included in this subconcept are issues related to changes in legislation, regulations, and market access (as it relates to government intervention in market places, e.g., FTA²²s) and also changes in financial markets, in particular exchange rates. The latter is included under Regulatory-Environment because of the extent to which co-operatives may be regulated in a sense by market mechanisms and sometimes by monetary (regulatory) policy as well. The Regulatory-Environment is raised in 100% of the co-operative cases studied and by 77% of respondents (refer to Appendix E-2 for evidence and

²² Free Trade Agreements. Usually undertaken on a government to government level, such as the Australia-United States and New Zealand-China FTAs and the ongoing negotiations under the auspices of the World Trade Organisation.

Table 7-1 for summaries). There are distinctions between the Australian and New Zealand regulatory environments and some differences between States in Australia.

The following comments reflect how the Regulatory-Environment concept captures respondents' observations about changes in legislation and regulation and provides evidence of the relationship of these ideas with co-operative governing Board Roles:

Recognising that deregulation was on the horizon; how would we position ourselves to take on the demands of a deregulated market? (D4, managing director)

Bear in mind it's only in this last year it's been legislated ... but culturally getting that across the line took the support of the board speaking aloud about that at some of our [supplier-shareholder] meetings (E4, managing director)

Changes in exchange rates have an effect on the co-operative and on the Board's tasks:

If you hedge too far and you get it wrong and your competitor for supply doesn't get it wrong then you lose supply and that has profound impact ... therefore any changes in fundamental policies has to be approved by the board (D1, appointed chair)

This chair and managing director highlight the ways in which the international environment has an influence on the Strategic-Involvement (section 8.3) Board Role:

With some of the large geopolitical movements - was our strategy still appropriate? (C1, supplier-shareholder chair)

And on the Unite Role (section 8.2) attributed to co-operative boards:

The biggest challenge for co-operatives ... is as ... this business evolves and the food industry ... continues to get more and more complex - how they keep in touch and communicate with the shareholders ... otherwise you can lose that alignment of what the shareholders want and what the board and the company are doing and what the customer wants (E4, managing director)

The Regulatory-Environment is thus induced from the evidential data as one subconcept of Exogenous-Issues.

7.2.3 Physical-Environment

The third Exogenous-Issue derived is the Physical-Environment (see Appendix E-3 for more evidence), is defined as:

the climate and geographically-influenced community within which the co-operative operates.

Dairy farming is a biological process and as such climate and geography have a pronounced effect on supplier-shareholders' farming operations, their commensurate needs, and therefore the boards who respond to those needs. The Physical-Environment is raised in 100% of the co-operative cases studied and by 55% of respondents (refer to Table 7-1 for summaries).

Distinctions in the form of size and geographic location effected cases differently. Climatic events, in the form of drought, have a marked impact on the governance roles within the Australian co-operative dairy companies at the time of data collection:

[The co-operative] explained exactly where we're going ... and we gave them support ... with acquiring outside feed, be it hay or silage and grain, to try and help through the crisis period ... we went out and we faced the farmers on their patch ... and explained what we were doing, the problems we had, and talked about their problems. We put field staff in basically to go out and service them, to fill in forms, to help them with drought aid, to facilitate many of the things that under stress they weren't handling well ... there were a few of them that wanted to sell the place and privatise it (E1, supplier-shareholder chair)

The geographic location of the co-operative and the local community in which the co-operative operates also has an impact on co-operative governance roles, particularly in smaller or geographically isolated co-operatives:

There are some very practical reasons why we need to be part of the community ... we need to protect the environment. We make it very much a sale point when we're selling our product ... Education - most farmers ... have children and so education is very much dear to their hearts ... the opportunity to maybe create employment here for their children, so at least they've got a choice of living here if they want to, which hasn't been great in the past. All of those things are quite important (B1, supplier-shareholder chair)

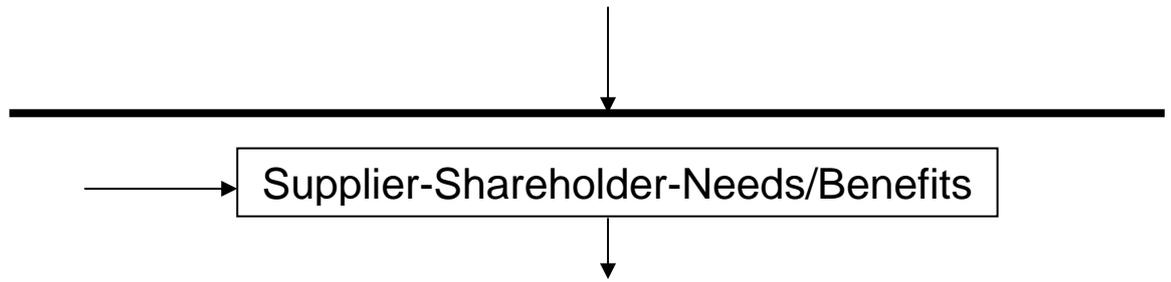
The Physical-Environment has been identified as a subconcept of Exogenous-Issues that is important in informing the understanding of Board Roles of co-operative dairy companies.

7.2.4 Conclusions – Exogenous-Issues

Exogenous-Issues are defined here as all those contextual issues that have an effect on the co-operative, its supplier-shareholders' in their relationship with the co-operative, and, by implication, the co-operatives' governance roles that are external to the control of the co-operative governing boards. Three groupings of Exogenous-Issues emerge; the Competitive-Environment, the Regulatory-Environment, and the Physical-Environment. These are highlighted in the data as having the most significant effect on the co-operatives' Board Roles. Therefore, Exogenous-Issues, while external to the co-operative, cannot be excluded from the sources of influence on the governing Board Roles.

7.3 Supplier-Shareholder-Needs/Benefits

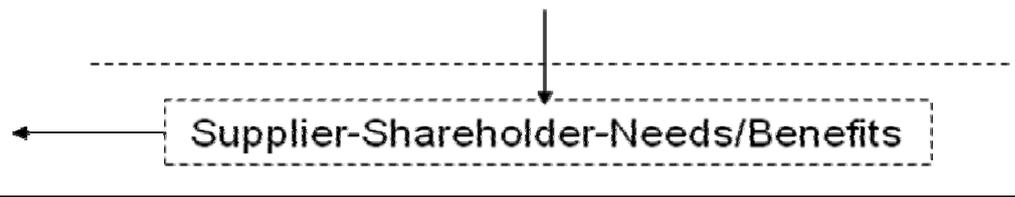
Figure 7-3 Supplier-Shareholder-Needs/Benefits



Supplier-Shareholder-Needs/Benefits are defined here as:

the benefits expected by the supplier-shareholders in their relationship with the co-operative dairy company.

The theoretical concept of Supplier-Shareholder-Needs/Benefits appears twice in the model. The first time the concept is shown describes the needs of supplier-shareholders, and the second time the benefits derived from supplier-shareholders' association with the co-operative. As such, they relate to the same issues. The benefits received by the supplier-shareholders in their association with the co-operative are compared with their needs to determine satisfaction with the co-operative's performance.



The evidence suggests that the reason for the co-operatives' existence and the main overall Board Role is to ensure the co-operative is operated to serve the needs of supplier-shareholders, as these respondents note:

Meeting member expectations - which isn't easy - but in a co-operative you are formed to meet those member expectations (D2, supplier-shareholder director)

In a co-operative the main general role of a board would be the relationship with the shareholders Shareholders whose own businesses depend greatly on the success or otherwise of the co-operative company that processes and markets their output from their own individual businesses. So perhaps the most important general role

is trying to establish, manage and develop the company to enable it to serve the needs of its shareholders (A1, supplier-shareholder chair)

Judging from the frequency and intensity of respondents raising this issue, Supplier-Shareholder-Needs/Benefits emerge as a governance role concept. Supplier-Shareholder-Needs/Benefits are influential in understanding the expectations of, and the actual roles undertaken by, the co-operative boards:

The role of our directors is to ... at all times [be] doing things in the best interests of the shareholders (A2, supplier-shareholder director)

The key ones the [case A] board focuses on, would be - suppliers would priority number one, two and three in the [case A] board mind (A3, appointed director)

or this managing director as he describes articulating, balancing and prioritising Supplier-Shareholder-Needs/Benefits at the board table:

Representing the best interests of the farmer and being able to communicate the requirements, the needs, the questions, the issues that are raised in the field, if you like, by farmers, who actually own the company, as it relates to their own businesses and that is very much a communication role and being able to decipher the issues and prioritise the issues and so on, that's very important for a co-operative (F4, managing director)

Supplier-Shareholder-Needs/Benefits are induced from the empirical data to be demonstrated here and in subsequent chapters (see Appendix F for evidence). The evidence suggests Supplier-Shareholder-Needs/Benefits are largely economic, but also encompass Community (a subconcept) needs. The economic needs are divided into enhancing supplier-shareholders' economic well-being by increasing their benefits and/or reducing their costs, and secondly, reducing the risks to the supplier-shareholders' farming business. These are termed Income-Enhancement and Risk-Reduction. These needs vary by case, in particular, by the Exogenous-Issues faced by the co-operative's supplier-shareholders. Supplier-Shareholder-Needs/Benefits are partially met by Collective-Action (section 7.3.4), the final subconcept. Supplier-Shareholder-Needs/Benefits is present in all cases studied and its elements are discussed by all participants (see Table 7-2 for a summary).

Table 7-2 Evidence of Supplier-Shareholder-Needs/Benefits

Concept	Frequency of mention				Examples from interviews
	Cases		Respondents		
	No.	%	No.	%	
Supplier-Shareholder-Needs/Benefits	6	100	22	100	<i>They own the business. The reason they have a co-operative is to look after their interests as a farmer primarily, as an investor secondly (D4, MD)</i>
Income-Enhancement	6	100	21	95	<i>I've got the easiest job in the place, I've got to pay the highest milk price and I've got to retain enough of the business to keep paying the highest milk price [laughter]. Simple (E4, MD)</i>
Risk-Reduction	6	100	15	67	<i>The security issue, the risk reduction issue of being together, better being together than alone, unless you are part of the bigger group, if you are out a long way from anyone you have still got that tanker coming all those miles to pick you up, or if your market area is not so strong you are still going to get a, perhaps cross subsidised milk price, you know just the advantages of being collective (D2, s-s²³ director)</i>
Community	6	100	10	45	<i>[We are part of a] relatively small community and most of the factory know someone or knows some farmers or whatever. We have a preference to employ farmers' sons and daughters, especially if they've done some uni and whatever else and encourage them to come back. We give them seasonal work through their school holidays and stuff so we actually purposely have a little bit of nepotism I suppose. That's part of the culture and the board can make a very, very big influence if somebody gets crook or there is a motorcycle accident or whatever (E4, MD)</i>
Collective-Action	6	100	12	55	<i>It's just that we can do things more better collectively and processing the milk so it can be exported than we could individually (B1, s-s chair)</i>

Examples of evidence from the fieldwork of each of these subconcepts are presented below.

Important to the understanding of the co-operative Board Roles is that the Supplier-Shareholder-Needs/Benefits are not to create profit or wealth at the

²³ Supplier-shareholder

level of the co-operative firm but to supply benefits that enhance the supplier-shareholders' farming businesses. This Supplier-Shareholder-Need/Benefit requires a Board Role to ensure that the co-operative company continues to supply benefits for the supplier-shareholders patronage relationship in preference to their shareholding relationship. As these directors note, there is a Supplier-Shareholder-Need/Benefit to process and maximise the value of milk to create value inside the farm gate:

The farmer's viability relates back to his net income on the farm, the company has the role and responsibility of processing that production and trying to maximise the price for that milk that the farmer gives to the company (A2, supplier-shareholder director)

The real value for the shareholders is that [case B] develop as a processing unit and they get their wealth out of developing their farms and being able to utilise them and work their farms up to as close to the maximum capabilities of that farm (B1, supplier-shareholder chair)

and also a Board Role to ensure the co-operative survives to continue to provide those benefits (see section 8.4.5):

You look at the ones [co-operatives] that fail, well the ones that have disappeared from co-operatives, and that determination [to remain co-operative] has not been there. So they look purely at commercial drivers and you come back to well, shares, share value, dividends become the driver not, you know, member benefit (F1, supplier-shareholder chair)

The first two Supplier-Shareholder-Needs/Benefits subconcepts are discussed below.

7.3.1 Income-Enhancement

The first of the Supplier-Shareholder-Needs/Benefits subconcepts elicited from the data is Income-Enhancement and is defined as:

those benefits supplier-shareholders expect in financial terms from their (patronage) relationship with the co-operative.

This subconcept is raised in 100% of the co-operative cases studied and by 95% of respondents (see Appendix F-1 for evidence and Table 7-2 for summaries). Outlined below are examples, drawn from the fieldwork, illustrating the text from which this subconcept is derived. Income-Enhancement at farm level can be achieved by revenue enhancement or cost

reductions. Cost reductions can come in the form of lower prices for farm requisites²⁴ and also through economies of scale at the co-operative level. These Supplier-Shareholder-Needs/Benefits have implications for the strategies the co-operative follows and hence the boards' Strategic-Involvement and Control roles.

As payout²⁵ has the largest effect on the profitability of supplier-shareholders' individual businesses, their primary interest is normally the payout price they receive for their milk, as these directors maintain:

We satisfy the shareholding requirement by paying out the best possible payout we can, the higher the better (B2, supplier-shareholder director)

I'm being a bit facetious but probably the top three items would be milk price, milk price, milk price (D1, appointed chair)

The co-operative board therefore has a role in setting strategies and policies to produce a payout that is both high and sustainable:

One of the key objectives will be the sustainability of adding value to and maximising the payout for milk (A2, supplier-shareholder director)

I would say we're [the board] actually there to maximise the payout on a sustainable basis, that's our number one priority (C1, supplier-shareholder chair)

All the co-operative cases' main business is the collection, processing and marketing of their supplier-shareholders' milk, allowing economies of scale and scope in collection, production, co-ordination and marketing of milk products. None of the supplier-shareholders can achieve this individually. Supplier-shareholders therefore have an expectation that the board will ensure this process of vertical integration²⁶ into the future:

As a company we are in the business, or we have the policy if you like, of being in the business of collecting, processing, marketing and adding value to our farmers' milk (A2, supplier-shareholder director)

²⁴ Provisions required for the operation of the supplier-shareholders' farming business.

²⁵ the term usually used by respondents in this research for the payment for the valued components of milk.

²⁶ All co-operatives in the study employ a co-operative model of vertical integration where many (between 120 and 12,000 individual businesses) act voluntarily and collectively to vertically integrate into collection, processing and marketing of milk products.

This vertical integration and collective action allows supplier-shareholders to enjoy economies of scope and scale in production and marketing as well as sharing costs and/or enjoying profits further down the value chain:

It's the farmers' company, it is their business, it's an extension of their farm business. To me all a co-op is, it's effectively the post farm gate bit of what is an all encompassing supply chain business that the farmer owns from farm to market (F4, managing director)

I think it's fair to say that everybody has accepted that the reason why the [case A] shareholders are better off is because collectively they've made those investments in added value, therefore have derived a better payout, therefore have seen a substantial capital increase in the value of their farming property. So they are better off as a consequence of what we've done (A4, CEO)

At the time of data collection all co-operatives ran (or had significant stakes in) farm requisite stores to (presumably) reduce the price of farm requisites to their supplier-shareholders and/or to provide missing services, allowing supplier-shareholders to enhance their income. Some co-operatives also offered financial services to supplier-shareholders and independent advice on farm matters, as this chair observes:

There will be some with pasture expertise, some with dairy equipment expertise, so they work as a team if people have a particular problem, so not necessarily all generalists and it seems to work very well. That is supported by our electronic ... it is called ['Case F Farm'] and the website ... They can get their production details, their pay details and those sorts of things off it as well, and it does have a free accounting programme which they can use if they want (F1, supplier-shareholder chair)

There is evidence of using the co-operative as a vehicle to Unite (section 8.2) for political action. This allows supplier-shareholders to enhance their well-being by (collectively) negotiating better terms and conditions:

The water issues are a very good example. There's government issues, which I take a strong lead in on behalf of the company. But they [the board] can talk on behalf of the company and behalf of farmers and that is very useful in this context because there's more votes in that than just the company itself [laughter] (E4, managing director)

So the brief of a director in a co-operative company sometimes goes beyond the fact that it is strictly the company, but go further out into some of the on-farm activities, the viability of farming, some areas such as animal health, requirements in terms of animal health, work,

welfare, international requirements as far as standards on the farm are concerned, the whole raft of issues in relation to farming that the directors of a co-operative may have to take into account (A2, supplier-shareholder director)

The Income-Enhancement subconcept of Supplier-Shareholder-Needs/Benefits is defined and evidence presented as to its existence.

7.3.2 Risk-Reduction

The second economic subconcept of Supplier-Shareholder-Needs/Benefits induced from the evidence, Risk-Reduction, is defined here as:

supplier-shareholders' need to reduce the risk of being taken advantage of in their economic transactions due to their vulnerability in their dependence on the performance of the milk processing company, the need for a daily market due to the perishability of their produce, and having very specific assets that are very fixed in nature.

Supplier-Shareholder-Needs/Benefits for Risk-Reduction is raised in 100% of the co-operative cases studied and by 67% of respondents (refer to Appendix F-2 for evidence and Table 7-2 for summaries). Included in this subconcept are issues raised by respondents around risks related to the dependence of supplier-shareholders on the performance of the co-operative, the perishability of milk, the need for a market, the lack of diversification of assets, and the need for a competitive yardstick²⁷. Supplier-shareholders have an expectation that the board has a role to ensure that their risks are reduced by their relationship with the co-operative. The board has a role to ensure that the co-operative company continues to collect, process and market all supplier-shareholders' milk at a competitive price over a long period of time. As such, an understanding of Risk-Reduction is important to the understanding of Board Roles.

Supplier-shareholders are very dependent on the performance of the co-operative and much of their (and their families') well-being is tied up with the co-operative, hence creating an even more substantive personal risk to the supplier-shareholders. This has implications for the Composition of the board

²⁷ Concept developed by Nourse (1922) ensuring that a fair farm gate price is being paid for produce. This concept has been explored in Chapter 2, the agricultural co-operative context.

and their Strategic-Involvement and Control roles, as is explained in this rather long but enlightening quotation from a supplier-shareholder director:

If you look at a farmer all his income generally speaking is derived from the farm, that income is generated by the co-operative company, he generally lives on the farm so his house is on the farm, he lives in the community so all his schooling, friends, relationships, business associations such as lawyers and accountants tend to be pretty closely aligned with the local community ... the farmer-shareholder is very, very close association with the company. Dependent on the company for their livelihood, dependent on the company in terms of where they live and for example, if things went wrong not only would they lose their income but they potentially also lose the place in which they live. So the interest of the shareholder are totally aligned with the performance of the company and therefore its most important, in my opinion, that the farmers have representatives as directors on the board of directors to ensure that the company's strategies and policies are very closely aligned with the interests of the farmer-shareholders (A2, supplier-shareholder director)

Supplier-shareholders' dependence on the co-operative is accentuated by their own personal lack of diversification:

They [supplier-shareholders] actually have invested in this co-operative for their interests as a farmer which probably represents 90 percent of their wealth anyway (D4, managing director)

For a dairy farmer his whole livelihood depends on his company. So he's got this vast amount of money tied up in his farm and he's got all this money tied up in the company through shareholding and through his entitlement to supply, it just creates a different way of thinking (A4, CEO)

As supplier-shareholders produce a highly perishable product, in quantities that may vary from day-to-day and year-to-year (as noted under Exogenous-Issues), they require a market for that produce each day:

Obviously securing their milk off take, I mean they are not dispensable to us so whatever they produce we will process and will pay a commercial price (D2, supplier-shareholder director)

As all cases export dairy products and there is a requirement to manufacture that perishable product into a shelf-stable product and to market it. The co-operative must have sufficient infrastructure to process and market all the milk supplied, therefore:

What's [a supplier-shareholder director] say? 'don't spill a drop of milk' [laughter] (C3, appointed director)

The board is accountable to the farmers for security of milk off take, for providing an ongoing viable option for them to grow if they want to grow (D1, appointed chair)

This supplier-shareholder expectation has physical capacity allocation implications. That is, resources may need to be allocated to milk processing infrastructure even if doing so does not appear to be economically sound for the co-operative as a whole. This managing director explains:

The issue of putting money into facilities to process milk where there is no margin or very little margin, but very, very important to the dairy farming community because they just need this constant growth (D4, managing director)

It is felt the co-operative not only needs to provide a market for tomorrow's milk but also a market for milk produced by future generations, requiring a sustainable business:

[We have] got to have a business here that is sustainable in the future, in its own right (E2, supplier-shareholder director)

I think a co-operative is, in particular a farming co-operative, has to take a far longer term view on its initiatives, on its investments (A2, supplier-shareholder director)

Apart from having a few sacred cows like this co-operative needs to be sustainable for generations (C2, supplier-shareholder director)

In the New Zealand and Australian dairy industry there are a limited number of 'buyers' of milk and a large number of small 'suppliers'²⁸ (co-operative memberships ranged from 120 to 12,000 supplier-shareholders). This suggests a Supplier-Shareholder-Needs/Benefit for countervailing market power,²⁹ which is achieved through collective action. With this difference in market power between supplier-shareholders and buyers (especially when combined with the perishability of milk), there is a risk of supplier-shareholders being taken advantage of by the buyer. As this appointed director muses:

I don't know what it was, and presumably it was in England or Ireland somewhere, but they thought about a means for getting their produce

²⁸ Predominately family farms.

²⁹ Discussed in Chapter 2.

aggregated, processed, and finding a market for it, without being screwed by those nasty bastards down the city of London or Queen Street, Auckland or wherever it was (C3, appointed director)

This risk is reduced by collectively owning and controlling (through the board of directors) the processor and marketer of that milk, that is the co-operative:

The co-operative will say bugger it, we might have to trade off some economic efficiency in doing things really well and being best in class, but at least we'll own the bastard and no one gets control of it and exploits us (C3, appointed director)

Milk producers also need a competitive yardstick (Nourse, 1922) against which to set the milk price. Otherwise milk producers risk being paid less than fair value:

It's the 70% of milk that's in this country that is controlled by co-operatives that have driven the price. It wasn't the Nestlés or the Krafts. And I used to work for Nestlé. I used to set their milk pricing policy (E4, managing director)

It is in the best interests of Australia for there to be a strong co-operative because there is no doubt about it, that basically the co-operative sets the milk price (F3, appointed director)

The co-operatives also reduce supplier-shareholders' risks by pooling benefits across products, time and markets and hence reducing variation in supplier-shareholders' income.

Demand for Risk-Reduction thus has an effect on the roles undertaken by the governing board. Risk-Reduction needs may constrain a board's strategies:

I believe that [case B] made a decision to go independently ... it did so for the sake of the [region], development of the [region] and the benefits it could bring to its own farmer-suppliers. To start hiving off into other activities outside, despite all the temptations that are put in front of you, you have to be very, very thoughtful about why you would want to do that (B3, appointed director)

and/or affect their Control Role (section 8.4) as these chairs acknowledge:

I believe that we actually bank the farmers. Equity is part of our drive and if we in any shape or form try to run the company with low equity we would then put a lot of pressure ... on farmers ... we couldn't expect farmers to take the risks they do with the weather and the market prices where they have to take the price they get. I believe that we would slow

down the growth of what we were trying to do within the region (B1, supplier-shareholder chair)

The reason for being there [the board] is to protect the shareholders' interests and their investment (B1, supplier-shareholder chair)

The evidence presented here suggests Risk-Reduction is a subconcept of Supplier-Shareholder-Needs/Benefits and is useful for the understanding of co-operative Board Roles.

7.3.3 Community

The third of the Supplier-Shareholder-Needs/Benefits subconcepts is Community needs (see Appendix F-3 for evidential data) and is defined as:

those benefits that do not relate economically to the supplier-shareholder's farming business that are expected (or provided) to supplier-shareholders by the co-operative.

Of far less import to the respondents, but evidenced in the empirical data, are a range of Community needs that are raised in 100% of the co-operative cases and by 45% of respondents (refer to Table 7-2 for summaries). Included in this subconcept are issues raised by respondents around local employment opportunities, regional invigoration, retention of local facilities, environmental issues and sense of community. These concerns appear more intense in the smaller, geographically-isolated co-operatives. This director outlines a board role in the areas of community and the environment:

I think we have become aware as a board that we have a duty to not only within our shareholding but to the wider community. I am thinking that in environmental matters we have taken a particular note of those issues, we are working with regional council because we think that is really important (B2, supplier-shareholder director)

This director notes the co-operative's role (and by implication the Boards' Roles) in (creating) local employment, the local community and education:

Education, most farmers, most of our shareholders, have children and so education is very much dear to their hearts ... the opportunity to maybe create employment here for their children, so at least they've got a choice of living here if they want to, which hasn't been great in the past. All of those things are quite important (B1, supplier-shareholder chair)

Supplier-shareholders also pursue social goals from their association with their co-operative, which include the desire to interact with other members and management and develop personal and business relationships:

When you are a co-operative and got a common thread it's so much easier to bring things together because you find your management team are really part of the district and understand a bit of the culture of the local farmers and even though you've got to be careful that you don't get the local small issues mixed up with the prime goals of the company, they are not that far apart (E1, supplier-shareholder chair)

Because we live here and all the elected directors live here, there's a sense of wanting to be part of the community and do well by the community so that's just a given that we would feel that way (B1, supplier-shareholder chair)

A consideration of Community Supplier-Shareholder-Needs/Benefits may be important in understanding co-operative governing Board Roles.

7.3.4 Collective-Action

The final Supplier-Shareholder-Needs/Benefits subconcept is Collective-Action (see Appendix F-4 for evidential data) and is defined as:

the requirement for supplier-shareholders to act collectively to meet their needs.

Although issues around Collective-Action are seldom raised by respondents (presumably largely taken for granted) by implication all co-operative cases studied achieve Collective-Action. Many of the Supplier-Shareholder-Needs/Benefits are achieved by Collective-Action and vertical integration:

[Case B] co-op. is really an extension of the farm and it's just that we can do things more better collectively, and processing the milk so it can be exported than we could individually ... My suggestion is that if the farmers could sell the milk at the farm gate and have the security that [case B] gives them, many of them would probably do that. The only reason they go as part of the co-op is because they're prepared to enter into a collective agreement because they know that a collective process [is] how they'll get their milk processed everyday and the security of that is worth a hell of a lot of money to them, more than what they would be concerned about whether their share value was x, y or z (B1, supplier-shareholder chair)

It is a co-operative number one. So there is a very, very, high degree of alignment between a shareholder's business activity, his farming activity, and the co-operative. And I tend to think of the co-operative as

simply an extension of his farming activity. If you actually could take a co-operative and slice it into 11,000 pieces and just join it on so there is sort of 11,000 joint ventures there that just happen to be welded into a single unit, to create a business model that was actually workable ... a co-operative is very closely tied to their business and is an extension of their business and that the success of their business is significantly in part due to how well that co-operative runs (C3, appointed director)

This highlights a board role in ensuring that this Collective-Action continues.

The co-operatives studied provide a vehicle for that collective action. Co-operatives give supplier-shareholders the opportunity to pool their resources and carry out business activities they could not perform as effectively as individuals:

For me the co-operative view is the utilisation of all resources, for the good of all, but there will be times when some will get, gain more and depending on what stage of their life or what stage of their farming career, they will gain more than they will in others (B1, supplier-shareholder chair)

To continue to act collectively, all supplier-shareholders' need to feel they are benefitting from their relationship with the co-operative. However, heterogeneity of needs leads to less consensus and thereby creates difficulties in acting collectively. A board role therefore is to continue to gain broad consensus and to enhance co-operative strategies with supplier-shareholders. Thus, an understanding of the heterogeneity of Supplier-Shareholder-Needs/Benefits, and how the board deals with this, is important to the understanding of Board Roles.

Heterogeneity in supplier-shareholders' characteristics identified in the interviews include: scale of operation (large versus small supplier-shareholders); age (supplier-shareholders looking to enter the co-operative, expand their farming operations, or retire from farming); business focus (e.g., large economies of scale versus adding value to milk); stage in their investment cycle (money to invest in the co-operative versus no money to invest); distance from markets; and the effect of Exogenous-Issues:

Given that you can define generally what the goals of the shareholders are, because they will vary from individual to individual. They will vary

because of family circumstances; they will vary because farmers are at different stages in their own business cycles, so there's a whole lot of variation in goals (A1, supplier-shareholder chair)

I can put the farmers as shareholders and suppliers in a number of categories ... large farmer with a large number of shares and no next of kin to take over the farm - he has got a certain attitude which is more exit- focussed. A young farmer, just in, very few shares, wanting to grow the business has got a supply focus. An established farmer with quite a number of years still to go but not wanting to grow has a focus which is different to his neighbour of the same age with the same long term expectations wanting to grow. The farmers in a region where there are no competing processor whatsoever ... has a different attitude to a farmer in an area ... [where] they have got three or four other processors ... so I can raise all those sort of categories of farmers, both as suppliers and as shareholders and each one has a different expectation. Therefore if ever you to try to do anything with your capital structure then all of a sudden you know you are going to end up with a best fit proposition because you will never have a proposition which will be right, for each one of those categories (D1, appointed chair)

Heterogeneity appears to be greater in larger more geographically dispersed co-operatives. To continue to act collectively all supplier-shareholders need to feel they are benefiting relatively equally (see section 8.2, Unite) from their relationship with the co-operative and to trust that the co-operative is working in their interests, as this supplier-shareholder director notes:

You do end up with degrees of envy and issues that you deal with (C2, supplier-shareholder director)

If supplier-shareholders do not feel they are benefiting equitably they may choose to Exit (section 7.4.3) the co-operative at the expense of Collective-Action, that is, supplier-shareholders not continuing to contribute resources (milk and capital) to the co-operative. Collective-Action is important for all supplier-shareholders to achieve their individual needs:

It's the whole relationship of the people with the business, the suppliers with the business. That is what a co-operative is about. If they get alienated from the business, then why have a co-operative (B3, appointed director)

The maintenance of Collective-Action appears to require the board to have a role in understanding Supplier-Shareholder-Needs/Benefits and to try to

maintain an adequate level of homogeneity in those needs, as this supplier-shareholder chair suggests:

There is a lot to be said for trying to get a consensus or at the very least a very substantial majority in any controversy or issue, and I think given time allows, time should be taken to try and achieve that (A1, supplier-shareholder chair)

The board has a role in understanding, finding balance and consensus in Supplier-Shareholders-Needs/Benefits:

[Supplier-shareholders] certainly do have diverse interests. And all the board can do is try and balance those interests but always it has to be with the underlying best interests of the vehicle, being the co-operative, in mind. And ensuring that the vehicle, the co-operative is sustainable, both today and into the future. So sure, the board has to be very mindful of different needs and they are there and they are real, but it's got to be very careful not to pander to one in particular. In the end it's got to be, the decision has got to be made in the best interests of the vehicle as a whole (F4, managing director)

The board tries to the largest extent possible to treat all shareholders as equal, but there are certain circumstances where that is not in the co-operative's best interest, not in the interest of the whole. And so the board's job is to define those parameters of whether a certain action will treat suppliers differently but is in the broader interest of the co-operative. The board has to define what that balance is, sometimes they may get a recommendation from management but that's clearly a board responsibility (C4, CEO)

The supplier-shareholder's need to undertake Collective-Action and the boards' role in maintaining Collective-Action is demonstrated. The heterogeneity of Supplier-Shareholder-Needs/Benefits is highlighted from the data, as is the role of the board in finding adequate homogeneity in those needs to allow the supplier-shareholders to continue to act collectively.

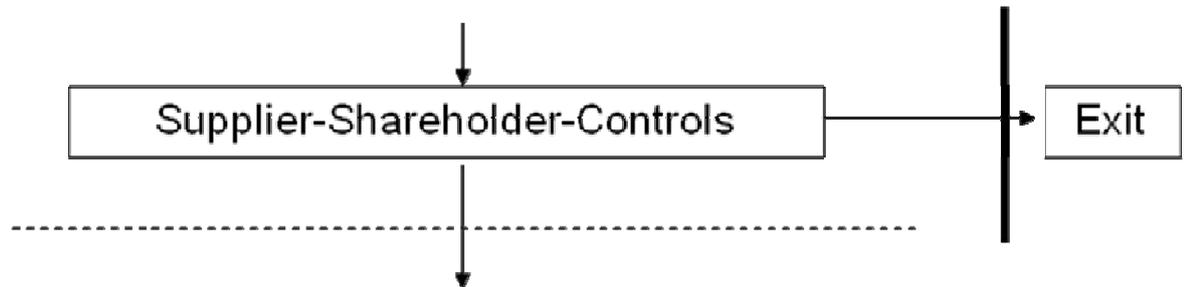
7.3.5 Conclusions – Supplier-Shareholder-Needs/Benefits

Supplier-Shareholder-Needs/Benefits are defined here as the benefits required by the supplier-shareholders in their relationship with the co-operative dairy company. Four theoretical subconcepts of Supplier-Shareholder-Needs/Benefits are identified from the evidence; Income-Enhancement, Risk-Reduction, Community, and Collective-Action. The heterogeneity of Supplier-Shareholder-Needs/Benefits is highlighted, as is the issue of Supplier-

Shareholders-Needs/Benefits being facilitated (or achieved) through Collective-Action, vertical integration, and trust. Supplier-Shareholder-Needs/Benefits are identified as an important theoretical concept in understanding the sources of influence on the roles of governing boards of cooperative dairy companies.

7.4 Supplier-Shareholder-Controls

Figure 7-4 Supplier-Shareholder-Controls



Supplier-Shareholder-Controls are defined here as:

the mechanisms available to supplier-shareholders to ensure that the co-operative continues to meet their needs.

Supplier-Shareholder-Controls are present as a conceptual theme in all cases studied and are referred to by 100% of the participants during the semi-structured interviews (see Table 7-4 for a summary and Appendix G for more evidence). In this section archival data, particularly co-operative constitutions, are utilised to provide evidence. Three subconcepts emerge from the empirical evidence; the ability to Vote, the use of Voice, and Exit or the threat of Exit. These are discussed below along with evidence supporting each subconcept.

The concept of Supplier-Shareholder-Controls is important in understanding Board Roles as it is the mechanism supplier-shareholders use to communicate their expectations. Supplier-Shareholder-Controls also help in understanding who undertakes Board Roles and why.

Table 7-3 Evidence of Supplier-Shareholder-Controls

Concept	Frequency of mention				Examples from interviews
	Cases		Respondents		
	No.	%	No.	%	
Supplier-Shareholder-Controls	6	100	22	100	<i>Ultimately the farmers have the final say who their board directors are, either through election or through ratification (C1, s-s chair)</i>
Vote	6	100	19	86	<i>Probably ultimately I am accountable to my shareholders because it's they who put me in, or take me out (B2, s-s director)</i>
Voice	6	100	22	100	<i>With directors, and we have had them, confronted by a meeting in their town or their area or their district. They get a lot of questions, a lot of pressure from the average dairy farmer (D4, MD)</i>
Exit	6	100	17	77	<i>I've watched, seen what's happened in the Manawatu, Rangitiki area with this latest terrible floods and a number of dairy farmers are talking about exiting (B3, appointed director)</i>

7.4.1 Vote

The first Supplier-Shareholder-Control subconcept is the supplier-shareholders' ability to Vote and is defined here as:

the ability of supplier-shareholders to vote on major co-operative decisions and for members of the co-operative board.

The ability of supplier-shareholders to Vote is enshrined in legislation and the various co-operative constitutions³⁰. The supplier-shareholder Vote mechanism is at the heart of the co-operative user-control principle (Barton, 1989a). Of most importance to the understanding of co-operative Board Roles is the ability of supplier-shareholders to Vote on the co-operative constitution and changes to it. As set out in Table 7-4, the co-operative constitutions outline the rights, powers and obligations of the board, shareholders and the company. The constitution establishes who may be a shareholder and how they may Vote. Constitutions also outline who may be a board member, how they may be removed, the number and type of board members and the "type" of director the chair must be. The constitutions also outline the powers of the board and the principal activities of the co-operative. By Voting for board members,

³⁰ Four cases have constitutions, one has articles of association, and one has "Rules of ...". The term constitution is used in this thesis to cover all these forms.

much of the Supplier-Shareholder-Control is delegated upward to fewer of the supplier-shareholders on their representative board.

Table 7-4 Vote: Constitutional Arrangements

Constitutional Principles	Example evidence from co-operative constitutions	Effect on Board Roles
Constitutional effect	2. EFFECT OF THE CONSTITUTION. The constitution defines the rights, powers and obligations of the Company, the Board, each Director and each Shareholder – the one with each other ([case A] constitution)	Defines the rights, powers, and obligations of the board
Shareholder requirements	5. Shareholding requirements 5.1 Suppliers only to hold ordinary shares Ordinary shares may only be held by suppliers ([case F] constitution)	Defines who may be a shareholder and exercise supplier-shareholder control
Democratic control Voting on Patronage	21. VOTES OF SHAREHOLDERS 21.1 Voting on a Poll Upon a poll, every supplying shareholder entitled to vote in person or by proxy shall be entitled to: One vote for every 10,000 kilograms of milksolids or part thereof in the dairy produce supplied by him to the Company during the financial year immediately preceding the taking of such a poll with a maximum of ten votes for any shareholder ([case B] constitution)	Can not have a dominant or corner stone shareholder influencing the board
High vote thresholds	2.5 Alterations to certain rules requires a special majority A special resolution altering or adding to this rule [Primary objects] ... will not have effect unless the resolution is passed by an affirmative vote of the members representing at least 90% of all the ordinary shares ... held by members present at a meeting of members ([case F] constitution)	Changes to the principal activities requires substantial majorities. Limits strategies
Powers of the board	Powers of the Board 57. (1) The business and operations of the Co-operative shall be managed and controlled by the Board. For that purpose the Board ... shall have and may exercise the powers of the Co-operative as if such powers had been expressly conferred on the Board at a general meeting of the Co-operative (Rules of [case D])	Sets out the powers of the co-operative board
Qualifications of directors	22.2 Qualifications of Directors (a) No person shall be qualified to act as a director (other than as Managing Director or as an Appointed Director) unless he or she is a supplying shareholder of the company or is a member of a company or partnership which is a supplying shareholder of the Company – (i) holding not less than 20,000 shares in the capital of the Company; and (ii) having supplied to the company in the immediately preceding financial year not less than 20,000kg of milk solids” ([case B] constitution)	Limits who may carry out Board Roles

Constitutional Principles	Example evidence from co-operative constitutions	Effect on Board Roles
Makeup of the board	<p>12.1 Number of Directors: There shall be: (a) not more than 9 Directors elected by Shareholders in accordance with clause 12.2 [to be shareholders] ... (b) not more than 4 Directors appointed by the Board ...[appointed directors] ([case C] constitution)</p>	Specifies the size and ‘type’ of board to carry out Board Roles
Chair	<p>3.2 Chairman In accordance with the Company’s Constitution and the Companies Act 1993, the Directors elect the Chairman of the Board from among the shareholder-elected Directors ([case C] board charter)</p>	Sets out the chair must be a supplier-shareholder elected director
Director removal	<p>20.12 Removal of Director: At a meeting of Shareholders the Shareholders may be an ordinary resolution passed by a majority of not less than 60% of those present and voting remove any Director before the expiration of that Director’s term of office ... ([case A] constitution)</p>	Allows supplier-shareholders to remove directors
Principal Activities	<p>1. PRINCIPAL ACTIVITY 1.1 The principal activities of the Company are: (a) The manufacture of butter, cheese, dried milk, or casein, or any other product derived from milk or milksolids supplied to the company by its shareholders; and (b) The sale to any person of the milk or milksolids so supplied; and (c) The collection, treatment, and distribution for human consumption of milk or cream so supplied ([case B] constitution)</p>	Limits the strategies the board may follow

The supplier-shareholders' ability to Vote for changes to the constitution and for members of the governing board is therefore demonstrated as a subconcept of the theoretical construct of Supplier-Shareholder-Controls, which is useful in understanding the actual Board Roles of directors of New Zealand and Australian co-operative dairy companies.

7.4.2 Voice

The second subconcept of Supplier-Shareholder-Controls emerging from the data is the supplier-shareholders' ability to exercise "Voice" and is defined here as:

the ability of supplier-shareholders to influence co-operative decision making by voicing their issues with co-operative decision makers.

