

SPAA workshop:  
Incentive Pay for CEOs in US and Canadian  
Co-operative Firms: some Policy Implications

Philippe Marcoul (with Brent Hueth)

University of Alberta and SPAA network

November 2011

# Managerial compensation in co-operatives: what do we know?

# Managerial compensation in co-operatives: what do we know?

- Surprisingly perhaps, there exists almost no empirical contributions describing managerial incentives in North American co-operatives

# Managerial compensation in co-operatives: what do we know?

- Surprisingly perhaps, there exists almost no empirical contributions describing managerial incentives in North American co-operatives
- Between 1992 and 1998

# Managerial compensation in co-operatives: what do we know?

- Surprisingly perhaps, there exists almost no empirical contributions describing managerial incentives in North American co-operatives
- Between 1992 and 1998
  - about 300 academic papers on CEO compensation in public companies have been published

# Managerial compensation in co-operatives: what do we know?

- Surprisingly perhaps, there exists almost no empirical contributions describing managerial incentives in North American co-operatives
- Between 1992 and 1998
  - about 300 academic papers on CEO compensation in public companies have been published
  - only two papers investigating CEO pay in U.S. agri-business co-operatives

# Managerial compensation in co-operatives: what do we know?

- Surprisingly perhaps, there exists almost no empirical contributions describing managerial incentives in North American co-operatives
- Between 1992 and 1998
  - about 300 academic papers on CEO compensation in public companies have been published
  - only two papers investigating CEO pay in U.S. agri-business co-operatives
- Nor does there exist any theoretical analysis that ties cooperatives managerial compensation practices to some of the defining features of cooperatives

# Managerial compensation in co-operatives: what do we know?

- Surprisingly perhaps, there exists almost no empirical contributions describing managerial incentives in North American co-operatives
- Between 1992 and 1998
  - about 300 academic papers on CEO compensation in public companies have been published
  - only two papers investigating CEO pay in U.S. agri-business co-operatives
- Nor does there exist any theoretical analysis that ties cooperatives managerial compensation practices to some of the defining features of cooperatives
- Some preliminary observations suggest that cooperatives seems to use less performance based pay to reward their manager



# Our objectives

- Unveil the specificity of managerial compensation practices in co-operative...if there is one!

# Our objectives

- Unveil the specificity of managerial compensation practices in co-operative...if there is one!
- Describe some important aspects of the reality of managerial compensation in co-ops

# Our objectives

- Unveil the specificity of managerial compensation practices in co-operative...if there is one!
- Describe some important aspects of the reality of managerial compensation in co-ops
- Discuss some desirable changes in these organizations

# Managerial compensation in other organizations

# Managerial compensation in other organizations

Ownership form	Bonus ?	Magnitude (% of TC)	Target, formulae?	Discretionary bonus?	Stock/Stock Options
Public companies	100%	15% to 24%	Yes	marginal	Yes/ Yes (21 % of TC)
Private Companies	100%	Higher than in PC	Yes	marginal	Yes higher than in PC/ Not available
Non Profit (hospital)	60%	Smaller than for-profit corp.	sometimes	marginal	not available

# The role of Directors: Public companies, private equity-owned firms, and non-profit

# The role of Directors: Public companies, private equity-owned firms, and non-profit

- Role: Monitors management on behalf of shareholders and approve (or not) major business decisions

## The role of Directors: Public companies, private equity-owned firms, and non-profit

- Role: Monitors management on behalf of shareholders and approve (or not) major business decisions
- In charge of executive compensation, risk management, and audits. Approve annual budget. Usually meet once a month.



## The role of Directors: Public companies, private equity-owned firms, and non-profit

- Role: Monitors management on behalf of shareholders and approve (or not) major business decisions
- In charge of executive compensation, risk management, and audits. Approve annual budget. Usually meet once a month.
- Directors can be top ranked employee (e.g., CFO) or big shareholders. They can also originate from outside. In this case, they can be elected, screened or handpicked by the CEO (e.g. CEO of another company).