Voice is the ability of supplier-shareholders to influence key decision makers in the co-operative. Voice is characterised as a mechanism of Supplier-Shareholder-Controls, and is highlighted by 100% of respondents and in all cases (see Appendix G-2 for further evidence). As key decision makers, board directors may have a role in facilitating, listening to, understanding, prioritising and addressing issues Voiced by supplier-shareholders. Supplier-shareholder use Voice as a mechanism to communicate their interests, as this managing director states:

There's the representative issue in representing the best interests of the farmer and being able to communicate the requirements, the needs, the questions, the issues that are raised in the field, if you like, by farmers (F4, managing director)

The same managing director goes on to suggest an important Board Role is to listen, understand, and prioritise supplier-shareholders' issues:

That is very much a communication role and being able to decipher the issues and prioritise the issues and so on, that's very important for a co-operative (F4, managing director)

Supplier-shareholder Voice may be used to convey dissatisfaction as well:

So being value added I think complicates our relationship with the members. They ask us are we doing a good enough job for them (D2, supplier-shareholder director)

The use of supplier-shareholder Voice may diminish with superior performance, as this chair explains:

It's a chicken and egg situation, in that good performance, exceptional performance produces behaviours in shareholders and directors ... maybe less critical than would otherwise be the case (A1, supplier-shareholder chair)

The use of supplier-shareholder Voice can place co-operative directors under intense pressure:

With directors, and we have had them, confronted by a meeting in their town or their area or their district. They get a lot of questions, a lot of pressure from the average dairy farmer (D4, managing director)

Larger co-operatives find it more difficult for supplier-shareholders to exercise Voice:

It's not like that anymore. 'I can't even find a director within 200 miles of me I can go and complain to, I could ring him up but it is never as much fun ringing someone up and bawling him out over the phone as it is getting him in the sale yards is it, on the rails and telling him what's wrong with the place [the co-operative]' (C3, appointed director)

Listening to supplier-shareholders' Voice may be a time-consuming role of the co-operative board:

We spend a lot of time, I guess listening to them and communicating with them where we are going (E2, supplier-shareholder director)

Exogenous-Issues such as deregulation may diminish the effectiveness of supplier-shareholder Voice:

Our farmers historically have been very collective in their voice and their dairy industry groups, and had local meetings every month and they're very well attended and their voice had outcomes because regulation is a political process (D2, supplier-shareholder director)

The directors place a great deal of emphasis on facilitating the use of supplier-shareholder Voice, through personal relationships, informal meetings, telephone calls, shed meetings,³¹ local district communication meetings,³² and

³¹ Groups of local supplier-shareholders meeting in one supplier-shareholder's milking shed with one or more directors and co-operative management to discuss co-operative matters.

the more formal special or annual general meetings. As such, co-operative directors appear to have a role to create avenues for supplier-shareholders to exercise Voice. For supplier-shareholders to exercise Voice, directors should be available:

Okay, number one, we are always available. Okay, our phone numbers are published. We live here we are not sort of clandestine type people who are hidden away somewhere (E2, supplier-shareholder director)

Directors have a lot of contact with shareholders (A2, supplier-shareholder director)

Supplier-shareholder Voice is also facilitated through the Voting process. The majority of directors on co-operative boards are supplying-shareholders themselves and have an intimate knowledge of the relationship between their own farming business and the co-operative company. They generally live in the communities of supplying-shareholders and as such interact with them on a frequent basis, thus facilitating the exercise of Voice:

There is an interaction between the shareholders and the directors which is quite personal in a way, because you can physically know everyone of the shareholders in your own area who ... in my case I'm elected by the area and I really do know the seventy farmers who would have elected me. So you have a personal relationship with them almost (B1, supplier-shareholder chair)

All co-operative cases place great emphasis on facilitating supplier-shareholder Voice:

We run sort of information sessions ... there will always be at least half the directors there, maybe more, so we are available to talk and chat over whatever the issues. We have formal regional meetings where directors speak and are available to be questioned and obviously we have annual meetings (E2, supplier-shareholder director)

The more formal meetings, say the AGM ... they're not forums I think that suppliers feel particularly comfortable in. So we know that when we go out around these district meetings that we're going to get some good feedback and we certainly do (B4, CEO)

This communication appears easier to achieve in smaller co-operative cases; nonetheless, larger co-operatives go to great lengths and expense to keep

³² Meetings of geographically related groups of supplier-shareholders, perhaps in a local rural hall.

channels of communication open between supplier-shareholders and the decision makers in the co-operative company so that Voice can be expressed.

Directors play a large role in this, as this CEO of a large co-operative explains:

The board will get out in front of shareholders formally about twice a year ... in a series of small farmer meetings where a director will go into a certain geography, paired with a member of management and will be going out and talking to farmers and dialoguing with farmers about specific issues. That's done as a blitz of the country ... all of our farmer directors will be very actively involved in that and it will be a week of meetings, three meetings a day, right through the week so that we can cover the whole country. The second one is obviously through the annual meeting where the board is responsible for shareholders and that's an annual one ... Beyond that there is a lot of informal things, if there is a ward dinner that's going on, generally a director will be involved, there is numerous, numerous, numerous times that all of our farmer directors are involved in specific shareholder related things from small to large shareholder meetings, speaking at shareholder events, all of that. I call that the broadly informal part (C4, CEO)

The exercise of supplier-shareholder Voice, however, is not without some frustrations:

The thing that pisses me off the most in this job is dealing with ill-informed farmers (a supplier-shareholder director)

It's a bit disappointing sometimes when shareholders hear something and they don't ring you up to clarify it. They hear down the pub, instead of ringing you up and saying hey is this right or wrong, they tell somebody else, those issues are a bit disappointing, but it's pretty good really (E2, supplier-shareholder director)

There is a need to continue to keep alignment between the needs voiced by supplier-shareholders and the other stakeholders:

The biggest challenge for co-operatives I think is ... how they keep in touch and communicate with the shareholders ... otherwise you can lose that alignment of what the shareholders want and what the board and the company are doing and what the customer wants and we pride ourselves on keeping that alignment pretty close (E4, managing director)

The evidence suggests that the co-operative board has a role in addressing, in a real sense, the issues raised in Voice:

That farmers' interests, concerns and issues are properly represented and a balanced decision is made about concerns and issues that are

raised by farmers ... the farmers [have] got to really feel and know the issues are being dealt with fairly and that there is something in it for him, it is worth hanging on for (F4, managing director)

You've got to be able to build a rapport with the farmers, understand the issues they have and be able to communicate with the farmer. And I have found that as a key in my experience has probably been that those CEOs that haven't been able to do that have probably struggled, compared to those that can (F4, managing director)

The exercise of supplier-shareholder Voice is seen as a subconcept of Supplier-Shareholder-Controls and is useful in understanding Board Roles.

7.4.3 Exit

The final Supplier-Shareholder-Control subconcept highlighted from the data and included in this conceptual model is Exit and is defined as:

supplier-shareholders withdrawal of patronage (and capital) from the co-operative.

Supplier-shareholder Exit is important for the understanding of actual Board Roles. Exit may come at the expense of Collective-Action (section 7.3.4). The withdrawal of patronage may have severe effects on the co-operative as it not only withdraws raw material (milk) from the co-operative's operation, it may also withdraw capital³³ which may affect the co-operative's viability. This may require a board role to try to retain the loyalty of supplying shareholders.

Exit of a supplier-shareholder from the co-operative is achieved in a variety of ways. A supplier-shareholder may sell their dairying operation to a new buyer with all the rights and obligations attached to the farming business carrying on under the new owner. This form of Exit has minimal affect on the co-operative and those supplier-shareholders remaining in the co-operative and as such has minimum effect on Board Roles. If the supplier-shareholder leaves due to dissatisfaction with the co-operative, this may have implications for the exiting supplier-shareholder in terms of employment, housing, and social factors (such

³³ Most co-operatives have the supply of milk linked to capital contributions. Withdrawal of milk often leads to the resumption of that (ex-)supplier-shareholder's capital. The so-called "redemption risk".

as friends, family, children's education etc.). The board may have a role in understanding that supplier-shareholder's dissatisfaction.

Exit can also be achieved by supplier-shareholder(s) leaving the co-operative and supplying their milk to another milk processor, either another co-operative or an investor-owned firm (IOF). The supplier-shareholders ability to exercise this form of Exit is dependent on alternative processors of milk within transportable distance of the supplier-shareholder and varies between cases. Some co-operatives, or geographic areas within a co-operative, are effectively monopsony buyers of milk. Exit to another dairy processing company is therefore very geographically dependent due to spatial monopsonies, as this director succinctly points out:

Well I think it's important not so much to keep them [supplier-shareholders] on board because it's difficult for them to jump off the ship [laughter] (B2, supplier-shareholder director)

Different institutional arrangements may also have an effect on supplier-shareholders' ability to Exit the co-operative. Supplier-shareholder Exit appears easier to achieve for the majority of supplier-shareholders in Australian cases than New Zealand ones:

Probably exacerbated more here in Australia than in New Zealand because here a dairy farmer can leave any day he likes, it is not the 30th June or 31st May or whatever it might be. It can be anytime and they can leave today, join a company tomorrow and if they don't like it in a week's time they can move again. There is a total freedom of movement (F3, appointed director)

A supplier-shareholder may also Exit from the co-operative, by reducing or ceasing the supply of milk to the co-operative, for instance, by a change in land (or water) use to another form of farming operation. The latter two co-operative Exit options (Exit to another milk processor or from dairying) has a more pronounced effect on the co-operative and its remaining supplying-shareholders. The Exit of supplier-shareholders will starve the co-operative of both milk (raw materials) and capital (varying depending on the constitution). A critical mass of supplier-shareholders utilising the Exit option will have dire consequences for a dairy co-operative, putting the remaining supplier-

shareholders' benefits and the co-operative businesses at risk. This suggests a Board Role in identifying and addressing issues that may cause supplier-shareholders to Exit the co-operative.

The most likely cause of Exit is uncompetitive performance; that is, not meeting supplier-shareholders economic needs:

It's maintaining milk price because you know damn well that if you can't pay the same amount of money for your milk as your neighbour [competing dairy company], you are going to lose the farmers (F3, appointed director)

the implications of this on the co-operative are:

So if you are not competitive you are going to lose milk supply, the moment you lose milk supply you start to lose your fundamental base of operation. And therefore you will see companies stretch their finances and weaken their accounts to maintain their competitiveness (F3, appointed director)

The final outcome could be the demise of the co-operative:

If you have a look at the history of what happened to [another co-operative] it is probably the best example that you can see. They kept paying milk prices that were way beyond their profitability because they had to, to maintain [milk supply] ... without [another co-operative buyer] they basically would have I think been folded up (F3, appointed director)

Supplier-shareholder Exit may also be caused by Exogenous-Issues such as severe drought:

There were a few of them that wanted to sell the place and privatise it (E1, supplier-shareholder chair)

Or different Supplier-Shareholder-Needs/Benefits requirements:

Large farmer with a large number of shares and no next of kin to take over the farm - he has got a certain attitude which is more exit focussed (D1, appointed chair)

The ability for supplier-shareholders to Exit the co-operative may suggest the board has a role in understanding and responding to the causes of Exit. It may also require a role for the board in encouraging member loyalty.

Due to the commitment, in terms of physical, intellectual and emotional capital of supplier-shareholders to the dairy industry and their co-operative (as outlined above under Supplier-Shareholder-Needs/Benefits, Risk-Reduction), Voice (and possibly Vote) may be used extensively before Exit is considered, as this example of a board's role in response to a drought and some supplier-shareholders wanting to Exit:

[We went] out there on their patch and explained what we were doing, the problems we had and talked about their problems, we put field staff in basically to go out and service them, to fill in forms to help them with drought aid to facilitate many of the things, that under stress they weren't handling well. And that in itself took the pressure off a little bit. Them wanting to tear the place down, there were a few of them that wanted to sell the place and privatise it you know one percent, one percent, two percent. But it was all because of a clear direction by this company and not leaving them out there (E1, supplier-shareholder chair)

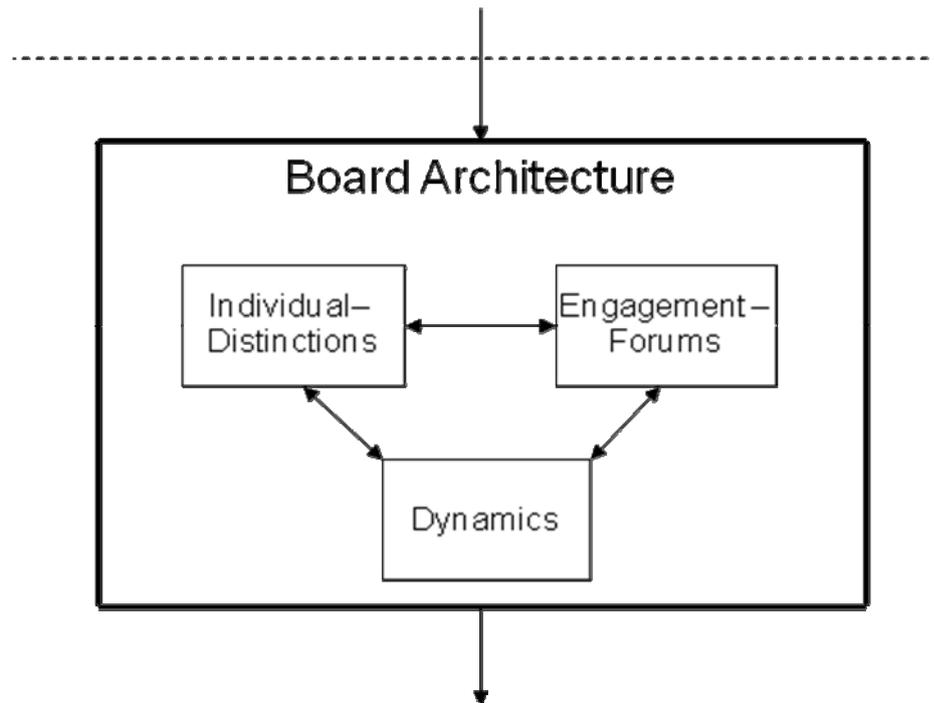
Evidence supporting the third Supplier-Shareholder-Controls subconcept of Exit is presented and found to be useful in the understanding of actual co-operative Board Roles.

7.4.4 Conclusions – Supplier-Shareholder-Controls

Supplier-Shareholder-Controls are defined here as the mechanisms available to supplier-shareholders to ensure that the co-operative continues to operate in a manner that meets their needs. Three subconcepts of Supplier-Shareholder-Controls are identified from the data; Vote, Voice and Exit. Supplier-Shareholder-Controls are identified as an important theoretical concept in understanding the sources of influence on the roles of governing boards of co-operative dairy companies.

7.5 Board Architecture

Figure 7-5 Board Architecture



The fourth theoretical co-operative governance concept induced from this research is Board Architecture and is defined here as:

the people who carry out board roles, their skills, knowledge, abilities and engagement in their tasks, how they organise themselves, make decisions, and relate to each other and others.

Board Architecture consists of three sub-concepts; Individual-Distinctions, Engagement-Forums, and Dynamics. Individual-Distinctions identify who the board members are and the competencies, skills and motivations they bring to their roles. The leadership role of the chair is highlighted. The subconcept of Engagement-Forums focuses on the forums the board use to carry out their roles. The final subconcept of Board Architecture that emerges from the data is Dynamics, which explores the relationship(s) between board members, between the board and management, and the processes the boards use in coming to significant decisions. Board Architecture is an important theoretical concept in the understanding of co-operative Board Roles as it explores the

‘who’ (Individual-Distinctions) and ‘how’ (Engagement-Forums and Dynamics) of co-operative governance before the ‘what’ of Board Roles.

Issues surrounding the theoretical concept of Board Architecture are perceptible in every case studied. The concept is displayed in Figure 7-5.

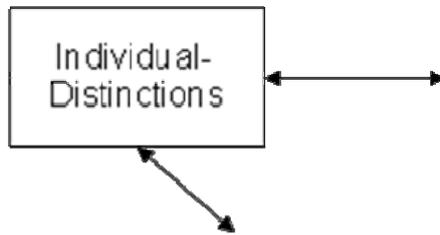
Table 7-5 Evidence of Board Architecture

Concept	Frequency of mention				Examples from interviews
	Cases		Respondents		
	No.	%	No.	%	
Board Architecture	6	100	22	100	
Individual-Distinctions	6	100	22	100	<i>See Table 7-6</i>
Engagement-Forums	6	100	22	100	<i>See Table 7-8</i>
Dynamics	6	100	22	100	<i>See Table 7-9</i>

Each of the subconcepts is explored and supporting evidence utilised in explanation for the remainder of this chapter.

7.5.1 Individual-Distinctions

Figure 7-6 Individual-Distinctions



The first Board Architecture subconcept is Individual-Distinctions and is defined here as:

that composite of knowledge, skills, commitment, and leadership brought and applied to the role by individual members and how those people and their characteristics together bring balance and strength to the board of directors.

This subconcept refers to the characteristics of those who undertake the Board Roles. Evidence of Individual-Distinctions of the board members is drawn from archival data, annual reports in particular, as well as interview data and, as such, is evident in 100% of the cases as displayed in Table 7-6. Three sub-subconcepts of Individual-Distinctions emerge from the data; Composition, Competencies and Leadership. Each is discussed below with supporting evidence.

Table 7-6 Evidence of Individual-Distinctions

Subconcept	Frequency of mention				Evidence
	Cases		Respondents		
	No.	%	No.	%	
Individual-Distinctions	6	100	22	100	<i>Our farmer directors ... [have] a broad range of experience and from time to time have also been able to give significant assistance, guidance, help, introductions, knowledge to the company and assist the management (A2, s-s director)</i>
Composition	6	100	22	100	<i>Under the constitution the chair must be a farmer and we must have nine farmer-elected directors and four non-farmer elected directors (C1, s-s chair)</i>
Competencies	6	100	22	100	<i>So the interest of the shareholders are totally aligned with the performance of the company ... its most important ... that the farmers have representatives as directors on the board of directors to ensure that the company's strategies and policies are very closely aligned with the interests of the farmers shareholders (A2, s-s director)</i>
Leadership	6	100	22	100	<i>The culture of the board is very much in the hands of the chair and how he wants to run meetings, how he wants to interface the board and management, how decisions are reached and the culture of the board and the style it operates with is very much driven by the personality and the aspirations of the chair (A3, appointed director)</i>

7.5.1.1 Composition

Composition is defined here as:

the makeup of the board; their number and their backgrounds.

An understanding of Composition is important to this model as it identifies who is undertaking Board Roles. The distinctions in the number and composition of the case boards is displayed in Table 7-7 below.

Table 7-7 Board Compositions across Case Studies

Case	Number of directors	Number of supplier-shareholder directors	Supplier-shareholder majority %	Number of appointed directors	Chair	Executive directors
A	9	7	77	2	s-s director	0
B	10	8	80	2	s-s director	0
C	12	9	75	3	s-s director	0
D	14	10	71	3	Appointed	1
E	6 (- 8)	5 + 1** associate director	83 (or 75)	0 (1 advisor to the board (no voting rights))	s-s director (rotated)	1
F	12	10	83	1	s-s director	1

*These figures are taken from Annual Reports at the time of data collection. Some of the case boards are in the process of downsizing.

** Case has an associate director. This director is a supplier-shareholder but not a full director. If elected the associate director is expected to become a full member of the board sometime in the future.

Table 7-7 indicates the overall number of board members on the case study. Boards range from between six (to eight, depending on definition) members and fourteen (this company is downsizing its board at time of data collection). All board members are white and of European origin aged from their early forties into their seventies. Only two boards have women members with only one women director on each of those two boards.

Table 7-7 distinguishes between three “types” of directors on the co-operative boards; supplier-shareholder directors, appointed directors, and executive directors. Supplier-shareholder directors are those who are suppliers and shareholders of the co-operative, and are nominated and elected from the supplier-shareholder base in a democratic way. Appointed directors are those who are both non-executive and non-suppliers of the co-operative and are generally brought on to the board for their specific skills to complement supplier-shareholder directors’ competencies. Respondents often refer to them

as Independents³⁴. Executive directors are employed by the co-operative (and are non-supplier-shareholders) of the co-operative. All the executives with a seat on the board are managing directors (equivalent in many respects to a CEO). Three of the cases have an executive seat on the board. All but one of the cases has a supplier-shareholder director as a chair (Table 7-7). The majority of supplier-shareholder directors are also highlighted in Table 7-7. In agency theoretical terms (see section 3.3.1) the Composition of these boards would be considered to be very independent of the executive. Each of these three types of co-operative director is considered in turn.

Supplier-shareholder directors

In line with the co-operative constitutions (section 7.4.1) supplier-shareholder directors are nominated and elected by the supplier-shareholders to ensure they are represented in co-operative decision making:

Farmer shareholder directors are elected by the shareholders ... they have to be nominated and seconded by a shareholder to put their hat in the ring ... they're elected for a term of three years, they retire by rotation and either retire permanently or offer themselves for re-election. The shareholders elect them on the basis of their shareholding, although in [case A]'s case we have a limit on the amount of votes that any individual shareholder can have, so that we actually have our voting entitlement capped at about 5% of shareholding (A2, supplier-shareholder director)

There is variation in how cases elect their directors. As an example, case B has five directors from geographic regions and three from co-operative-wide elections, bringing geographic representation:

At present we've only got 330 shareholders and we have eight elected directors, and five of them are elected from regions ... the company's regionalised and three of them are elected by the whole company so we have five different regions with one director per region (B1, supplier-shareholder chair)

Consistent with co-operative theory (see Chapter 2) and the need for user-control (Albaek & Schultz, 1997; Hansmann, 1996) all co-operative cases have a majority of supplier-shareholder-elected members on the board. The

³⁴ A term utilised along with "external" in IOFs for directors who are non-executive and independent of management. Supplier-shareholder directors also conform to this definition.

six cases range from just over 70% to 80% majority. This appears to be the will of the boards and supplier-shareholders:

Well I have a personal view, rather strongly held, that we should always have a substantial majority of farmer elected directors who are farmers (A1, supplier-shareholder chair)

So the interest of the shareholder are totally aligned with the performance of the company and therefore it's most important in my opinion that the farmers have representatives as directors on the board of directors to ensure that the company's strategies and policies are very closely aligned with the interests of the farmers shareholders (A2, supplier-shareholder director)

Appointed directors

In all cases³⁵ the number of supplier-shareholder directors is supplemented by appointed directors. Appointed directors are selected and appointed by the board and in most cases ratified by the supplier-shareholders in annual general meetings. The appointed directors are usually appointed for their skills and abilities that supplement the supplier-shareholder directors' skill-range:

It's really a question of looking at the skills of the existing farmer directors and ... determine whether there are any specific gaps or opportunities where someone with another set of skills outside ... the farmer directors would be beneficial to the company and trying to find that person (A2, supplier-shareholder director)

The board looks at the skills of their board that they have, and being an all farmer directors, in general terms has been that we lack in areas of probably finance in this occasion and marketing in choosing the two that we have (B1, supplier-shareholder chair)

Executive directors

Three of the cases have executive directors. In each case this is the managing director, who appears to undertake the same roles as the CEO in other cases.

That is, they appear to carry out an executive role:

I probably would struggle to differentiate it at the moment [between a CEO and an MD] but I very much see my role as, if you like dual, it is not only to manage the business but also to be a hopefully an effective member of the board and not only in terms of the decision making ultimately and so on but as it relates to farmer relations as well, even though I am not necessarily directly farmer elected (F4, MD)

³⁵ In one case a non-voting board 'advisor' is utilised. This advisor attends all board meetings.

Executive directors are in a (small) minority. There is no CEO duality.

7.5.1.2 Competencies

The second sub-subconcept of Individual-Distinctions is Competencies. Evidence of Competencies is also drawn from archival data, in particular annual reports, as well as interview data (see Appendix H-1 for further evidence). All but four respondents had various levels of tertiary qualifications (including five to PhD level). While academic records and work histories give some guidance to Competencies in performing Board Roles, this is a far more subjective (and likely transient) sub-subconcept that is more difficult to pinpoint, except in very broad terms. As such, the sub-subconcept of Competencies is raised as an important concept in co-operative governance and some issues that are seen as important in co-operative governance are raised. Directors bring, and are expected to contribute, a range of Competencies to their role. Competencies are defined here as:

the balance of skill and knowledge each member brings and applies to the board roles.

Two types of co-operative directors identified in Table 7-7 are considered in turn, followed by some evidence of their engagement in Board Roles.

Supplier-shareholder directors

The supplier-shareholder directors in the co-operative cases have a range of formal educational attainment, many with tertiary qualifications (including up to PhD level). By implication, all are (relatively) successful businessmen in dairying with substantial personal wealth in their dairy farming businesses:

[Supplier-shareholder directors] Many of them run very big businesses, not one or two farms. So they are good businessmen already, they're hard working, they're intelligent, they have virtually all got degrees, whether it be a Bachelor of Commerce or Degree in Marketing or whatever, they've got common sense, they've survived in business (C3, appointed director)

A person capable of running the farming business is quite capable of being a director of a co-operative dairy company (A1, supplier-shareholder chair)

According to some respondents, sometimes what they bring to their role does not always meet all the needs of a major enterprise:

You can't expect typically that you are going to have the skill on a board like ours to be setting policy in that area ... which is sometimes in areas that are a bit foreign to them, particularly when you haven't had the experience (F4, MD)

Of course we've got business skills as dairy farmers but I'm talking about governance, company governance skills. Frankly, they're no different between a co-operative if they're doing their job and any company in the end, and when they're doing that role they've got to be thinking about the company (B3, appointed director)

Although they generally have a rounded background:

We're also fortunate in our company that all our directors have a variety of experiences whether they be in the academic or university area, commercial area, other farming or agri-business related entities or just for a variety of reasons, or their general interest in life a whole range of people that they know in a variety of areas (A2, supplier-shareholder director)

The “sameness of background” of supplier-shareholder directors is perceived to be a limiting factor by some respondents:

[Supplier-shareholder directors] have a sameness of background which is a disadvantage. Too much of a sameness of background, sameness of sex, sameness of age, everything with just one or two exceptions (D1, appointed chair)

The issue I think for them [farmer directors] is that, and for the board of [case C], is that they are essentially machine pressed out of the same mould so ... there is going to be a tendency naturally to come at a problem from much the same direction (C3, appointed director)

Some of the supplier-shareholder directors have multiple directorships, usually in related industries, hinting of bringing knowledge resources, as outlined in resource dependency theory (section 3.3.5).

Given the importance of supplier-shareholder directors to the governance of the co-operative, and supplier-shareholders lack of experience of governing companies, all co-operatives had in place training for prospective and new directors:

I have some responsibilities in my latter years now to make sure that we do spend some time and we've just put together a group of ... farmers to come in and do what we call potential directors course ... they come to days when we put them through governance programmes and what have you (B1, supplier-shareholder chair)

We take succession very, very seriously, because the issues that we've got I think are fundamental for [case C]. How do you get farmer-elected directors to get a global perspective? And you just can't come out of the cowshed and end up on the [case C] board. The roles are just poles apart (C1, supplier-shareholder chair)

Appointed directors

Appointed directors are generally appointed for their skills, knowledge and competencies that complement those of the supplier-shareholder directors:

None of us can be experts in all these areas and so when we come to say some issues like marketing, strategy or perhaps treasury policy, an external director can be extremely valuable in that area (B4, CEO)

The principal reason why you have independent directors on these boards is because these people have got experience in the functional areas of business that the farmer directors probably haven't got. ... every one of the four independent directors on [case C] has first hand management line experiences as CEO or CFO or both in a major public company or companies (C3, appointed director)

and their ability to fit in to board culture:

Identifying individuals that might be suitable based on skill sets, based on their personality and the way in which they would empathise with their fellow directors and the company .. and then perhaps subjectively assessing whether or not they would be a good fit as far as the makeup of the board, the personality of the board, the personality of the company was concerned (A2, supplier-shareholder director)

It's important to have a blend of personalities around your board as well, so real care needs to be taken in getting that mix of personalities, not only in terms of who you want to have there, you know, going forward for your elected producer representatives, but also, you know, your independents as well (B3, appointed director)

Engagement

Important to the understanding of Competencies is the level of engagement of board members in their roles. For the boards' Competencies to have an effect

on the co-operative they must be utilised. For this, directors are required to engage in their tasks:

I know we get a bit passionate about that at this little place (E1, supplier-shareholder chair)

They [supplier-shareholder directors] have a capability and a knowledge and an empathy with the co-operative which is very, very difficult for someone who comes from an investor owned firm to have, it's a philosophical position to be taken with respect to the co-operative that is unique and if that is not present in the directors, it will be very, very difficult for a co-operative to continue in a truly co-operative fashion (A1, supplier-shareholder chair)

Where the uniqueness of a co-operative governance structure is different to a corporate governance structure - shows that a director wants to get involved in more detail of the performance, this is why we provide that kind of venue [conference calls]. (C4, CEO)

All supplier-shareholding directors have, as supplier-shareholders, a great deal of their personal wealth at stake in the performance of the co-operative. This clearly aligns the supplier-shareholder directors' interests with those of the supplier-shareholders. It also appears to motivate the engagement of the supplier-shareholder directors in their duties:

The thing that sets the co-operative apart from the normal corporate is the fact that the shareholder and the director - their primary source of income comes from investment in that co-operative ... for the farmer it's everything and that puts a lot more pressure on the board and the directors and everyone. And that's where that passion I talked of comes from ... that's what makes co-ops different, that's where the passion comes from the fact that it's the primary source of income, if something goes wrong they've lost their source of income (F4, MD)

Each one of the directors that sits is an elected member has a large stake of their investment and generally speaking in most cases it's nearly 100% ... of what they've invested ... is very much tied up in [case B performance]. So I think the driver for a director of a co-op is very integrated with their own business and they understand, they have a terrific understanding of what their fellow shareholders are going through. So you are very close (B1, supplier-shareholder chair)

Moreover, by living in the communities they represent, a heightened level of engagement amongst the supplier-shareholder directors appears to occur. The enthusiasm and commitment to the co-operative organisations was palpable across all cases during the data collection:

The board is a representative of the owners, it's not just a board of directors, they represent the owners and that's quite an important difference from a CEO's perspective is we're just not talking about a group of people that come around to chat every month, they do actually represent the people who own the [business] ... So they really are hands on because they are talking about their money and their neighbours' money and their wellbeing what's more (D4, MD)

The commitment of a [farmer] co-operative director is directed very much towards member benefits, or should be, and to me the commitment is probably the most important part of the directors' responsibilities (F1, supplier-shareholder chair)

This level of commitment engenders a great deal of empathy and trust with the co-operative and its members:

[The case B board is] a very good board and we have people who are so genuine and where they might lack a little bit in skills they make up for in just sincerity and dedication in trying to do the job right (B1, supplier-shareholder chair)

In a co-operative generally I think its fundamental, I think as farmers, as farmer directors you have a terrific empathy with your fellow shareholders who are farmers, supplying shareholders or farmer shareholders in a co-operative organisation have a very active interest in the business, in the co-operative (A2, supplier-shareholder director)

The work load of supplier-shareholder directors is seen as relatively high by these appointed directors:

The workload in a co-operative as a director is often higher than it is in a corporate because of the amount of time spent on the supplier side of it ... but other farmer directors spend a disproportionately higher amount time on the governance functions of a co-operative than does a corporate director (A3, appointed director)

I have real admiration for the way the farmer directors at [case C] work, they put in huge hours those guys. They've probably put in about as much I suspect as I do on the commercial side of the business itself, somewhere around a day, a day and a half a week, but then they double that up in dealing with the co-operative side, managing the shareholder relationships and all the other stuff that goes on (C3, appointed director)

A risk identified by some respondents was the lack of engagement and understanding of the co-operative nature of the organisation of appointed (non-supplier-shareholder) directors:

The difficulty is that the focus of external directors, if they are not being brought up through a co-operative culture ... if you get the right person they add a great deal of value, the difficulty is to get right person that can fit into the culture of the organisation and not because of their experience, dominate over the farmer members (F1, supplier-shareholder chair)

Commercial directors - some of them may not understand the co-operative nature of the business in terms of the co-operative philosophy and farmer ownership and retention is all very important to that principle ... shareholders might run a risk ... the company could hve off into a direction that was undesirable (B2, supplier-shareholder director)

Appointed directors appear to have a special role, and influence amongst the board:

Because of their [appointed directors] areas of expertise they have an influence on the board's thinking because they are perceived to be stronger in that area (B1, supplier-shareholder chair)

Through having independents on the board ... we believe that we can stimulate and challenge management more (D1, appointed chair)

The appointed independent directors, that's their primary role to be able to challenge the management on whether they really are delivering to potential, to assess their performance and to mentor management in areas in which they have expertise (C3, appointed director)

7.5.1.3 Leadership

The third sub-subconcept of Individual-Distinctions is Leadership and is defined here as:

the presence and influence of a leader of the board.

Consistent with co-operative user-control principle, five of the six cases under investigation have a supplier-shareholder leading the board;

Having the chairman as a farmer is probably a good thing as well. Just because of the importance of managing the supplier relationship (C3, appointed director)

One case had a policy of a revolving chair:

This company has run a system with the chairman where they've just revolved it every two years for quite a long time. I think it has ended, but I am not sure [laughter] (E2, supplier-shareholder director)

Of particular note is the special leadership role of the chair playing a significantly larger role than other directors:

[The chair has a] significantly larger role ... at least double in my view normally, maybe three times, somewhere between two and three times (C3, appointed director)

The chair appears to lead in terms of being a figure head of the co-operative:

I guess [as chair] you're the head of the organisation. So the time commitment would be more, opening doors would be more, like [at meetings in] Geneva, Brussels, DFA, Australia, those sorts of things (C1, supplier-shareholder chair)

We have a concept that [the chair] speaks on behalf of the board, no other members go out and say on [case F's] behalf (F2, supplier-shareholder director)

As far as those issues of stakeholder groups and the public face, [the chair] is very, very out front there (D2, supplier-shareholder director)

The chair has a major influence over the boards' culture:

As a general rule I would say board culture is determined by chairman, the chairman sets the tone generally and should do (C3, appointed director)

The culture of the board is very much in the hands of the chair and how he wants to run meetings, how he wants to interface the board and management, how decisions are reached and the culture of the board and the style it operates with is very much driven by the personality and the aspirations of the chair (A3, appointed director)

The chairman plays a huge role in that [determining board culture] and rightly or wrongly that's the way it is (C2, supplier-shareholder director)

and is a leader:

They're my chickens in a way, the rest of the board. I am responsible for making sure that they say the right things, that they do the right things, they are educated ... I think for the good of the company it is my job to look after the board (F1, supplier-shareholder chair)

You do need good strong characters like that [chair of another case] to keep a ship on its, or a company, on its path (E1, supplier-shareholder chair)

The chair has a task in leading the evaluation and training of fellow directors:

Each year ... with each director, [I] spend some time talking about what they think, maybe, are ways that they could better contribute to the company or whether they need education or whether they need ... what resources they might need to help them do that (B1, supplier-shareholder chair)

If we feel a director would benefit from doing extra training, I guess when I say we, it is probably the chairman, but we'll say, well look do you want to do that course (F1, supplier-shareholder chair)

and disciplining fellow board members:

I have taken a very dim view ... if that looks like it's happening it would be the one key area that I would have no issues about talking to a director about, and I have done [that] on a number of occasions (B1, supplier-shareholder chair)

It is sometimes a little bit hard for new directors to come to grips with that one ... so ... we pummel them a little bit, try and mould them into the right shape and generally we have succeeded (F1, supplier-shareholder chair)

and ensuring that the board is kept adequately informed:

The chairman of the company probably has an important role in ensuring that that reporting is adequate for the needs of the directors (A1, supplier-shareholder chair)

I have a responsibility as chairman to make sure that our directors are kept informed (B1, supplier-shareholder chair)

The chair also has a closer relationship with the CEO or MD than other board members:

[The chair is] charged with forming a constructive relationship with the chief executive, you will lead the board initiatives as far as matters of performance review, monitoring the performance in relation as far as the chief executive is concerned (A2, supplier-shareholder director)

Interfacing with the chief executive is fundamental (C1, supplier-shareholder chair)

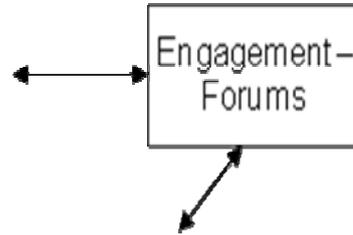
In conclusion, the Leadership role, usually held by the chair, is realised in several ways: in setting the board culture; being the figurehead; evaluating, training and disciplining board members; keeping the board informed; and having a closer relationship with CEO.

7.5.1.4 Conclusions – Individual-Distinctions

Individual-Distinctions is a theoretical subconcept of Board Architecture and is defined as that composite of knowledge, skills, commitment, and leadership brought and applied to the role by individual members and how those people and their characteristics together bring balance and strength to the board of directors. Three sub-subconcepts of Composition, Competencies and Leadership emerge from the data and are suggested as important for understanding co-operative Board Roles.

7.5.2 Engagement-Forums

Figure 7-7 Engagement-Forums



The second Board Architecture subconcept is Engagement-Forums and is defined here as:

building, using and capitalising on formal and informal structures.

Issues surrounding the theoretical subconcept of Engagement-Forums is raised in all of the cases and by all of the respondents (see Appendix H-2 for further evidence, and Table 7-8).

Table 7-8 Evidence of Engagement-Forums

Subconcept	Frequency of mention				Evidence
	Cases		Respondents		
	No.	%	No.	%	
Engagement-Forums	6	100	22	100	<i>There'll be special meetings, there'll be telephone conference calls involving the directors, there'll be opportunities for the directors to get together for various functions, visitors and the like when they come together. The directors will also depend to some degree on the chairman of the company. I have a very regular dialogue with the chairman ... [who] is in a position to also talk with the directors about how the company is going and about how the CEO is going ... it's through that combination of means really that we do what we can to keep the directors fully up to the play with what's happening (A4, CEO)</i>

Engagement-Forums are an important subconcept in understanding Board Roles as they identify where boards operate their roles, which has implications for how boards undertake their roles. The dairy co-operative governing Board Roles, and particularly the board's decisions, are undertaken in a range of forums. The governing board sometimes operates as a single cohesive group

(particularly during formal board meetings), and sometimes more independently within smaller sub groups (such as an audit committee) and sometimes as individuals (particularly the chair). Consistent with McNulty and Pettigrew (1999), this research finds boards (and individuals within the board) have a number of venues for undertaking their Board Roles. Engagement-Forums emerging from the evidence include; the monthly board meeting, strategy away days, committee meetings, informal meetings, conference calls, AGMs, and communication meetings. While cases vary as to the utilisation of various forums some of these Engagement-Forums and supporting evidence are outlined below:

Board meetings

The most important of the Engagement-Forums for carrying out Board Roles is at the regular (often monthly) board meetings:

Most governance is at its board meetings and it monitors ... the performance of management on a monthly basis and from that monitoring role ... [which includes] analysing and assessing and evaluating management performance. Some strategic direction would occur (D2, supplier-shareholder director)

Meeting the business plan and the budget, which are reviewed obviously on an ongoing basis at our monthly meeting as well (E4, MD)

At the regular board meetings the board reviews board papers, largely prepared by management, covering a vast range of topics around the operations of the co-operative:

Every board meeting obviously the total business is presented to it [the board], in terms of all of the senior managers report to the board personally, so that the company is aware of the performances of each one of the operating divisions, it might be export or domestic retail, domestic industrial, R and D, nutritionals, each one of the trading store. Each one of these report to the board on a monthly basis so that we are aware of what's happening there ... obviously any major capital expenditure within the organisation is also a board, requires a board decision (F3, appointed director)

We [management] do apply ourselves I mean hugely ... to the preparation of papers for our board ... we try to prepare them to a high standard ... so that it achieves maximum possible understanding of what it is that we're doing, of reassuring our board that we're doing

what we're supposed to be doing, at the same time making sure that we bring to the board's attention any matters that are not going so well, any matters that might have a material impact on the company ... I would always err on the side of telling the board more rather than less (A4, CEO)

Strategy away days

Most co-operatives hold away day(s) strategic planning sessions from time to time:

Annually we do a strategic planning exercise, we get away from the company for a couple of days (E2, supplier-shareholder director)

To step out of the boardroom and away from the factory and sort of just deliberate on some of those things. We take currently a couple of opportunities a year, one or two day session ... so we have the resetting of the strategy, the looking long term, any new things, whatever we need to address as well as reviewing as how we are going against the performance to achieve the strategic targets (E4, managing director)

These sessions while discussing strategic issues appear to be appreciated (Board-Management-Relationships, section 7.6.3.2) for providing opportunities for stimulating conversation and getting comfort around strategies:

We had one of these love-ins [strategy sessions] as some people call them (F1, supplier-shareholder chair)

I found that [strategy sessions] quite invigorating and a good way of taking the management team with the directors and vice versa with the directors understanding some of the new ideas that management come up with (E1, supplier-shareholder chair)

Committees

All co-operatives utilised committees to varying extents for some aspects of their roles; in particular, Control through the Audit committee. Committees included: standing committees, such as the audit and remuneration committees; and Ad hoc limited-life committees around major decisions such as the appointment of a new CEO, or a major acquisition. Committees allow smaller groups of directors (sometimes working in conjunction with management) to be involved at a deeper level of the decision-making process of some issues:

Normally what would happen, there would be three or four directors that work with two or three management, set out some framework of options for the board, to be in a workshop. I would guess that three or

four times a year we would workshop strategy issues (C2, supplier-shareholder director)

[The board] does it through the remuneration committee - how they [management] are incentivised, how they're trained, how their succession planning works and all that sort of thing (A3, appointed director)

Ad hoc committees are often utilised in doing the preparation for the hiring of a new CEO or MD:

When we were preparing to change and appoint a new CEO the board appointed a small committee ... [and] those people ended up making a recommendation to the board (D1, appointed director)

or for major decisions:

It is the big fundamentals, like if it's a two billion dollar acquisition, if it is fundamentally changing the capital structure of the co-operative, if it is changing the control mechanism of the co-operative like the governance or if there is fundamental change at the interface with the shareholders, there are subcommittees set up to deal with those things (C1, supplier-shareholder chair)

The board may be involved in formal committees to gain comfort and confidence in strategic proposals:

If there are big initiatives which are likely to have an impact on [case C], that's [case C] the business, [case C] the co-operative, we usually set up a subcommittee of the board that does a much deeper dive into any proposal that comes in (C1, supplier-shareholder chair)

[The committee] it's a no surprises thing for the board when you're doing major projects ... it just means that there is some comfort in the board that anything that comes out of left field, the board directors will be made aware of it through the committee (B1, supplier-shareholder chair)

Committees do not make decisions; they make recommendations to the full board:

That subcommittee, it cannot make decisions, but it recommends to the board and that gives the board the confidence that a lot of the details are actually thrashed out (C1, supplier-shareholder chair)

Conference calls

The boards sometimes meet by other means such as conference calls, as this CEO explains for his board:

The board gets a monthly financial report on the results of the business. What we do is we have a conference call with any interested director who has queries on monthly performance. Rather than doing it in the board meeting we do it as a separate meeting (C4, CEO)

Informal

In line with the findings of Stiles and Taylor (2001) and McNulty and Pettigrew's (1999), boards' involvement in decisions occurs informally outside board meetings as well. The chair and small groups of directors may have an earlier "informal" involvement in, for example, shaping strategic initiatives:

They go through a gestation period and your strategies will be sort of mulled over, probably first with the chairman (F1, supplier-shareholder chair)

It might even be in other venues ... it might be for instance travelling with one of the directors, just talking about the issues associated with the business, but the majority is through more formalised lines (B4, CEO)

If I was to say make a suggestion that would be something that would be out of the ordinary I would very likely do a fair amount of legwork on a one on one basis with the chairman and possibly two or three other directors to just get the general sense before I was to take something formally to the board (C4, CEO)

or sections of the board may be involved, partly informally, most importantly including the chair:

If we in management started thinking about something, it might be very challenging to what the board would generally think of as the direction of [case C], it is the earliest warning system, generally I go to [the chair] saying this is what we are thinking, can you think about it. And there'd be a dialogue of me and [the chair]. [The chair] might ring up two or three of the other directors and then there would be a great feedback loop, what it is all about is creating feedback loops. There is a lot of formal interaction and then there is a very important informal piece that keeps it all together (C4, CEO)

The governing board may form informal groups, particularly during development of ideas or processes:

There's always quite an informal thing that always goes on between directors and with the chair as you develop things (A3, appointed director)

We tend to have mid-month board meetings, or informal get-togethers I should say, and I always listen with interest at the mid-month board meeting when there is no formalities, because that's when you get more of a feel of where the little glitches are going wrong or where we perhaps need to hone in when we get to a board meeting (E1, supplier-shareholder chair)

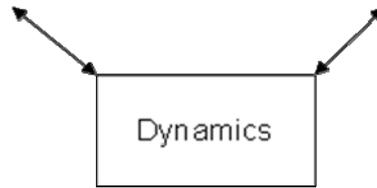
Sometimes we will have small groups, where members from management will meet with a few directors at a time, taking them through an issue in detail, more in an education process as well. But sometimes there is a two way feedback process so when we end up with the finished product we have properly tested it (C4, CEO)

7.5.2.1 Conclusions – Engagement-Forums

The theoretical subconcept of Engagement-Forums is defined as building, using and capitalising on formal and informal structures. Evidence is shown to support its existence as a subconcept that is useful in understanding co-operative governance roles.

7.5.3 Dynamics

Figure 7-8 Dynamics



Dynamics are defined as:

actions and means of key relationship maintenance.

This research identifies board Dynamics as a co-operative governing board subconcept as issues raised by respondents around what has been defined here as Dynamics are repeatedly raised in this fieldwork (see Appendix H-3 for further evidence). Dynamics are categorised from an analysis of the data into three sub-subconcepts; Within-Board-Relationships; Board-Management-Relationships; and the board's Decision-Making-Style. Board Dynamics are present as a conceptual theme in all cases and are referred to by all participants during semi-structured interviews (see Table 7-5 for a summary). The Dynamics subconcept, within Board Architecture, conceptualises the internal working processes of the board or "how" co-operative board members relate. This subconcept endeavours to understand how board members relate to each other and to management, individually and as a group. The Dynamics subconcept also helps to bring understanding to the boards' decision making processes. As such, the theoretical subconcept of Dynamics is important in order to understand actual Board Roles.

Table 7-9 Evidence of Dynamics

Concept	Frequency of mention				Examples from interviews
	Cases		Respondents		
	No.	%	No.	%	
Dynamics	6	100	22	100	<i>A respect between board and management for the respective roles that they have, an open communication, no secrets, we are all in this together, that's what drives the culture on a board. The ability to be able to have a blue behind closed doors, reach a decision and then back it. It's people. People drive culture and the right sort of people are prepared to fit with the culture that's there. When people come on board they have to be able to bend and respect what's there and not impose themselves too quickly, that assimilate into the way things are done and then it evolves and strengthens as we go (F3, appointed director)</i>
Within-Board-Relationships	6	100	22	100	<i>The directorate, because they are making difficult decisions from time to time - there are no personality clashes in there, there is no unkindness. There are tough things said but they are always said with charity and they are always said for the best of the company, it's about moving the company forward and as I said to you before, that enables, I think, progress to be made very quickly (B2, s-s director)</i>
Board-Management-Relationships	6	100	22	100	<i>It really, really rests on the chairman and the CEO keeping those backs and forwards [board and management] together ... these are subtle things and they are not easy to get right, but it needs people with balance, and perspective, and maturity, and good judgement to also recognise that sometimes you can't brush an issue under the table, we are going to have a Donny Brook about it but we have also got to keep the ship moving forward (C3, appointed director)</i>
Decision-Making-Style	6	100	22	100	<i>When strategy is developed and approved you tend to find it's an interface between an experienced management team and an experienced board ... management will develop nuances of strategy and put them up to the board and the board will discuss them and provide guidance and add value hopefully in that process of strategy development to management and feedback to management so it's a proactive thing ... management proposes core strategy bounces it around the board, it'll often take ... some number of meetings to fully develop that and have a new approved business plan endorsed that management then is authorised to put into place (A3, appointed director)</i>

Two key relationships (and a number of sub relationships) are highlighted in the data that are important to gain an understanding of the actual roles of governing boards of New Zealand and Australian co-operative dairy companies. They are the relationships among board members and the relationship between the board and management.

7.5.3.1 Within-Board-Relationships

Within-Board-Relationships are raised in 100% of the co-operative cases and by 100% of respondents (see Table 7-5 for summaries of evidence). Within-Board-Relationships are defined here as:

the relationship(s) between board members.

The empirical evidence suggests that the culture of the board is important to the success of the co-operative company, as this appointed director suggests:

The success of companies is often not determined by the skills of the people around the table but by the culture of the board table (A3, appointed director)

The relationship between board members is often likened to that of being a member of a team:

I've got a responsibility to them [the board] as one of the members of a team, I've got a responsibility to the chair as the leader of the team ... the team one is quite a strong responsibility, it's unspoken and so on but it's a powerful one (A3, appointed director)

You've got to accept as a board that you're one of a band of blood brothers and you have to have trust in each other (C3, appointed director)

[We are] also very well aware that we are members of a team (F2, supplier-shareholder director)

Consistent with the notion of being part of a team, there needs to be a level of social cohesion among board members:

Generally you need a pretty cohesive board to run an organisation (A3, appointed director)

The [case B] board certainly in my experience has been a pretty harmonious board ... they're very tolerant and they're very understanding in terms of points of view (B2, supplier-shareholder director)

Everybody feels comfortable with one another. There has never been, in the time I have been in the company, I have never ever seen a faction in the board. They work together, it doesn't mean to say there is not occasionally a disagreement, but that is a very rare occasion (F3, appointed director)

The co-operative boards' cohesion may be assisted by relatively stable board participants, as these two directors suggest:

We have been very fortunate that we have a relatively slow, significant but relatively slow, changeover of board members ... not in big swings, it's just been piece by piece by piece and that gives continuity of culture (F3, appointed director)

The culture as I see it has survived various CEOs, there were two chairmen before me on the board, it survived ... it's been passed on from generation to generation if you like but it could easily be destroyed, it's a bit like a democracy. While people believe in it and it works I think you can keep it alive, but you get the wrong people here, they could destroy it in 12 months, six months (F1, supplier-shareholder chair)

The board relationship(s) are part of a culture of nurturing those relationships:

As far as the governance is concerned, to me that is just part of a culture that has been developed in the company, which is an add-on to ... because of the nature of the company and who we actually represent and the purpose of the company being there, it's a very important part of it (B1, supplier-shareholder chair)

The presence of nine [supplier-shareholder] directors who all come from a fairly similar background and ... a set of values and ideals, that tends to create a culture in residence almost. It has a very pervasive fairly conservative rural New Zealand sense about it and the things that wouldn't fit well in that idiom wouldn't go well at [case C] (C3, appointed director)

However, there is a danger of co-operative board relationships becoming too cohesive, it is important for there to be some constructive tensions around the board table:

You don't want a fully compliant board ... constructive tension and hard questioning is a positive attribute in my mind. Because you can have it wrong (A3, appointed director)

That's one of the great strengths of a board in my view, a good board will, there will be a creative tension around strategy and testing

management because the individual directors hopefully all come at it from slightly different directions (C3, appointed director)

Constructive tension, however, needs to be limited. The tension should not get to a level where it becomes destructive:

I have had the usual tensions with a number of board members but I don't think that's unhealthy and those tensions, I think, are probably quite good as long as they don't get to be, and I don't think they were, they weren't destructive, they're just annoying and that's okay (D4, MD)

We have consensus decisions in here like most boards would in my judgement, if they don't they'll end up having a split board (E1, supplier-shareholder chair)

Board tensions have a negative effect when they affect board relationships and lead to “split boards” which are considered to be very dangerous for the functioning of the co-operative:

I have never had a split board, if anything I wouldn't go anywhere with a split board, I just wouldn't want to take that step at the end of the day because it's a dangerous, dangerous place to me (C1, supplier-shareholder chair)

As split boards lead to ineffective decision making:

[Researcher; What would the effect of a split board be?] Oh, ineffective decision making. Management come to the board ultimately to look for the guidance - what's that going to do to management?, half the board think we should be going this way and the other half think we should be going the other way - in those sort of situations I just take the issue off the table, a lot more work needs to be done (C1, supplier-shareholder chair)

Board cohesion combined with constructive tension allows for free, full, frank, open and honest debates amongst board members:

We as a board are reasonably uninhibited. We say what we think. We say it with charity often ... in some ways we're detached in terms of there is no ill feeling about what is said and I found that very refreshing in the board ... I find that quite important because the correct functioning of a board becomes very difficult if you've got disharmony in the board and you move much quicker on issues, I think, if the board has free and frank discussions (B2, supplier-shareholder director)

For me the key thing is to try and create an environment around the board where - the words we use are - openness and honesty (C1, supplier-shareholder chair)

Furthermore, directors rely on each other, defining an element of their relationships:

If I'm good at some things and only okay at other things and I have confidence in people who cover the areas that I am inadequate and know more in, I think I add more value to the board by developing my strengths further than becoming half as good as somebody else who is a specialist in something else (C2, supplier-shareholder director)

As a board you're one of a band of blood brothers and you have to have trust in each other and it's better to divide your resources and rely on three or four of your fellows on another subcommittee to do the job properly than try and get across all the bases yourself and fall in between each of them in doing so and making a hash of everything (C3, appointed director)

In conclusion, Within-Board-Relationships highlight a team focus; the need for cohesion with some constructive tension allowing full, frank and open debate of co-operative issues without leading to dysfunctional or split boards. While there may have been, in reality, less constructive Within-Board-Relationships these were not referred to by respondents.

7.5.3.2 Board-Management-Relationships

The second Dynamics category is defined here as:

the relationship between the board and management.

The relationships between the board and management are raised in 100% of the co-operative cases studied and by 100% of respondents (see Appendix H-3 for evidence and Table 7-5 for summaries).

Power

It appears in all cases, consistent with Supplier-Shareholder-Controls, that the respective co-operative boards have formal “power” over the operations and in particular the management of the co-operative. The board has the decision making authority within the co-operative. Boards have Veto-Approve rights (see section 8.4.1 below) to all significant decisions and have formal authority

over the operations of the co-operative through their authority to accept or reject any executive proposals. In particular, although reluctantly used, all case boards have the ability to fire the CEO / MD, a very real lever of power.

The power or Control (see section 8.3) of the co-operative rests with the board (as opposed to management³⁶):

The ultimate power has got to rest with the board. The board appoints the chief executive. The board finally must authorise all capital expenditure and any movements outside policy. Any policy changes must be signed off by the board. That's what a board's there for. After all, who is going to defend the position with the shareholders. The board is accountable for that (B3, appointed director)

All activities of the business is conducted under the supervision of that [the co-operative] board (D1, appointed chair)

The board appears to retain substantial power by requiring the “sign off” of all substantial decisions that are delegated to management:

The buck stops with the board. The board has to be very familiar with those [delegated authorities] and signing them off (A3, appointed director)

The business measures ... need understanding and sign off by the board (D4, MD)

The co-operative boards all appear to have the “real” ability to hire and fire the CEO³⁷ or MD:

The board has got to be sure that they have got the right person [as CEO] and if there is any doubt at all they have got to be tough and firm to make the decision to change that person. That's one of the biggest issues for a board of directors within the co-op structure (F4, MD)

[Researcher: If the board don't believe the company's well run?] the starting point I think has to really be a serious heart to heart with the chief executive ... having the strength to deal with that I think is hugely important as long as they [the board] follow a proper process (A4, CEO)

³⁶ This appears to be in contrast with managerial hegemony theory, as discussed in Chapter 3.

³⁷ Over the course of this study 5 out of 6 of the cases changed CEOs (or MDs). While in no way inferring the CEOs were all fired, the power of the co-operative boards to hire and fire CEOs appears real.

The power to hire and fire the CEO may allow the board members' views to prevail over management's. Although seldom used, this supports Stiles and Taylor's (2001) research that removal is only done in the "most drastic of circumstances", however, this lack of use "does not detract from the fact that the latent power this option gives the board acts as an important discipline to top management" (p. 78) as these respondents suggest:

There will be a good dialogue both ways, if I have real trouble with the board recommendation I'll push back, there will be a dialogue but in the end the board's call is final (C4, CEO)

Management will have a view but on that particular matter the board has prevailed (B1, supplier-shareholder chair)

This suggests board dominance over management and little sign of managerial hegemony (Kosnik, 1987; Mace, 1971).

Despite legally and constitutionally being charged with the running of the co-operative, boards delegate this to management. All the case study boards instil skilled professional executives to manage the co-operatives:

The governing board in accordance with the laws of the country through the Companies' Act is charged with the task of managing the company and of course for that task it delegates that role as it's able to do under the legislation, to a chief executive (A4, CEO)

Boundaries

These relationships are driven by boundary concerns. The board put in Delegations (see section 8.3.2) to give a framework for the executive to work within, as these CEOs note:

The reason for policies is going to be a broad control framework of [case C] to ensure again that there is appropriate boundaries that management can work in. And management knowing that beyond a certain level they don't have the deity or the authority - to have to go back to the board (C4, CEO)

[Policies provide] management with the proper sort of disciplines and guidelines for the conduct of the business. I cannot for example go out and commit the company to an expense beyond a certain sum because collectively we agree as board and management that that's putting me under too much exposure. On the other hand I've got to have enough authority to run the business ... so that management is not improperly exposed nor is management in the position to do things that we

shouldn't be doing, like speculating. So I think having the directors make their positions clear on such matters is very important (A4, CEO)

Beyond setting formal delegated authorities for the CEO (or MD), the co-operative boards have a task in setting expectations and boundaries for executives and employees of the co-operative. Hence, the relationship again has to do with boundary-setting:

The board sets the parameters (E2, supplier-shareholder director)

You've got to go through the correct process of making sure that the CEO understands the board's concerns and that he's given every opportunity to put things right ... make sure that the CEO understands what's expected of him (A4, CEO)

[The MD] knows what's acceptable to bring to the board (F2, supplier-shareholder director)

These expectations and boundaries appear from the data to be semi-pervious and are developed and subtly tested by the management, as these directors explain:

The chief executive often, if they're good, is pushing the boundaries (B3, appointed director)

The board would encourage management to really to test the boundaries. But having said that if we get into areas that we are saying hey look this, we don't like this or we don't like that, then it will be made known in no uncertain terms that that's going beyond the boundaries (C2, supplier-shareholder director)

Boundary concerns include a strongly held view that the governing board is “not to manage”:

A board can't be the “doing function” it can't really do any executive function at all. In fact it's dangerous if it starts to ... keep a very clear distinction between what is the executive function and what is the governance function (A3, appointed director)

There's a very clear understanding of the role of management and the role of the governors of the business (C1, supplier-shareholder chair)

You have got to know where to draw the line between the role of the director and the role of management and not to interfere in the operation of management, that's critical (F4, MD)

A board managing the co-operative is seen as a problem by respondents because of the inability to hold management to account and their lack of expertise in this area:

If the board has its own fingers in the pie outside the CEO, the CEO can't then be held accountable and has confused delegated authorities (A3, appointed director)

If you have got the board telling the management what you are going to do, how can you then sack management if the boards told them to do that? (C2, supplier-shareholder director)

Next thing they're [the board are] micromanaging it and of course you have got a very, very, bad situation on your hands because you have got the board with their hands in the gearbox, but really not holding on to all the levers (C3, appointed director)

The exception to the “not to manage” rule appears to be in “emergency” circumstances, as these directors explain:

[Directors] should only get involved [in co-operative management] in emergency situations (B3, appointed director)

I've been involved in one or two things where from a governing position, you have got problems with management and you step in, you shouldn't do it, but you naturally do it, until such time as you rectify the issues, it's what happens by default (C2, supplier-shareholder director)

Anywhere where you see a board getting particularly hands on, unless it's a very material issue (C4, CEO)

The evidence suggests the boundaries between what is considered management and what is considered governance appear to be relatively fluid and more a matter of negotiation and tradition rather than formal documentation:

If there is too much day to day contact between the directors and the management you can end up with directors having an influence on management activity, so there's no right and wrong in any of this it's sort of a sense of how does it feel (B4, CEO)

Relationships

The key relationship in co-operative governance is between the CEO (or MD) and the board:

The CEO really is the key individual in the interface between the management of the company and the board itself (A1, supplier-shareholder chair)

[The chief executive is] the primary conduit, primary contact point between the board of directors and the company in its day to day workings (A4, CEO)

It's management's role to execute and implement the strategy okay, and the board holds the chief executive to account, so it's the chief executive that is accountable to the board. He is the person that we hold responsible for the execution of the budget, execution of the business plan (C1, supplier-shareholder chair)

The CEO's skills are crucial in meeting Supplier-Shareholder-Needs/Benefits:

If the board itself has a general strategic view of where it wants to go it can't do a huge amount about that unless it can get a senior management in place that can explore and pursue the implications of that general strategy (A1, supplier-shareholder chair)

[The board] needs somebody to turn a vision and the principle strategies into reality and so it has to delegate the authorities to an individual to then undertake the executive function (A3, appointed director)

As the key relationship great care is taken by the board with its relationship with the CEO/MD, particularly in their recruitment:

The number one priority of the board is to recruit, retain and support the chief executive (A2, supplier-shareholder director)

The CEO (or MD) needs an empathy with the co-operative nature of the company:

The CEO and his or her direct reports if they can't have empathy for the farmer I don't think they'll last very long and they won't really do what the farmer owners want (D4, MD)

You've got to be able to build a rapport with the farmers, understand the issues they have and be able to communicate with the farmer ... those CEOs that haven't been able to do that have probably struggled, compared to those that can (F4, MD)

[Researcher: Does your CEO or your managing director need a co-operative empathy as well?] I believe that's absolutely essential ...he has to be pretty much attuned to where the board wants that company to go (F1, supplier-shareholder chair)

Similar to the empirical evidence as to the directors' relationships with each other, many of the respondents characterise the relationship between the board and management as team-oriented, as this series of quotations suggest:

One of the great attractions of the co-operative is that, is the element of teamwork that goes with the co-operative. I always think of the managers and the directors of the company really functioning as an integrated team (A4, CEO)

The chairman and the CEO have just got to keep all the senior management and all the board in a state of mind where they believe absolutely they are all on the same team. They are backs and forwards in the same team, they are not two different teams (C3, appointed director)

Absolutely fundamental [to the] culture of this organisation is the almost family relationship right across management and board, it really is ... everybody feels comfortable with one another (F3, appointed director)

The co-operative board and management acting as a team highlights the co-dependency between the board and management in a co-operative, as opposed to the need for independence as characterised by agency theory (discussed in Chapter 3). That is, there is no simple linear explanation for this relationship.

Also, similar to the board members' relationship with each other, the board and management work together as a team through debate and discussion to come to decisions and develop, in particular, co-operative strategies and policies:

Issues like the strategy, it is management and the board coming up together with the boundaries. I mean they are tested in debate, discussion and the conversation. So it is not saying these are the boundaries, go ahead and find the strategy, it's done in consultation and dialogue between board and management (C1, supplier-shareholder chair)

You have a team approach and we are all [management and board] marching to the same tune and heading forward (F2, supplier-shareholder director)

Part of the team approach is the building of mutual trust and confidence between the board and management:

I often say that one of the single most important assets that I can have is the trust and the confidence of the board in me because if they trust what I and the team do ... (A4, CEO)

Important in this operation is getting the trust of the directors by having a high level of transparency ... there has to be that transparency, because with that transparency comes trust ... and quite an important part of my role is to try and build the relationship between the management team and the board (B4, CEO)

The board must sign off, must be comfortable with the strategic direction, must be comfortable with the chief executive and the management of the business (C4, CEO)

If the board does not trust and have confidence in its management, this has a consequence for the performance of the co-operative:

The culture of the organisation depends on a good relationship [between board and management] ... a board member has to support his CEO otherwise the thing will tear itself apart, especially the culture that we use, we are fairly, we are fairly open with one another, and if that trust is destroyed the relationship between the CEO and the board becomes stilted (F1, supplier-shareholder chair)

The key responsibility arise for the directors in a co-op like ours is to make sure you've got the right management and to make sure that they ask all the questions so that they can form the right view about whether they can trust management (F4, MD)

Co-operative performance may be an important element in building the board's trust and confidence in the management team, as this managing director explains:

Business performance was really, really important. That they [the board] could have faith in me and the management team that we actually knew what we were doing and we could only do that if we improved our bottom line performance. Which we did. (D4, MD)

As part of the Board-Management-Relationship some respondents highlight how important it is for the board to stimulate, challenge and be challenged by management:

[I] have an attitude that the role of the board is to stimulate and challenge and I think they are the two key words, stimulate and challenge ... its more than simply a passive look at what's going on (D1, appointed chair)

We would be disappointed if they [management] didn't challenge the board (C2, supplier-shareholder director)

[The board] are hiring professional management and they are paying professional management well to drive the business, not just exactly a board prescribed strategy, to be constantly challenging that strategy as to whether that's the right situation for [case C] (C4, CEO)

and to test management:

A good board will, there will be a creative tension around strategy and testing management (C3, appointed director)

There is a constant testing of the boundaries between management and the board so that the board can get itself comfortable that the business is being run in the interests of the shareholders (C4, CEO)

Respondents suggest a constructively supportive relationship between the board and management is important:

In terms of encouragement a lot of it is in terms of the manner in which the board conducts itself when these sort of [management] initiatives are being reviewed, the board needs to be constructively supportive ... that they're going to get a fair and full hearing ... so management are enthusiastic about bringing initiatives to their board (A2, supplier-shareholder director)

[Researcher: Does the board at [case F] have a role in supporting the CEO and management?] Absolutely, there is not doubt about that, I think it makes for a successful co-op ... good managers can make good decisions and react to it and also likes a pat on the back when it is due (F4, MD)

If there's a proposal to actually go in a direction or put up some capital generally the board are very positive (E4, MD)

If the board is not supportive of management respondents believe that it may have an effect on the performance of the co-operative, as this director explains:

If the board tries and plays it both ways, so rides the chief executive hard, challenges in a negative way doesn't support him in public forums or with staff or other resources then you've got a win / lose situation and the CEO can't succeed and that means the company can't succeed and therefore it just all deteriorates (A3, appointed director)

The co-operative boards offer advice to management in a supportive and non-confrontational way:

I've shown other board papers to [A4] for instance and to [the CFO] to say that you can do better here in a non confrontational way just to show them what can be done (A3, appointed director)

It's very nice to be able to get good advice from well meaning and well intentioned and competent directors. It doesn't matter whether they're farming directors or non farming directors ... they can in fact actually be very very helpful in knowing who to speak to, to get further help (A4, CEO)

If the chief executive has a bit of an issue with his own personnel ... if he needs a little bit of mentoring etc then, you know, clearly someone is sitting on your board who's got experience, you should try to use them (B3, appointed director)

and in assessing, critiquing and testing management:

The responsibilities of management towards the directors are assessed by the directors, I think, in terms of the quality of the work that they do which is reflected in the reporting procedures and results (A1, supplier-shareholder chair)

After delegating the running of the co-operative within proscribed limits to management, the relationship also requires management to be held accountable to the board for the running of the co-operative:

The chief executive is totally accountable to the board (B3, appointed director)

The philosophy around [case C] is that we give management the autonomy to deliver against the budget and the business plans okay, but we hold management to account. So the more autonomy the more accountability there needs to be, and there cannot be a grey area, and there cannot be anything that's uncertain about that (C1, supplier-shareholder chair)

Management need to get on with the job and be accountable for doing that work (B4, CEO)

Accountability expectations are then fundamental in conceptualising the board-CEO (MD) relationships, as these directors explain:

The board's been very strong on the view that we needed measures to be able to judge the business, and of course the chief executive is the person who drives that, so we've developed into his performance measures ... to measure the performance of the business (B1, supplier-shareholder chair)

[The board] might set aside once or twice a year without the CEO present, just as a board and discuss how the CEO is doing and determine whether there is a problem and any aspect of his performance that should be communicated to him either through either the rem. committee or the chairman (A3, appointed director)

Part of that accountability relationship calls on board members to make judgements:

I think so much around monitoring management is around your ability to judge people and read people, sometimes it is not what they are saying it is how they are saying it, it tells a thousand stories. If they don't like what they're saying, if you don't believe they're saying what they really think, then that's when you go in for the kill I guess (C2, supplier-shareholder director)

Also, as to accountability, board members are expected to question and challenge management, as these quotes from MD / CEOs illustrate:

The most important thing they [the board] do is question. What they should do is exhaustively question the operation of the business, such as they can form a view that the CEO and then the management team are doing the best possible job that they could (F4, MD)

The board would certainly - if they felt I was going in the wrong direction, they'd question very strongly of me what I am doing and why (C4, CEO)

It's the board's job to ask if we are meeting these milestones? If we are not meeting them, what are we doing about it? Can they be fixed? Sometimes you can't fix them, not every problem can be solved. If we can't fix them what else are we going to do about it? That's the sort of behaviour you'd like to have around a board table (D4, MD)

By the board and management acting as a team, and having confidence and trust in each other, it appears that the board and management expect to be engaged in open, full and frank debates:

[Strategies] are tested in debate, discussion and the conversation. So it is not saying these are the boundaries go ahead and find the strategy, it's done in consultation and dialogue between board and management (C1, supplier-shareholder chair)

We have arguments around the board table and ... I think that's healthy ... of course we have disagreements, you'd hope we would (D4, MD)

In [case F] we have had a very open relationship and we have had a fair discussion, fair and frank discussion with management about opportunities that might be available (F2, supplier-shareholder director)

It also appears that CEOs have a different level of accountability to the chair than to the remainder of the board, as this evidence suggests:

The chief executive is really appointed by the board but on a day to day basis he's accountable to me (B1, supplier-shareholder chair)

If the board felt that I was going off base on that, then certainly there would be a dialogue between, most likely between the chairman and myself (C4, CEO)

The CEO is accountable to the board, but he is accountable to the board through me. That doesn't mean to say that I am a filter, but there is a protocol there, the CEO is accountable to me not on a day to day management basis but on a delivery of the expectations of the board, but is accountable to me not in an absolute sense, but simply as the means of being accountable to the board as a whole (D1, appointed chair)

Educate

As well as keeping the board well informed, management in their relationship with the co-operative, appear to be tasked to “educate” the board, as the following suggests:

[Director market visits] that's a perfect example of where management is educating the board. We'll take them overseas and it is an opportunity for them to understand the strategic direction of that aspect of the business in more detail, both strategic direction as well as the performance and the prospects and all of that, so that's quite common (C4, CEO)

We have numbers of board training sessions ... where we will attempt to take board members through the fundamentals of finances, how does the company operate ... through numbers of technical sessions, product manufacturing ... how do we make these various products (F3, appointed director)

The education process works both ways, board members must be prepared to be educated:

Information is the key. Management has got to be prepared to give it and the board's got to be prepared to make sure that the meeting doesn't finish until they are satisfied that they understand it and that they are on the right track, that's a key (F4, MD)

A challenge for management is to actually sit there and listen and realise that the farmers around the board can actually genuinely add value to the management (D1, appointed chair)

Management likes to know that the board knows what they are doing, management likes the fact that the board can question them sensibly on what they are doing and make them accountable. Good managers like that and a good board should know that a good manager likes that (F4, MD)

Closely associated with the governing boards' requirement to be well informed is the board's requirement to receive "no surprises" from management:

[The board needs to know] what's going on in the business and what's likely to be coming up in the business. So that again no surprises, the board's taken along with the whole process (A3, appointed director)

It is an ongoing process that we have to ensure ... that management never engages the board where the board is caught unawares or unprepared for what we might be talking about (C4, CEO)

As the board meetings progress over a period of time, very rarely does anything come to the board that's a surprise because it's been chatted about and in a very informal way (F3, appointed director)

Chair/CEO (or MD) relationship

The empirical data suggests that the relationship between the chair and CEO (or MD) is central to the successful running of a co-operative:

It's the most critical relationship in the governance structure; because it's about trust and confidence (C3, appointed director)

The working relationship between chairman and CEO is absolutely critical and we are very fortunate that we have got an excellent combination there (F3, appointed director)

A successful co-op - it's probably the same as any business - but certainly in co-ops experiences to relationships between CEO and the chairman is bloody important. Bloody important (F4, MD)

According to the respondent in this informative quote, the relationship between the chair and the CEO can be characterised as the peak decision making authority:

So it is just an ongoing dialogue to ensure that we are connected ... if we in management started thinking about something ... generally I go to [the chair] saying this is what we are thinking, can you think about it

and there'd be a dialogue of me and [the chair] ... There is a lot of formal interaction and then there is a very important informal piece that keeps it all together (C4, CEO)

The chair appears to have a large role in the employment relationship with the CEO / MD:

The number one priority of the board is to recruit, retain and support the chief executive ... it's the particular responsibility of the chairman of course (A2, supplier-shareholder director)

and in developing a constructive relationship:

[The chair is] directly responsible ... with forming a constructive relationship with the chief executive (A2, supplier-shareholder director)

It is also the chair's task to have regular, informative, open and frank communications with the CEO / MD:

I have a very regular dialogue with the chairman ... on the phone most days and we can see each other reasonably frequently (A4, CEO)

There needs to be complete frankness between those two [chair and CEO] and they need to talk regularly. It is a communication thing (C3, appointed director)

[between the chair and the MD] the mutual respect, the trust, the ability to draw the line on who does what and what the responsibilities are, the ability to be able to talk openly about the board or about the managers is really important (F4, MD)

The relationship between the chair and the CEO/MD also appears to entail individual guidance and support from the chair:

He [the CEO] doesn't come up to the board and say well I don't know what to do here, I am looking for the board for guidance, I mean [the CEO] and I have those discussions outside the boardroom, but that's not the role of the board (C1, supplier-shareholder chair)

If I was to say make a suggestion that would be something that would be out of the ordinary I would very likely do a fair amount of legwork on a one on one basis with the chairman (C4, CEO)

Just a great sounding board ... it's really good as a CEO to have somebody to bounce things off ... that's a key thing for the chairman to do (E4, MD)

As part of this relationship, the chair can act as an early influencer in the decision making process:

There might be something from the strategic business point of view, starting to take place where ... it is not appropriate to bring it to the board table. [The chair] will know about it. So it's happening at that very early stage between the CEO and the chairman, and the chairman has given the green light ... but that might be three, six months or more before it actually gets to the point where [it goes to the full board] (F3, appointed director)

The relationship between the chair and CEO is a conduit between the wider board and the wider management:

If a director noted to me that they had some issue with a manager ... I would then go to the chief executive and I would say there is an issue here (B1, supplier-shareholder chair)

Any concerns that ... directors have, around any aspects of management capability or management behaviour - the most likely forum would be for somebody to talk to the chairman, the chairman to then feed that through to the CEO (C2, supplier-shareholder director)

The chairman and the CEO really have to provide that conduit. The chairman will be picking up signals and concerns from directors and he will be taking those up with the CEO, and he will receive feedback coming the other way from the CEO (C3, appointed director)

The chairs, with their closer relationship with the CEOs/MDs, appear to have a larger task than the remainder of the board in reviewing and assessing CEO/MD performance:

The relationship with the chairman was a very important one. I mean I'd have to say I felt as if I reported to the chairman as well as the whole board (D4, MD)

[The chair will] lead the board initiatives as far as matters of performance review, monitoring the performance in relation as far as the chief executive is concerned (A2, supplier-shareholder director)

I have one to one sessions with the CEO in terms of performance assessment (D1, appointed chair)

Finding balance

Some of the relationships between board and management appear to be contradictory. For example, the independence required of the board to assess and hold management to account may be contrasted with the interdependence

required between the board and management to have the confidence to work together as a team in the development of strategy. Some of the responses to this observation suggest fine judgement calls and balance in relationships are required:

I think directors have to see themselves as both mentors and monitors. We are a bit two-hatted because they can get into conflict. But if you only monitor all the time and you are continually pulling people up and growling ... it is only a question of time before everything hits the fan ... if the monitoring role is the only role that is going on, people do get pissed off with being constantly pulled up. So the mentoring role is a chance for a board member to be constructive and positive in the relationship they have with management (C3, appointed director)

It's like being a parent with children. I think there has been a philosophical mindset that's changed, you can yell and scream till you are blue in the face but ultimately the child's going to do what it wants to do so you try and steer them in the right direction. You can't live their life for them, you can't manage the business on behalf of management. I mean the principles are the same (C1, supplier-shareholder chair)

Management likes to know that the board knows what they are doing, management likes the fact that the board can question them sensibly on what they are doing and make them accountable. Good managers like that and a good board should know that a good manager likes that and he is prepared to work a little bit harder on that one (F4, MD)

In conclusion, the relationship between the co-operative board and management is defined and explained here and evidence used from the data to support the observations made. The co-operative board appears to be the peak decision making body in the co-operative with power over the executive. The board and management have boundary concerns. The co-operative board and management portray themselves as a team describing characteristics such as openness, trust, confidence, support, stimulating, challenging, advising, assessing, constructive tension and full and frank debates. Management educates the board. The criticality of the CEO (or MD) and the relationship between the chair and CEO (or MD) is highlighted, as is the boards' need to find balance.

7.5.3.3 Decision-Making-Style

As the peak decision making body in the co-operative, the means by which co-operative boards go about making decisions forms an important part of understanding actual co-operative governing Board Roles. These ‘means’ are therefore also identified as a sub-subconcept of Dynamics. The processes boards go through in making decisions are raised in 100% of the co-operative cases and by 100% of respondents (see Appendix H-3 for evidence and Table 7-5 for summaries).

The co-operative board Decision-Making-Style is defined here as:

the processes the co-operative boards go through when making significant decisions.

The word “significant” in this definition of decision making processes is used because many of the decisions relating to the day to day running of the co-operative are left in the hands of management. Given the power of the co-operative board, “significant” may be any decision the co-operative board wishes it to be. From the evidence, it appears that board decisions cover a vast range of areas, including decisions around co-operative Control (described below), such as the levels of delegated authorities, strategies (Strategic-Involvement, described below, section 8.2) and matters affecting supplier-shareholders that have a marked impact on the co-operative. Understanding how those decisions are made is often discussed and therefore important in understanding agricultural co-operative governance.

This research finds, from the empirical data, a remarkably similar common decision making process in and out of the boardrooms amongst the co-operative cases. The Decision-Making-Style can be characterised as iterative, symbiotic and fairly lengthy. Many ideas are floated in the boardroom, some of which are pursued, others dropped or put on the “back burner”. Those ideas that are pursued are developed and thrashed out between the board and management, and moulded, quite often over a series of meetings, taking perhaps months to come to resolution. This Decision-Making-Style allows all

participants to question, contribute and to shape the formulation of decisions until everyone (the board and management and in some cases the supplier-shareholders) are comfortable. Once made, decisions are often revisited and “tweaked”, or reassessed, in light of actual experience. This decision making process allows for substantial involvement by the co-operative board. The process also allows the board and management to act as a team, maintaining and enhancing relationships. This decision making process is consistent with Long et al., (2005) notion of a decision process evolving “through complex, non-linear and fragmented processes over time, and are conducted as a continuous debate” (p. 672) and quite at odds with the sequential decision making process as characterised by agency theory (Fama & Jensen, 1983b).

Formal decisions are generally made at formal board meetings by the full board. Although there is variation, the case boards met formally, regularly, usually monthly, for one to two days. As such as a decision making group all the boards meet sporadically and the decision making could be characterised as episodic. Formal meetings tended to have specific agendas, including written management reports covering a range of issues, some of which were standardised, such as financial monitoring and some non-standard such as strategy issues that floated around the meetings and any number of one-off items. Any questions could be asked at board meetings. Although most of the decisions are taken by the full board in board meetings, the decision development process is at times taken out of the boardroom, either formally in the case of committee work, or informally, such as chair/CEO discussions.

Committees comprising of subgroups of the board (sometimes with management representation) are often utilised to investigate specific issues in more depth, with recommendations made to the full board for approval. Audit and executive remuneration committees, for example, are common among the cases. Beyond this, boards often meet semi-formally, either in person or by conference call, or in strategic planning sessions as part of decision making processes team. The Decision-Making-Style sub-subconcept is described in more detail with supporting evidence given below.