## The role of Directors: Public companies, private equity-owned firms, and non-profit

- Role: Monitors management on behalf of shareholders and approve (or not) major business decisions
- In charge of executive compensation, risk management, and audits. Approve annual budget. Usually meet once a month.
- Directors can be top ranked employee (e.g., CFO) or big shareholders. They can also originate from outside. In this case, they can be elected, screened or handpicked by the CEO (e.g. CEO of another company).
- In general, outside directors will often have a high level of expertise in business and/or some specific knowledge about a sector

## The role of Directors: Public companies, private equity-owned firms, and non-profit

- Role: Monitors management on behalf of shareholders and approve (or not) major business decisions
- In charge of executive compensation, risk management, and audits. Approve annual budget. Usually meet once a month.
- Directors can be top ranked employee (e.g., CFO) or big shareholders. They can also originate from outside. In this case, they can be elected, screened or handpicked by the CEO (e.g. CEO of another company).
- In general, outside directors will often have a high level of expertise in business and/or some specific knowledge about a sector
- In non profit, directors typically account to the stakeholders for the organization's performance

# Directors' Incentives: Public companies, private equity-owned firms, and non-profit

- Pay and Incentives of outside directors:

# Directors' Incentives: Public companies, private equity-owned firms, and non-profit

- Pay and Incentives of outside directors:
- Fees (retainers), Compensation for attendance, Retirement benefits

# Directors' Incentives: Public companies, private equity-owned firms, and non-profit

- Pay and Incentives of outside directors:
- Fees (retainers), Compensation for attendance, Retirement benefits
- Stock options (in public companies)

## Directors' Incentives: Public companies, private equity-owned firms, and non-profit

- Pay and Incentives of outside directors:
- Fees (retainers), Compensation for attendance, Retirement benefits
- Stock options (in public companies)
- Have fiduciary duty and must act in “good faith”: legal suits are possible...but D&O liability insurance exists.

## Directors' Incentives: Public companies, private equity-owned firms, and non-profit

- Pay and Incentives of outside directors:
- Fees (retainers), Compensation for attendance, Retirement benefits
- Stock options (in public companies)
- Have fiduciary duty and must act in “good faith”: legal suits are possible...but D&O liability insurance exists.
- Limited or inexistent equity stake (in public Companies), substantial in private companies



## Directors' Incentives: Public companies, private equity-owned firms, and non-profit

- Pay and Incentives of outside directors:
- Fees (retainers), Compensation for attendance, Retirement benefits
- Stock options (in public companies)
- Have fiduciary duty and must act in “good faith”: legal suits are possible...but D&O liability insurance exists.
- Limited or inexistent equity stake (in public Companies), substantial in private companies
- Directors at non-profit typically receive no pay. Benefit: contributing to a noble cause, networking.

# Specificity of Co-operatives Directors:

**Users and owners**

# Specificity of Co-operatives Directors:

## Users and owners

- Role: Same as for public and private companies except that,

# Specificity of Co-operatives Directors:

## Users and owners

- Role: Same as for public and private companies except that,
- Elected by the membership and act almost as political constituencies

# Specificity of Co-operatives Directors:

## Users and owners

- Role: Same as for public and private companies except that,
- Elected by the membership and act almost as political constituencies
- very little pay but...possible high stake as users and owners

# Specificity of Co-operatives Directors:

## Users and owners

- Role: Same as for public and private companies except that,
- Elected by the membership and act almost as political constituencies
- very little pay but...possible high stake as users and owners
- Share holding is very “illiquid” and implies long-run relationship

# Specificity of Co-operatives Directors:

## Users and owners

- Role: Same as for public and private companies except that,
- Elected by the membership and act almost as political constituencies
- very little pay but...possible high stake as users and owners
- Share holding is very “illiquid” and implies long-run relationship
- Specific feature of co-op directors

# Specificity of Co-operatives Directors:

## Users and owners

- Role: Same as for public and private companies except that,
- Elected by the membership and act almost as political constituencies
- very little pay but...possible high stake as users and owners
- Share holding is very “illiquid” and implies long-run relationship
- Specific feature of co-op directors
  - Geographic proximity of directors