From the evidence significant decisions appear, to be made by the full board as these chairs suggest:

There is no click, or inner sanctum, that gets together and makes decisions (D1, appointed chair)

[Researcher: Do decisions ever get taken out of the boardroom?] No, no, that's why the terms of reference of the committees - they cannot make decisions, they can only bring recommendations to the board, okay ... I'd be very disappointed if decisions were made outside the boardroom, and I wouldn't allow that to happen (C1, supplier-shareholder chair)

Co-operative board decisions appear to be made by consensus, as these chairs explain:

We have consensus decisions in here like most boards would in my judgement, if they don't they'll end up having a split board anyway (E1, supplier-shareholder chair)

Other people may disagree and it's not to say my view will always carry. I'm only one director around the table (B3, appointed chair)

As we have seen (Board-Management-Relationships, above), the (full) board of the co-operative appears to be the ultimate or peak decision-making authority in the co-operative and as such have the power to accept or reject management proposals, as these directors highlight:

A formal presentation of whatever that strategy is going to be and then the board decides (F1, supplier-shareholder chair)

The board has actually got to ... in the end sanction those policies (B3, appointed director)

The ability for the co-operative boards to accept or reject management proposals, although seldom used (e.g., firing of the CEO/MD), is very powerful in the decision making process. The ability to reject proposals enables the board to be engaged and influential in the decision-making process at a number of levels (chair, formal and informal committees, and the whole board) over a period of time, despite delegating the day to day running of the co-operative to professional management. The following quotations highlight the potential power of rejection and management's sensitivities to it:

Nothing management hates doing more than bringing a paper in and not being approved. So if the thing is never going to be a flyer, why hang the bastard out to dry (C2, supplier-shareholder director)

Good management sense that, they read the tea leaves around the table and they instinctively come to know that there are certain proposals or ideas which aren't ever going to fly with the board (C3, appointed director)

If you've got the board saying no to management, then you have got the wrong chief executive, I mean then the boards got another decision to make [laughter] (C1, supplier-shareholder chair)

In line with the notion of teamwork outlined above, the empirical data suggest the development of proposals for significant decisions is often a joint process between management and the co-operative board, as these chairs outline:

Issues like the strategy, it is management and the board coming up together with the boundaries. I mean they are tested in debate, discussion and the conversation. So it is not saying these are the boundaries go ahead and find the strategy, it's done in consultation and dialogue between board and management (C1, supplier-shareholder chair)

It tends to take the two together instead of having management come up with a wonderful idea over here and the directors pulling it apart, it's a bit of a joint process (E1, supplier-shareholder chair)

It appears from the data that management does much of the “work” in the development and thinking around proposals and in bringing forward recommendations to the co-operative board, as these respondents attest:

[The board] will use the management to draft them [constitutions] up, provide options, to analyse different ways to go. But the buck stops with the board (A3, appointed director)

That process is still however, fairly management driven. In that the management will come up with a lot of the issues or do the risk review or put papers and presentations to the board ... management do most of the work and I suppose the CEO in this context (E4, MD)

The hard work and generally the strategy is developed initially by staff and executives which probably means that the MD does most of it (F1, supplier-shareholder chair)

This may be because management is hired to bring these particular skills to bear on co-operative decisions as this managing director suggests:

My experience within the co-operative is that the CEO drives the strategy and decides to bring the board with him, and it's where most of the ideas have to come from. Just because that's what his skill should be, his experiences in the marketplace, post farm gate is in the manufacturing, marketing, finance, all those skills that he should have (F4, MD)

The ability of co-operative boards to reject management proposals appears to allow the boards' considerable influence in the development of proposals that come before the board, as these respondents outline:

The board has to buy into that or say no, that's not where we want to go. Please go back and look at this or look at that or no, we want to go this way (B3, appointed director)

It appears from the empirical evidence that co-operative boards influence management as they develop proposals:

We do interact to the extent that we can influence, and do influence, direction (D1, appointed chair)

Certainly our senior management, not just our CEO are being prodded, cajoled, whatever you like into the co-operative mould. They understand what the business is about, and that's member benefits (F1, supplier-shareholder chair)

The culture of the board and the emphasis the board places on issues influences management, according to these directors:

[The board] sets the tone and the tone you can express in a hundred and one different ways but the best way is through examples. If the tone of the board is make the investment and get on with it then you will find that there is, overtime, a more aggressive approach within management towards capital investment projects (D1, appointed chair)

[The board] do [influence management] in the context of simply how they - the emphasis they put on things, the support they show for management in every facet almost. How they react to certain things, even the squeaky wheels (E4, MD)

It appears that the co-operative boards have many opportunities to influence and mould the development of proposals before decisions are made. The combination of the ability to reject management proposals, early issue exposure, and the iterative decision-making process, appears to allow co-operative boards to shape and flesh out decisions in order to gain comfort with them so that they can eventually be approved, as these directors suggest:

[Strategies] go through a gestation period and your strategies will be sort of mulled over, probably first with the chairman and then developed and then talked about as an idea. So directors have some time to create input at that stage ... it is a moulding process (F1, supplier-shareholder chair)

There will be other discussions going on during the normal course of a board meeting that will be sending signals, a little bit coded, to management about where the board feels the company should be heading in a strategic sense. So I think when you see management come back they will suggest strategies ... and then there will be an engagement between the board and the management which will drive out a common view about where the company should go strategically (C3, appointed director)

Management will come up with proposals and then we flesh them out within board meetings and sometimes outside board meetings (E1, supplier-shareholder chair)

Decision timing

To assist in this moulding process, it appears, according to respondents, co-operative boards' exposure to (and ability to influence) the development of decisions often occurs very early in the decision-making process, as these directors describe:

At most meetings there will be strategic issues always hanging out there just on the edge, not quite on the table, but in due course they'll come clearly into focus as strategic imperatives (C3, appointed director)

Almost every board meeting we would spend at times up to an hour on an item that's hardly even on the agenda ... often they're ideas at the very, very early stage that [the MD] will just throw out there ... and some of those things may never even come back to the board ... others may not be back until 12 months, 18 months down the track ... so it never comes up to the board as just an absolutely total surprise (F3, appointed director)

So it is very much a planting seeds and growing them attitude rather than having a plan delivered to you and say no that's not on (F2, supplier-shareholder director)

Early exposure in the decision-making process by the board and the ability to mould proposals greatly lessens the risk of rejection, as these directors explain:

It very rarely gets to a presentation to the board if the board is not acceptable with - because it goes through this moulding process (F1, supplier-shareholder chair)

I have not been aware of one [a management proposal] that has been kicked out like that [rejected by the board] ... the board and management - because they work together you kind of have a feel for what would be acceptable to the board and what wouldn't be (F3, appointed director)

From the evidence, it appears that to allow the board to participate in the moulding of decisions requires the decision making processes to (often) go through a number of iterations. These iterations appear to allow the board to probe, question and to gain comfort that the decisions are in the best interests of supplier-shareholders, and give management time to revise and flesh out proposals:

When strategy is developed and approved you tend to find it's an interface between an experienced management team and an experienced board ... management will develop nuances of strategy and put them up to the board and the board will discuss them and provide guidance and add value hopefully in that process of strategy development to management and feedback to management so it's a proactive thing ... management proposes core strategy bounces it around the board, it'll often take ... some number of meetings to fully develop that and have a new approved business plan endorsed that management then is authorised to put into place (A3, appointed director)

Lead to a number of iterations inside of [case C]. First of all management will prepare a paper outlining the opportunity, it will be at quite a high level, it will come to the board for a preliminary, in principle agreement as to whether in fact management should commit significant resource to evaluating the opportunity to ... make sure that the board is satisfied that in fact is on strategy, that it is consistent with where [case C] should be heading ... Management will get effectively a permit to continue discussions and work up a firm proposal which will then ... go typically through a board due diligence committee before coming back finally to [the] board [for] approval (C3, appointed director)

[Strategy] comes from management to the board, it might be stewed around and played with and then go back again and modify it and come back again, those are the things that when you have got that interaction (F3, appointed director)

Given this symbiotic and iterative process, many significant decisions often develop over long periods in conjunction with board and management, as this supplier-shareholder chair explains around a strategic decision:

I think strategic ideas and visions really do come out of a melding together of someone or some group with an idea and putting together the means by which that can be put into practice. And it's not something that happens in isolation. It happens over a period of time with people working together, aligning their ideas and putting together the capital and wherewithal to make it happen. And this might take several years to try to develop some real content ... It's more a group type activity which develops over time ... something that's worked upon month by month and develops slowly and progressively, jointly with management is more likely to yield results (A1, supplier-shareholder chair)

During the iterations, the governing board and management explore issues and access information to help them come to decisions, as this chair explains:

An investigation was conducted to see what co-operatives around the world were trying to do in terms of structure and so on, which led to the, to some knowledge about new generation co-operatives and some time was spent distributing information to directors about that in the form of written papers and a commentary and so on with discussions at board level ... so the strategy sort of evolved. It wasn't something that could be taken up and applied. It had to be adapted, developed, to the particular situation that [case A] was faced with (A1, supplier-shareholder chair)

Decision types

It appears from the data that different but significant decisions have differing levels of board and/or management involvement. Day to day decisions are left in the hands of management, consistent with the 'not to manage' principle (above). Broadly speaking it appears that the closer the decision is to supplier-shareholders the larger the board input. The closer the decision is to the market the greater the management input into the process, as these respondents suggest:

Because it was so closely associated with the farm and the shareholders interest, there was a greater director input in that one. So case by case. I suppose it would be fair to say that customer driven initiatives very much in the management domain (A2, supplier-shareholder director)

Capital structure is clearly board driven, whereas international business would be more management driven and board approved (C4, CEO)

However, significant decisions, such as the selection of a new CEO/MD appear to have very little executive involvement:

When we were preparing to change and appoint a new CEO the board appointed a small committee. That committee was comprised of the chairman of the remuneration and succession planning committee, myself, [an appointed director] and I think at that stage one other former directors ... the whole committee met and interviewed those people and ended up making a recommendation to the board (D1, appointed chair)

To facilitate this decision making process, the evidence suggest boards may utilise special meetings to come to decisions, as this appointed director explains:

If you've got a particular issue that comes up that is going to bog down a board meeting and requires a particular in-depth ... its quite common for boards ... [to have] a number of special meetings to be able to drill down on those particular areas (A3, appointed director)

In particular, strategic planning meetings are popular with the co-operative cases:

To step out of the boardroom and away from the factory and sort of just deliberate on some of those things [strategic issues]. We take currently a couple of opportunities a year, one or two day session ... we have the resetting of the strategy, the looking long term, any new things, whatever we need to address as well as reviewing as how we are going against the performance to achieve the strategic targets (E4, MD)

At the end of a three or four day, usually a three day strategic planning session we tend to come out with a list of ticked off directions, for management then to move on with (E1, supplier-shareholder chair)

and meetings for critical events:

[In a takeover attempt] we had the offer made. We then quickly came together as a board and collected our collective thoughts, we then went to our bankers, we then moved to corporate advisors within the bankers. Naturally our legal people on the corporate side - and we developed a strategy ... we were virtually meeting fortnightly at that stage (E1, supplier-shareholder chair)

Devolvement

All co-operatives use formal board sub committees as part of their decision-making processes to “drill down” on specific areas of the co-operatives business, such as audit, remuneration and supplier-relations. Some co-operatives utilise ad-hoc limited time-frame committees when making strategically large decisions. These seem to give boards more comfort in their decision making. Committees make recommendations to the full board to endorse, as these directors highlight:

[Committees] cannot make decisions; they can only bring recommendations to the board (C1, supplier-shareholder chair)

[I] don't think you delegate decisions to committees obviously. You delegate due diligence, you delegate the drill down things. But basically it is a committee's job to do the hard yards, and then make a recommendation back to the board on an appropriate course of action for the board with a supporting report which the board is guided by in making a decision (C3, appointed director)

As such, committees appear to give the board confidence in their decision making:

[Committees] gives the board the confidence that a lot of the details are actually thrashed out (C1, supplier-shareholder chair)

If we get to a major acquisition, something very significant for [case C], what the board tends to do then is set up a subcommittee that can be more involved in the detail of an acquisition, just to make sure that the board is comfortable about it (C4, CEO)

Then it is up to those directors [on the committee] to form a view, be comfortable and then pass that or to express that comfort to the rest of the group (F4, MD)

Specific one-off committees may be utilised to give the board comfort around decisions of fundamental issues/risks, as this chair explains:

It is the big fundamentals, like if it's a two billion dollar acquisition, if it is fundamentally changing the capital structure of the co-operative, if it is changing the control mechanism of the co-operative like the governance or if there is fundamental change at the interface with the shareholders, there are subcommittees set up to deal with those things (C1, supplier-shareholder chair)

The use of committees in decision making appears to also be around utilising specific skills from around the board table:

If you have confidence in your fellow board members and their skill sets, rather than me try and improve my accounting skills to go to another level, I have confidence in the two or three people that we have that have real skills in there [the audit committee] (C2, supplier-shareholder director)

In making some decisions, the co-operative boards appear willing to go outside the board and management to help in the process, for example, the use of outside facilitators and experts:

This external facilitator... the facilitator took the whole board and the senior executives through each of those issues, over several days and eventually reached a stage where a vision statement, a 10 year vision and a 10 year strategy was decided upon and endorsed by the board (D1, appointed chair)

Getting an external consultant in which we do every couple of years, in fact this year we are using a consultant again for our process (E4, MD)

The audit committee and the compliance committee have external advisers who are responsible to the committee not to management. So that gives professional oversight that the board members might not have (F1, supplier-shareholder chair)

Although, as discussed above, full boards make decisions by consensus, it appears certain members of the board may be more influential than others, as this director outlines:

If you have got a board of 13, you have four or five power brokers in it, that's just the way life works. And I'm sure that in [the researcher's co-op] even with eight there'd be three people that will lead the other people, the other people will be good people and they'll use their judgement to back the leaders within it, and that's just the way people work (C2, supplier-shareholder director)

It appears some of the boards' input into the development of decisions may be more "informal" and taken out of the formal board or committee meeting as these respondents suggest:

Maybe outside of the boardroom, look do you guys think you are going in the right direction? or have you thought about this? and they may also say that in the boardroom (B4, CEO)

We frequently will have a number of those people join the board the night before the board meeting at dinner. We would normally look to have at least one away, a two day type of love in as one would call it from time to time, where the senior management team and the board will go away together for - not only just incorporate the board meeting but just sit down and talk about where things are going and what are your ideas in the future etc and that is how the board has its indirect influence (F3, appointed director)

There is evidence of informal influence between either small groups of directors and/or the chair in the development of decisions, as these respondents suggest:

If I was to say make a suggestion that would be something that would be out of the ordinary I would very likely do a fair amount of legwork on a one on one basis with the chairman and possibly two or three other directors to just get the general sense before I was to take something formally to the board ... you'd see quite an informal process of getting to a point (C4, CEO)

Strategy in general concepts are fleshed out between perhaps a couple of members, two or three members of the board and management and then management go and do more work for the whole board to then workshop (C2, supplier-shareholder director)

[The CEO] doesn't come up to the board and say well I don't know what to do here, I am looking for the board for guidance, I mean [the CEO] and I have those discussions outside the boardroom, but that's not the role of the board (C1, supplier-shareholder chair)

From the evidence, it appears that once a decision is made, the board may continue to have influence. Regular review of co-operative performance against targets and (some) decisions allow co-operative boards to have continuing influence in the decision making process:

There is a process therefore, at the very highest level, for revisiting every year or two the strategic framework and making sure that the themes and the goals are consistent with where the company needs to be going in a business sense and which are consistent with shareholder aspirations for the company (C3, appointed director)

We review those things. For example, with the foreign exchange policy that was sent to the audit committee, we got external advice in relation to all of that (E2, supplier-shareholder director)

We're about to do that again next week to test ourselves again and really also test whether some of the strategies we set four or five years

ago are coming off and if there's need for more to be added to or the honing of some of the ones we're doing (E1, supplier-shareholder chair)

Coming to decisions is not all analytical, as this appointed director points out when talking about monitoring:

This is an intuitive thing. It's how well something is going, how smoothly things are being run. Are things being done. Can the board feel comfortable about what's being achieved. Those are the sort of things that you're doing in terms of monitoring management performance (B3, appointed director)

Finding balance

Governing boards, as the peak decision-making body in the co-operative, appear to regularly face complex decisions. Apparent from the empirical data is the requirement for co-operative boards to continually find middle ground or “find balance” between competing issues. Drawn from the data, a number of the more important examples of the co-operative boards' need to find balance are illustrated below.

As has been seen above regarding relationships, respondents feel it is important that boards find balance in their relationship with management. This requires balance, between cohesion and constructive tension; support and leadership; and monitoring and mentoring:

It is just sometimes I think valuable a little bit of constructive tension but not if it's to the point of negativity or a divided board or anything like that (A3, appointed director)

It's a fine line between supporting them [management] and then also being able to in a very constructive way change their direction if you feel a requirement of it, because you want a chief executive to have drive and show initiative but they've got to be also careful that ... they truly understand what the drivers of the business are and it's a fine line (B1, supplier-shareholder chair)

There is times when you have got to get the whip out to management and there is times when you have got to put a cuddly blanket around them too. They are all very fine judgement calls that need to be made (C1, supplier-shareholder chair)

There also appears to be a need to find balance in the style of questioning. According to these respondents hard questions need to be asked with tact to enhance the cohesiveness of the board management relationship, as these directors note:

A basic rule is never play the person, only play the issue ... once it starts to become personal, personality driven, at that point, you know you are going to have trouble (C3, appointed director)

I think some of them [directors] know how to probe pretty well, but that is an individual skill ... in knowing how to smell a better question. How to go on with the question without being insulting or offensive or whatever ... the question asked to score points gets no respect at all. The question asked for greater understanding and you know the asker has got the ability to probe that's quite healthy (D4, MD)

The empirical evidence also suggests the co-operative boards have to find balance in the emphasis they place on Board Roles (outlined below, Chapter 8):

I think we are getting the balance better. In the early days of [case C] we were spending so much of our time on shareholder related issues, pulling this whole monster together and not so much on value creation for the business; it might have been three quarters, one quarter for a year or two. I think we are actually now getting to a point where we get three quarters of our time on wealth creation type issues and one quarter on shareholder issues (C2, supplier-shareholder director)

The CEO, has produced a result that's made the board, the directors, pretty happy, and the shareholders pretty happy ... that has enabled I think the directors and the shareholders to behave in a very supportive way. If that hadn't happened there could have been a lot more debate on a whole lot more issues, yeah. It's a chicken and egg situation, in that good performance, exceptional performance produces behaviours in shareholders and directors, I was going to say it was more accommodating, but maybe less critical than would otherwise be the case. I mean directors don't ask, tend not to ask questions, well why don't you double your profit, when the profit is already very high. That kind of debate just doesn't happen (A1, supplier-shareholder chair)

Boards are also faced with finding balance amongst (sometimes) seemingly contradictory Board Roles as these directors note:

It is probably easier for a board member to criticise than support too - so it has always got to be a bit of both. And good directors who do that well are very much respected by the management (F4, MD)

The bigger the organisation the more disciplines you actually require and is a big challenge for us always. You can't let process get in the way either so it is getting the right balance between process and outcomes ... the pendulum does swing (C1, supplier-shareholder chair)

As we have seen in Supplier-Shareholder-Needs/Benefits, it appears vitally important to the success of the co-operative that the governing board finds balance between the many competing supplier-shareholder needs, as these interviewees suggest:

As a director it's important to listen to and understand the needs of your range of shareholders and really to take a balanced approach to the overall needs of the shareholding base in a co-operative when you're making some decisions on policy whether it be expansion of the milk supply, reinvestment in the company versus paying money out. Long term need versus short term needs. There are always going to be different interests (A2, supplier-shareholder director)

[Diverse shareholder interests] you are getting into the really tricky area of any co-operative ... the board has to define what that balance is ... that's clearly a board responsibility (C4, CEO)

It also appears from some respondents that the board also needs to balance the needs of the co-operatives' various stakeholders as these respondents suggest:

As management and directors together [we] have to strive for a common purpose, that common purpose clearly has to be the enhancement of the prosperity of the shareholders and in so doing providing worthy and rewarding career paths for the staff who work here (A4, CEO)

We have a debate once a year around the board to make sure we have got alignment between 'the shareholders' 'the company' and 'the staff' and the alignment through the KPIs is very much around payout and wealth creation (C1, supplier-shareholder chair)

I sometimes wonder whether board decision making, co-operative decision making holds us back, I think it sometimes does in a strategic sense. The best example I can think of is not even relevant to us is a board not wanting to close factories that had to be closed ... I think we're to some degree inhibit[ing] the commercial ruthlessness of the business (D2, supplier-shareholder director)

Co-operative board decision making often needs to find balance between long and short term effects of decisions, as these quotes acknowledge:

It is a big challenge for a board ... it's the balance between short term decisions and longer term decisions ... make too many short term

decisions you won't get to the long term, but if you are always thinking about the long term ... you won't get their either, big question, very, very relevant to our sort of board (F4, MD)

Do we build anhydrous milk-fat plant? or do we continue with the same production systems. And should we bring in our protein strategy earlier or, you know, it's a matter of priorities. Those are the sort of debates [the board has] (B3, appointed director)

Co-operative boards are also required to find balance between competing strategies:

That's quite a good example of how a strategy was developed to cope with a particular set of circumstances whereby [case A], principal strategy of not increasing the milk supply, was satisfied at the same time as trying to satisfy another strategy of maintaining an international share in a very specialised market which was at the same time very profitable (A1, supplier-shareholder chair)

Where a board will have a different view maybe to management. Management will be looking for as much milk supply as possible as you make each investment in new capacity. The board will ... will be saying are we buying a fight here that's going to get our eye of the ball. That's a good example of management and governance actually working through issues (B3, appointed chair)

Although there is widespread agreement amongst respondents that co-operative boards should not manage the co-operative, what 'not managing' means appears to exercise the board in finding balance, as this data suggests:

If there is too much day to day contact between the directors and the management you can end up with directors having an influence on management activity, so there's no right and wrong in any of this it's sort of a sense of how does it feel (B4, CEO)

There should be an understanding between the chairman and the CEO and I think it should be a line in the sand as opposed to in concrete and you don't want to be too precious about it either ... all you are trying to do is establish rough areas where you go and where I go (D4, MD)

As the peak decision making body in the co-operative, the governing boards are often dealing with complex decisions in turbulent environments (Exogenous-Issues). As such, it appears that boards have to find balance in changing circumstances, as these quotes suggest:

The board's got to ask itself those questions is divergence from the plan a result of management or is it outside of their control but could they

have policies and procedures in place to mitigate those divergences? ... it is an area that the board has got to think very hard about ... It's not an easy area (A3, appointed director)

The sheer nature of the business we were entering had an impact on the board, so a hundred million dollar decision or thereabouts was a big decision. So that brought out the best in a lot of them, you know if you like, if you lift the standard of topic most of the board will respond (D4, MD)

The co-operative governance decision making process subconcept of Decision-Making-Styles is defined and data from the case studies are utilised to demonstrate its existence.

7.5.3.4 Conclusions – Dynamics

The Board Architecture subconcept of Dynamics is covered above. The relationships between board members and the board and management are highlighted and evidence displayed in support of their existence presented. The co-operative boards' decision-making processes, induced from the data, are defined and evidence elucidated to support their existence. An understanding of the theoretical subconcept of Dynamics is important in the understanding of dairy co-operative Board Roles. It is to Board Roles that the thesis now turns its attention in Chapter 8.

CHAPTER 8 FINDINGS II

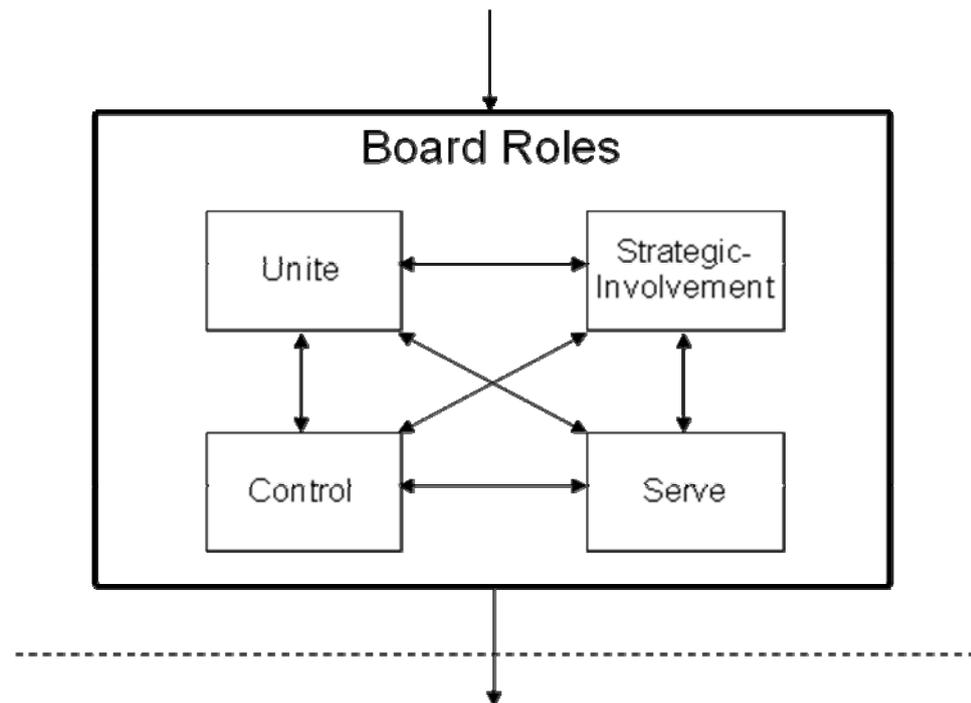
8.1 Introduction

This chapter (8) introduces the four co-operative Board Roles induced from the empirical data and relationships between them. The concept of Board Roles defines what the co-operative boards actually do and are defined here as:

the actions the co-operative board actually undertake.

Board Roles, are raised in all cases and by all respondents, and are broken into four theoretical subconcepts, or Board Roles. These are entitled: Unite, Strategic-Involvement, Control and Serve. These roles and their relationships are represented diagrammatically below in Figure 8-1.

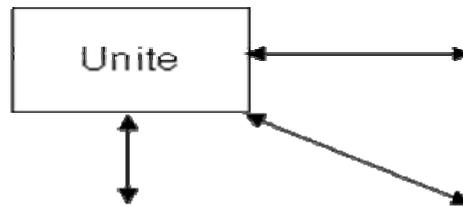
Figure 8-1 Board Roles



Each of these subconcepts and supporting evidence is elucidated below.

8.2 Unite

Figure 8-2 Unite



The first of the four Board Roles highlighted in this theoretical model of co-operative governance is Unite and is defined here as:

the co-operative boards role in uniting supplier-shareholders in a common vision.

The Unite Board Role includes issues raised by respondents around the tasks of representing, leading, conveying and sharing information, finding consensus, and ultimately acquiring and maintaining the trust and loyalty of supplier-shareholders. Parts of the Unite Role may broadly relate to what Ravasi and Zattoni (2006) term a fourth important function of the board of “facilitating the reconciliation of diverging goals and interests of represented shareholders” the board “may perform a critical function in facilitating the reconciliation of conflicting views regarding strategic issues and the definition of a common set of goals and guidelines to direct managerial action” (p. 1697).

Issues surrounding the theoretical concept of Unite are raised in 100% of the cases and by 100% of the respondents. The subconcept of Unite is broken into three interrelated sub-subconcepts: Active-Representation, Deep-Listening, and Familiarity (see Table 8-1 for summaries and Appendix I-1 for further evidence).

Table 8-1 Evidence of Unite

SubConcept	Frequency of mention				Examples from interviews
	Cases		Respondents		
	No.	%	No.	%	
Unite	6	100	22	100	<i>You need to look after those people [s-s]. You need to take them with you on big decisions, you need to make sure that the co-op's meeting their needs, you need to make sure that it's going in a direction they're comfortable with because if it aint there is going to be revolution somewhere, it is going to get very messy. You need to deliver on their expectations and all of that takes time (C3, appointed director)</i>
Active-Representation	6	100	22	100	<i>There's the representative issue in representing the best interests of the farmer and being able to communicate the requirements, the needs, the questions, the issues that are raised in the field if you like by farmers, who actually own the company, as it relates to their own businesses and that is very much a communication role and being able to decipher the issues and prioritise the issues and so on, that's very important for a co-operative (F4, MD)</i>
Deep-Listening	6	100	21	95	<i>We spend a lot of time, I guess, listening to them and communicating with them (E2, s-s director)</i>
Familiarity	6	100	18	82	<i>To maintain the troops if you like and their loyalty to the organisation so that your suppliers feel part of that co-operative. Because a co-operative depends on a family type relationship, it depends on people saying I want to be part of that, we can get more out of our dairying if we work together than if we work as separate entities (F1, s-s chair)</i>

Unite appears to be the defining Board Role of New Zealand and Australian dairy co-operative governance. It is this role that uniquely distinguishes the governance of the co-operative from the more actively studied corporate IOF:

First and foremost the engagement with shareholders is very dramatically different than what it would be if we were publicly listed (C4, CEO)

The only really, really, major difference [between a co-operative and an IOF] is that there is an appreciable amount of time spent by the

board ... around managing the interface between the company and its supplier, its co-operative supplier (C3, appointed director)

In my experience with other boards that co-operative boards have a lot more exposure [to its] shareholders (E4, managing director)

We have a much bigger PR role and relationship role with our suppliers, it is almost a political role which is separate to a director's conventional role ... we probably spend twice as much time as ... a corporate director ... so it is a much bigger commitment (F1, supplier-shareholder chair)

The relationship between the co-operative and its supplier-shareholders is a comparative, competitive strength over the co-operative's competitors, particularly for smaller co-operatives:

[Leveraging] that relationship with our farmers in fact is our strength ... the one thing that other people [competitors] can't emulate ... especially with a smaller co-operative is that communication and that relationship ... that is our competitive advantage. You can wash out all of the others; that's the strongest one. So when you talk about supplier and shareholder relations it's about protecting your competitive advantage too (E4, managing director)

8.2.1 Active-Representation

The first sub-subconcept of Unite is Active-Representation and is defined here as:

the board's task in actively representing, leading and finding consensus among the supplier-shareholders to collectively meet their needs.

Active-Representation encapsulates issues raised by respondents around their relationship(s) with supplier-shareholders, including representation, accountability, leading and finding consensus among diverse supplier-shareholder needs.

The co-operative boards, in particular supplier-shareholder directors, appear to have a role in representing the supplier-shareholders' interests in all aspects of the co-operatives' operation. This representation occurs within the boardroom and outside it (Engagement-Forums, section 7.6.2). As supplier-shareholder directors are Voted (section 7.4.1) on to the governing board, supplier-shareholder directors represent the interests of their constituents:

The shareholders of course choose the farmer-elected representatives on the board, so they have constituents to represent (A4, CEO)

Particularly to represent the shareholders and their interests and that goes without saying over the whole ... the reason for being there [on the board] is to protect the shareholders interests and their investment (B1, supplier-shareholder chair)

[Ensure] that farmers' interests, concerns and issues are properly represented and a balanced decision is made about concerns and issues that are raised by farmers (F4, managing director)

The evidence also suggests the notion of representation of shareholders in New Zealand and Australian dairy co-operatives is at a deeper level than representation of an IOF board:

It's not just a board of directors, they represent the owners ... we're just not talking about a group of people that come around to chat every month, they do actually represent the people who own the business. And it's a lot more closer in a dairy farmer owned co-operative because they actually own the businesses that own the business. So they really are hands on because they are talking about their money and their neighbours' money and their wellbeing what's more (D4, managing director)

You could argue every director in any business represents the shareholder, supposedly, but it is much more strong and compelling within our co-operative structure (F4, managing director)

Across-case comparisons highlight the size of the co-operative as being an issue for the co-operative boards' ability to satisfactorily represent its supplier-shareholders:

[Case C] came through a series of amalgamations ... it is a pretty big company. We can't have 50 people sitting around the board table, so there are 13 sitting there, and you have got 11,000 shareholders (C3, appointed director)

As such, the larger co-operative cases tend to have 'tiers' of representation. This supplier-shareholder director explains his progress through the representation system to the governing board:

I was elected to [case D] board in 1998 after having spent a period of years as a ward representative, farmer representative, and a district chairman. They are the tiers in our representative system (D2, supplier-shareholder director)

One case attempts to distance the representative task of the board from its governance role(s) with the establishment of a shareholders' council, as this supplier-shareholder director explains:

We have the shareholders council and their role is representative rather than governing ... The people you want on the council are representative type people who listen to the shareholders and listen to what's happening in the business and they're representing the views both ways. Now that's not necessarily a similar skill base at all to being a governor of the business, hugely different (C2, supplier-shareholder director)

The representative task has, in some cases, led to some conflict with other governance roles:

We occasionally have directors when they first join the co-op still think they are representing their area and they are very keen, too keen, to bring members from their areas points of view to the board. They are pretty soon told that that's not their role, that they have to make decisions on behalf of the whole company and their role in the boardroom is to represent the whole company and in the main that happens fairly quickly. Some directors take a little while to understand (F2, supplier-shareholder director)

Analogous to the representative task is an accountability of the board to the supplier-shareholders:

I am accountable to the shareholders, very, very much, it's fundamental to governance (C1, supplier-shareholder chair)

Accountability is played out through the reporting mechanisms of the co-operative:

We ensure that the [co-operative] performance is accountable to the owners (D1, appointed chair)

and at the ballot box (Vote, section 7.4.1):

Ultimately I am accountable to my shareholders because it's they who put me in, or take me out (B2, supplier-shareholder director)

and is also carried out during the daily interaction between directors and their constituents as we have seen under Voice (section, 7.4.2):

Directors ... confronted by a meeting in their town or their area or their district. They get a lot of questions, a lot of pressure from the average dairy farmer (D4, managing director)

Part of Active-Representation is in leading supplier-shareholders:

The board plays a leadership role ultimately in actually leading the shareholders, to what we think is in the interest of the company (C1, supplier-shareholder chair)

We represent the owners, we ensure that the business from our perspective is going in the direction that the owners want it to go in (D1, appointed chair)

In this example, the board has a task in leading and explaining a major change in strategic direction. Note the active and responsive way in which the board conducts leadership activities:

We held shareholder meetings, we explained to them what we intended to do, how we saw the future forward and this wasn't new to them at all, I mean people talk about how the company can go forward, what are the options. And to a man, and woman, every person to my knowledge agreed that it was added value. It was the meetings essentially reinforced that message to them and outlined areas where they could increase their payout through added value and that was pretty consoling to a lot of shareholders because they were concerned about whether the company in its new environment would be able to move forward in a commercial way satisfactorily (B2, supplier-shareholder director)

and in leading changes to the constitution:

Certainly advise shareholders and recommend shareholders any changes in constitution or matters related to policy (B1, supplier-shareholder chair)

and in this example, changes to new on-farm milk quality standards:

Getting that across the line took the support of the board speaking aloud about that at some of our [supplier-shareholder] meetings which I asked them to do for us. I said you guys have to tell them this is the way the business has to go and you've got to get on board with the programme otherwise we won't have a business because this underpins everything we are doing (E4, managing director)

and in the production of value-added products:

We use a colostrum sub-committee which is made up of some directors as well as management ... to really get it to the stage of being a sound commercial activity we needed the input of those directors to be able to, I guess, stir up the interest, keep the communication going with the suppliers involved, or the suppliers that may want to be involved (B4, CEO)

The co-operative boards in their relationship with supplier-shareholders have a task of promoting and striving to find consensus amongst diverse supplier-shareholders' needs. Their needs are sometimes heterogeneous (section 7.3.4). Acceptable middle ground and a notion of equity need to be found amongst their diverse interests to encourage them to continue voluntary co-operation. As co-operatives are built around a need for Collective-Action (section 7.3.4), it is important all supplier-shareholders feel as if they are benefiting from their involvement, roughly equally, and that the co-operative is pursuing strategies they are comfortable with, otherwise supplier-shareholders could choose to Exit (section 7.4.3). This chair highlights the need to try and gain supplier-shareholder consensus:

There is a lot to be said for trying to get a consensus or at the very least a very substantial majority in any controversy or issue, and I think given time allows, time should be taken to try and achieve that (A1, supplier-shareholder chair)

Ultimately, for the overall good of the co-operative, it appears that decisions need to be made using an active approach:

They certainly do have diverse interests. And all the board can do is try and balance those interests but always it has to be with the underlying best interests of the vehicle, being the co-operative, in mind. And ensuring that the vehicle, the co-operative, is sustainable, both today and into the future. So sure, the board has to be very mindful of different needs and they are there and they are real, but it's got to be very careful not to pander to one in particular. In the end it's got to be, the decision has got to be made in the best interests of the vehicle as a whole (F4, managing director)

However, sometimes tough decisions need to be taken to ensure the co-operative continues to serve the needs of the majority, as these directors explain in reaction to drought (an Exogenous- Issue):

You have got to protect the interests of 3,000 [supplier-shareholders], you can't jump in and try and save 20 and risk 3,000, that's always got to be the argument. So in making decisions about how far you push the envelope to get as many people as you can through a situation, you've always got to make sure that you are protecting the overwhelming majority even though the pressure might be there from a small minority (F4, managing director)

There's always got to be a lot caution in co-operatives that you don't allow the emotion of the moment to pull the capital out of the company

and not have a good strong company to move on after a bit of a dip in the road. I think that's one of the most important things that a director must remember is his prime focus is to [case E] or [the researchers co-operative] and the wellbeing of that. And taking into consideration all the parameters that the farmers also have to handle (E1, supplier-shareholder chair)

The board not only needs to find consensus among supplier-shareholders, it also has to balance supplier-shareholder needs with the requirements of the co-operative and its customers:

The biggest challenge for co-operatives ... [is] ... how they keep in touch and communicate with the shareholders about really where [the co-operative's] been going ... That's the challenge because otherwise you can lose that alignment of what the shareholders want and what the board and the company are doing and what the customer wants and we pride ourselves on keeping that alignment pretty close (E4, CEO)

The sub-subconcept of Active-Representation is thus presented with supporting evidence.

8.2.2 Deep-Listening

The second sub-subconcept is Deep-Listening and is defined here as:

a deep and personal understanding of supplier-shareholder needs through informing, listening, understanding and responding to supplier-shareholders.

The Deep-Listening theoretical sub-subconcept encapsulates issues raised by respondents about their communications with supplier-shareholders, in particular, informing, listening, understanding, and responding to them. Communicating with supplier-shareholders appears to be a major task for the co-operative boards:

As their elected representatives the board does have a major role to play in the ongoing communication with the shareholders (A4, CEO)

The board clearly have a very important role with the communication with shareholders (B4, CEO)

To continue an active connective dialogue with shareholders (C4, CEO)

This is seen as an important task:

The farmer owns from farm to market. So they ought to be communicated with and to and that should be very open and honest, it is just a no brainer for me (F4, managing director)

[The board has a role in] managing the expectations of the shareholders and ensuring that the company's objectives and strategy are clearly and adequately transmitted to them (C3, appointed director)

The directors, and in particular the chair, appear to play a primary role in supplier-shareholder communications:

Clearly the nine farmer directors in [case C] are doing a lot of hours and put in a lot of time into keeping that shareholder constituency feeling as best they can loved and cherished, which I am sure you know isn't easy. But that's one of the things they have to do, it is a large part of their work and it is probably peculiar to a co-operative, but in a co-operative it is that stakeholder group you have got to get right first, second, and third (C3, appointed director)

When it comes to the broader communication with the shareholders I'd say that the primary means of doing that is through the chairman and the board of directors (A4, CEO)

[The chairs] ability to be able to communicate with the shareholders and to be accessible, is a very important part of [the co-operative's] development (B3, appointed director)

Communication is carried out in a variety of forums; from formal meetings (such as the AGM), annual reporting, newsletters and letters, communication meetings through to very informal meetings such as social gatherings and telephone calls:

Okay, number one, we are always available. Okay, our phone numbers are published. We live here we are not sort of clandestine type people who are hidden away somewhere. The company has a newsletter, at different times directors will write articles in there. We run sort of information sessions ... there will always be at least half the directors there, maybe more, so we are available to talk and chat over whatever the issues. We have formal regional meetings where directors speak and are available to be questioned and obviously we have annual meetings. So we are available (E2, supplier-shareholder director)

Co-operative boards may need to find alternative forums to facilitate communications with supplier-shareholders:

[AGMs are] not forums I think that suppliers feel particularly comfortable in. So we know that when we go out around these district

meetings that we're going to get some good feedback and we certainly do (B4, CEO)

All co-operative-related topics would appear to be food for discourse at these forums:

We go through issues like company performance, market performance, environmental performance, what we need to be doing, and any other topical issues that we think are relevant at the time ... its quite a long presentation generally ... we would then have a sort of informal discussion with shareholders (B2, supplier-shareholder director)

There are issues that come up at those meetings such as the one we had yesterday, there will be things like the prices at the store and the tanker going too fast down the track all the way through to share value issues or milk policy issues or milk price issues and dividend issues and whether we put in a dividend or whether we put in a milk price (E4, managing director)

These forums are used to gain understanding of the needs and issues of the supplier-shareholders and to gauge their satisfaction with the benefits they receive from their relationship with the co-operative:

That's one of our risks in fact, there is a gap between what [is required of the] company ... and what the company does and the understanding of that from shareholders. And we try and communicate as much as we possibly can but it's a huge gap (E4, managing director)

The board also receives feedback and endorsement on major co-operative strategies, which builds supplier-shareholder confidence in the co-operative's operations:

The shareholders need to feel that the company has the right strategy, they need to understand it, they need to know and believe in it and they need to know that the board is driving as hard as they can to execute it (C3, appointed director)

We have made it clear for many, many years now that this is the company strategy. We are into value added activities, we've a longstanding programme of capital investment to bring that about, and that is shared with the shareholders extensively and widely, I know it (A4, CEO)

Across-case comparisons suggest larger co-operatives may have greater challenges for Deep-Listening:

It is something that is a real challenge Kevin for a large company because I can't think of any issues that I get more mixed messages on

than shareholder communication. Where roughly speaking half the people are saying the company's too big, we don't know what's going on and we don't feel part of it, and half the people will say we are getting so much paper coming through our letterbox with you trying to keep us up with everything, just get on and run the business. I just don't know what the right answer there is (C2, supplier-shareholder director)

Directors make themselves available for Deep-Listening:

The formal round of twice a year, the managing director and myself, and one or two senior staff members will spend two weeks a year going round our suppliers and with supplier meetings. We usually get about 1500 max ... so we get a reasonably good representation of members at those. So that's the most formal part of it, but then there is the informal contact, being at Fieldays, and industry meetings, those sorts of things where you are keeping up a fairly close contact with the membership (F1, supplier-shareholder chair)

Communication between the board and supplier-shareholders varies with circumstances. For example, unique events may exacerbate the need for supplier-shareholder discourse:

And through the drought we were doing that [holding meetings] every week almost. We'd have a barbeque a week to see the farmers and just to hold their hand a little bit, so quite a bit of that (E4, managing director)

In the early days of [case C] we were spending so much of our time on shareholder related issues, pulling this whole monster together and not so much on value creation for the business; it might have been three quarters, one quarter for a year or two (C2, supplier-shareholder director)

The governing board has a task in informing the supplier-shareholders of the sometimes hidden benefits of co-operation, as these directors acknowledge:

Probably really close to the top of the list [of board roles is] ... getting into the community, working with the members, to drive a better understanding of what the co-op's all about, and what's the co-op function, what it should mean to them, why it is so important to protect it. That is a massive role for the directors ... so yeah that's a big point, big point (F4, managing director)

The big challenge for us is to communicate those benefits because when you've got farmers that have been here a lifetime and they haven't seen anywhere else it's a bit hard for them to understand the value they do get out of their own company. But I think basically we do a reasonable job of that (E4, managing director)

By developing a deep and personal understanding of supplier-shareholders' needs, by listening and understanding, co-operative directors can inform and respond to Supplier-Shareholder-Needs. The sub-subconcept of Deep-Listening is outlined above and evidence utilised to support its existence.

8.2.3 Familiarity

The final sub-subconcept of Unite is Familiarity and is defined here as:

the board's task in obtaining trust, co-operation and loyalty from supplier-shareholders through engendering familiarity.

The Familiarity theoretical sub-subconcept encapsulates issues raised by respondents around in developing trust and loyalty in their relationship with the co-operative through the sharing of similar values, challenges and needs.

The board have a task to foster the trust of the supplier-shareholders in the co-operative. Others have also found that trust may be important to loyalty, or the continuing patronage of the co-operative (Barney & Hansen, 1994; Borgen, 2001; Hakelius & Osterberg, 2004; Hansen & Morrow, 1999, 2003; Hansen et al., 2002; James & Sykuta, 2006; Morrow et al., 2004; Wilson & Kennedy, 1999). Both trust and loyalty may be critical to a dairy co-operative as co-operation is a collective activity (see section 7.3.4). In order to gain the benefits of co-operation, a critical mass of people are required to continue to co-operate through patronising the co-operative and providing resources (in terms of milk and capital), as these directors suggest:

It's the whole relationship of the people with the business, the suppliers with the business. That is what a co-operative is about. If they get alienated from the business, then why have a co-operative? (B3, appointed director)

A co-op is very much about a culture it is just not about the structure ... if the co-op movement is going to survive and I hope it does for the sake of farmers that culture has got to be right. The farmers [have] got to really feel and know the issues are being dealt with fairly and that there is something in it for him, it is worth hanging on for (F4, managing director)

This may involve a board task of gaining and maintaining a connection or Familiarity with supplier-shareholders:

The board must ... have a strong connection to the shareholders ... it must have that aggregate connection with shareholders (C4, CEO)

Keeping solidarity, keeping the shareholders happy, bringing the shareholders along with us. I am a great believer in involving people and keeping people in the loop (B2, supplier-shareholder director)

Having strategies to which supplier-shareholders personally relate may also build supplier-shareholders' trust in the co-operative's ability to meet their needs; needs which are shared by the directors' own life experiences:

The shareholders need to feel that the company has the right strategy, they need to understand it, they need to know and believe in it and they need to know that the board is driving as hard as they can to execute it (C3, appointed director)

[Researcher: Is the high level of communication a strength?] Is it a commercial strength? I really believe it is, when the crunch is there, we believe our farmers are in a better position to actually understanding what we are trying to do (D1, appointed chair)

Trust and loyalty is also fostered by the supplier-shareholders' confidence in the directors' shared knowledge and willingness to go on the line for them:

Obviously securing their milk off take, I mean they are not dispensable to us so whatever they produce we will process and will pay a commercial price (D2, supplier-shareholder director)

We've got to be able to convince farmers, the farmer suppliers that this company actually knows what it's doing (B3, appointed director)

To maintain the supplier-shareholders trust, the co-operatives must also be seen as a competent agent for them:

Continue to convey to suppliers that the strategy of the business and just where we are. Giving, providing, reassurance to suppliers that yes the company's in good hands (B4, CEO)

I reckon you need to be open and honest and we are pretty good (E2, supplier-shareholder director)

A shared culture with open and honest interaction may also build trust between supplier-shareholders and the co-operative's directors:

To encourage and maintain that culture that we think is very important for the future of our co-operative (F1, supplier-shareholder chair)

Long serving board members enhance Familiarity:

They think we're doing a good job ... they know the person [director], they think he's genuine, they can't see how he performs on the board. They tend to be, for safety's sake, they stick with the status quo. And so we have very few elections and when we do, generally speaking the sitting member gets in. Since I've been on the board there's only once has the sitting member been deposed (B1, supplier-shareholder chair)

Personal relationships appear to foster the trust of supplier-shareholders:

There is an interaction between the shareholders and the directors which is quite personal in a way, because you can physically know everyone of the shareholders in your own area who ... in my case I'm elected by the area and I really do know the seventy farmers who would have elected me. So you have a personal relationship with them almost (B1, supplier-shareholder chair)

The chairs and their connection with dairy farming appear to have a larger role than all other directors in the fostering of trust through Familiarity, as these directors suggest:

Having the chairman as a farmer is probably a good thing as well. Just because of the importance of managing the supplier relationship ... while I used the word "manage", the right words are probably "empathize with", and "understand", and "relate to", suppliers which is a two way thing, and I don't think it would work, not in the foreseeable future for me, if that person wasn't a farmer (C3, appointed director)

So the chairman's role is really critical in terms of the shareholders. He's got to have ... the confidence of the shareholders ... you have to be a more open person chairing an organisation like a co-operative. [The chair] does that very well (B3, appointed director)

Having local and dairy-engaged management as part of the co-operative may also assist in the building and retention of trust:

When you are a co-operative and got a common thread it's so much easier to bring things together because you find your management team are really part of the district and understand a bit of the culture of the local farmers (E1, supplier-shareholder chair)

It's the farmer relations, it's the fact that you've got to be able to build a rapport with the farmers, understand the issues they have and be able to communicate with the farmer. And I have found that as a key ... My

experience has probably been that those CEOs that haven't been able to do that have probably struggled, compared to those that can. It's a big issue and so it should be (F4, managing director)

or conversely, destroy trust as this takeover suitor found in one case:

When we had the annual meeting to finally consummate all these share movements and all of that, he turned up in a lovely big Mercedes at the front with a good looking secretary with him, and the farmers just said get out ... strategically he was quite dumb, cause you just don't do that to farmers, you know they see a Mercedes and a fancy secretary turn up, it doesn't work (E1, supplier-shareholder chair)

Cross-case comparisons suggest, similar to Active-Representation and Deep-Listening, Familiarity appears to become more difficult to achieve the larger or more geographically dispersed the co-operative, as this appointed director explains:

That's one of the tradeoffs that's been made by wrapping this thing up, that we have depersonalised the relationship between the co-op and the suppliers. I am sure it causes suppliers, particularly the older ones a fair bit of angst and bewilderment ... I think it is a big challenge for [case C] that one (C3, appointed director)

And you have got 11,000 shareholders, so we aren't going to have that sense of identification with our shareholders that a smaller more user friendly, more intimate regional type of co-op has (C3, appointed director)

The sub-subconcept of Familiarity is induced from the evidence and empirical data is used to support its existence.

The three sub-subconcepts outlined above of Active-Representation, Deep-Listening, and Familiarity appear interrelated. Active-Representation requires Deep-Listening. Deep-Listening is important in building and maintaining trust, confidence, and loyalty of supplier-shareholders in the co-operative highlighted in Familiarity. Familiarity, in the pursuit of Collective-Action, is linked to Active-Representation. While respondents were fully consistent with the expectations of the Unite Role, except for those points highlighted above, subsequent actions of co-operatives, such as attempted and actual sales of co-operatives' ownership interests to outside investors, could be construed to be at odds to aspects of the Unite role. Such actions, where they occurred, were

usually rigorously opposed, an action which is itself very much in conformance with Unite concepts.

As has been discovered under Individual-Distinctions (section 7.6.1), the contributions of individuals on the board may vary. The chair appears to have a far greater role in Unite than his³⁸ fellow directors. The chair appears to have a larger role than other directors in communications with supplier-shareholders (Deep-Listening), in particular the formal and written artefacts. The chair also appears to have a larger role in leadership and finding consensus (Active-Representation) and in maintaining the trust and confidence of supplier-shareholders (Familiarity). Examples of evidence of the chairs' enhanced role follows:

The chairman does have the major role in communicating with the farmers through, for example, regular letters, newsletters and through presentations at our communication meetings (A4, CEO)

[The] most important to us is the welfare of the farmers and there is no better spokesperson for a company like ours than the chairman who is a dairy farmer and who is one of [them], in terms of their career (F4, managing director)

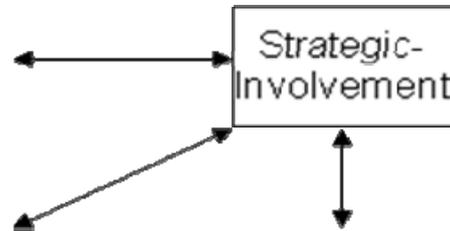
8.2.4 Conclusions – Unite

The first of the actual Board Roles identified is the theoretical subconcept of Unite and is defined as the co-operative board's role in uniting supplier-shareholders. The concept and three interrelated sub-subconcepts of Active-Representation, Deep-Listening, and Familiarity are highlighted and empirical evidence utilised to support their existence.

³⁸ All chairs in the study are male.

8.3 Strategic-Involvement

Figure 8-3 Strategic-Involvement



The second Board Role induced from the empirical data is the theoretical concept of Strategic-Involvement and is defined here as:

the governing board's involvement in the co-operative's strategic processes and decisions.

Issues surrounding Strategic-Involvement are raised in 100% of the cases and by 100% of the respondents (see Table 8-2 for summaries and Appendix I-2 for further evidence). This subconcept represents the importance, type, and level of involvement of the governing board in the strategic processes of the co-operative cases and how this involvement occurs. The Board Role of Strategic-Involvement is largely a decision-making process for the co-operative board. As the highest decision-making group, the strategies the board follow are important to the co-operative if it is to meet the needs of supplier-shareholders. While each case follow markedly different strategies given the industry they were in there is a remarkable consistency in the way the boards involved themselves in the co-operatives strategic processes. Following the Eisenhardt (1989a) method, reference is made to existing literature to refine and enrich the subconcept.

The board's role in strategy has been described as the definitive board role (Stiles & Taylor, 2001) and a key requirement for directors (Ingley & Van der Walt, 2001). Consistent with these notions, this research finds that respondents

see issues around board involvement in strategy as a highly-rated role of the co-operative board:

It comes back to setting the strategic direction is by far the biggest [role] (C1, supplier-shareholder chair)

[The] most important thing [board role] is to ensure that the long term direction and focus of the business is right. So we are talking about vision and strategy, so that's one. That's by far the most important (D1, appointed chair)

Well it [the board] no doubt sets the strategies and the goals and objective of the company (E1, supplier-shareholder chair)

As we have seen in the corporate governance literature (Chapter 3), there is limited consensus on how boards go about fulfilling their strategy role, their impact on the strategic process, and on any overarching theoretical perspective (Hendry & Kiel, 2004; Stiles & Taylor, 2001). This lack of consensus has been exacerbated by a lack of qualitative empirical research (Huse, 2007; Ingley & Van der Walt, 2001; Leblanc & Schwartz, 2007; Ravasi & Zattoni, 2006) and by not taking account of contextual factors (Golden & Zajac, 2001; Hendry & Kiel, 2004). This lack of empirical understanding has led to theoretical prescriptions (Judge & Zeithaml, 1992) about desirable levels for board involvement in strategic processes with little understanding of the actual undertakings of boards (Golden & Zajac, 2001; Hendry & Kiel, 2004). These findings help to explain how boards of directors are involved, in one context.

Three sub-subconcepts of Strategic-Involvement are induced from the empirical evidence: Strategic-Control, the co-operative board's authority to accept or reject strategic proposals, hire the CEO and review strategies; Boundary-Makers, setting the purpose of the co-operative and the strategic domain that management is able to operate in; and Shaping-Strategies, the co-operative boards' ability to influence the development of strategies. There is a substantial body of literature that touches on related elements, which is referred to in the following section, where it may be capable of further informing the findings. The conceptualisations of McNulty and Pettigrew's (1999) three levels of part-time board member involvement in strategy are

broadly similar; taking strategic decisions, shaping strategic decisions, and shaping the content, context and conduct of strategy (p. 55).

Table 8-2 Evidence of Strategic-Involvement

Subconcept	Frequency of mention				Examples from interviews
	Cases		Respondents		
	No.	%	No.	%	
Strategic-Involvement	6	100	22	100	<i>The board is responsible for establishing the direction, the vision and approving the strategy of the business going forward (D1, appointed chair)</i>
Strategic-Control	6	100	22	100	<i>The board endorses and approves this strategic plan and from within the strategic plan the annual business plan each year (A3, appointed director)</i>
Boundary-Makers	6	100	22	100	<i>The board will say, fundamentally, there is some very broad parameters - we are a co-operative, we are linked to our farmers, we have so much equity available to us, we are these core things and we must pick up our suppliers milk and we must convert that, we must move up the value chain, those are very broad parameters (C4, CEO)</i>
Shaping-Strategy	6	100	22	100	<i>[Strategies] go through a gestation period and your strategies will be sort of mulled over, probably first with the chairman and then developed and then talked about as an idea. So directors have some time to create input at that stage and then crystallise and then presented as a formal presentation of whatever that strategy is going to be and then the board decides but it is a moulding process (F1, s-s chair)</i>

As strategic decisions are significant decisions for the co-operative, the board follow the Decision-Making-Style outlined in Dynamics (section 7.6.3.3, chapter 7). Strategic-Involvement's three theoretical sub-subconcepts are discussed below.

8.3.1 Strategic-Control

As seen under Board-Management-Relationships (7.6.3.2), the co-operative boards have the task of ratifying or approving strategies and as such have the authority to accept or reject strategic proposals. This is the idea of Strategic-Control:

the co-operative board's authority to accept or reject strategic proposals, and make CEO hiring decisions.

Issues surrounding Strategic-Control are raised in 100% of the co-operative cases and by 100% of respondents. Broadly in line with Fama and Jensen's (1983b) ratification step in the decision making process, Strategic-Control highlights the board's task at the end of a decision process in "taking strategic decisions" (McNulty & Pettigrew, 1999) as the "ultimate arbiter" of the strategic decision (Stiles & Taylor, 2001). In what Stiles and Taylor (2001) term 'Gatekeeping' (see section 8.3.1), the board acts as a screening mechanism to ensure there is alignment between the strategic direction outlined by the board and the strategic actions undertaken by management. Strategic-Control is a key factor in determining the co-operative's strategic direction and it also enables the board's input into strategic development. This relationship also creates a link between Control and Strategic-Involvement (illustrated later in this chapter).

8.3.1.1 Authority

The co-operative board's *authority* to reject strategic proposals (and management's aversion to having proposals rejected³⁹), (see above, Board-Management-Relationships), and to hire and monitor the CEO, allows director influence into other parts of the strategic process (see Shaping-Strategies, below). The board is the ultimate gatekeeper (section 8.3.1) to resources, largely through "signing off" strategies, business plans and budgets that allow resources to be put into place to pursue strategies. All co-operative case boards

³⁹ McNulty and Pettigrew (1999) for example, find that the high approval of proposals by the board was not due to the managerialist notion of the board as a rubber stamp but the high level of self-regulation by the executive as rejection of proposals is very undesirable for executives (pp. 60-61)

ratify or endorse strategic initiatives, that is, they are authoritative gatekeepers to strategies:

The board of course endorses, sometimes creates, but in our case endorses the company's strategy (A2, supplier-shareholder director)

The board has to approve the overall strategic direction (C4, CEO)

A ten year strategy was decided upon and endorsed by the board (D1, appointed chair)

Consistent with Stiles and Taylor's (2001) notion of "ensuring the alignment of company purpose with shareholders' interests" (p. 32), the evidence shows that the ability to accept or reject strategies allows the governing boards to align the strategies with the needs of the supplier-shareholders⁴⁰:

The most important thing is to ensure that we don't become miss-aligned with what the shareholders want and that then rolls into the strategy setting (E4, managing director)

Ensuring that the strategic direction of the company is aligned with where the shareholders want the company to go and is commercially rational and executable. So a strategy that fits the shareholders and is a sensible business like strategy, is number one [role of the board] (C3, appointed director)

8.3.1.2 Hiring the CEO

As has been highlighted in Board-Management-Relationships (section 7.6.3.2) respondents see the selection of the CEO (or MDs) as a decision with large strategic consequences. In line with the findings of Stiles (2001) and Stiles and Taylor (2001) and the arguments of Westphal and Fredrickson (2001) and Hendry and Kiel (2004) this research finds, within the context of New Zealand and Australian co-operative dairy companies, that boards influence the co-operatives' strategies by selecting CEOs (or MDs) who they believe have competencies to enhance, develop and execute the co-operative's strategies:

The board made the strategy, the board then looked for a CEO who could implement that strategy (B2, supplier-shareholder director)

[The board] are hiring a chief executive and approving a management team that has the capabilities not only to deliver on the strategic

⁴⁰ Thus establishing a link between the theoretical concepts of Strategic-Involvement and Supplier-Shareholder-Needs/Benefits, particularly Income-Enhancement and Risk-Reduction.

framework, but also to challenge and improve on it over time (C4, CEO)

In terms of choosing this manager [MD], it was quite clear that ... we really had to find a person that could drive strategic thinking. That was really important ... this company strategically had to - there had to be some changes made, there's no doubt about that (E2, supplier-shareholder director)

8.3.1.3 Monitoring

Once strategies have been endorsed, the co-operative boards are involved in Monitoring (see section 8.4.4.1), reviewing and evaluating the progress of the strategies implementation:

It is the responsibility of management, but also of the board to ensure that there is a proper reporting function through to the board on a regular basis, at present monthly, so that targets of the strategies that we have set are being met or otherwise (F4, managing director)

Reviewing as how we are going against the performance to achieve the strategic targets (E4, managing director)

Ultimately what I [the CEO] will sign off on the board with is those hard financial KPIs and a series of other KPIs that would be sometimes less financially driven but strategically driven (C4, CEO)

The monitoring and reviewing of strategies also allow the board to continue to have an involvement in the strategic process after strategic decisions are made by enabling the board to reopen strategic discussions and provide ongoing input into (re)shaping the strategy (see Shape-Strategy, below). Stiles (2001) believes that the board may be “instrumental in breaking organizational habits and forcing change” by its constant review of business definition and corporate strategy (p. 646). Strategies are continually revisited, evaluated, tweaked or altered as more information becomes available or circumstances change, allowing the board continual involvement in the strategic process:

We're about to do that again next week [strategy session] to test ourselves again and really also test whether some of the strategies we set four or five years ago are coming off and if there's need for more to be added to or the honing of some of the ones we're doing (E1, supplier-shareholder chair)

At least once a year we review that [our strategy] - the big fundamental drivers - to see whether there needs to be a tweaking of the strategy ...

three years after that we did what we call a strategy refresh where we did a deep dive into the strategy, just to make certain that we were firstly comfortable, and secondly with some of the large geopolitical movements - was our strategy still appropriate? (C1, supplier-shareholder chair)

Changes in the co-operative's environment⁴¹ is particularly important for the board to take into account when reviewing strategies, as this director suggests:

In recent times we come back and revisit that September/October, just see from an overall policy, okay what's shifted? [a competitor] has done this or the world market's have done this, or the Australian dollar is crashing or proteins are good or ... (E4, managing director)

Strategic-Control is introduced and defined as the co-operative boards' authority to accept or reject strategic proposals, hire the CEO and review strategies and is an ongoing part of board involvement in the co-operative's strategic decision making process. This authority allows co-operative boards to ensure that there is alignment between the strategies and the needs of the co-operative's supplier-shareholders.

8.3.2 Boundary-Makers

The second sub-subconcept of Strategic-Involvement is as Boundary-Makers and is defined as:

the board's role in defining the purpose of the co-operative; its general strategic direction and the strategic domain in which management are able to operate.

This research, in line with Stiles (2001), finds boards set the "business definition" and the "overarching direction" of the organisation (p. 637). Stiles and Taylor (2001) describe the corporate definition as answering the "what business are we in?" question. They see this "setting of the overarching direction of the organization" as a defining characteristic of the boards' role (Stiles & Taylor, 2001, p. 39). The findings in this research are also consistent with the observations of Mizruchi (1983) and the findings of Stiles and Taylor's (2001), that boards may set the "strategic parameters" of strategic decisions and the "domain of discretion" of managers. Boundary-Makers is also broadly in line with what Mintzberg and Waters (1985) describe as

⁴¹ theoretical concept of Exogenous-Issues

“umbrella” strategies, which limit the actions of management and provide direction for the co-operative. McNulty and Pettigrew (1999) note boards’ involvement in shaping the context, content, and conduct of strategy through “the construction of contexts in which strategy is formulated and debated” (p. 65). Similarly, Ravasi and Zattoni (2006) suggest (some) boards set “the overall goals and the boundaries within which strategic plans were expected to be formulated” (p. 1691).

Co-operative boards are active Boundary-Makers defining things such as “we are a co-operative dairy company”, “we collect, process and market our supplier-shareholders’ milk”, “we aspire to add value to our supplier-shareholders’ milk,” largely restricting their business to the collection, processing, and marketing their supplier-shareholders’ milk⁴².

As a company we are in the business, or we have the policy if you like, of being in the business of collecting, processing, marketing and adding value to our farmers’ milk (A2, supplier-shareholder director)

Those top line things about the philosophy, the culture, the sort of company we are, and the sort of targets in milk returns and return on assets etcetera we want, and where the balance sheet should be the board do a fair bit on (E4, managing director)

[The board] agrees the core strategies for the business (A3, appointed director)

The following evidence suggests co-operative governing boards are involved in setting the boundaries of the strategies:

The board clearly sets the boundaries, that's what they have to do (C4, CEO)

The management team really needs to be driving the strategy for the company with the board setting the overall parameters in terms of returns to the shareholders and so on and the more umbrella material if you like (B4, CEO)

To start hiving off into other activities outside, despite all the temptations that are put in front of you, you have to be very, very

⁴² All co-operatives in the study have unrelated businesses, not least of which are retail farm requisite stores. These are, however, in terms of their turnover a relatively minor percentage of the co-operative’s business and arguably in line with Supplier-Shareholder-Needs/Benefits (see section 7.3 above)

thoughtful about why you would want to do that (B3, appointed director)

While retaining Veto-Approve (section 8.4.1) rights over strategic decisions the board expects the CEO or managing director (and senior executive team) to also test those strategic boundaries.

The theoretical sub-subconcept of Boundary-Makers is presented here and evidence displayed to support its existence. Co-operative boards set and maintain core strategies and strategic boundaries in which management may operate, although these boundaries are loosely defined and the board expects to be tested by management on those boundaries.

8.3.3 Shaping-Strategy

Due to their involvement and authority in strategies, co-operative governing boards are also in a position to help form strategies. The final sub-subconcept of Strategic-Involvement is Shaping-Strategy. Issues surrounding the sub-subconcept are raised in all cases and by 100 percent of respondents. Shaping-Strategies and is defined as:

the co-operative board's active and ongoing involvement in the development of strategies.

In line with Rindova (1999), these findings (Decision-making-Styles, section 7.6.3.3) suggest strategic decision-making evolves “through complex, nonlinear and fragmented processes” that are “interactive and iterative” (p. 956). The evidence here suggests that within the context of New Zealand and Australian dairy co-operatives, boards are involved in shaping strategies and the evidence also finds considerable sympathy for what Hendry and Kiel (2004) describe as strategic control:

Strategic control involves the board exerting a continuous process of formal and informal influence over management, beginning early in strategy development and involving iterative consultation from development through to implementation and evaluation. It also involves the board evaluating management based on their strategic proposals pre-implementation as well as on the financial results post-implementation. (p. 511)

Shaping-Strategies, however, more accurately reflect the boards' *involvement* in the co-operatives' strategic processes. The board not only controls management's development of strategy but also adds value to the strategy through advice and counsel:

It doesn't mean that where you start is where you end in terms of strategy. Again a good co-op is about the taking on board the suggestions and the ideas of others then you pull together something in the end that everybody is comfortable with and that happens a lot (F4, managing director)

Consistent with what we have seen empirically (Decision-Making-Styles, section 7.6.3.3), McNulty and Pettigrew (1999) find that executives self-regulate proposals in anticipation of the board's response, rarely allowing a recommendation to be rejected. As such, even the threat of rejection is sufficient to change strategic proposals and ideas:

Good management sense that, they read the tea leaves around the table and they instinctively come to know that there are certain proposals or ideas which aren't ever going to fly with the board (C3, appointed director)

The board and management - because they work together you kind of have a feel for what would be acceptable to the board and what wouldn't be (F3, appointed director)

The boards have considerable involvement in the shaping of strategies by working collaboratively with management through the strategic process in a continuous and iterative way:

That [strategy] is something that has been developed by both, a combination of the directors and the managers, so it's been a joint effort would be my view (A2, supplier-shareholder director)

It tends to take the two together instead of having management come up with a wonderful idea over here and the directors pulling it apart, it's a bit of a joint process (E1, supplier-shareholder chair)

There will be an engagement between the board and the management which will drive out a common view about where the company should go strategically (C3, appointed director)

Similar to Rindova's (1999) findings, co-operative boards are able to influence strategies by having early exposure in the strategic decision making process:

[The strategy will] be first of all exposed at a principle level, there will be a good high level strategic discussion in the board, the comfort level and the confidence is there around being on strategy, then it will go down into a much more detailed process before coming back finally to board approval (C3, appointed director)

The co-operative boards debate, question, assess, advise and review through the strategic process. The board requires adequate information from management on an ongoing basis to form opinions:

[Management] need to be able to present a full, complete, accurate story, a picture, take all the time that is necessary to explain to the board the hows, whys, and whens, the money involved, the whole thing ... the key then to the board is that they form a view that they are getting all the information, complete and accurate so that ultimately they will sign off on a decision to go a particular way (F4, managing director)

Co-operative boards assess strategic proposals, as the same managing director states:

There is a real need and a requirement for the board to be able to decipher the good from the bad and to be able to really question that stuff to detail so that they are - in the end they have to make the decision (F4, managing director)

Directors constantly engage and question proposed strategies:

Are we broad enough? Are we diverse enough? Are we in the growth markets? Are we in the growth products? Does it fit with our technology? Our R and D etc? We put all of those things back up to the board and say well we think we ought to do a bit of this, head in this direction (E4, managing director)

[At a strategy planning session] we said well 'what if?'; what if there is a drought?, well okay, this is what farmers will do and so on, what if there is a price crash? ... okay well this is what we'll do... there were three what ifs? Nobody said what if those three happened together, and they did. But ... our strategy was to be flexible and we've come out of that circumstances in pretty good shape relative the rest of the industry ... we had created a management team which is pretty flexible and proactive and that was our best strategy (F1, supplier-shareholder chair)

The co-operative boards may also be involved in shaping strategies by offering strategic advice⁴³ as these respondents suggest:

It's pretty poor if a board can't actually from their lofty vantage point up there in a helicopter, not bogged down in the day to day issues, if they can't add some value and provide some constructive strategic thinking. It certainly is what I see at [case C], I do see that happening (C3, appointed director)

The other appointed director at the present time gives us access again to international experience, the formation of joint ventures, across the world, and probably access to government organisations through trade and industry (A1, supplier-shareholder chair)

It is the intense, personal and ongoing nature of this involvement that informs the sub-subconcept of Shaping-Strategy.

8.3.3.1 Finding balance

Consistent with the Board Role of Unite (section 8.2) and similar to what Ravasi and Zattoni (2006) term as “facilitating the reconciliation of diverging goals and interests of represented shareholders” (p. 1697), the board attempts to find a balance of views, even toward reconciling diverse views:

[The strategy] would have the ability to add value to milk. As long as that also gave the farmers who own the business, the opportunity to grow their business because we saw that was the greatest opportunity for them and they perceived it as the best opportunity for them to grow their own wealth (B1, supplier-shareholder chair)

This managing director battles with the strategic need to balance supplier-shareholders' need for milk processing assets and a need for return on investment on capital:

This constant battle with the co-operative of balancing volume ... and business performance is a really difficult thing to grapple with. The issue of putting money into facilities to process milk where there is no margin or very little margin, but very, very important to the dairy farming community because they just need this constant growth ... that makes it really, really difficult and I don't know the answer to that, I really don't (D4, managing director)

⁴³ Also a Serve Role (see section 8.4 below), thus highlighting a relationship between the Board's Role in Strategic-Involvement and Serve.

or involvement in finding balance in ensuring individual strategies fit with overall strategy:

We don't actually discuss necessarily the Australian strategy in isolation, it is where it fits with the overall strategy (C2, supplier-shareholder director)

Before ratifying a strategy (Strategic-Control) the board must be comfortable with it. Co-operative boards gain comfort by working with management, demanding accountability/information, questioning, debating and assessing:

You have got to make sure everybody's comfortable. The questions that have been asked have been fairly answered, you have got to be flexible enough to accept and take on board suggestions from the board (F4, managing director)

What's [strategies] presented to the board is eventually a moulded decision between well basically executive work, but the board is brought along with it so that it doesn't get to that final stage unless the board is reasonably comfortable with it (F1, supplier-shareholder chair)

Finding balance between strategic interests is part of the co-operative board's role in Shaping-Strategies and part of their Strategic-Involvement Board Role.

8.3.3.2 Involvement

The research finds, in general, that boards initiate and have greater involvement in the development of strategies that are closely associated with the supplier-shareholders:

Milk growth strategy because it's very much closer to the farmer directors, much better knowledge of what is going on than management typically do. They [the board] tend to get much ... more involved in that particular area ... there is certainly much more involvement by directors (B4, CEO)

That particular initiative had a very, very high board content or input, because it was very much a shareholder related project or strategy. And therefore by its very nature the directors were in a very good position to discuss, debate, suggest, provide very constructive input into the process (A2, supplier-shareholder director)

The research also finds that management is the primary driver, initiator and has greater involvement in strategies closely associated with manufacturing and the market:

The CEO drives the strategy and decides to bring the board with him and it's where most of the ideas have to come from. Just because that's what his skill should be, his experiences in the marketplace, post farm gate is in the manufacturing, marketing, finance, all those skills that he should have, he can't typically expect as a primary that the board have got those ... the primary driver for the strategic direction, has to be in my view within the co-op is the CEO (F4, managing director)

Part of [the MD's] charter is obviously to be in the market place and he deals day to day with the customers and countless potential customers ... clearly he has a key role in development of strategy. And here are the opportunities, which ones are we going to go with (E2, supplier-shareholder director)

There is evidence the larger the strategic initiative (in relation to the co-operative) the greater the board involvement in the strategic process. Case C (and B in the past) use board committees and management to gain confidence in the strategic process:

A major acquisition, something very significant for [case C], what the board tends to do then is set up a sub-committee that can be more involved in the detail of an acquisition, just to make sure that the board is comfortable about it (C4, CEO)

Mergers and acquisitions are another example:

Merger acquisition was definitely driven by the board and only part of the board, sometimes in defiance of the board. When it got to the more complex acquisitions of non-co-operatives it's being driven by the management ... mergers with other co-operatives was driven without exception by the board, acquisition of other businesses driven very clearly by the management ... they lose patience looking at co-operative mergers (D1, appointed chair)

Within-case comparisons suggest variation in management and the boards' perceptions of their involvement in strategy. The differentiation in types and levels of strategies may explain respondent variation about whether the board or management drives strategies, as evidenced from these two respondents (from the same case):

It's up to the management team in my view to lead the board in terms of the strategy. Obviously the board has an input but the management team really needs to be driving the strategy for the company ... the detail of the strategy comes from the management team (B4, CEO)

It was a board initiative. I think it was obvious to [case B] having made a decision to go on its own that we could not compete with commodity

against the larger players ... so we essentially said in terms of policy this is what we want to do (B2, supplier-shareholder director)

This variation of view over the role of management and the role of the board in the strategy process is articulated by this CEO:

This is where we may get differences of views, I would say generally [the board] to approve strategic recommendations from management. Most of the work that goes on here in [case C] is management develop strategy and the board approves it, the board does have input into it, so there is a fine line between directs and approves (C4, CEO)

These respondents acknowledge differing influences at differing times by management and the board in the strategic process:

At times of course we've had management who have, if you like, brought that thinking to the board and at times we've had exceptionally good directors who have really been able to take that overall philosophy, you know a great deal further in its thinking (A2, supplier-shareholder director)

That probably the simplest one, would be capital structure is clearly board driven, whereas international business would be more management driven and board approved (C4, CEO)

A possible explanation for this variation may be that of utilising strengths in information and expertise of both board and management as they try to realise Supplier-Shareholder-Needs/Benefits.

8.3.3.4 Implement

The co-operative boards (apart from MDs) have very little involvement in the execution of strategies:

The board doesn't run the company, the board sets the parameters (E2, supplier-shareholder director)

In a nutshell I guess the broad direction strategically is the part of the directors, but the execution of that on the part of the management and the [management] team (A4, CEO)

The question of how we implement that was left to the CEO who is expert in that area (B2, supplier-shareholder director)

Only in strategies very directly related to supplier-shareholders or in crisis situations do directors appear to have involvement in the implementation of strategies. In this example of a takeover, the board played a more active role in the execution of the strategy:

[18 years ago] a company tried to take us over ... it was a very big role [for the board], it was an interesting one ... the directors, and I can remember nights where I just never got off the phone ... and some of the older directors did that more prominently than I did (E1, supplier-shareholder chair)

In the strategic process the board have little involvement in the “work” associated with getting the strategies to a level that they can be ratified:

Management will come up with a lot of the issues or do the risk review or put papers and presentations to the board about - we could go and do this and we could do that ... management do most of the work and I suppose the CEO in this context (E4, managing director)

All done by the management, reviewed by the board, but all the initiatives and the leg work if you like, done, definitely by the management (A2, supplier-shareholder director)

8.3.3.5 Exogenous Issues

Board involvement in strategy is contingent on contextual factors (Forbes & Milliken, 1999; Lynall et al., 2003; Ravasi & Zattoni, 2006). Issues surrounding the theoretical concept of Exogenous-Issues (see Chapter 7, section 7.2) have an impact on board involvement in the strategy process⁴⁴. Many strategies appear to be in response or shaped by Exogenous-Issues making them dynamic documents:

I have another one [strategy document] to prepare because that needs to be a fairly dynamic document because things do change over the year (B4, CEO)

For example, the effects of drought on the need for milk processing capacity and the flow-on effect require board review of strategies:

For quite some time in the future now we don't need to retain as much earnings as we used to because there is no [milk] volume growth and we actually have probably a processing capacity for a hundred million litres of milk that we don't need. ... So we can look at much more high

⁴⁴ Thus highlighting a link between the theoretical concepts of Exogenous-Issues and Strategic-Involvement.

value things and that's much more healthy (E2, supplier-shareholder director)

This respondent highlights the effect of deregulation on the co-operative's strategies:

The board was saying that well we need a vision for this business because deregulation has certainly impacted badly on the business (D2, supplier-shareholder director)

And these respondents note the effect of competition on strategies:

If [case D] hadn't of grown geographically and grown its product base it simply wouldn't be here, it just would have just disappeared ... it had to become nationally relevant and it had to have a far broader range of products than it currently had so it had to expand geographically and product definition (D4, managing director)

As you know there has been some considerable rationalisation of the industry in Australia. The positioning of [case F] during that rationalisation - how we might approach some companies, whether it is good to amalgamate, take over, buy or whatever (F3, appointed director)

Some strategies seem to be historically driven:

[The added value strategy] ... was driven by the history ... it was because of that's how we were made and then because of our geographic spread and our, perhaps lesser pools of farmers which obviously you best be in a value added product if you can (D2, supplier-shareholder director)

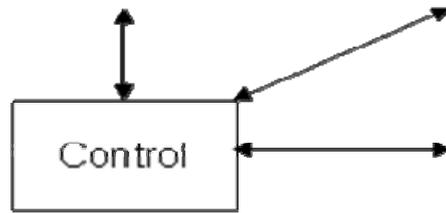
It's something that probably originally developed twenty years ago but it has evolved as a overall company policy or philosophy or strategy, call it what you like, so that everyone if you like, is indoctrinated with the concept (laughter) (A2, supplier-shareholder director)

Overall, Shaping-Strategies refers to the co-operative boards' role in developing strategies. The evidence suggests that co-operative boards shape the strategies of the co-operative through the co-operative decision-making process, iteratively, over time, with management, at a number of strategic levels, in a number of different forums, both formally and informally, by receiving information, debating, questioning, and finding balance, until comfort is found. The boards respond to Exogenous-Issues in the strategic process.

8.3.4 Conclusions – Strategic-Involvement

The Strategic-Involvement role has been defined as the governing board's involvement in the co-operative's strategic processes. Evidence in support suggests that New Zealand and Australian dairy co-operative boards are involved in the co-operatives' strategic processes on an ongoing basis. Three sub-subconcepts are identified as Strategic-Control; Boundary-Makers; and Shaping-Strategies. The boards have an involvement in Strategic-Control. The boards ratify strategies. The boards hire the CEO (or MD) with an eye on the co-operative's strategy. The boards have involvement in setting core strategies and strategic boundaries. The boards have involvement in the shaping and reviewing of strategies. The extent of this involvement is dependent on the strategic decision. The co-operative boards play very little part in the implementation of strategies⁴⁵ except in times of crisis and in strategies closely associated with supplier-shareholders.

⁴⁵ Apart, of course, from managing directors

Figure 8-4 Control

The third of the theoretical Board Roles is Control and is defined as:

the many aspects of being in charge of decisions and activities at any points in the year, to initiate or veto actions and to have general oversight in multiple ways.

Issues surrounding the theoretical concept of Control are raised in 100% of the cases and by 100% of the respondents (see Table 8-3 for summaries and Appendix I-3 for further evidence).

As has been seen in Board-Management-Relationships (section 7.6.3.2 above), the co-operative boards have formal “power” over the operations, and in particular, the management of the co-operative. In overview, the boards are the peak decision-making authority within the co-operative with the ability to veto significant decisions. Boards have the authority to accept or reject any executive proposals, including strategies. The co-operative boards have a role in hiring, firing and remunerating the CEO (or MD), as well as management succession. The co-operative boards have a task in delegating (most) aspects of the management of the co-operative to the CEO (or MD), through delegated authorities and policies that allow a framework for the executive to work within before having to come back to the board for permission to act. The boards monitor and evaluate co-operative and management performance. The board also has a task to protect the assets of the co-operative and to retain the co-operative nature of the company. These various tasks grant boards significant Control over the operations of the co-operative. Again there was remarkable consistency in respondents’ views on the board’s role in Control. There is however some variation in actions post data collection in some cases

around protecting the co-operative nature of the company (Protect) as some boards attempted to, or sold to, outside investors.

The co-operative board's Control role is largely internally focussed (to the co-operative) and principally applies to the relationship between the board and management. The board's Control role, insofar as it, or elements of it, are recognised elsewhere, receives attention from the popular and business press, shareholders, regulators and researchers. Corporate scandals and the dominance of agency theory and its effect on governance codes and legislation lead Control, in its recognised corporate sector forms, to being the most prominent of the board's roles (Van den Berghe & Baelden, 2005).

As highlighted in the co-operative context (Chapter 2), the theoretical subconcept of Control has a close association to the co-operative principle of user control, as Ginder and Deiter (1989) explain:

the board of directors plays a particularly important role in a co-operative corporation because of its importance to the co-operative control principle. By law, the management of the co-operative is the board's responsibility. (p. 318)

This excerpt from one of the co-operative's annual report highlights many aspects of the co-operative board's Control Role:

Key responsibilities of the Board include:

- Defining the strategic direction for [case A] and establishing policies to support the effective management of the company;
- Appointing and overseeing the performance and review of the CEO;
- Setting the terms of CEO and executive management employment;
- Monitoring the financial performance of the company and, [case A's] risk management;
- Ensuring that [case A] has robust corporate governance practices; and
- Ensuring [case A's] regulatory and legislative compliance
([case A] 2008 Annual report)

The power or Control of the operations of the co-operative rests with the board. The board has authority to manage the operations of the co-operative through the board's mandate from the supplier-shareholders, the co-operative

constitution and statutory acts⁴⁶ of Parliament. Under the co-operative constitution the boards are empowered to manage the co-operative (see Supplier-Shareholder-Controls, Chapter 7, Vote) as this example from the case C constitution states:

13 POWERS OF DIRECTORS

13.1 Management of Company: The business and affairs of the Company shall be managed by, or under the direction or supervision of, the Board, provided that the chairperson of the Board shall be a Director elected in accordance with clause 12.2⁴⁷

([case C] constitution)

This power grants the board a Control role in managing the operations of the co-operative and in making significant decisions across the range of the co-operative's operations. In practice, the boards delegate, through a series of delegated authorities and policies (see section 8.3.2) much of the day-to-day operations of the co-operative to professional managers and Oversee management's performance in this endeavour. This research finds that co-operative boards retain the right to make significant decisions and Oversee (Table 8-3) the activities of management.

⁴⁶ In New Zealand the Co-operative Companies Act 1996, and the Companies Act 1993.

⁴⁷ Elected by shareholders

Table 8-3 Evidence of Control

Subconcept	Frequency of mention				Examples from interviews
	Cases		Respondents		
	No.	%	No.	%	
Control	6	100	22	100	<i>[The board] concerns itself with the questions of delegation and of authorities, it concerns itself with making sure that the chief executive and his team are meeting the objectives with regard to the dairy company ... and making sure that the company through its multitude of tasks is managed properly, that the chief executive is doing what he's supposed to be doing ... [and] making sure that all the things get done that need to get done ... while complying with all applicable legislation that we must live with. So that to me is the primary task of the [case A] board (A4, CEO)</i>
Veto-Approve	6	100	22	100	<i>This board has no compunction to say I'm not happy with this ... make no mistake the policy is signed off by the board, it's not rubber stamped (E2, s-s director)</i>
Delegate	6	100	22	100	<i>[The board] defines the policies that are to operate, agrees the delegated authorities with the CEO and then monitors the performance of the organisation through the CEO (A3, appointed director)</i>
Hire-Remunerate-Fire	6	100	22	100	<i>It's the board's lever on management that its solely the board's responsibility to appoint the chief executive and at some time should it ever happen, the removal of the chief executive. It's such a fundamental issue I should think for any board, whether it is a co-operative board or a corporate board (C1, s-s chair)</i>
Oversee	6	100	22	100	<i>I'm very, very confident that if I was trying to go off in a different direction [as Enron's CEO did] we have sufficient feedback loops in this business that the board would intervene (C4, CEO)</i>
Protect	6	100	22	100	<i>As a set of co-operative shareholders I think that they can feel very pleased about the fact that their board of directors over the years has been able to apply these [co-operative] principles and bring back to them through their milk payment the benefits of those investments (A4, CEO)</i>

The empirical evidence suggests that the board use Control to guide the operations of the co-operative to meet the needs of the supplier-shareholders:

Ultimately the board is responsible to shareholders for all the activities of company ... the board's hiring of the Chief Executive and monitoring of the performance and the ability to remove the Chief Executive is critical to the board's obligation to the shareholders to make sure the business is run well (C4, CEO)

The ultimate power has got to rest with the board. The board appoints the chief executive. The board finally must authorise all capital expenditure and any movements outside policy. Any policy changes must be signed off by the board. That's what a board's there for. After all, who is going to defend the position with the shareholders? The board is accountable for that (B3, appointed director)

Evidence is presented below demonstrating the existence of a Control role for the governing boards of co-operative dairy companies utilising five theoretical sub-subconcepts; Veto-Approve, Delegate, Hire-Remunerate-Fire, Oversee, and Protect.

8.4.1 Veto-Approve

After delegating (see Delegate, section 8.3.2 below) much of the day-to-day management of the operations of the co-operative to managers, the board retain the Veto rights to usually significant decisions across a range of the co-operative's operations. Things a board may Veto include decisions: to hire, fire and remunerate the CEO (or MD); to establish delegated authorities and policies; to accept or reject strategies and business plans; to ratify budgets, capital and financial, and what to Oversee. That is, the board has a Veto to significant decisions. Evidence of the theoretical sub-subconcept of Veto-Approve appears in 100 % of cases and respondents and is defined here as:

the co-operative boards' task in approving or rejecting significant decisions.