# Specificity of Co-operatives Directors:

## Users and owners

- Role: Same as for public and private companies except that,
- Elected by the membership and act almost as political constituencies
- very little pay but...possible high stake as users and owners
- Share holding is very “illiquid” and implies long-run relationship
- Specific feature of co-op directors
  - Geographic proximity of directors
  - Possible frequent interaction with the firm

# Specificity of Co-operatives Directors:

## Users and owners

- Role: Same as for public and private companies except that,
- Elected by the membership and act almost as political constituencies
- very little pay but...possible high stake as users and owners
- Share holding is very “illiquid” and implies long-run relationship
- Specific feature of co-op directors
  - Geographic proximity of directors
  - Possible frequent interaction with the firm
- Overall: co-operatives directors *could* be effective and motivated monitors

# Questions asked

# Questions asked

- CEO compensation structure
  - Written employment contract?
  - Existence and the nature of bonuses
  - Performance measurement well defined: pre-defined incentives clauses, targets?
  - Is performance is subjectively assessed?
    - Bonuses are discussed "after the facts" with the board
    - Substantial discretionary power of the board (no formulaic approach of bonuses)
  - How is the Incentive scheme perceived by the CEO? Is its structure adequate? Is there a problem in the (overall) level of compensation?
- CEO/CEO team-board relationship (frequency of informal and formal meetings, communications, degree of social interaction)
- CEO missions and strategy (Initiatives by boards, congruence with board, perceptions)

# Case studies in managerial compensation in co-operatives

# Case studies in managerial compensation in co-operatives

- 16 small case-studies (9 US + 7 Canadian): long interviews with the CEO (from 50 min to 2H20)
- Worker co-operatives, taxi co-operatives, credit unions, electricity distribution co-operatives, seed cleaning co-ops, consumer co-op
- More than half of these co-ops are in the agricultural sector (all Canadian are the Ag/agribusiness sector)

# Results: compensation agreement

## Results: compensation agreement

- 11/16 have no written employment contract (6/7 in canada!)



## Results: compensation agreement

- 11/16 have no written employment contract (6/7 in canada!)
- 13/16 CEOs received a bonus based on past year performance (6/7 in canada!)

## Results: compensation agreement

- 11/16 have no written employment contract (6/7 in canada!)
- 13/16 CEOs received a bonus based on past year performance (6/7 in canada!)
- In 10/13 cases, the board exercised *full discretion* in setting the bonus level

## Results: compensation agreement

- 11/16 have no written employment contract (6/7 in Canada!)
- 13/16 CEOs received a bonus based on past year performance (6/7 in Canada!)
- In 10/13 cases, the board exercised *full discretion* in setting the bonus level
- 2/13 have a bonus that is *somewhat* defined ex ante with some discretion. Only one CEO had a bonus whose level *can be accurately* predicted ex ante

## Results: compensation agreement

- 11/16 have no written employment contract (6/7 in Canada!)
- 13/16 CEOs received a bonus based on past year performance (6/7 in Canada!)
- In 10/13 cases, the board exercised *full discretion* in setting the bonus level
- 2/13 have a bonus that is *somewhat* defined ex ante with some discretion. Only one CEO had a bonus whose level *can be accurately* predicted ex ante
- 7/16 respondents indicated that a consultant was involved in setting the compensation scheme (only one in Canada)

## Results: compensation agreement

- 11/16 have no written employment contract (6/7 in Canada!)
- 13/16 CEOs received a bonus based on past year performance (6/7 in Canada!)
- In 10/13 cases, the board exercised *full discretion* in setting the bonus level
- 2/13 have a bonus that is *somewhat* defined ex ante with some discretion. Only one CEO had a bonus whose level *can be accurately* predicted ex ante
- 7/16 respondents indicated that a consultant was involved in setting the compensation scheme (only one in Canada)
- Current compensation level: How it would compare to your next best place of employment (Lower: 7/16, Same 9/16, higher 0/16)

## Results: compensation agreement

- 11/16 have no written employment contract (6/7 in Canada!)
- 13/16 CEOs received a bonus based on past year performance (6/7 in Canada!)
- In 10/13 cases, the board exercised *full discretion* in setting the bonus level
- 2/13 have a bonus that is *somewhat* defined ex ante with some discretion. Only one CEO had a bonus whose level *can be accurately* predicted ex ante
- 7/16 respondents indicated that a consultant was involved in setting the compensation scheme (only one in Canada)
- Current compensation level: How it would compare to your next best place of employment (Lower: 7/16, Same 9/16, higher 0/16)
- Compensation consultant: “expected total compensation in credit unions is lower than at comparable size banks”

## Results: compensation agreement

- 11/16 have no written employment contract (6/7 in Canada!)
- 13/16 CEOs received a bonus based on past year performance (6/7 in Canada!)
- In 10/13 cases, the board exercised *full discretion* in setting the bonus level
- 2/13 have a bonus that is *somewhat* defined ex ante with some discretion. Only one CEO had a bonus whose level *can be accurately* predicted ex ante
- 7/16 respondents indicated that a consultant was involved in setting the compensation scheme (only one in Canada)
- Current compensation level: How it would compare to your next best place of employment (Lower: 7/16, Same 9/16, higher 0/16)
- Compensation consultant: “expected total compensation in credit unions is lower than at comparable size banks”
- 1 CEO fired in the last 20 years in all 16 co-ops! However, CEOs tend to leave very often in some Co-ops

# The nature of compensation in co-operatives: a comparison with other organizations



## The nature of compensation in co-operatives: a comparison with other organizations

	Bonus ?	Magnitude (% of TC)	Target, formulae?	Discretionary bonus?	Stock/Stock Options
Public Company	100%	15% to 24%	Yes	marginal	Yes/ Yes (21 % of TC)
Private Company	100%	Higher than in PC	Yes	marginal	Yes/ Not available
Non Profit		Smaller than for profit corp.	Sometimes	marginal	Not available
Cooperatives (Hueth and Marcoul)	13/16	Less than 10%	1/13	Considerable Full discretion: 10/13 Partial discretion: 2/13	Not available

# CEOs and directors relationship

# CEOs and directors relationship

How do CEOs perceive their board?

- The co-operative board tends to be a weak (strategy) advisor. Most CEOs interviewed stressed that there is a *lack of knowledge* in business and financial issues among board directors (especially in the ag sector)

# CEOs and directors relationship

How do CEOs perceive their board?

- The co-operative board tends to be a weak (strategy) advisor. Most CEOs interviewed stressed that there is a *lack of knowledge* in business and financial issues among board directors (especially in the ag sector)
  - “devising a strategy is not for the board, our business is too complex for them” (US)

# CEOs and directors relationship

How do CEOs perceive their board?

- The co-operative board tends to be a weak (strategy) advisor. Most CEOs interviewed stressed that there is a *lack of knowledge* in business and financial issues among board directors (especially in the ag sector)
  - “devising a strategy is not for the board, our business is too complex for them” (US)
  - “The hardest thing to do is to have them stop thinking like farmers” (Canada)

# CEOs and directors relationship

How do CEOs perceive their board?

- The co-operative board tends to be a weak (strategy) advisor. Most CEOs interviewed stressed that there is a *lack of knowledge* in business and financial issues among board directors (especially in the ag sector)
  - “devising a strategy is not for the board, our business is too complex for them” (US)
  - “The hardest thing to do is to have them stop thinking like farmers” (Canada)
  - Some CEOs think that Board directors are not paid enough.

# CEOs and directors relationship

How do CEOs perceive their board?

- The co-operative board tends to be a weak (strategy) advisor. Most CEOs interviewed stressed that there is a *lack of knowledge* in business and financial issues among board directors (especially in the ag sector)
  - “devising a strategy is not for the board, our business is too complex for them” (US)
  - “The hardest thing to do is to have them stop thinking like farmers” (Canada)
  - Some CEOs think that Board directors are not paid enough.
- Liaison with the membership: feedback from members

# CEOs and directors relationship

How do CEOs perceive their board?