The following respondents provide examples of the co-operative board's Veto-Approve task with significant decisions:

Things like treasury policy that is set by the board, the terms of any committees are set by the board, in respect of strategy ... they [the board] would sign off on the blueprint for the future and they would do

that on an annual basis ... Also statutory compliance reporting and so on, they ultimately sign off on that (B4, CEO)

A typical or normal board role [is to]... approve the recommendations of management as it relates to all issues of a two billion dollar business, from manufacturing through marketing, through finance, everything (F4, MD)

The co-operative boards may have a role in Veto-Approving the allocation of resources:

The board, of course, ultimately has to approve the budget every year and the budgeting process has to incorporate as much as we [management] possibly can. The expenses that will be incurred in pursuing these various activities, and obviously the revenues that will be gained because of those activities (A4, CEO)

[Management] bring in capital budgets and explain where we are early in the season as to what the budget will be for that year, what are the projects that are envisaged. We [the board] then, as each of those projects is brought forward, we approve or disapprove of capital expenditure in line with that budget (F2, supplier-shareholder director)

The board has a role in Veto-Approving strategies:

Well it [the board] no doubt sets the strategies and the goals and objective of the company (E1, supplier-shareholder chair)

Eventually reached a stage where a vision statement, a 10 year vision and a 10 year strategy was decided upon and endorsed by the board (D1, appointed chair)

The co-operative boards also have a Veto-Approve role for the policies that act as a framework for management discretion:

The board has actually got to ... in the end sanction those policies (B3, appointed director)

The board will be active in approving those policy levels (C4, CEO)

The board's Veto-Approve role underpins the board's Control role of the operations of the co-operative. As we have seen in Decision-Making-Style (section 7.6.3), the Veto-Approve role may be seldom used but in line with Stiles and Taylor (2001), this research also finds:

the board's potential for refusing to sanction management's proposals affords it strong latent power ... and management's reluctance to face tough questioning or appear foolish under fire in the board room

ensures that strategic proposals are of a high standard. (p. 44, their emphasis)

The sub-subconcept of Veto-Approve is presented and empirical evidence utilised to support the board's Control Role in accepting and rejecting major decisions.

8.4.2 Delegate

While retaining the responsibility for the management of the co-operative, the boards, in all cases, appear to have a task in delegating authority for the running of many aspects the co-operative. They delegate to executives skilled in the management of sophisticated, complex, commercial businesses, the CEO or managing director in particular (the CEO further delegates to their staff – cascading down through the organisation). The second theoretical sub-subconcept of Control is Delegate and is defined as:

the boards' task in establishing delegated authorities and co-operative policies as an operational framework for the management of the co-operative.

Under the co-operative constitutions, the board has authority to delegate any or all of its powers to manage the co-operative as this extract, typical of the case studies, from the case C constitution makes clear:

13 POWERS OF DIRECTORS

13.3 Delegation of powers: The Board may delegate to a committee of Directors, a Director, an employee of the Company, or to any other person, any one or more of its powers, other a power set out in the second schedule of the Act [the Companies Act 1993] ([case C] constitution)

Co-operative boards delegate authority through a framework of delegated authorities, policies and job descriptions to the management of the co-operative. Boards maintain some decision rights and then Oversee the delegations. The boards delegate as much authority to management as board members wish:

[The board] can delegate the authority to do things and boards of directors delegate, delegate to the chief executive officer, the authority to run the company on a day-to-day, week-by-week basis (AI, supplier-shareholder chair)

The same respondent suggests that co-operative boards generally delegate the task to management, not the responsibility, of running the co-operative:

A board of directors can never delegate responsibility. It is always ultimately responsible ... they cannot delegate their responsibility to the shareholders for what happens (A1, supplier-shareholder chair)

The delegations cover a wide range of decisions:

[Policies] will be across a very full spectrum. It will be on staff issues, it will be on legal issues, it will be on financial, it'll be on cash issues, it will be on PR things. Can the chief executive make statements for the media without reference to the board? Can he make a commitment on a capital expenditure item of a hundred thousand dollars that wasn't in the budget or not? Can he appoint new legal advisors without authority of the board? (A3, appointed director)

The parameters of how we operate it is quite clearly enunciated. Who is responsible is quite clear and enunciated in that, the limits they are allowed to deal with are enunciated ... there is policy in a whole range of areas - cars, travel, FX there's heaps of them (E2, supplier-shareholder director)

The co-operative boards, therefore, work “through” a CEO (or MD) and management, and as such, a board’s effectiveness in meeting Supplier-Shareholder-Needs/Benefits is mediated by a delegate, usually management.

The co-operative’s performance is very dependent on the CEO:

The performance of the company is really very dependent on the performance of the CEO. I think this is the case in most instances (F3, appointed director)

The board can't be effective without a good chief executive. Can't be (B3, appointed director)

In their Delegate role, the board sets the domain of management authority before management is required to come to the board for a decision to be made:

A chief executive has to know the boundaries of his authority ... and a board needs to know what is the boundaries for the chief executive so there needs to be written very clear delegated authorities between the board and the CEO, so he knows exactly what you can and can't do and at what point decisions need to go to the board and so that will be across a very full spectrum ... All those sorts of things need to be documented and so that the board and CEO are clear on what is expected of each other (A3, appointed director)

[Policies are] really a framework for management to work in on a day to day basis but at the same time with the monthly involvement of the board (B4, CEO)

and provide clear expectations of what management is allowed to do:

[Policies and delegated authorities are] to protect everybody and have very clear understanding of what is expected of each other [the board and management] so it protects the CEO so he knows, yes I've got that authority because here it is, it's written its formally endorsed by the board, I'm very clear I can make this decision (A3, appointed director)

[Policies and delegated authorities are] a way of giving a comfort zone, if you like, for both directors and for management (B4, CEO)

The delegated authorities and policies “cascade” through the co-operative organisation thus giving the board some Control over the operations of the co-operative:

And equally it's cascaded down through the organisational structure. His [the CEO's] own staff needs to know their levels and them under them (A3, appointed director)

The board (or a committee of the board) has a role in “negotiating” these delegations with management using the iterative Decision-Making-Style (section 7.6.3), with the full board always having the Veto task of approval:

The board is not expected to write these things. We [management] write them, put them in front of the board and then modify them to meet the board's overall wishes (A4, CEO)

The policy needs to be generated by management but it needs to be presented to the board in a very clear and concise way. And what the board needs to do is make sure that they don't let it go until they understand what the ... policy is ... then it is their role to ratify it, authorise it (F4, MD)

While co-operative boards Delegate much of the management of the co-operative they appear to delegate back to themselves very big decisions that are likely to have a major impact on the co-operative:

We bring in a subcommittee [of the board] around a large acquisition ... any time there is an activity which has a major, potentially major impact on the business, it's logical for a board to dive down a little bit more into more detail to make sure that they are on side (C4, CEO)

Anything which has an impact upon the basic performance of the business, the board plays an important role ... therefore any changes in

fundamental policies has to be approved by the board ... Any policy that has a potential to have a significant impact upon the direction or management of the business is developed not by the board but by management but it's aired at a committee of the board and any variation from it has to be approved by the board (D1, appointed chair)

In the board's role in Delegate, they need to find balance between allowing the executive enough autonomy to do their job efficiently and enough Control to give the board comfort that significant risks are not being taken by management without their knowledge:

Providing management with the proper sort of disciplines and guidelines for the conduct of the business. I cannot for example go out and commit the company to an expense beyond a certain sum because collectively we agree as board and management that that's putting me under too much exposure. On the other hand I've got to have enough authority to run the business and make purchases of raw materials for example without having to run back to the board all the time (A4, CEO)

The board also has a task to review delegations from time to time or as circumstances change:

You [the board] have to go back and review those delegated authorities because with a new CEO the board may not be quite so comfortable about extending quite as much rope as it would of with the previous one. They've got to be reviewed pretty regularly and certainly reviewed as it pertains to the CEO (A3, appointed director)

The theoretical sub-subconcept of Delegate is introduced and evidence used to support its existence. Delegate allows the day-to-day management of the co-operative to be assigned to executives and a framework established for them to work within.

8.4.3 Hire-Remunerate-Fire

Co-operative boards have Control over the activities of the co-operative by their role in selecting, appointing, firing, and remunerating the CEO (and to a lesser extent the senior management) of the co-operative. The boards also have a role in overseeing the succession of the CEO and senior executives. This theoretical sub-subconcept is Hire-Remunerate-Fire and is defined as:

the board's task in all aspects of the employment of the co-operative's management, usually applied to the CEO.

Examples of the board's role in Hire-Remunerate-Fire follow. As noted in Board-Management relationships (section 7.6.3.2), the co-operative boards have the authority under the constitution and the law to hire and fire the CEO (or MD):

That is one of the primary powers of the board of directors, they employ the CEO, at the end of the day the actual power to employ a CEO resides in the board (F2, supplier-shareholder director)

Like any board its prime responsibility in that area of course is the appointment and remuneration of the CEO (F3, appointed director)

The co-operative board's role in hiring and firing the CEO (or MD) is considered by respondents to be one of the major levers of Control directors have over the operations of the co-operative:

One of the most important roles of a board would be to appoint or dismiss, if the need arose, of the chief executive officer who is the key managerial ... position in the company (A1, supplier-shareholder chair)

It is often said that it's probably the most important decision you [the board] make, hiring the CEO (C3, appointed director)

The number two [most important board role] would be hiring and firing of the CEO (C2, supplier-shareholder director)

It is seen by respondents as a critical task of the board to appoint the "right" CEO (or MD):

The critical issue for me for [case B] was to get an appropriate chief executive and, you know, that's number one (B3, appointed director)

Well, number one [board role] is to appoint the right chief executive officer, managing director slash (E1, supplier-shareholder chair)

Make sure that we have got the right manager ... That's number one [board role] (F2, supplier-shareholder director)

The board Control the selection of the CEO to meet the needs of the supplier-shareholders:

Before you [the board] hire a new CEO you need to think very, very carefully about where the company is at that point in time, where it needs to be going, and what kind of skills you need to execute that strategy and go in that direction (C3, appointed director)

If they [the board] are to fulfil their responsibilities adequately they have got to take great care that they select a chief executive officer that can enable them to fulfil their responsibilities ... it needs a very careful assessment of needs and requirements and then a selection process that tries to get the best person for that job (A1, supplier-shareholder chair)

Amongst the skills the co-operative board require of a CEO (or MD) is an empathy with the co-operative model of business:

If you're going to be running a farmer co-operative, you've got to have an empathy with that. To be someone who's come from a big public company into a co-operative, I think it's a hell of a hard, a big mindset difference ... a chief executive ... [not having] any empathy with that, it's dangerous (B3, appointed director)

If you do what [a defunct co-operative] did and got the wrong person [as CEO], if they didn't fit with what the shareholders do or didn't have empathy with the farmers you can destroy a business quickly too, so it's quite a risk (E4, MD)

The board's Hire-Remunerate-Fire role also extends to the appointment of the senior management team:

[The board] also actually approve the appointment of anybody who reports to me [CEO], so not only are they signing off on the CEO but when I am hiring somebody who's reporting to me, ultimately the board ... will sign off on my direct reports. So both appointment, termination, and salaries of my direct reports (C4, CEO)

Sympathetic with Daily et al., (2003a) who see the removal of poorly performing executives as “a central task” of effectively functioning boards (p. 377), these findings suggest the removal, or threat of removal, of the CEO (or MD) is a powerful lever of Control over the operations of the co-operative:

The board has got to be sure that they have got the right person and if there is any doubt at all they have got to be tough and firm to make the decision to change that person (F4, MD)

If you haven't got a good CEO you'd better develop him quickly or you might as well get rid of him or her (C2, supplier-shareholder director)

If they [the board] felt I was totally off the page they would change the chief executive, so the board is always going to have that responsibility and that power (C4, CEO)

These findings suggest, contrary to managerial hegemony theory (Kosnik, 1987; Mace, 1971), the power to remove executives is a co-operative board role:

The majority of CEOs don't retire. I don't know what the stats are but I'd guess that the majority of CEOs don't voluntarily resign, they usually say they resign and that's what you [the board] agree on ... but most CEOs don't leave by their own choice (C2, supplier-shareholder director)

If I have real trouble with the board recommendation I'll push back, there will be a dialogue but in the end the board's call is final on that And if I am given my marching orders over a specific thing relating to shareholders then I am going to live by my marching orders. I want to keep my job [laughter] (C4, CEO)

The co-operative boards appear to remove the CEO (or MD) in times of poor co-operative performance:

Satisfying themselves [the board] that the company is being run well and then having the courage to make a change if it's not being run well ... it is very important that if a company's not going well for whatever reason and the board has the courage then to deal with it [remove the CEO] (A4, CEO)

If you [the CEO] don't make it in three to five years the board are at risk if they haven't done something about it and found someone else who can ... if they're not performing by the time you are getting to year two, somewhere towards the end of year two, they are likely to get burned off, because today's world isn't really accepting of failure (C3, appointed director)

The co-operative boards also remove CEOs when they lose confidence in the strategic direction:

If the CEO is going down a different path to the board he's not going to last very long. It's a limited tenure ... So yeah they play a very important role (D4, MD)

The older members of the board said that this company is not going anywhere, unless we get rid of this CEO we will go broke, he is taking us in the wrong direction ... and that CEO was asked to leave and he left and we appointed somebody from within the company who had a vision (F2, supplier-shareholder director)

The decision to remove a CEO (or MD) is not an easy choice⁴⁸ for a board:

While I have been on the board of [case F] we have exercised that power [to fire the MD] ... it's not a pleasant duty ... to a board of directors it is very hard to go to a CEO and say look, your time with us - is just not with us. We are not making the progress that we expected to make. Sorry we think that we have to part company, you have to leave (F2, supplier-shareholder director)

Given the importance of senior management to the operations of the co-operative and the board's role in hiring and firing the CEO/MD, it appears that the co-operative boards have a role in the succession planning for the co-operative's management, in particular, the CEO (or MD):

The CEO must have in place a policy of succession even for himself, he should groom ... two potential successors and that the general manager should be aware of the need for succession planning ... [the present managing director] came through that network (D2, supplier-shareholder director)

The appointments and remuneration committee - there's a list of people who are seen as out and out rising stars and people who are coming through the system who are competent ... we [the board] would want to have a good handle on who are the people that are coming through that look to have real promise (C2, supplier-shareholder director)

The board also has a role in setting the terms of CEO and executive management remuneration:

Other ways they [the board] would exercise control? Well things like remuneration policy yes, they have to approve the remuneration of myself and my top team (C4, CEO)

Boards attempt to align the CEO (or MD) and top management remuneration to the performance of the co-operative and Supplier-Shareholder-Needs/Benefits:

Top tier management here - the remuneration is pretty much in the framework of the salary, short term incentives and long term incentives, and those short term and long term incentives need to be aligned to what's in the interests of the shareholders or the farmers (C1, supplier-shareholder chair)

⁴⁸ One possible explanation for this is the close trusting relationship that must be built up between the board and the CEO (or MD). See Board-Management-Relationships (section 7.6.3.2).

We have incentives ... the chief executive's salary is now attached to - has a [milk] payout element in it, along with other performance measures and he in turn has his line managers with bonuses and performance measures developed into it (B1, supplier-shareholder chair)

This alignment in remunerating executives can be a difficult task for the co-operative board due to Exogenous-Issues:

Well if the KPIs start to show a divergence from what is expected of the company in what it had planned and budgeted then the board has to ask itself, are these faults of management or are these external factors which the management cannot be held accountable for. But then should management have had contingency plans or risk management mitigation plans to mitigate against? (A3, appointed director)

The board in its Hire-Remunerate-Fire role holds management accountable (see section 7.6.3.2) for the operations of the co-operative delivering against the purpose and strategy, and takes action when performance is unsatisfactory:

The philosophy around [case C] is that we [the board] give management the autonomy to deliver against the budget and the business plans okay, but we hold management to account. So the more autonomy the more accountability there needs to be, and there cannot be a grey area, and there cannot be anything that's uncertain about that (C1, supplier-shareholder chair)

This accountability is through the CEO:

[Researcher: How is senior management held accountable at [case C]?] C1: Through the chief executive, very, very important. He decides his team, in conjunction with the A,R and D committee, but ultimately it is his decision - otherwise if it's your decision how the hell do you hold him to account? Very, very important. If you have got to tell your chief executive who his management team is then you have got another decision, you might as well get rid of him [laughter](C1, supplier-shareholder chair)

The present chief executive's ... greatest measure will be how successful he is in the strategy which he has had a very large part of designing ... he will be measured very hard on his strategy of growing added-value business (B1, supplier-shareholder chair)

With implications for executives:

[The previous MD] wasn't held accountable enough ... we made some strategic misses and businesses do, you know, that's the risk of business. So I think through that confusing post-regulation era, management was not held accountable enough because we were all

confused as to what was happening ... we probably needed a new broom [MD] even earlier (D2, supplier-shareholder director)

I think it is true that when performance is good and acceptable, in [case A's] case exceptional, then the accountabilities become much less formal, and that in itself could be a danger, if when things turned down, the situation may not be examined in the detail that it should be (A1, supplier-shareholder chair)

Hire-Remunerate-Fire is introduced and evidence used to support its existence. The co-operative boards have a role in appointing, removing and remunerating the CEO (or MD). Boards take an active interest in management succession and in holding the CEO (or MD) to account for the performance of the co-operative.

8.4.4 Oversee

Having delegated much of the management of the co-operative to the CEO, the board has a role to oversee the management of the co-operative's operations. This is the third theoretical sub-subconcept of the board's Control role and Oversee is defined as:

the board's task in monitoring and evaluating co-operative and executive activities.

The boards Oversee all the co-operative's operations:

The governing board to all intents and purposes oversees the conduct of the [case A] dairy company (A4, CEO)

All activities of the business is conducted under the supervision of that [case D] board (D1, appointed chair)

Monitoring and evaluation are functional tasks of the Oversee role. Boards monitor co-operative and management activities:

Monitoring management's activities is a key role for the board (A1, supplier-shareholder chair)

It appears a vast array of co-operatives' activities are monitored and evaluated by the co-operative board. The boards monitor co-operative performance, particularly the performance of the CEO (or MD) and the top management teams, and progress toward strategic goals. The boards monitor: co-operative finances, audit, regulatory and legislative compliance; environmental

performance; identifying and addressing risk; company culture, customers, staff, other dairy industry participants and other stakeholders and the co-operatives relationship with supplier-shareholders. Each board decides what monitoring will be done. The selection of what the board monitors helps Control the operations of the co-operative as it focuses management attention. Examples of evidence supporting the co-operative board's monitoring task follow. Co-operative boards have a role in monitoring management performance and the quality of senior management:

The first important role [of the board] is to monitor the performance of the chief executive and make sure first of all that they've picked the right chief executive and then monitor his performance that goes without saying (B1, supplier-shareholder chair)

What you [the board] want to make sure is that there is a proper infrastructure in the organisation ... that the chief executive is putting in place the building blocks for the organisation. He can only do that by surrounding himself by good people. No chief executive can do it all on his own. So the key is to make ... is to encourage the chief executive to get the right people (B3, appointed director)

and progress toward the co-operative's strategic goals:

The principal role of the monthly board meeting is in fact to monitor the progress, or lack of it, of the company's progress towards a set of goals (A1, supplier-shareholder chair)

Second [most important board role] would be to monitor the performance of the management and the company in general to make sure that we are tracking with and delivering to that strategy. So going in the direction we've said we wanted and going there as fast as we can (C3, appointed director)

and compliance to various rules and regulations:

There are certain areas of compliance where we regularly monitor how the company's going in terms ... [of] ensuring that we are abiding by the laws of the land in terms of the environment and ... a number of people related compliance and regulation things that we have to keep an eye on in terms of human resource management, in terms of the legal environment, in terms of compliance with taxation and accounting laws, so there's a whole range of compliance issues (A2, supplier-shareholder director)

There are formal procedures like receiving accounts, there is compliance, statutory compliance ... any board should have from management a set of statutory compliance that should be signed off. In

other words management has said these things have been done and you look at the various statutory requirements and they should be ... the board should be satisfied that they are in order (B3, appointed director)

The co-operative boards also monitor the co-operative's (staff) culture:

[The board needs] to ensure that the management culture within an organisation is a culture - not only the people but the people and the culture capable of - compatible with that vision. So that's more than simply appointing of a CEO but ensuring that the CEO generates the culture (D1, appointed chair)

The people side of it ... the directors [have a role in] just getting to know the staff and understanding, getting the feel of the culture of the organisation (A3, appointed director)

The co-operative boards also monitor customers and other stakeholders:

One of the most important roles of the board to make sure that the management has good relationships with their major customers (D4, MD)

With stakeholders the board mainly does a monitoring role and it ranges from customers DIFOTs, franchise owners or distributors DIFOTs, the employees ... so that's the major way, through monitoring (D1, appointed chair)

adherence to co-operative policies:

Make sure on a regular basis that we are complying with it [the policy] and that again is just a matter of questioning against the policy. But it is also a matter of board structure in making sure that we are reporting against that policy on a regular basis (F4, MD)

and the capital investment programme:

A proposal for capital expenditure is approved once a year and then during the year that capital expenditure programme is monitored (A2, supplier-shareholder director)

We have people that bring in capital budgets and explain where we are early in the season as to what the budget will be for that year, what are the projects that are envisaged (F2, supplier-shareholder director)

The boards carry out their monitor task in a variety of ways. Much of the monitoring is reviewing formal financial and other reporting prepared by management, and questioning of executives during regular board meetings. This is supplemented by committee-work and informal monitoring. The

Oversee task takes a substantial amount of the board's time, particularly in formal board meetings. This is explained in this lengthy but insightful quote:

The monitoring role again I think is pretty conventional, through reporting, documentation, that comes to the board typically on a monthly basis. The two principle documents are of course a fairly substantial financial report ... It covers all the major activities of [case C's] operations in a financial sense, it includes KPIs, measures of performance, profitability, so that's one piece of it. Then supplemented alongside that is a narrative report from the Chief Executive Officer ... and that contains a dialogue on all the issues, typically it has got the red flags, the issues, the successes, and other matters that the board needs to be appraised of. And by means of those two principal documents the board is provided with a, if it is not quite real time at least it is a reasonably up to date, overview of what's going on in the company and its subsidiaries (C3, appointed director)

The board has a role in ensuring adequate reporting is in place to monitor the co-operative business:

It is the responsibility of management, but also of the board to ensure that there is a proper reporting function through to the board on a regular basis, at present monthly, so that targets of the strategies that we have set are being met or otherwise (F4, MD)

Key performance Indicators (KPIs) are popular for monitoring the performance of the co-operative and its management. The board has a role in agreeing with management the KPIs to be monitored. The choice of KPIs (and other reporting requirements) focuses management attention on specific areas of the co-operative's operations that the board sees as important. As such, KPIs act as a further method of Control:

Yearly we have a business budget process, which would be essentially the first year of that three year plan and within that budget there is a series of KPIs that are objectives for the business. And those KPIs, ultimately I am accountable for delivering those KPIs and ... there will be hard financial KPIs ... and a series of other KPIs that would be sometimes less financially driven but strategically driven (C4, CEO)

The board having defined the strategic plan, the business plan and the core strategies has worked with management in identifying the key performance indicators that measure the stages of progress against that plan and so there is a monthly report to the board of the KPIs that measure progress (A3, appointed director)

In conjunction with the co-operative boards' monitor task, they have a role in evaluating co-operative and management performance:

[The board] have to be able to form a view as to the competence of management and the accuracy, and the confidence of the decision making ... [the board] do have to have the nous and the acumen and the people judgement to be sure that their company is properly managed with the best interests of their farmers, shareholders in mind (F4, MD)

First of all the business plan is presented and approved by the board with the KPIs or the milestones; whatever the language might be so the board can assess whether we are making progress. If you are not making progress then it is up to the management to either put another plan forward or to fix it (D4, MD)

KPIs are also used for this purpose:

KPI's, we set targets for all of our managers on an annual basis, they are reviewed against those targets on an ongoing basis, time in, time out, with obviously a formal review process once a year (F4, MD)

The board will evaluate my performance on the hard KPI's from the budget and then the other priorities that we have agreed are the priority of the business in an individual year (C4, CEO)

The boards evaluate, in particular, the CEO (or MD) and top management, through formal evaluations:

I have one to one sessions with the CEO in terms of performance assessment and he is also assessed by the board as a whole in a way that is not formal enough. This year it will be (D1, appointed chair)

When you talk about monitoring there is an annual review done, that's normally done by the chairman and deputy chairman but that's quite a separate formal evaluation of his [the MDs] performance (E2, supplier-shareholder director)

Other "softer" techniques are often utilised in evaluation, sometimes outside the formal board meetings:

Monitoring ... it's not one where you sit down with a checklist, you know, tick off ... this is an intuitive thing. It's how well something is going, how smoothly things are being run. Are things being done? Can the board feel comfortable about what's being achieved? Those are the sort of things that you're doing in terms of monitoring management performance (B3, appointed director)

I think so much around monitoring management is around your ability to judge people and read people, sometimes it is not what they are saying it is how they are saying it, it tells a thousand stories. If they don't like what they're saying, if you don't believe they're saying what they really think, then that's when you go in for the kill I guess (C2, supplier-shareholder director)

As has been outlined in Supplier-Shareholder-Needs/Benefits (section 7.3), the purposes of the co-operative are not simply profit maximisation or wealth creation. These findings have some sympathy with Spear's (2004) notion "the goals and measures of performance of the enterprise may well be more complex and more numerous than conventional firms" (p. 46). This makes the evaluation of co-operative performance a little more difficult a task for co-operative board members than IOF directors:

We run the measurement stick across management on return on funds or even sales or some other more traditional method of management, but in fact one of the things that can drive it down is the product mix that is necessary to shift the milk. So that makes it really, really difficult and I don't know the answer to that, I really don't ... that's an issue for co-operatives. How does it balance off volume and profits? (D4, MD)

What do you do in a co-operative? You make a profit - you give it all back to the farmers in increased milk price. The benchmark that ordinary companies use can't be used in a co-operative because you keep on building up the members' net worth. You ... trade in the profit each year (F2, supplier-shareholder director)

As such, in their Oversee role, co-operative boards have a task in finding this balance (see section 7.6.3.3, Decision-Making-Style):

This constant battle with the co-operative of balancing volume ... and business performance is a really difficult thing to grapple with. The issue of putting money into facilities to process milk where there is no margin or very little margin, but very, very important to the dairy farming community because they just need this constant growth (D4, MD)

It comes back to a balance that the farmers own the business, it's their money, they want to see primarily their success as a farmer, and the success of the co-operative going hand in hand. When the more successful the co-operative, really the more successful the farmer ... So if the co-operative has a view that it wants less milk its incompatible with what a farmer member would want (D4, MD)

The co-operative boards also need to find balance (section 7.6.3.3 above) between Delegate and Oversee:

How deep should a board delve into the nitty gritty of the total financial operations of the company? I don't think you can go that far at the board level, you have got to rely on an overview and that's the primary responsibility, here's the budget, this is what we have agreed to spend it on, how are we tracking against budget? ... it doesn't matter if it's a). has gone over, but has been compensated by b). (F3, appointed director)

After evaluation, co-operative boards can then take action, for example, relay the co-operative board's dissatisfaction to the CEO, overturn management decisions (Veto) or remove poorly performing management (Hire-Remunerate-Fire). Evidence is presented for the theoretical sub-subconcept Oversee, involving the monitoring and evaluation of co-operative and management performance.

8.4.5 Protect

The theoretical co-operative board role Protect is the fifth sub-subconcept of Control and is defined here as:

the board's task in protecting the co-operative nature and assets of the co-operative company.

This is a role for the board as this managing director suggests:

It is a very important role for the board ... probably really close to the top of the list ... is that getting into the community, working with the members, to drive a better understanding of what the co-op's all about, and what's the co-op function, what it should mean to them why it is so important to protect it, that is a massive role for the directors (F4, MD)

The co-operative boards have a task in preserving the co-operative nature of the organisation. Only by maintaining the co-operative nature of the business can the co-operative benefits be gained in order to meet the needs of the supplier-shareholders:

You [the board] cannot afford to make a mistake ... of the magnitude that would change that co-operative nature of the company (A2, supplier-shareholder director)

It is in the best interests of Australia for there to be a strong co-operative because there is no doubt about it, that basically the co-operative sets the milk price (F3, appointed director)

To ensure the co-operative nature is protected, the boards have a role in ensuring any changes to the co-operative constitution and policies are in line with co-operative principles (Chapter 2). That is, to maintain the co-operative by retaining the co-operative features of user-owned, user controlled, user-benefited (Barton, 1989b; Kyriakopoulos et al., 2004):

We are a co-operative. We have to act in terms of the constitution of what is required of a co-operative (B2, supplier-shareholder director)

We [the board] have a very, very strong desire to maintain the co-operative structure (F3, appointed director)

This includes employing a CEO (or MD) who an empathy with the co-operative philosophy:

To my mind the CEO and his or her direct reports - if they can't have empathy for the farmer I don't think they'll last very long and they won't really do what the farmer owners want (D4, MD)

A lack of empathy with the co-operative nature of the enterprise from the CEO can be a risk to meeting the needs of supplier-shareholders, as these interviewees state:

One of the weaknesses is if you do what [a dairy co-operative that was taken over] did and got the wrong person [as CEO], if they didn't fit with what the shareholders do or didn't have empathy with the farmers you can destroy a business quickly too, so it's quite a risk (E4, MD)

To cut a long story short [another dairy co-operative] doesn't exist anymore and he [their MD] is, in my view 99% of the cause of the company because he sent them in a completely different direction (F3, appointed director)

This is seen as an important role for the co-operative board:

The second [most important] one [role] is to encourage and maintain that culture that we think is very important for the future of our co-operative ... to maintain the troops if you like and their loyalty to the organisation so that your suppliers feel part of that co-operative, because co-operative depends on a family type relationship, it depends on people saying I want to be part of that, we can get more out of our dairying if we work together than if we work as separate entities (F1, supplier-shareholder chair)

One of their [the board's] greatest roles is to keep articulating the value of the co-operative to the shareholder members ... unfortunately

our forebears knew the value of having a co-operative because they farmed before a co-operative ... we have got a role, the board has got a definite role in keeping on telling people that because if we don't tell them where will they get the information (F2, supplier-shareholder director)

The board has a role in the protection of co-operative assets. The co-operative assets need to be protected to ensure there is an ongoing market for supplier-shareholders:

We [the board] are elected by shareholders, who are obviously dairy farmers, to look after their assets in this company (E2, supplier-shareholder director)

Thirdly [most important role of the board] ... make sure that the ongoing long-term viability of the company is maintained ... making sure that we maintain a strong balance sheet ... maintain a very stable financial company and not run the company down (B1, supplier-shareholder chair)

This role is undertaken by the board in the setting of policies and delegated authorities and monitoring of risk and by ensuring risk mitigation measures such as insurances are in place. The board also ensures that the co-operative strategies are not so risky as to endanger the co-operative assets:

We are a dairy co-operative and that's our business and therefore on those things that are not our prime business we should be fairly conservative (F3, appointed director)

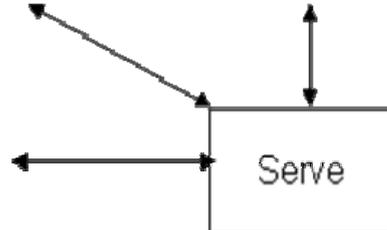
Most shareholders would take the view that the sustainability of their performance over a five or even a ten year period ... So the sustainability performance, the long term viability of the company I think would be in terms of the directors responsibilities are different [than in a corporate]. A different emphasis on timeframe (A2, supplier-shareholder director)

8.4.6 Conclusions – Control

The third theoretical Board Role of Control is defined here as “the many aspects of being in charge of decisions and activities at any points in the year, to initiate or veto actions and to have general oversight in multiple ways.” Five sub-subconcepts making up the board’s Control role are introduced along with supporting evidence: Veto-Approve; Delegate; Hire-Remunerate-Fire; Oversee; and Protect.

8.5 Serve

Figure 8-5 Serve



The fourth, and final Board Role of the dairy co-operative board identified from the empirical evidence and conceptualised in this theoretical framework is to Serve and is defined here as:

the board's role in making a personal and ongoing investment of their time, energy, skills and resources to the co-operative.

The Serve role involves issues raised by respondents and from researcher observations around providing advice and counsel to management, particularly the CEO (or MD). The role also involves acting as the public face of the co-operative, including dealing with the media, undertaking “ceremonial functions”, enhancing legitimacy and interacting with (other) stakeholders. The Serve role also involves directors utilising networks in “opening doors” for executives. Issues around Serve are raised in 100% of co-operative cases and by 100% of respondents (see Table 8-4 for summaries). Again this theoretical concept displayed a surprising homogeneity of views between respondents in all cases. Individual-Distinctions and Exogenous-Issues however affected individual director's ability to contribute to this role.

Table 8-4 Evidence of Serve

Subconcept	Frequency of mention				Examples from interviews
	Cases		Respondents		
	No.	%	No.	%	
Serve	6	100	22	100	
Advice-Counsel	6	100	22	100	<i>[Directors] can sometimes save management a lot of time and from falling into a lot of holes if we can short circuit the learning curve of management by pointing them in the right direction sometimes. A recent example ... luckily I've had quite a bit of experience with setting up companies in Japan and the governance functions that operate in that environment. In the board meeting and in phone calls with [the CEO] he would bounce ideas off me. He'd rung me from Japan sometimes and it's just an informal way of adding to how you can help (A3, appointed director)</i>
Public-Face	6	100	18	82	<i>I think the chairman's got to be the public face ... I think in the end the chairman is the most important person in the company ... He needs to be seen and he needs to carry the flag where key stakeholders are involved. So that those stakeholders feel that they are engaged here with the board of the company (C3, appointed director)</i>
Appeasing-Stakeholders	6	100	22	100	<i>Other stakeholders the board would have a consideration of would be staff ... a certain amount with customers ... other related parties like [other dairy co-operatives] and so on there would be regular contact at director level, at chair level. Other stakeholders?- the bit with government - particularly when there's a key issue going on either locally or nationally with regulatory authority (A3, appointed director)</i>
Network	6	100	22	100	<i>Some of our farmer directors too ... have had quite extensive knowledge about the external world and have been able to bring in a number of very good contacts for us. So that's one way in which of course the board can be very helpful ... from a CEO's point of view ... it's very nice to be able to get good advice from well meaning and well intentioned and competent directors. It doesn't matter whether they're farming directors or non farming directors... they can in fact actually be very very helpful in knowing who to speak to, to get further help (A4, CEO)</i>

The Serve Board Role appears to be both internally- and externally-focussed. The provision of support, advice and counsel and utilising networks are internally-focussed on the co-operative's management. The public face (where it doesn't relate to supplier-shareholders), appeasing stakeholders, legitimacy and networks tasks are externally-focussed in smoothing the way in the co-operative's external environment.

The Serve role appears to be broad-ranging, carried out for the overall benefit of the co-operative and the environment in which it exists. Induced from the empirical data are four sub-subconcepts of the Serve Board Role: Advice-Counsel; Public-Face (including legitimacy and ceremonial functions); Appease-Stakeholders, and Network.

8.5.1 Advice-Counsel

The first sub-subconcept of the theoretical co-operative governance role of Serve is Advice-Counsel and is defined here as:

the board's task in providing support, advice and counsel to decision makers in the co-operative.

Evidence follows:

The role of our directors is to support the chief executive (A2, supplier-shareholder director)

You've got that the key decision of having appointed a CEO and the board has got to then support that CEO until it fires him or retires him and that is quite important (A3, appointed director)

The CEO has got a lonely, tough, hard job and he needs the chairman's support (C3, appointed director)

The board may offer support as a sounding board for the CEO (or MD):

Just a great sounding board ... it's really good as a CEO to have somebody to bounce things off ... you've got to have a sounding board somewhere ... the board has an important role there (E4, MD)

and support in public forums, as these two respondents from the same co-operative note:

I believe in a public sense we are very supportive, we are not like some of the, some traditional co-operatives, where its board versus

management ... with the current board it's definitely the case without exception that there is public support (D1, appointed chair)

Well no negative support if you like with directors like they do ... if they can't be supportive, they should be pretty clever and say nothing ... so in terms of supporting the management team you would expect that support ... I think the measure of support is the fact you are still there (D4, MD)

The co-operative board may also offer support by mentoring and coaching members of management by offering perspectives distant from the day-to-day operation of the co-operative, as these directors suggest:

Mentoring is something that a good director can do a) because they have got the benefit of distance and b) because good executives in my experience will come and ask directors, 'could you come in and have a chat to me and I'll just bounce something off you.' ... see if there are any other perspectives that I have got from outside [case C] that may be relevant (C3, appointed director)

The board can counsel, the board can advise, it can mentor, it can coach, it can put ideas on the table (C1, supplier-shareholder chair)

It also appears that the co-operative boards have a task in advising management:

The advisors⁴⁹ are very important because they do have the skills that you can talk on a particular issue without it being politicised in any way but, the board has an important role there (E4, MD)

[The board] are more a sounding board and quite valuable at times - gives the management a practical guidance as to whether what the management is suggesting is acceptable to the members of the co-operative (F2, supplier-shareholder director)

There is some empirical evidence that appointed directors provide advice not only to the executive but to the board itself:

Through having independents [appointed directors] on the board ... we also believe that we can assist the board to focus on the issues that the commercial board should be focussed on and that helps management (D1, appointed chair)

Our [appointed directors] experience was very useful I think in the selection process of the chief executive (B3, appointed director)

⁴⁹ Very similar to an appointed director. Please refer to Individual-Distinctions for a fuller description.

and according to this managing director, mainly for the board:

If we [management] need the skills ... we will go and get them But I said what you [the board] need is to make sure you have got enough skills and advice and knowledge around to ask the right questions or to make sure that you are satisfied that things have been done or its heading the right way or we haven't missed something or whatever, so that's your responsibility. I'll help you find the people and the skill sets you think you need but don't think it's something I need (E4, MD)

Evidence suggests that co-operative directors have a role in supporting, advising, and counselling senior executives in the co-operative.

8.5.2 Public-Face

The second sub-subconcept of the theoretical co-operative governance role of Serve is Public-Face and is defined here as:

the boards task in presenting the co-operative publicly.

Public-Face covers issues raised by respondents around the boards' dealings with the public at large, particularly through the media, ceremonial functions, and the boards' task in lending legitimacy to the co-operative dairy company:

The chairman is the primary spokesperson for the company in matters dealing with the press ... our board at that level does have quite a longstanding ... practice of being the public face of [case A] (A4, CEO)

The task of being the public face of the co-operative is largely shared between the chair and the CEO (or MD), as these respondents note:

Public face if you are a shareholder - it's the chair and the CEO in that order ... Nationally would be I think the CEO first and the chairman second (A3, appointed director)

It is shared between the board and management, generally managed according to - when it is talking to shareholders the board plays a role, if they are talking to the broader New Zealand public then management will take a role (C4, CEO)

The clear understanding is that when we are talking about corporate performance per se I have a clear expectation that the CEO is the public face. When I am talking about policy direction or structure of the co-operative or the business to industry, at a level relevant for farmers (D1, appointed chair)

As a general rule of thumb, the division of duties appears to be broken down according to whom the audience would expect to hear from:

A co-operative is quite different. I think the members of a co-operative would expect the chairman to be the person ... if they are getting a comment about the general direction of the co-operative they wouldn't expect management to be doing that (D4, MD)

If it's a management issue C4 comments on, if it's a governance issue I comment on (C1, supplier-shareholder chair)

It just depends on the issue again ... more operational, more market, more the business it will be me [the MD speaking to the press], but again all the issues surrounding the industry generally and farmer related, shareholder related, is typically [the chair] (F4, MD)

It also appears that the board may have a series of tasks that could be loosely described as “ceremonial” or “flag waving”, These are undertaken largely by the chair, but also by the members of the board, with various groups such as co-operative employees and in the community:

Waving the flag was with employees, gathering of employees, if we had things like our 25 year dinner then I'd get a local director to turn up and represent the board they liked to see members of the board there. Like people are interested in it. So that sort of flag waving is very healthy (D4, MD)

I would say I would get probably three to four invitations a month to speak at - it is usually things that are agricultural extension but it can be service clubs (C2, supplier-shareholder director)

Part of the board's Public-Face task is to enhance co-operative legitimacy. The legitimacy of the position the director holds, in particular the chair, allows executives to access, largely political or industry-related people, from whom they need something, as this chair explains:

If management want to get in to see someone, quite often they use a director, because they can't get to the right person at the right level so it's through those relationships. Or like when I go to Geneva to talk to the very highest level people there, for our management to get in the room, they wouldn't be able to get a sitting. And it is really the chairman of [case C] not [C1], so it's the role rather than the person. So it opens doors to a different level (C1, supplier-shareholder chair)

This managing director explains the advantage of being a managing director (on the board) as opposed to a CEO:

Managing director on the back of your business card when you're in Japan means the president, whereas CEO could be two or three levels below that. So when you're talking to customers you're talking across

the world managing director means something ... lots of good status and it's more about dealing with external authorities including government and whatever else than it is about effective use internally (E4, MD)

There is also some evidence of appointed directors possibly providing legitimacy (Hillman, 2005) to the co-operative through their public presence on the board, as this appointed director explains:

I'd hope so, but I don't know, analysts make judgements about the quality of governance in public companies, I guess if you rang around a few analysts and said well do you think [the appointed directors] add anything to [case C], or are they four also rans, are the best that [case C] could get. The object is to add credibility and robustness. I don't know about prestige, that's just a bonus (C3, appointed director)

There is also evidence of directors being used to give the co-operative company profile:

I went on [to the board of] Dairy Insight as much for the sake of the [the case B] company to have a profile at this particular stage in the early stages of it because I felt that we needed that profile. I know I was known nationally ... (B1, supplier-shareholder chair)

The chairman nationally is pretty well known ... [the chair] would probably be one of the more prominent people in the dairy industry at the present time ... it's hard to see many that would have a higher public profile within the industry than he would (B4, CEO)

And one of the strategies that goes with getting more people in a pool [training for prospective directors], really, is to be able to take on board positions if they were so elected is that they are also ambassadors for the company about what's really going on (E4, MD)

Evidence suggests that co-operative directors have a role in providing a Public-Face for the co-operative by dealing with the media and ceremonial functions and in doing so, lend legitimacy to the co-operative in dealing with the co-operative's stakeholders.