- The co-operative board tends to be a weak (strategy) advisor. Most CEOs interviewed stressed that there is a *lack of knowledge* in business and financial issues among board directors (especially in the ag sector)
  - “devising a strategy is not for the board, our business is too complex for them” (US)
  - “The hardest thing to do is to have them stop thinking like farmers” (Canada)
  - Some CEOs think that Board directors are not paid enough.
- Liaison with the membership: feedback from members
- The key role of the board is *monitoring* (12/16)



# CEOs and directors relationship

How do CEOs perceive their board?

- The co-operative board tends to be a weak (strategy) advisor. Most CEOs interviewed stressed that there is a *lack of knowledge* in business and financial issues among board directors (especially in the ag sector)
  - “devising a strategy is not for the board, our business is too complex for them” (US)
  - “The hardest thing to do is to have them stop thinking like farmers” (Canada)
  - Some CEOs think that Board directors are not paid enough.
- Liaison with the membership: feedback from members
- The key role of the board is *monitoring* (12/16)
- Interaction intensity CEO/board seems to be high

# CEOs and directors relationship

How do CEOs perceive their board?

- The co-operative board tends to be a weak (strategy) advisor. Most CEOs interviewed stressed that there is a *lack of knowledge* in business and financial issues among board directors (especially in the ag sector)
  - “devising a strategy is not for the board, our business is too complex for them” (US)
  - “The hardest thing to do is to have them stop thinking like farmers” (Canada)
  - Some CEOs think that Board directors are not paid enough.
- Liaison with the membership: feedback from members
- The key role of the board is *monitoring* (12/16)
- Interaction intensity CEO/board seems to be high
  - Everyday face-to-face meeting (6/16), every week (7/16)

# CEOs and directors relationship

How do CEOs perceive their board?

- The co-operative board tends to be a weak (strategy) advisor. Most CEOs interviewed stressed that there is a *lack of knowledge* in business and financial issues among board directors (especially in the ag sector)
  - “devising a strategy is not for the board, our business is too complex for them” (US)
  - “The hardest thing to do is to have them stop thinking like farmers” (Canada)
  - Some CEOs think that Board directors are not paid enough.
- Liaison with the membership: feedback from members
- The key role of the board is *monitoring* (12/16)
- Interaction intensity CEO/board seems to be high
  - Everyday face-to-face meeting (6/16), every week (7/16)
  - Frequent or occasional social interaction with board members (13/16)

# CEOs and directors relationship

## How do CEOs perceive their board?

- The co-operative board tends to be a weak (strategy) advisor. Most CEOs interviewed stressed that there is a *lack of knowledge* in business and financial issues among board directors (especially in the ag sector)
  - “devising a strategy is not for the board, our business is too complex for them” (US)
  - “The hardest thing to do is to have them stop thinking like farmers” (Canada)
  - Some CEOs think that Board directors are not paid enough.
- Liaison with the membership: feedback from members
- The key role of the board is *monitoring* (12/16)
- Interaction intensity CEO/board seems to be high
  - Everyday face-to-face meeting (6/16), every week (7/16)
  - Frequent or occasional social interaction with board members (13/16)
  - Know the names of board members' spouse (11/16)

## Main characteristics of CEOs' job

## Main characteristics of CEOs' job

- Fair to Large autonomy in devising strategy. No evidence that Board are giving detailed direction for managerial actions/strategies (no written contract, few initiatives, very hands-off boards)

## Main characteristics of CEOs' job

- Fair to Large autonomy in devising strategy. No evidence that Board are giving detailed direction for managerial actions/strategies (no written contract, few initiatives, very hands-off boards)
- For instance, virtually no opposition to any proposal by CEOs

## Main characteristics of CEOs' job

- Fair to Large autonomy in devising strategy. No evidence that Board are giving detailed direction for managerial actions/strategies (no written contract, few initiatives, very hands-off boards)
- For instance, virtually no opposition to any proposal by CEOs
- However, they observe well CEO's behavior (very frequent interactions) → Good appraisal of past actions.



## Main characteristics of CEOs' job

- Fair to Large autonomy in devising strategy. No evidence that Board are giving detailed direction for managerial actions/strategies (no written contract, few initiatives, very hands-off boards)
- For instance, virtually no opposition to any proposal by CEOs
- However, they observe well CEO's behavior (very frequent interactions) → Good appraisal of past actions.
- Performance of CEO is subjectively assessed. No predefined targets.