8.5.3 Appease-Stakeholders

The third sub-subconcept of the theoretical co-operative governance role of Serve is Appease-Stakeholders and is defined here as:

the boards task in assisting the co-operative in engaging with (other) stakeholders.

“Other” stakeholders in this definition refers to stakeholders outside the key board relationships identified in this research; that is, the supplier-shareholders and the senior management team (in particular the CEO (or MD)). This sub-subconcept, Appease-Stakeholders, covers issues raised in all cases and by 100 percent of the respondents around their dealings with (other) stakeholders (see Table 8-4 for summaries).

From the empirical evidence, the stakeholders who the boards appear to appease are co-operative employees (below the senior management team); others from within the dairy industry (largely governance people); politicians (local, regional, national, and sometimes international), and customers. According to respondents, there appears to be a need for interacting with stakeholders:

I would feel responsibility to the whole business, to the staff, to everybody, to try and make sure that all the stakeholders have satisfactory dealings with the company (A1, supplier-shareholder chair)

[The chair] needs to be seen and he needs to carry the flag where key stakeholders are involved. So that those stakeholders feel that they are engaged here with the board of the company (C3, appointed director)

The appeasement of most stakeholders is largely left to management, as this CEO suggests:

So we try and look after the stakeholders at large. The practicalities of looking after that of course lie very largely in management hands. The directors on the other hand want to know that we're being good citizens in these areas and they themselves of course can assist particularly through presentations being made to various regional groups, conferences, seminars and the like (A4, CEO)

This is consistent with the governing boards Not-to-Manage principle (section 7.6.3.2) as it is seen as vaguely dangerous for the board to be too involved in appeasing (some) stakeholders:

It could be a bit dangerous to let directors run amuck in Wellington with politicians or with groups, because often the people that you are trying to influence will have a lot more of the detail than board members will, bearing in mind board members aren't management. You might just shoot yourself in the foot (C3, appointed director)

For most appeasement of stakeholders, the boards appear to take an active interest in a more ‘monitoring’ sense:

With major customers, domestic customers, the board does what a board should be doing and that’s ensuring that all the relevant KPIs to see that customers are being satisfied such as DIFOTs, are delivered in full, on time, statistics etcetera. We monitor all of those at a board level but we do not interact on a face to face basis. But with stakeholders the board mainly does a monitoring role and it ranges from customers DIFOTs, franchise owners or distributors DIFOTs, the employees very strong belatedly, on occupational health and safety which is very much relevant to employees so that’s the major way, through monitoring (D1, appointed chair)

Although the board may, on a case-by-case basis, engage with (other) stakeholders more directly than simply monitoring as these directors suggest:

So depending on who the stakeholder is, would depend for a large extent how much interaction and how, if you like, the directors actually relate to the stakeholders (A2, supplier-shareholder director)

Well it depends on ... the particular relationship, the particular set of circumstances, for example ... we have to maintain a very close working relationship with Environment Waikato, because of the regulatory requirements ... but as far as the business is concerned, those relationships must be kept in order, so that all parties can, you know, do business in a reasonable sort of way (A1, supplier-shareholder chair)

[Board involvement with stakeholders] more those issues that are more farm related like local government, water, the inputs to that - to farm. Not so much in a business input like finance or market to be honest, that doesn’t happen. But certainly again agri-politics is important in our business as you know in that local government, government, water board, those sort of things definitely (F4, MD)

This leads to a board task in prioritising stakeholders. This is done mostly on the basis of the (potential) effect of the stakeholder on the co-operative and its supplier-shareholders:

The environmental thing is very important because potentially it has the ability, if it was handled badly to go off the tracks and there would be real animosity between regional council and the dairy company and regional council could start reacting in a fairly draconian way which would cause the company problems so I think that is important (B2, supplier-shareholder director)

They would prioritise stakeholders from shareholders and supplier, absolutely number one and first and community and government and environment type things next. Employees they would say probably after that and then customers after that because it's mostly the management that deal with the customers ... shareholder suppliers and our customers are the two key things (E4, MD)

The board's prioritisation of supplier-shareholders above other stakeholders leads to co-operative boards operating a different way according to this appointed director:

There would be a quite different weighting of priorities on stakeholders ... so the prioritisation would be different, the KPI's would be different, the measures of performance, the way board papers are constructed and so on, and the style of reporting would be quite different because of those things (A3, appointed chair)

The board appears to "own" relationships with some stakeholders:

[The CEO] and I [the chair], we've had discussions about which relationships are going to be owned by who (C1, supplier-shareholder chair)

Management can generally manage the customer and employees side, so that probably leaves the farmer directors and board more with the responsibilities in the government, trade and shareholder sides (C3, appointed director)

What follows are examples from the empirical evidence of appeasement of stakeholders where the board takes a greater role than *Oversee* (section 8.4.4).

The co-operative board members have a task to deal with other members of the dairy industry, at a "political level", nationally and internationally:

Another role that our board has played historically, which is very important, and that is protecting the company in the political hurly-burly that has been the dairy industry for so many years ... that's been another way in which I think a board of directors can play a huge role in defending the company and looking after its interests in a politically uncertain and difficult time (A4, CEO)

If it is the chairmen of other co-operatives, issues around Brussels, issues around Geneva and those sort of relationships, that [relationship] I own (C1, supplier-shareholder chair)

With other related parties like [other dairy co-operatives] and so on. There would be regular contact at director level, at chair level (A3, appointed director)

The boards have a task to interact with other agri-political organisations such as bodies associated with water allocations (in Australia) and farmer lobby groups:

There's agri-political ... the water issues are a very good example ... they [directors] can talk on behalf of the company and behalf of farmers ... see our board members do is to get involved in the industry community stuff. So whether it's united dairy farmers, whether it's catchment authorities, whether it's water advisory committees or whether it's special government task force (E4, MD)

Local government ... water authority ... generally government type issues as it relates to council or local government, yes we tend to expect and use the board, in those sorts of relationships. Agri-political issues (F4, MD)

The board also has a task, carefully boundaried, of interacting with employees:

The other stakeholders the board would have a consideration of would - be staff and it exercises that through informal systems just moving around, meeting them, having them come to the board and present papers that sort of thing so it gets a window into that sort of staff resources that the company has (A3, appointed director)

The boards don't get as much involvement [with employees], we do however have pretty good loyalty service awards programme ... and the board get involved in that process to pat them on the back (E4, MD)

The co-operative boards have (boundaried) interactions with customers:

[The chair] and I [deputy chair], in certain circumstances, more a political role really in terms of showing the flag and generally, particularly with the Asians, generally going up visiting customers as a sort of a social thing (B2, supplier-shareholder director)

The other is customers from time to time, it's important to roll them out - the chairman - and show them the farms and things like that which they [directors] do very well (E4, MD)

The chairman has a relationship role with some of the major customers ... certainly customers particularly like to visit the chairman's farm or something like that. It is not, in time input it is not significantly large at all (F1, supplier-shareholder chair)

The governing boards have interaction with government at local, regional, national and in some cases international levels:

There's been a consistency of political presence if you like at the senior most level of this country all the way up to government ministers on the part of the [case A] board (A4, CEO)

Most of our local directors would know their local politicians ... State and National also... some of our other directors have relationship with the Federal Ministers ... I guess the board keeps those relationships open but the practical hard work is probably done by management (F1, supplier-shareholder chair)

[Case C] is slightly different around the WTO, Brussels, Geneva, and that's just the global dynamics of the dairy industry. So we probably, because of our size and our influence in the global dairy trade, the directors are a lot more active in that area than maybe directors of a corporate (C1, supplier-shareholder chair)

The board have interaction with the local community:

[The board has] fairly strong input to the local communities as stakeholders and because we have got factories all around the countryside and suppliers all around the countryside. Your local directors will talk to the local shire guys, you become part of that society I suppose, you are made aware of the issues (F1, supplier-shareholder chair)

possibly due to rooting of the co-operative governance board in the local communities:

We are definitely very much part of the community. We're the biggest ... business on the Coast ... because we live here and all the elected directors live here, there's a sense of wanting to be part of the community and do well by the community so that's just a given that we would feel that way (B1, supplier-shareholder chair)

Whether it's government policy or local development issues or helping us clear the way on, you know, if we want to get approval from the council for a new building or whatever else. They [the board] play an unwritten role in all of that, much more than other boards perhaps would because they're part of the community ... we're very lucky to have a board that's also very involved in our community and it's one in the same almost (E4, MD)

Evidence suggests the co-operative directors have a role in Appease-Stakeholder mainly in an oversight role. The board tasks are more hands-on however with appeasing some stakeholders, in particular co-operative employees, others in the dairy industry, politicians and customers.

8.5.4 Network

The last sub-subconcept of the theoretical co-operative governance role of Serve is Network⁵⁰ and is defined here as:

the boards' task in the utilisation of relationships to assist the co-operative in obtaining resources that are important to the co-operative.

The co-operative boards utilise their networks with the external (to the co-operative) world:

I've had a lot to do with Wellington. I know where to go to in terms of helping, you know, the market access issues or where to go to in the bureaucracy or who we should talk to in terms of what government agencies might be able to help ... I know who to go to, to help, or I can actually make a suggestion. Why don't you contact so and so? or have you thought of this? I mean I think that's what a group of directors do (B3, appointed director)

One of the advantages of an experienced board is they've all got networks with people they know of organisations that they've got relationships with and they can put people in touch ... I can help them out a little bit in some government relations work with linkages to financial institutions, legal firms with overseas companies and that sort of thing. Somebody like [the other appointed director], again would have a complete different sort of network and he can bring things to the table that can be helpful to management (A3, appointed director)

These board networks are utilised for “opening doors” for management to utilise and exploit:

It is still up to management at the end of the day to be given the introduction to the necessary point of contact or to be given the idea, and it is then for the management to follow up, and actually follow through and execute on that idea rather than the director (A2, supplier-shareholder director)

As we have seen under the theoretical Board Role Unite, the directors appear to have a task to facilitate resources, in particular raw materials (milk) and capital into the co-operative. This is critical to the successful performance of the co-operative. While there are parallels, access to traditional resources as

⁵⁰ Borch and Huse's (1993) definition of Network is utilised here “as long-term contacts between persons or organizations in order to obtain information and building resources” (p. 23) .

understood in resource dependence theory (Pfeffer, 1973; Pfeffer & Salancik, 1978) does not appear to be a part of the board's role here. Although a number of the directors have extensive networks and multiple directorships⁵¹ they do not appear themselves to provide resources⁵² critical to the operation of the co-operative.

[Researcher: a link to important external resources that are critical to the company, like finance?] No, I mean at the end of the day the size of [case C], those relationships need to be handled with management. The board directors always are there as a resource to management if they want doors opened and those sorts of things (C1, supplier-shareholder chair)

In conclusion, the empirical evidence suggests Network as a theoretical sub-subconcept of Serve. Board members use their own personal and business networks to introduce management to people who may be of use to them in the management of the co-operative. An individual director's usefulness in this task varies between directors and cases. Although similar to resource dependence theory in providing 'resources' (Pfeffer, 1973; Pfeffer & Salancik, 1978), what they bring is more personal than tangible or marketable. Directors in this study did not bring critical resources to the co-operative beyond their fair share of milk and capital (Unite, section 8.2).

8.5.5 Conclusions – Serve

The final Board Role of Serve is identified as a theoretical subconcept and defined here as the board's role in making a personal and ongoing investment of time, energy, skills and resources to the co-operative. Four theoretical sub-subconcepts are also induced from the data; Advice-Counsel; Public-Face; Appease-Stakeholders and Network. Evidence has been presented in support of the theoretical concept's existence.

⁵¹ See Individual-Distinctions (section 7.6.1)

⁵² Beyond their own personal fair share as supplier-shareholders

8.6 Conceptual Interactions

As the arrows on the theoretical model of co-operative governance indicate the five main theoretical concepts of Exogenous-Issues, Supplier-Shareholder-Needs/Benefits, Supplier-Shareholder-Controls, Board Architecture and Board Roles operate together. Board members draw on one to apply another. Exogenous-Issues affect all concepts of co-operative governance. The framework is ultimately driven by Supplier-Shareholder-Needs/Benefits. The concepts of Supplier-Shareholder-Needs/Benefits, and Supplier-Shareholder-Controls relate to “why” the co-operative governing boards do what they do. The Board Architecture concept relates to “who” undertakes Board Roles and “how” they are undertaken. The board members with their individual competencies (Individual-Distinctions) come together in various ways (Engagement-Forums) and relate with each other and management in making decisions (Dynamics). These concepts are useful for understanding why the co-operative governing boards carry out the roles they do, and as such, are important in understanding actual Board Roles. The Board Roles comprise of “what” co-operative boards carry out and are conceptualised here as Unite, Strategic-Involvement, Control and Serve.

For example, the following data suggest a link between the interests of the supplier-shareholders (Supplier-Shareholder-Needs/Benefits) to have representatives (Supplier-Shareholder-Controls, Vote) on the board (Board Architecture, Individual-Distinctions) to ensure the co-operative’s strategies (Board Role, Strategic-Involvement) and policies (Board Role, Control) are aligned:

It’s most important in my opinion that the farmers have representatives as directors on the board of directors to ensure that the company’s strategies and policies are very closely aligned with the interests of the farmers, shareholders (A2, supplier-shareholder director)

and these data note a link between alignment of Supplier-Shareholder-Needs/Benefits and the Board Roles of Strategic-Involvement and Control:

The most important thing is to ensure that we don’t become miss-aligned with what the shareholders want and that then rolls into the strategy setting. I think the other most important thing is to review the

managing director's performance and management's performance in that context (E4, MD)

Some evidence of the interactions between the theoretical concepts is displayed in Table 8-5. There are multiple examples of each interaction.

Table 8-5 Evidence of Conceptual Interactions

Concept	Exogenous-Issues	Supplier-Shareholder- Needs /Benefits	Supplier-Shareholder- Controls	Board Architecture	Board Roles
Exogenous-Issues		<i>The company in the drought actually returned five plus million dollars of its capital to the farmers, because they needed it (E2)</i>	<i>[In response to a change in legislation] the decision taken by the [case B] suppliers is in their longer term interests, because they chose the path of going independent (B3)</i>	<i>Under the co-operatives' legislation farmers have got to be in the majority (D1)</i>	<i>There has been short term issues with drought, restructuring and the deregulation issues we have ... a refresher session on strategy each six months (E4)</i>
Supplier-Shareholder-Needs /Benefits	<i>[Strategy of] adding value to the milk and therefore increasing the payout to the farmers ... as a smaller company in an area where there are a lot of large scale dairy companies (A2)</i>		<i>The directors are elected by their constituents, the dairy farmers, and therefore have to make sure that the interests of the dairy farmers are being looked after (A4)</i>	<i>They [supplier-shareholder's] presume that the road to the best payout is best handled by the company's directors (B2)</i>	<i>We ensure that those sort of fundamental expectations of the owners are translated into strategies (D1)</i>
Supplier-Shareholder-Controls	<i>[The drought], in a farming sense, financially it's a bloody disaster ... there are a number of those people who look at the co-operative and say we'll maybe we'll float it, or sell it off or something and take the assets out of it (E2)</i>	<i>There's no dominant shareholder that can control the company, and in any event the constitution limits the influence of any particular shareholder to 5% of the votes (A1)</i>		<i>I'm elected by the area and I really do know the seventy farmers who would have elected me. So you have a personal relationship with them almost (B1)</i>	<i>As their elected representatives the board does have a major role to play in the ongoing communication with the shareholders (A4)</i>
Board Architecture	<i>Some big environmental issues ... and the regulatory environment is changing, so the board needs to continue to be educated by management (A3)</i>	<i>It's most important in my opinion that the farmers have representatives as directors on the board of directors to ensure that the company's strategies and policies are very closely aligned with the interests of the farmers shareholders (A2)</i>	<i>I see the constitution as the framework between the shareholders and the board. So those are the parameters that the shareholders have given the board a mandate to actually operate in (C1)</i>		<i>[The board] do set the tone that way, you do act as one in terms of the general direction you are going in and that enables you to set the culture (D4)</i>
Board Roles	<i>If the KPIs start to show a divergence ... then the board has to ask itself, are these faults of management or are these external factors which the management cannot be held accountable for (A3)</i>	<i>One of their greatest roles is to keep articulating the value of the co-operative to the shareholder members (F2)</i>	<i>The shareholders need to feel that the company has the right strategy, they need to understand it, they need to know and believe in it and they need to know that the board is driving as hard as they can to execute it (C3)</i>	<i>Clearly the nine farmer directors in [case C] ... put in a lot of time into keeping that shareholder constituency feeling as best they can loved and cherished (C3)</i>	

8.6.1 Board Role Relationships

The model (Figure 7-1) also has arrows connecting Board Roles, specifying a relationship between each. This research finds Board Roles to be complex, interdependent and interrelated. This evidence, for example, suggests ongoing day-to-day board tasks to evaluate management (Control) give guidance (Serve) and strategic direction (Strategic-Involvement):

The ongoing day-to-day operations of the board would be to measure management's performance, set targets and measure them towards the targets and give guidance to managers, particularly the chief executive on areas of policy and strategic direction (BI, supplier-shareholder chair)

Many of the Board Roles appear to be occurring concurrently. As we have seen from the evidence, the board task in the appointment of the CEO has implications for all four of their roles. Another example may be a director accompanying the CEO on a market visit. The director may be simultaneously “flying the flag” for the co-operative (Serve Role); monitoring and evaluating the CEO’s performance with customers (Control Role); discussing and informing strategic processes (Strategic-Involvement Role); and acquiring information that will be shared with supplier-shareholders upon the director’s return (Unite Role). It appears likely that every board meeting (Engagement-Forums) contains elements of each of the Board Roles.

The close involvement allowed by the board decision-making process (Decision-Making-Style) and the close trusting and supportive relationship between board members and management (outlined in Dynamics above) may facilitate the concurrent use of Board Roles. For example, early and close involvement between the board and management in strategy formulation (Strategic-Involvement) allows the board to offer advice (Serve role) and to gain the knowledge to exert a controlling influence (Control role). In terms of complexity these findings have some sympathy with those of others (see, McNulty et al., 2005; Pye, 2002; Roberts et al., 2005).

As such, these findings see Board Roles as being interdependent with board members undertaking all roles (to varying degrees). In this regard, these findings have some sympathy with the views of several writers (see for example, Fields, 2007; Leblanc & Gillies, 2005; Sundaramurthy & Lewis, 2003). Chapter 9 follows, which draws conclusions and offers suggestions for future research.

CHAPTER 9 CONCLUSION AND FUTURE RESEARCH

9.1 Introduction

This chapter discusses the contribution of the model of the roles of dairy co-operative governing boards (Figure 7-1). The implications for theory, the literature, practitioners and policy makers are highlighted. Suggestions for further research are made and conclusions are drawn.

9.2 Filling Theoretical Gaps

Almost all of the theories of corporate governance (see section 3.3) shed some light on dairy co-operative board roles, yet none encapsulate the nuances of the roles as does the model developed here (Figure 7-1). To illustrate this point, Table 9-1 shows existing governance theories and how this fieldwork and this model reveals them to be operating in the New Zealand and Australian co-operative setting. Each is discussed below.

Table 9-1 Corporate Governance Theories: Applied to Dairy Co-operatives

Theory	Evidence in support	Board Composition and Competencies	Examples from evidence board roles
Agency	Partial	Independent; Not expert monitors	<i>Those short term and long term incentives [for management] need to be aligned to what's in the interests of the shareholders or the farmers (C1, supplier-shareholder chair)</i>
Transaction cost economic	Substantial	Majority of members with transaction specific assets	<i>The directors ... have a large stake of their investment, generally speaking in most cases it's nearly 100% ... of what they've invested is tied up in ... the profitability of ...[case B]. So I think the driver for a director of a co-op is very integrated with their own business and they understand, ... what their fellow shareholders are going through (B1, supplier-shareholder chair)</i>
Managerial hegemony	Very limited	Very little management representation	<i>The ultimate power has got to rest with the board. The board appoints the chief executive. The board finally must authorise all capital expenditure and any movements outside policy. Any policy changes must be signed off by the board. That's what a board's there for. After all, who is going to defend the position with the shareholders. The board is accountable for that (B3, appointed director)</i>
Stakeholder	Limited, beyond milk producers	No Stakeholder representatives beyond milk producers and limited management	<i>I'm not a great believer in worrying too much about these vast array of stakeholders ... associated ... with the company. ... otherwise you'll dilute your efforts ... thinking about peripheral issues instead of the main job of the business (A1, supplier-shareholder chair)</i>
Resource dependence	Partial	Chosen for influence - only suppliers of capital and milk	<i>[Researcher: a link to important external resources that are critical to the company?] No ... those relationships need to be handled with management (C1, supplier-shareholder chair)</i>
Resource based view	Limited	While directors assist where they can this is not a dominant reason for selection	<i>If we [management] need the skills ... we will go and get them (E4, MD)</i>
Stewardship	Partial	No CEO duality. Board isn't selected for expertise. Board partner and support management.	<i>Everybody is there as part of a team and not a them and us situation [between board and management] (B4, CEO)</i>
Class hegemony	None	No evidence	No evidence
Democratic perspective	Substantial	Representative structures of governance	<i>It's most important ... that the farmers have representatives as directors on the board ... to ensure that the company's strategies and policies are very closely aligned with the interests of the farmer shareholders (A2, supplier-shareholder director)</i>

Adapted from Cornforth (2004), p. 20.

In line with agency theory prescriptions, the co-operative boards are independent of management and have a Control Role in monitoring management and aligning executive activities with shareholder interests (Fama & Jensen, 1983b; Jensen & Meckling, 1976). Contrary to agency theory, the roles of the board are more varied and there is no evidence of distrust between the board and management.

The findings support some aspects of transaction cost economics theory (TCE). The majority of board members have transaction specific investments. While board members engage with market decisions, TCE assumptions around human behaviour, such as opportunism and self-seeking behaviour by management, is not evident. The boards' roles beyond the Control Role are not enunciated in TCE.

There is little support for the presence of managerial hegemony (Kosnik, 1987; Mace, 1971). Signs of managerial domination of the board are absent. The boards are not selected by management and do not comprise inside directors obligated to management. Co-operative boards hold managers to account and are in turn accountable to shareholders, not management. The power to remove executives is a role that boards take seriously.

There is little evidence of stakeholder theory (Freeman, 1984; Freeman & Reed, 1983) prescriptions. One group of stakeholders (supplier-shareholders) have dominant membership on all the governing boards. Appointed directors are also brought on largely for the benefit of these stakeholders. Management are represented by the MD in half the cases. The boards do not appear to represent all stakeholders' interests in their deliberations.

There is partial support for resource dependence theory (RDT) notions. Directors bring the respect they themselves earn as supplier-shareholders vested in the co-operative. Access to critical resources (other than their farm-based shares of milk and capital) and as understood in RDT (Pfeffer, 1973; Pfeffer & Salancik, 1978) does not appear here however. Likewise,

representatives of other institutions critical to the operations of the co-operatives do not sit on the boards. As such, these findings are similar but distinct from RDT.

The resource based view (RBV) of the firm (Barney, 1991; Barney et al., 2001) also receives limited support from these findings. The majority of directors (supplier-shareholders) are not selected for their professional skills, nor do they bring these skills to their role. Appointed directors may, from the evidence, partially fill this role.

Stewardship theory (Davis et al., 1997; Muth & Donaldson, 1998) has partial presence here. Directors are not selected for their management expertise or their management positioning. However, in line with stewardship theory, the relationship between the board and management is characterised by trust, cohesiveness, partnership, and mentorship (Huse, 2007).

There is no evidence of class hegemony theory (Kosnik, 1987; Useem, 1982) being applied in the cases studied. The boards do not have close connections with management and do not perpetuate a ruling elite.

The findings have considerable sympathy with democratic perspectives (section 2.7). The governing boards are elected from, and by, the membership to express the members' interests. Co-operative boards represent members, understand their needs, and ensure resources are employed and executives controlled in the pursuit of those needs. Co-operative boards preserve the co-operative character of the firm and keep members informed about the co-operative's operations.

So while theories in the corporate governance literature shed light on aspects of dairy co-operative boards, none adequately explain the multiplicity of board roles this study attempts to capture. These findings, and this model, offer a complex and integrated picture of the role.

9.3 Contribution

The principal aim of this research, as outlined in chapter one, is to conceptualise board roles from evidence obtained about dairy co-operative board practice and from the perspective of participants within the New Zealand and Australian dairy industry. The understandings from this fieldwork provide the basis for the development of this theoretical model with concepts induced from the experience of informants. The contribution of this thesis is a conceptual model of co-operative governance. This theoretical model advances knowledge in the fields of corporate governance and agricultural co-operatives. The resulting theory is presented as Figure 7-1. The findings of this thesis, in particular the theoretical model, begin to fill the gap identified in this thesis.

This research has resulted in a unique theoretical model deeply informed from practitioners' experience providing a more unified theory of governance from fundamentals. This thesis contrasts with previous conceptualisations of governance in the level of detail provided. Following the prescriptions of Eisenhardt (1989a), the resultant theory is "parsimonious, testable, and logically coherent" and presents new insights (p. 548). This model meets parsimonious expectations with five concepts and seven subconcepts. Logical coherence is achieved through a lengthy process of constant iteration between data and emergent theory and the use of replication logic. Furthermore, the theory fits with Miles and Huberman's (1994) categorisation of a good theory whose "categories fit (or have come to fit) the data; that is relevant to the core of what is going on; that can be used to explain, predict, and interpret what is going on" (p. 144).

Of particular note is the uniqueness of this theoretical model to New Zealand and Australian dairy co-operative governance. The composition of the board and many of the board tasks are firmly rooted in the co-operative nature of the organisation. The Unite board role (section 8.2) and the Protect task (section 8.4.5), for example, are uniquely embedded in the co-operative context.

Furthermore, the model extends understanding of co-operative governance to take into account relationships unique to this sector including the powerful role of supplier-shareholders. This understanding is distinct from much of the corporate governance literature where shareholders are often portrayed as just one of many outside stakeholders (Huse, 1998). The model highlights the way board members of co-operatives are always and continually held accountable to their supplier-shareholders.

The boards researched have active roles in Unite, Strategic-Involvement, Control and Serve. The model highlights the interrelationships of the respective roles (section 8.6). This study's more nuanced understanding of board roles advances current knowledge of governance.

An important contribution of the model is the distinction made between the contributions of individual directors. Board members are individuals with different skills and emphasis is brought to bear on each of their board roles. This is opposed to the more common conceptualisation of the board as a whole undertaking roles. The chair, as leader of the board, stands out in this respect.

A major contribution of this study has to do with how members find 'balance' and how they deal with complexity. These board members continually find balance between roles, and there is an emphasis on responding to changes in circumstances. While much of the corporate governance literature concentrates on the relationship between the board and management (Hillman & Dalziel, 2003; Johnson et al., 1996), this model conceptualises the board overall as part of a more open, sometimes concurrent and complex set of relationships between board members and supplier-shareholders.

The model also contributes toward understanding boards' decision-making process (Decision-Making-Style, section 7.6.3.3). The model provides insights into how board members are able to undertake what appear to be seemingly contradictory roles simultaneously. This broader depiction of governance, allowing understanding of board relationships and processes within the

specific context of the New Zealand and Australian co-operative dairy industry makes a significant contribution to knowledge.

9.4 Implications

This research provides an empirical contribution to the literature by adding to the small pool of qualitative research that seeks to understand the processes of corporate governance (Finkelstein & Mooney, 2003; Pettigrew, 1992, 1997). This thesis provides one of the first in-depth case studies of dairy co-operative governance in New Zealand and Australia.

The study empirically demonstrates the interrelationships between board roles, relationships and processes within the specific context of the New Zealand and Australian dairy co-operative. Despite the inductive nature of this research, many elements of the model are found in the literature, allowing some corroboration of the findings.

These findings represent a contribution to the understanding of the governance of one of the most important industries (dairy) and ownership structures (co-operative) in the New Zealand economy (section 1.3.2). This research has the potential to inform and improve policy settings and co-operative governance practice.

For policy makers, the participant-oriented understanding inherent in these findings allows a more considered position on policy than previous understandings. Policy makers have tended to focus on agency theory prescriptions. Policy makers could draw on these findings to inform more field-grounded recommendations on governance policy.

Governance is critical to the co-operative model (Jussila & Goel, 2006; Skurnik, 2002) and presumably its performance. As such, an understanding of co-operative governance may have implications for co-operative performance. By understanding contemporary co-operative governance practices, a solid foundation is provided to make recommendations for improvement. For

example, while not normative, the model suggests the need for practitioners to train and educate themselves and potential directors. The model also highlights practitioners' need to intimately understand the needs of supplier-shareholders.

9.5 Future Research

The scarcity of empirical research into co-operative governance suggests substantial potential for further studies to test and to build on this contribution.

The model can form a basis for empirical (hypothesis) testing and towards generalising these findings to other co-operative situations. Future research of a quantitative nature is also suggested to measure the relationships highlighted in this model. The Boards' Unite role appears to be a dominant theme. It is suggested that future research test this model on dairy co-operatives beyond New Zealand and Australia. Moreover, the theoretical model's relevance to other co-operatives, in particular other agricultural co-operatives, should be explored. Indeed, the relevance of the theoretical model could be extended to explore its relevance to non-agricultural mutual organisations and other organisational forms such as not-for-profits, and the voluntary sector.

As it is beyond the scope of this research, no attempt has been made to examine the link between governance and co-operative performance. Further research could take the theoretical model induced here to link these findings to performance. A useful place to start this research may be an understanding of co-operative performance from the perspective of co-operative members.

The evidence suggests that the chair plays a critical role in the functioning of the board and the co-operative. Many board tasks are undertaken individually by the chair. As such, a deeper understanding of the chair's roles and relationships is a fruitful area for further research. It may be hypothesised that the chair has a major effect on board and co-operative performance.

An exploration of trust in co-operative governance appears to be a useful area for further research. Trust between the main stakeholders, that is, between the

board members, between the board and supplier-shareholders, and between the board and management is an exciting field for further research. It is hypothesised that high levels of trust between directors, supplier-shareholders and management is an important component in successful co-operative undertakings

There appears to be an assumption in the literature that specific director skill-based competencies are important for effective boards. The findings here point to other factors, such as “wealth at risk” and “engagement” (section 7.6.1.1) as being more important. Likewise, there seems to be, by some commentators, an assumption that board diversity leads to better board decision-making. The cases here are characterised by a lack of diversity. It may be suggested that the need for cohesiveness and clear focus form a reason for the superior performance of co-operatives. These subjects also provide a rich vein for further research.

9.6 Conclusions

In conclusion, given the importance of co-operatives to the New Zealand economy and the absence of descriptive empirical data, this thesis provides an important contribution to knowledge in this field. It extends the literature on the understanding of governance, co-operative governance in particular and specifically New Zealand and Australian dairy co-operative governance. These findings suggest a fine-grained understanding of New Zealand and Australian dairy co-operative governance not apparent in prior literature. This thesis potentially provides the foundation for theorisation on how co-operative directors can contribute to the performance of their co-operative companies.

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Appendix A Sample Interview Guide

Case F: Interview Guide – Roles of Governing Boards of Agricultural Co-operatives.

- Could you outline a little of your own background in the governance of [case F] and other organisations?
- In your experience as a director at [case F] what does the governing board do?
- What part did the board at [case F] play in the selection of the CEO?
- Why is the selection of the CEO so important?
- Are management's goals the same as those of the shareholders?
- Is one of the board's functions the monitoring of management to ensure they are working in shareholders' best interests?
- How is senior management held accountable at [case F]?
- Does the board at [case F] have a role in supporting the CEO and management?
- How are company strategies developed at [case F]? What part does the board play in their development?
- [Case F] has many stakeholders apart from your farmer-shareholders, examples would include employees, consumers, environmentalists, local and central government – What part does your board play in stakeholder relations?
- Does the board play any role as the “public face” of [case F]?
- What role does the board of [case F] play in communicating with shareholders?
- Do any of the directors on your board provide a link to important external resources that are critical to the company? Examples here could be things such as finance, academic or government institutions.
- Does the board have a role in dealing with political institutions?
- What part does the board play in the development of company culture?
- What determines board culture?
- What role does the board play in company policy formulation?
- What role does the board play in developing the company constitution?
- Co-operative shareholders can have diverse interests. If it is an issue at [case F] what does the board do about these diverse interests?
- How are your farmer directors elected?
- Does the board play any part in its own succession?
- Does the board play any part in management succession?
- What processes do you use to select and appoint outside directors?
- What role does management play in the selection of directors?
- Is the board educated by management and if so in what way is this done?
- To whom are you accountable to?
- Who is accountable to you?
- What are the three most important things you are held accountable for?
- What do the board of directors do differently at [case F] as a co-operative company than would be done if [case F] were a publicly listed company?
- What are the three most important things that the board at [case F] do?
- Are there any other things the board does that you have thought of during the course of this interview that may be of interest to my research?
- I may need to come back to you for clarification or further data – would that be okay?

Appendix B Ethical Approval Documents

B-1 Ethical Approval Form

WAIKATO MANAGEMENT SCHOOL

APPLICATION FOR ETHICAL APPROVAL

Outline of the Research Project

(for the benefit of the Waikato Management School Ethics Committee)

1. Title of Project:

An integrated theory of the roles of governing boards of co-operative dairy companies.

2. Researcher's name and contact information:

Kevin Old
102 Allen Rd
R.D.4
MORRINSVILLE
Ph. (64 7) 889 3901
Email: old@waikato.ac.nz

3. Supervisors name and contact information:

Associate Professor Karen Van Peurse
Department of Accounting
The University of Waikato
Private Bag 3105
HAMILTON
Ph. (64 7) 856 2889 ext: 8647
Email: kvp@waikato.ac.nz

4. Brief Outline of the Project (what it is about and what is being investigated):

This project will investigate and document the roles of governing boards of co-operative dairy companies in Australasia in order to develop a theory of the roles of governing boards of co-operative dairy companies.

5. Methodology:

The research adopts a positivist methodology. It will use a case study method inspired by Eisenhardt's (1989) article "Building theories from case study research." Evidence will be gathered by interviewing influential people using semi-structured interviews.

6. Expected Outcomes of the Research:

A theoretical contribution from an analysis of empirical data as to the roles of governing boards of co-operative dairy companies in Australasia. The data will contribute toward a PhD thesis.

7. How will participants be selected and how many will be involved?

Theoretical sampling will be used. Governing boards (and individuals within them) that are expected to provide the greatest insights will be selected. While some flexibility is envisaged eight cases will initially be selected with a likely three people per case interviewed (approximately 24 interviews). A survey could be conducted involving all directors in each case (say, 64 respondents).

8. How will participants be contacted?

Initially a letter will be sent to the chairperson of the selected cases outlining the study, followed by telephone contact. Colleagues may be utilised with introductions.

9. Explain incentives and/or compulsion for participants to be involved in this study.

There will be no incentives or any compulsion for participants to be involved in this study.

10. How will your processes allow participants to:

a) refuse to answer any particular question, and withdraw from the study at any time.

Participants will be asked to sign, prior to the interview, a consent form highlighting that they may refuse to answer any question(s) and may withdraw from the study at any time.

b) ask any further questions about the study, which occur during participation.

Participants will be asked to read the participation information sheet encouraging them to ask and receive adequate responses to any question(s) they have about the study. This will also be highlighted orally at the beginning and end of the interviews.

c) be given access to a summary of the findings from the study when it is concluded.

Interviewees will be provided with a copy of their interview transcripts and be invited to comment on them. A summary of findings will be made available to participants at the conclusion of the study.

11. Explain how any publications and/or reports will have the consent of participants, and how the anonymity of participants will be protected.

Prior to each interview each participant will be asked to read and sign a consent form for participants. The confidentiality of all participants will be protected by the use of pseudonyms for both individuals and firms. These pseudonyms will be used for both the transcription of interviews and the reporting and publication of data.

12. What will happen to the information collected from participants?

The data collected from the participants will be analysed and will contribute toward a PhD thesis. Upon completion of this study the evidence collected in this research will be archived and may be used for further research.

B-2 Information Sheet for Participants

Information Sheet for Participants

1. Title of Project:

An integrated theory of the roles of governing boards of co-operative dairy companies.

2. Researcher's name and contact information:

Kevin Old
102 Allen Rd, R.D.4, MORRINSVILLE
Ph. (64 7) 889 3901.
Email: old@waikato.ac.nz

3. Supervisor's name and contact information:

Associate Professor Karen Van Peurse
Department of Accounting, The University of Waikato, Private Bag 3105,
HAMILTON
Ph. (64 7) 856 2889 ext: 8647. Email: kvp@waikato.ac.nz

4. Brief Outline of the Project (what it is about and what is being investigated):

This project will investigate and document the roles of governing boards of co-operative dairy companies in Australasia in order to develop a theory of the roles of governing boards of co-operative dairy companies.

5. Company or Organisation sponsoring or funding the research:

No company or organisation is sponsoring or funding this research. All costs are borne by the University of Waikato or the researcher.

The researcher is currently a dairy farmer and a director of the Tatua Co-operative Dairy Company Limited.

6. Explain how any publications and/or reports will have the consent of participants, and how the anonymity of participants will be protected.

Prior to each interview each participant will be asked to read and sign a consent form for participants. This form encourages you (as the participant) to receive satisfactory replies to any questions regarding the study and highlights your ability to withdraw from the study at any time. The confidentiality of all participants will be protected by the use of pseudonyms for both individuals and firms. These pseudonyms will be used for both the transcription of interviews and the reporting and publication of data.

7. How will your processes allow participants to:

a) refuse to answer any particular question, and withdraw from the study at any time

As a participant you will be asked to sign, prior to the interview, a consent form outlining that you may refuse to answer any question(s) and may withdraw from the study at any time.

b) ask any further questions about the study, which occur during participation

You will be asked to read this participation information sheet encouraging you to ask any questions you may have about the study. This will also be highlighted orally at the beginning and end of the interviews.

c) be given access to a summary of the findings from the study when it is concluded

As an interviewee you will be provided with a copy of your interview transcripts and be invited to comment on them. A summary of findings will be made available to participants at the conclusion of the study.

8. Explain what will happen to the information collected from participants?

The data collected from the participants will be analyzed and will contribute toward a PhD thesis. Upon completion of this study the evidence collected in this research will be archived and may be used for further research.

B-3 Consent Form for Participants

THE UNIVERSITY OF WAIKATO
Waikato Management School

An integrated theory of the roles of governing boards of co-operative dairy companies

Consent Form for Participants

I have read the Outline of Research Project form for this study and have had details of the study explained to me. My questions about the study have been answered to my satisfaction, and I understand that I may ask further questions at any time.

I also understand that I am free to withdraw from the study at any time, or to decline to answer any particular questions in the study. I agree to provide information to the researchers under the conditions of confidentiality set out on the Information Sheet.

I agree to participate in this study under the conditions set out in the Outline of Research Project form.

Signed: _____

Name: _____

Date: _____

Researcher's name and contact information:

Kevin Old
102 Allen Rd
R.D.4
MORRINSVILLE
Ph. (64 7) 889 3901
Email: old@waikato.ac.nz

Supervisors name and contact information:

Associate Professor Karen Van Peurse
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Ph. (64 7) 856 2889 ext: 8647
Email: kvp@waikato.ac.nz

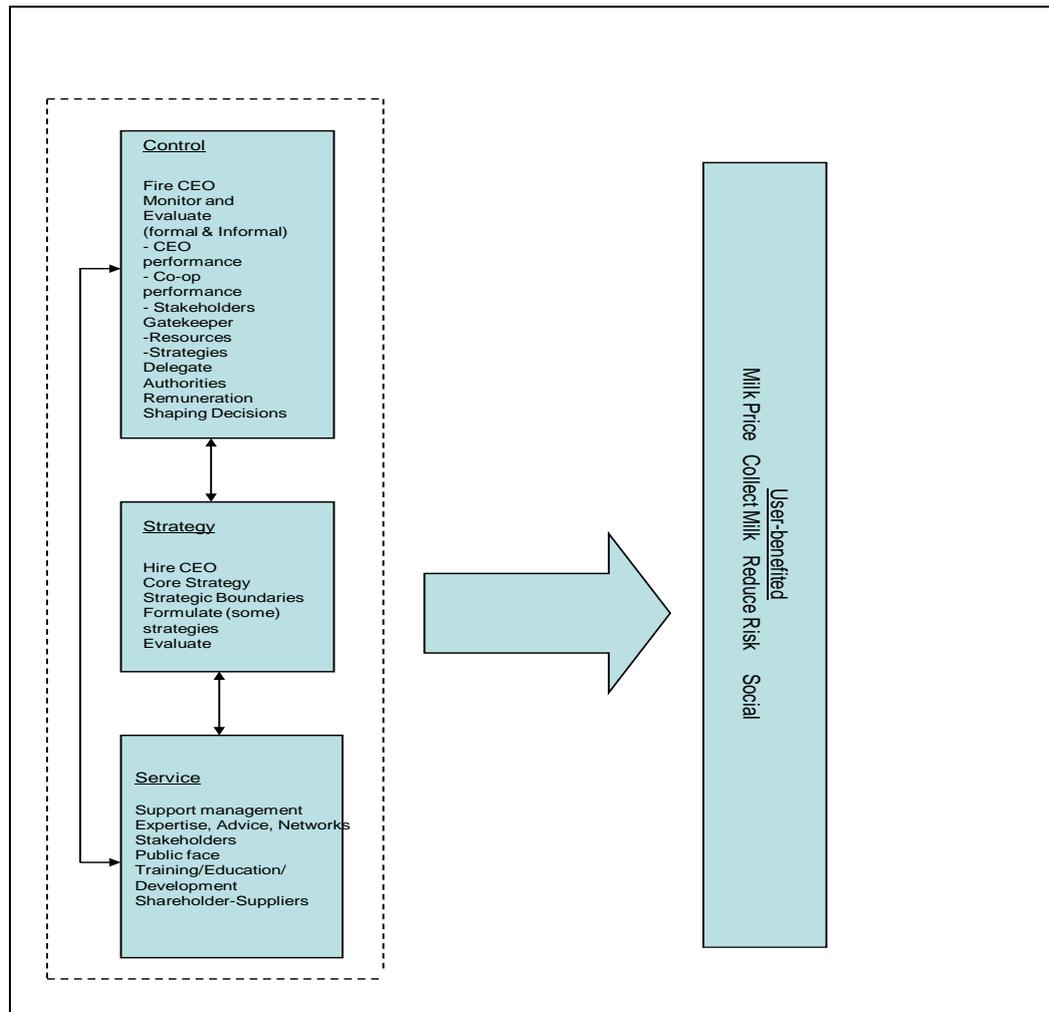
Appendix C Triangulation of Data

The table below outlines where data is collected from to develop each of the theoretical concepts.

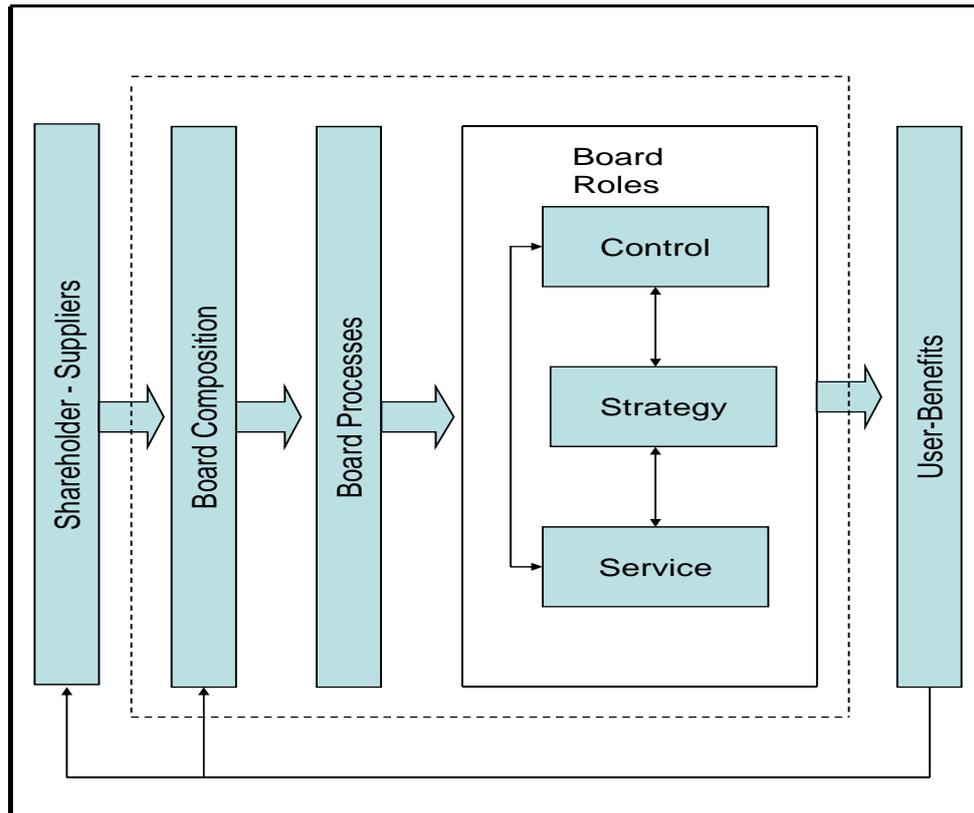
Concept	Data				
	Interview Data	Co-operative Constitutions	Annual Reports	Popular Press	Other (e.g. observation, legislation)
Exogenous-Issues	✓		✓	✓	✓
Supplier-Shareholder-Needs/Benefits	✓	✓	✓	✓	✓
Supplier-Shareholder-Controls	✓	✓	✓	✓	✓
Board-Architecture	✓	✓	✓	✓	✓
Board Roles	✓	✓	✓	✓	✓

Appendix D Examples of Steps in Theoretical Model Development

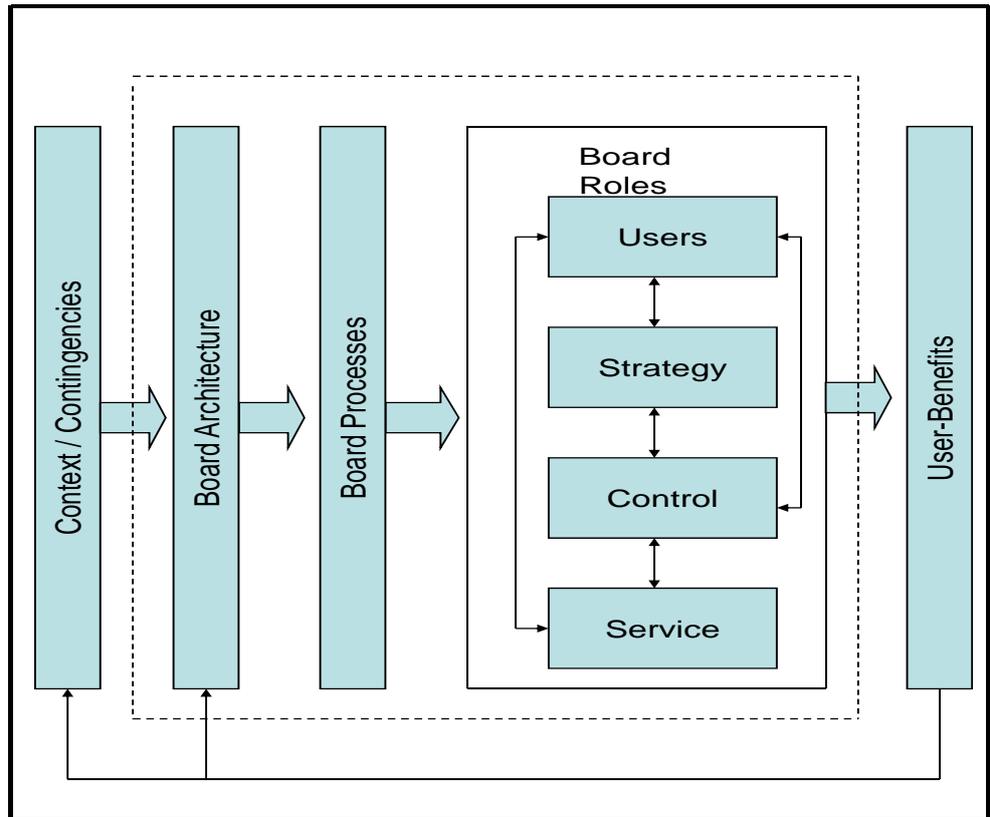
Appendix D outlines examples of some of the stages in the conceptual model development as the theory is inductively developed driven by the empirical data. Below is an example of the model early in data analysis. Note the reliance on terms from the literature at this stage. This occurred because the uniqueness of the concepts yet-to-emerge had not yet been conceptualised. Note also the multiple categories under each concept don't (as yet) set out how each element is related to the others



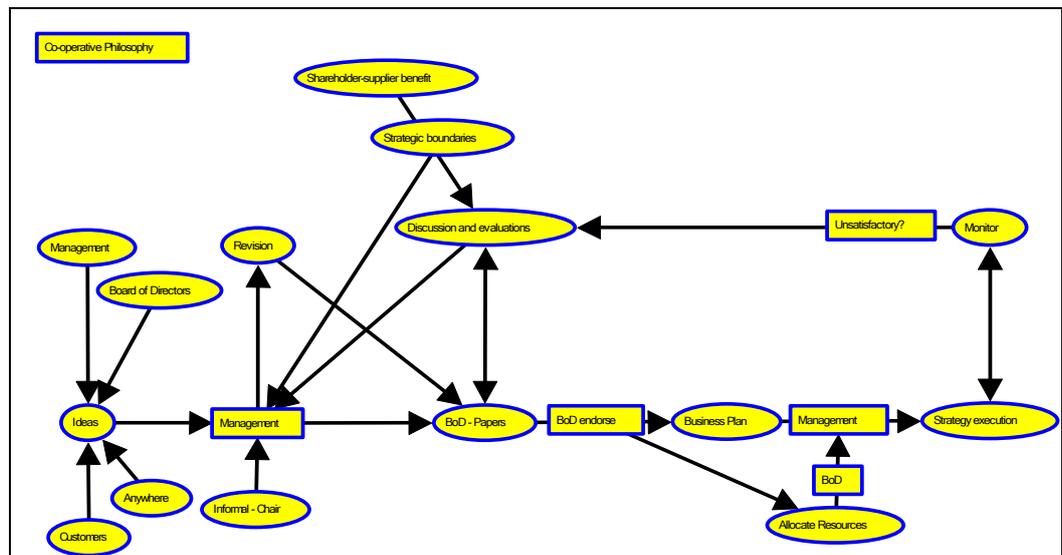
As governance actors and processes emerged as important from the analysis of the empirical data these concepts grew and were included as distinct concepts as can be seen from an interim theoretical model displayed below.



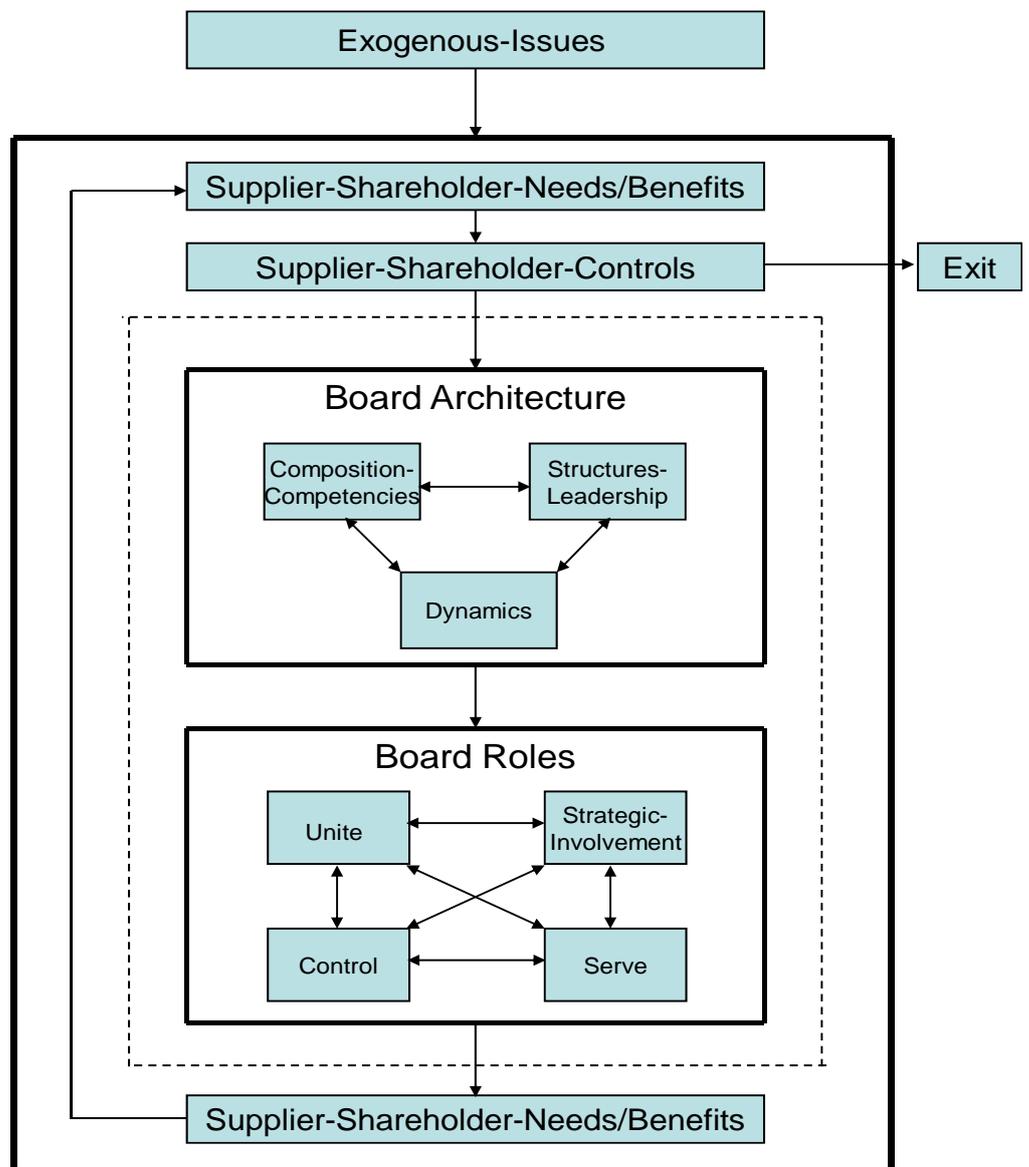
In this later theoretical model, outlined below, the importance of external issues and the unique co-operative board role with the Supplier-Shareholders or “users” emerged as unique concepts.



As an example of the analysis a model of the boards' strategic decision making process is developed leading to a more nuanced understanding of Board Processes which became part of the Dynamics concept.



A final theoretical model, inductively developed from the empirical data, with the extra concepts of Supplier-Shareholder-Controls and a more nuanced conceptualisation of Board Architecture and the relationships between its component parts is displayed below.



Appendices E to I

Appendices E to I listed below comprise the coded content of the transcribed interviews. There are over 100 pages and for cumbersomeness reasons have been left out of the thesis. To assist the reader, one page samples of each of the appendices, taken unaltered from the case study database are displayed. This gives a flavour of the appendices. The samples are selected to allow the reader some variation of participants. The full appendices are held electronically, in a case study database and can be viewed by contacting the writer.

Appendix E Exogenous-Issues

E-1 Competitive-Environment

Document 'A2', 2 passages, 573 characters.

Section 0, Paragraph 18, 449 characters.

Having a company that is more likely to succeed as a smaller company in an area where there are a lot of large scale dairy companies who can process larger volumes of milk at a far cheaper cost than what [case A] could, so in a nutshell we decided that to survive we needed to add value to milk, the best way to add value to milk is to ensure that the money and the resources go into adding value rather than into processing large quantities of milk.

Section 0, Paragraph 22, 124 characters.

we manufacture lactoferrin, we had a situation where our customers required more lactoferrin than we could perhaps supply.

Document 'A3', 4 passages, 982 characters.

Section 0, Paragraph 22, 248 characters.

What's going on in the world? how customers are changing, how competitors are changing, what it means for the company, what things could be coming up in the future, what's the technologies involved, how are they changing? all those sort of things.

Section 0, Paragraph 60, 163 characters.

Look at the commercial operating environment that we are in, the competitive environment, what shocks could be coming up, what contingency is needed to be in place

Section 0, Paragraph 68, 239 characters.

Firstly, I suppose, to have a very good understanding of the markets that we are operating in and I mean that in a quite wide sense, the market for our products, I mean the market for dairy farmers in a competitive situation with [a competing co-operative]

Section 0, Paragraph 70, 332 characters.

The market is changing dramatically, the foreign exchange market is changing dramatically, the market with [a competing co-operative] and so on is changing dramatically and will change further and the regulatory environment is changing.

E-2 Regulatory-Environment

Document 'B4', 1 passages, 768 characters.

Section 0, Paragraph 69, 768 characters.

[the chair] because of his involvement with Dairy Insight and various other activities will have a reasonable amount of involvement with him in the government bodies which is beneficial for the company, and [the deputy chair] is probably more of a regional role, can give us quite a lot of support when it comes to say the more regional issues. But also even to national issues, because of his own association with some of the government bodies and that, and the same with the external directors. [An appointed director] more in the accounting area and the knowledge of consultancy service. There's the Price Waterhouse Coopers, Deloitte and so on, contacts, and that sense more of an operational sense perhaps. [Another appointed director] certainly has some government contacts and is able to advise in some of those areas.

Document 'C1 Kevin Old', 3 passages, 707 characters.

Section 0, Paragraph 15, 83 characters.

with some of the large geopolitical movements - was our strategy still appropriate?

Section 0, Paragraph 139, 274 characters.

The [case C size] of [x] farmers, I just can't afford to have directors out in the shareholder base all the time, I want them to be outward focused - what are the geo-political trends? What are the big shifts happening globally? that's where the boards focus needs to be.

Section 0, Paragraphs 165-167, 350 characters.

[Researcher:] select and appoint independent Directors?

C1: Okay, I spend too much time doing this [laughter]. The process that we go through firstly, we go through a search firm, and then we set - the board actually signs off on the criteria and there is always three or four criteria. But one is always the global perspective, that's always the first criteria.

Document 'C2', 7 passages, 1860 characters.

Section 0, Paragraph 28, 216 characters.

Appointed directors play a key role. And in looking for our four directors, we specifically look for maybe a couple of compliance type directors, general practitioners and a couple of more worldly global view people.

E-3 Physical-Environment

Document 'E4', 8 passages, 4153 characters.

Section 0, Paragraph 5, 255 characters.

We annually have a review and if things are moving fairly quickly, there's a lot happening in the industry as there has been with short term issues with drought, restructuring and the deregulation issues we have actually had over the last couple of years.

Section 0, Paragraph 47, 872 characters.

And through the drought we were doing that every week almost. We'd have a barbeque a week to see the farmers and just to hold their hand a little bit, so quite a bit of that. The board have joined in that process since I established it because it's just a great two way communication with, you know, 30 or 40, and not too many in one hit and that works really well. But there are issues that come up at those meetings such as the one we had yesterday, there will be things like the prices at the store and the tanker going too fast down the track all the way through to share value issues or milk policy issues or milk price issues and dividend issues and whether we put in a dividend or whether we put in a milk price and so very much crosses the board and crosses the barrier between management and the board areas. So it's good to have them there and to cover that too.

Section 0, Paragraph 51, 469 characters.

One of the beauties of having a store out the back is you can bump into shareholders every day and you know who you are working for, and that's a great asset, keeps the focus - and the kids and their wives and you know whether they can buy the school clothes this year or not. All those things in the drought were obviously pretty emotional from that point of view. But you know why you are here and I think that's a great thing and from a co-operative a huge strength.

Section 0, Paragraph 90, 898 characters.

When the anthrax event happened in 1997 in this region it was actually on [a director's] property, his son's property as well and other properties, but he was directly involved, and he's also at the time the chairman of [case E] milk. And so was making some comments on behalf of [case E] as well as on behalf of those farmers affected, which didn't do the company's management of their customers etc. that much good. And aligned the company straight to the problem too quickly and it's been very strong since then

Appendix F Supplier-Shareholder-Needs/Benefits

F-1 Income-Enhancement

Document 'A2', 11 passages, 7693 characters.

Section 0, Paragraph 10, 333 characters.

One of the key indicators of, and this is in my personal opinion, of the success of the organisation is the sustainability of the earnings and therefore the payout back to the suppliers, the ability for those suppliers to grow their own businesses as opposed to perhaps a dividend or a share price or some other measures of success.

Section 0, Paragraph 14, 369 characters.

But we have what I would term a policy that we are a cooperative, we are in the business of collecting and processing our farm owners' milk, we are in the business of adding value to that milk, so as a company we are in the business, or we have the policy if you like, of being in the business of collecting, processing, marketing and adding value to our farmers' milk.

Section 0, Paragraph 14, 478 characters.

Our philosophy has been to, in some, at imperative time to restrict our milk growth, milk growth so that we are not investing our resources and capital, people time into the sheer processing of farmers' milk but rather processing the milk that we have or that our existing farmers are currently giving to us and spending our time, energy and resources and capital on ways in which we can add value to that milk by creating specialised, high-value products based around dairying.

Section 0, Paragraph 18, 609 characters.

The share holders are farmer share holders, and farmers get paid for their work as farmers, by the payout, times the production or the number of kilograms of milk solids they produce less their on-farm costs, so the farmer earns his money by what the company pays them to kg of milk dollars multiplied by the number of milk solids he produces in a season less his on-farm costs. So the farmer's viability relates back to his net income on the farm, the company has the role and responsibility of processing that production and trying to maximise the price for that milk that the farmer gives to the company.

F-2 Risk-Reduction

Document 'A4', 1 passages, 597 characters.

Section 0, Paragraph 40, 597 characters.

The shareholder owns the company, 100%, in a public company shareholders might have a portion of their income tied up in, of their assets tied up in a business through shareholding, but it's rare that they would ever actually have so much money tied up in the company that their whole livelihood depends on it, whereas for a dairy farmer his whole livelihood depends on his company. So he's got this vast amount of money tied up in his farm and he's got all this money tied up in the company through shareholding and through his entitlement to supply, it just creates a different way of thinking.

Document 'B1', 5 passages, 1563 characters.

Section 0, Paragraph 6, 89 characters.

The reason for being there is to protect the shareholders interests and their investment.

Section 0, Paragraph 22, 207 characters.

And so [case B] is really, [case B] co-op is really an extension of the farm and it's just that we can do things more better collectively and processing the milk so it can be exported than we could individually.

Section 0, Paragraph 22, 542 characters.

My suggestion is that if the farmers could sell the milk at the farm gate and have the security that [case B] gives them, many of them would probably do that. The only reason they go as part of the co-op is because they're prepared to enter into a collective agreement because they know that a collective process, because they know that that's how they'll get their milk processed everyday and the security of that is worth a hell of a lot of money to them, more than what they would be concerned about whether their share value was x, y or z.

Section 0, Paragraph 24, 176 characters.

Manager, because their skills are much more transferable and farmers shifting their land and the farmers are very much and their investment is tied up very much in their land

F-3 Community

Document 'B1', 4 passages, 1662 characters.

Section 0, Paragraph 38, 62 characters.

* B1: Well we are definitely very much part of the community.

Section 0, Paragraph 38, 198 characters.

Because we live here and all the elected directors live here, there's a sense of wanting to be part of the community and do well by the community so that's just a given that we would feel that way.

Section 0, Paragraph 38, 712 characters.

Education, most farmers, most of our shareholders, have children and so education is very much dear to their hearts ... the opportunity to maybe create employment here for their children, so at least they've got a choice of living here if they want to, which hasn't been great in the past. All of those things are quite important. Schooling, picking - going into the local schools and sponsoring them. We have four scholarships at the moment for students going to university. We hope to promote people to go on to do their Masters a little later, we haven't got anyone at the moment doing that and we want to. We have a programme that we would actually promote a PhD if that was what they wanted to go down.

Section 0, Paragraph 38, 690 characters.

So community-wise, important part of the, I guess, culture of the company or the sort of - the spirit of what we do because we are a sustainable type business and one of the things we don't want to do is in long term - and most of our investments are long term, whether they be on the farm or in the company. So there's a real will to be good employers, to be good citizens, to be a good corporate governance company. And so it's quite a proud - I guess in the size of what the community is, there's a real pride within the company as having achieved what they are in a region which is not perceived to be one of the most forward going regions in the country. So there's a real pride here.

F-4 Collective-Action

Document 'F4 Kevin Old, 4 passages, 2832 characters.

Section 0, Paragraph 125, 580 characters.

They certainly do have diverse interests. And all the board can do is try and balance those interests but always it has to be with the underlying best interests of the vehicle, being the co-operative, in mind. And ensuring that the vehicle, the co-operative is sustainable, both today and into the future. So sure, the board has to be very mindful of different needs and they are there and they are real, but it's got to be very careful not to pander to one in particular. In the end it's got to be, the decision has got to be made in the best interests of the vehicle as a whole.

Section 0, Paragraph 152, 831 characters.

And the other one that's big for us is to best represent the interests of the farmers, that's a key for a farmer or an agriculture based co-op. You could argue every director in any business represents the shareholder, supposedly, but it is much more strong and compelling within our co-operative structure. That farmer's interests, concerns and issues are properly represented and a balanced decision is made about concerns and issues that are raised by farmers. A co-op is very much about a culture, it is just not about the structure, a good co-op to me and if the co-op movement is going to survive and I hope it does for the sake of farmers that culture has got to be right. The farmers got to really feel and know the issues are being dealt with fairly and that there is something in it for him, it is worth hanging on for.

Section 0, Paragraph 156, 875 characters.

F.4. Absolutely, I've overlooked that but I was very - I wish I had of said that earlier it is a very important role for the board to me, is very important role, probably really close to the top of the list you've made me think about it - is that getting into the community, working with the members, to drive a better understanding of what the co-op's all about, and what's the co-op function, what it should mean to them why it is so important to protect it, that is a massive role for the directors I believe. If they believe in it, and I think usually if you are going to get onto the board in the first place you do, on the co-op, so yeah, big, big issue, big issue I think. We have got a saying at [case F] probably driven by [a director] which is good co-ops you don't know what you have got until it is gone, a rock bottom sign and so yeah that's a big point, big point.

Appendix G Supplier-Shareholder-Controls

G-1 Vote

Document 'F2 Kevin Old', 10 passages, 3424 characters.

Section 0, Paragraph 18, 218 characters.

The board may have the right selection of skills, it may have some really good footballers, it may have some really popular people, but they may not have been elected because of the skill needs of the particular co-op.

Section 0, Paragraph 22, 269 characters.

The board in most cases is elected by the people who are the farmers. So the farmers have a pretty good nose for people who will be good directors but they haven't any idea whether or not the person they are electing has some special skills that are needed by the board.

Section 0, Paragraph 26, 175 characters.

We are guided by our constitution in that regard. I guess we could go to the farmers and say we want to stop having farmer directors being elected, we want a skill-based board.

Section 0, Paragraph 26, 143 characters.

The constitution of [case F] allows for two directors with special qualifications, two additional directors to be appointed with special skills.

Section 0, Paragraph 28, 609 characters.

But at the moment there are ten farmer directors elected from ten zones within [case F]. Again this is a strength and a weakness, the zoning system ensures that that person is known by the people who are doing the electing, we have farmers from South Australia to central New South Wales, to right across Victoria and if you have the entire 3,000 farmers electing those people they will be electing on a reputation and a piece of a paper that identifies what their skills are. If you live within 50 to 80 kilometres of that person it is quite a lot more likely you will know something about that person's skills.

G-2 Voice

Document 'D2', 3 passages, 996 characters.

Section 0, Paragraph 20, 294 characters.

I think the members probably expect more from us because they know, they see that their product in the market place is worth so much more than the farm gate price. So being value added I think complicates our relationship with the members. They ask us are we doing a good enough job for them.

Section 0, Paragraph 107, 359 characters.

Our farmers historically have been very collective in their voice and their dairy industry groups, and had local meetings every month and they're very well attended and their voice had outcomes because regulation is a political process, political concept you know, leverage is there increasing price in droughts and CPI adjustments and all this sort of stuff.

Section 0, Paragraph 107, 343 characters.

They still have got to vote for us, and we are still their representatives, but less interested in meetings and so on. So I think we are good representatives Kevin obviously for some of us hopefully for most of us that's why we are here because we are co-operators, growing through this representative system, we are interested in our farmers.

Document 'D4', 1 passages, 187 characters.

Section 0, Paragraph 48, 187 characters.

With directors, and we have had them, confronted by a meeting in their town or their area or their district. They get a lot of questions, a lot of pressure from the average dairy farmer.

Document 'E1', 1 passages, 472 characters.

Section 0, Paragraph 60, 472 characters.

One side understanding the other, you can imagine what that did to stem - because naturally the farmer sees [the MD] driving a Statesman, a director driving a Fairlane and all of that. So there's - when we're down we always strike at something and if it's close to you and you think you own it because it's a co-operative, you know, that understanding and the understanding shown by the staff means a hell of a lot. I know we get a bit passionate about that at this little place.

G-3 Exit

Document 'B2', 1 passages, 131 characters.

Section 0, Paragraph 58, 131 characters.

* B2: Well I think it's important not so much to keep them on board because it's difficult for them to jump off the ship [laughter]

Document 'B3', 1 passages, 715 characters.

Section 0, Paragraph 36, 715 characters.

You know it becomes, if you just take even for example like, you know, I've watched, seen what's happened in the Manawatu, Rangitiki area with this latest terrible floods and a number of dairy farmers are talking about exiting. They're taking short-term views. They're saying well lets have the cash for selling my shares in [another co-operative]. I need that. This is one of the problems of a co-operative, at times when it does happen. If they can get cash out easily and there's a large value put alongside that, then they'll want to go. Now I've seen that because you can imagine, here I was at one time myself, very much promoting the approach of farmers owning a business. And they abandon it. They took the money.

Document 'D1', 2 passages, 854 characters.

Section 0, Paragraph 52, 709 characters.

Foreign exchange is a good example, where as [another dairy company] for reasons that are suitable for [it], I believe, go to a 15 month because if they get it wrong they don't lose their farmers, because their next biggest competitor doesn't exist to take the farmers whilst they recover from the 15 month. That situation doesn't apply in Australia, if you hedge too far and you get it wrong and your competitor for supply doesn't get it wrong then you lose supply and that has profound impact and you only have to ask [a defunct co-operative] about that having lost 800 million litres to [this co-operative] for pretty well that reason over a two year period, therefore any changes in fundamental policies has to be approved by the board.

Section 0, Paragraph 64, 145 characters.

Large farmer with a large number of shares and no next of kin to take over the farm - he has got a certain attitude which is more exit focussed.

Appendix H Board Architecture

H-1 Individual-Distinctions

Document 'C2', 19 passages, 11950 characters.

Section 0, Paragraph 24, 409 characters.

Traditionally co-operatives - and when you end up with a farmer dominated board, you come from a very, very restricted background. Whether you like it or not we mightn't like to think that but we really do, we are different people, the nine farmer directors there but we do come from a pretty standard sort-of-a background. So I think that the board would encourage management to really to test the boundaries.

Section 0, Paragraph 28, 240 characters.

Obviously, the board - appointed directors play a key role. And in looking for our four directors, we specifically look for maybe a couple of compliance type directors, general practitioners and a couple of more worldly global view people.

Section 0, Paragraph 36, 413 characters.

The appointment of the directors. The appointments and remunerations committee, which is chaired by the chairman of the company, will set out the scope with the A, R and D committee will set up a scope for a search firm. We usually use a search firm for our appointed directors - not necessarily, or it might even be that we use a search firm but we provide one or two names to perhaps go into that hat as well.

Section 0, Paragraph 38, 556 characters.

Now it would also canvas board members outside of the appointment and remuneration committee and I think that we would also canvas senior management about some of the things that they think would add to the board diversity as well. You don't know what you don't know. I am not saying that we would pander to management, and I am not saying that management leads the company at all but don't think you have all the answers. So I guess you ask management, senior management's view and then you choose whether you want to take those matters on board or not.

H-2 Engagement-Forums

Document 'F2 Kevin Old' 3 passages, 2333 characters.

Section 0, Paragraph 68, 856 characters.

F.2. [The chair] and I are the only two members on the Remuneration Committee which has a role of setting or recommending to the board the salary for the CEO and as part of our discussions we discuss the succession of the company with [the MD]. Now the board has asked several times what happens if the big red bus comes along and knocks over the CEO, what are the plans that are in place and we have discussed that with [the MD] and we believe that it depends entirely on the age of your CEO, if you have a CEO who is 55-60 it is pretty important that there be someone fairly close at hand or there is a very clear path ready in case. [The MD] is still very young, he is only in his early 40's and so therefore, we don't see that there is a need to have a deputy Managing Director sitting in a chair behind him because we don't think that that's the way to have logical succession.

Section 0, Paragraph 86, 1011 characters.

In the board meetings we get a series of reports by people who normally report to the Managing Director; the Marketing Manager, the Trading Stores Manager, the Export Sales Manager, a series of managers walk into the boardroom and have given us a written report to study several days before in our agenda papers. Some of them read that, some of them take it as read and ask for questions and in that way they are very open to us asking any questions to that level of management that we like. The Managing Director is usually there and if there is any clarification as to what this director might have said or done or what they have done they are usually quite - the Managing Director doesn't get many surprises out of his managers reporting to the board. So when you say are we monitoring management to that extent we are making sure that the managers and the Managing Director, we are not getting all of our information on how the company is running from one person, we are getting it from a series of people.

Section 0, Paragraph 94, 466 characters.

The Audit Committee for instance may meet at a different time to the board meeting. Because of the immense amount of travel a lot of the committees of the board meet the day before the board, or tomorrow we are going to have a meeting the day after a board for one of the committees. So that happens, but not very often, the majority of the work is done at that today session at the board meeting. [Note: The interview was conducted on the evening of a board meeting]

H-3 Dynamics

Document 'A4', 17 passages, 20739 characters.

Section 0, Paragraph 4, 417 characters.

The governing board in accordance with the laws of the country through the Companies' Act is charged with the task of managing the company and of course for that task it delegates that role as it's able to do under the legislation, to a chief executive so that's the role that I fulfil then is to be the primary conduit, primary contact point between the board of directors and the company in its day to day workings.

Section 0, Paragraph 6, 243 characters.

It seems to me that one of the great attractions of the co-operative is that, is the element of teamwork that goes with the co-operative. I always think of the managers and the directors of the company really functioning as an integrated team.

Section 0, Paragraph 6, 1204 characters.

The directors are not in a position to manage the company day to day, that's not expected of them. They come together once a month for the formal process of considering board papers. It's really up to the management to make sure that the company tasks are attended to day by day, but I can't do my job unless I know, unless I've got the confidence of the board. I often say that one of the single most important assets that I can have is the trust and the confidence of the board in me because if they trust what I and the team do then it does make the overall conduct of the company so much more straightforward, so we really, I think, as management and directors together have to strive for a common purpose. That common purpose clearly has to be the enhancement of the prosperity of the shareholders and in so doing providing worthy and rewarding career paths for the staff who work here. So to me it all comes down to partnership. It's a partnership between the skills that the managers bring and the governance, oversight and wisdom that the board of directors can bring and those things working together really in my view constitute the partnership that is necessary for the company to progress.

Appendix I Board Roles

I-1 Unite

Document 'E4', 14 passages, 14559 characters.

Section 0, Paragraph 3, 806 characters.

In my experience with other boards that co-operative boards have a lot more exposure in is the shareholders. And in fact many of the board members of course are not independent as such, they are farmers as well and in representing that there is a lot more interface and direct involvement in shareholder relations because it is supplier relations and other farmers and whatever. So there is always a little bit of a cross over between what's a milk supply issue versus what's a shareholder issue. Those two things are always grey in a co-operative in the milk industry and I am not so sure it's such a bad thing either. I think it helps with the communication and keeping everyone focussed on what they are here for so - but that is a bit of a difference I find from other listed companies sort of boards.

Section 0, Paragraph 43, 230 characters.

That's one of our risks in fact; there is a gap between what the company requires and what the company does and the understanding of that from shareholders. And we try and communicate as much as we possibly can but it's a huge gap.

Section 0, Paragraph 47, 1124 characters.

E4: Management do quite a bit and myself personally and our field staff of course. But I have meetings monthly and then we have our major regional meetings and then we have our AGM and that sort of thing. But monthly in small groups around the farms. And through the drought we were doing that every week almost. We'd have a barbeque a week to see the farmers and just to hold their hand a little bit, so quite a bit of that. The board have joined in that process since I established it because it's just a great two way communication with, you know, 30 or 40, and not too many in one hit and that works really well. But there are issues that come up at those meetings such as the one we had yesterday, there will be things like the prices at the store and the tanker going too fast down the track all the way through to share value issues or milk policy issues or milk price issues and dividend issues and whether we put in a dividend or whether we put in a milk price and so very much crosses the board and crosses the barrier between management and the board areas. So it's good to have them there and to cover that too.

I-2 Strategic-Involvement

Document 'C3 Kevin Old', 10 passages, 7836 characters.

Section 0, Paragraph 44, 599 characters.

As you know [case C] has a series of strategic themes, that, they were put in place virtually at the outset of [case C]. We've since been through a refresh but that was pretty much tinkering at the margins. Those strategic themes were essentially reinforced as a result of the strategic review. There is a process therefore, at the very highest level, for revisiting every year or two the strategic framework and making sure that the themes and the goals are consistent with where the company needs to be going in a business sense and which are consistent with shareholder aspirations for the company.

Section 0, Paragraph 46, 1037 characters.

There is a lot of work goes on in any company, [case C] is a very good example, of issues which are strategic in nature, but they are not actually captured in the formal strategic planning process. I'm talking typically about projects which, while they involve delivering on strategic themes or imperatives are more opportunistic because they arise at times unexpectedly. For example, a large company, perhaps a listed company may have its shareholding register destabilised. Maybe a large shareholder in that company says it wants to exit the register, wants to put a 40% shareholding on the block, and some investment bankers might turn up at [case C] saying well, here's a chance to get a 40% interest in XYZ - cost a billion dollars. So this is an example of something that wasn't actually in the strategic plans specifically, but the actual positioning of this company, its business model, the particular market segment that it's in is absolutely 100% consistent with [case C's] strategic goals and one or more of the strategic themes.

Section 0, Paragraph 48, 1713 characters.

That kind of situation will then lead to a number of iterations inside of [case C]. First of all management will prepare a paper outlining the opportunity, it will be at quite a high level, it will come to the board for a preliminary, in principle agreement as to whether in fact management should commit significant resource to evaluating the opportunity to establish whether it should go forward or not. Now the purpose of that paper of course will be to make sure that the board is satisfied that in fact is on strategy, that it is consistent with where [case C] should be heading. There will be a very high level strategic discussion about it that will actually carry into a process discussion. What impact does it have on the balance sheet, can we finance it, what impact will it have short term on payout, what impact long term, all those sort of ...

I-3 Control

Document 'C1 Kevin Old', 23 passages, 10434 characters.

Section 0, Paragraph 7, 388 characters.

Secondly also the hiring and the removal of the Chief Executive and thirdly, monitoring the business against the budget, and for [case C] also our three year business plan. And then the other responsibilities are in the areas of regulatory which I call Occupational, Health and Safety and those compliance sort issues. So it is compliance, it's monitoring the business, it's hiring, firing.

Section 0, Paragraph 13, 184 characters.

Strategy. And that's done in conjunction with management, so it is not the board doing it without management, and it is not management bringing a recommendation and the board stamping.

Section 0, Paragraph 19, 52 characters.

The management is actually accountable to the board.

Section 0, Paragraph 21, 635 characters.

Just as an example, all these things are public, we made a 100% takeover bid for National Foods in Australia which is part of our Australian strategy. We had a due diligence committee, that took a really deep dive into not only the process but the base assumptions, the model that drove the valuations, and the tactics. So management always had an interface with a subcommittee of the board, so they could still actually drive the day to day tactics. We do structure [case C] in that sub committees are formed if there are fundamental issues around capital structure, around milk pricing, or any, what we consider risks to the business.

Section 0, Paragraph 23, 541 characters.

It is the big fundamentals, like if it's a two billion dollar acquisition, if it is fundamentally changing the capital structure of the co-operative, if it is changing the control mechanism of the co-operative like the governance or if there is fundamental change at the interface with the shareholders, there are subcommittees set up to deal with those things. And it is that subcommittee, it cannot make decisions, but it recommends to the board and that gives the board the confidence that a lot of the details are actually thrashed out.

I-4 Serve

Document 'C3 Kevin Old', 11 passages, 5104 characters.

Section 0, Paragraph 6, 94 characters.

In most respects, the monitoring and mentoring role is at the heart of what a board has to do.

Section 0, Paragraph 6, 151 characters.

In other words, the monitoring of performance and the mentoring of executives and the provision of oversight around strategic outcomes and imperatives.

Section 0, Paragraphs 61-63, 580 characters.

I think that is the way it goes, certainly in good companies. I don't think the board is close enough to, in a very big complicated company, to superimpose a strategy on the basis of a day a week or whatever time the average director puts in. So it has to be symbiotic and iterative. That said its pretty poor if a board can't actually from their lofty vantage point up there in a helicopter, not bogged down in the day to day issues, if they can't add some value and provide some constructive strategic thinking. It certainly is what I see at [case C], I do see that happening.

Section 0, Paragraph 105, 533 characters.

Yeah, well I mean it is just a bit of shorthand for me, I mean to say I think directors have to see themselves as both mentors and monitors. We are a bit two-hatted because they can get into conflict. But if you only monitor all the time and you are continually pulling people up and growling and you say why haven't you achieved this, and why are they into this, and why did we spend on that, and what happened to the budget this month, and why isn't the payout higher it is only a question of time before everything hits the fan.

Section 0, Paragraph 107, 1141 characters.

Mentoring I think is where directors add value to management. And I think there are two or three elements to this, one is managers are often under a lot of pressure and a lot of stress, managers work very hard, they do their best, but they are, whether we like it or not there is a lot of crisis fire fighting going on in everyday life for every manager. And a director has the luxury of being in the helicopter, he doesn't have to deal with that, and can keep his or her head clear for the big picture. The chairman provides that role, with that perspective with the CEO ...