## Main characteristics of CEOs' job

- Fair to Large autonomy in devising strategy. No evidence that Board are giving detailed direction for managerial actions/strategies (no written contract, few initiatives, very hands-off boards)
- For instance, virtually no opposition to any proposal by CEOs
- However, they observe well CEO's behavior (very frequent interactions) → Good appraisal of past actions.
- Performance of CEO is subjectively assessed. No predefined targets.
- Level of compensation seems relatively low (especially for Canadian Co-op)

# Is bonus subjectivity a problem for the CEO and the organization?

# Is bonus subjectivity a problem for the CEO and the organization?

- Bonus set after the fact does not send *clear signals* as to what are the objectives of the organization

## Is bonus subjectivity a problem for the CEO and the organization?

- Bonus set after the fact does not send *clear signals* as to what are the objectives of the organization
- Many CEOs (not all) regret and express frustration for the lack of clear objectives

## Is bonus subjectivity a problem for the CEO and the organization?

- Bonus set after the fact does not send *clear signals* as to what are the objectives of the organization
- Many CEOs (not all) regret and express frustration for the lack of clear objectives
- Obtaining a bonus becomes a “second guessing” game. Typically end-of-the-year bonus is more likely when there is

# Is bonus subjectivity a problem for the CEO and the organization?

- Bonus set after the fact does not send *clear signals* as to what are the objectives of the organization
- Many CEOs (not all) regret and express frustration for the lack of clear objectives
- Obtaining a bonus becomes a “second guessing” game. Typically end-of-the-year bonus is more likely when there is
  - A clean, well-balanced budget

# Is bonus subjectivity a problem for the CEO and the organization?

- Bonus set after the fact does not send *clear signals* as to what are the objectives of the organization
- Many CEOs (not all) regret and express frustration for the lack of clear objectives
- Obtaining a bonus becomes a “second guessing” game. Typically end-of-the-year bonus is more likely when there is
  - A clean, well-balanced budget
  - A low number of managerial mistakes (→ prudent behavior from CEOs)



# Is bonus subjectivity a problem for the CEO and the organization?

- Bonus set after the fact does not send *clear signals* as to what are the objectives of the organization
- Many CEOs (not all) regret and express frustration for the lack of clear objectives
- Obtaining a bonus becomes a “second guessing” game. Typically end-of-the-year bonus is more likely when there is
  - A clean, well-balanced budget
  - A low number of managerial mistakes (→ prudent behavior from CEOs)
  - A low number of complaints of members received by the board (for ag co-op very few people at GM)

## Is bonus subjectivity a problem for the CEO and the organization?

- Bonus set after the fact does not send *clear signals* as to what are the objectives of the organization
- Many CEOs (not all) regret and express frustration for the lack of clear objectives
- Obtaining a bonus becomes a “second guessing” game. Typically end-of-the-year bonus is more likely when there is
  - A clean, well-balanced budget
  - A low number of managerial mistakes (→ prudent behavior from CEOs)
  - A low number of complaints of members received by the board (for ag co-op very few people at GM)
  - A low price for the co-op services

# Is bonus subjectivity a problem for the CEO and the organization?

- Bonus set after the fact does not send *clear signals* as to what are the objectives of the organization
- Many CEOs (not all) regret and express frustration for the lack of clear objectives
- Obtaining a bonus becomes a “second guessing” game. Typically end-of-the-year bonus is more likely when there is
  - A clean, well-balanced budget
  - A low number of managerial mistakes (→ prudent behavior from CEOs)
  - A low number of complaints of members received by the board (for ag co-op very few people at GM)
  - A low price for the co-op services
- Theoretical standpoint: essentially a relational contract.

# Policy Implications

## Policy Implications

- Can pre-defined bonuses be set even if the Co-op has no profit maximization in mind? Possibly

## Policy Implications

- Can pre-defined bonuses be set even if the Co-op has no profit maximization in mind? Possibly
- Target bonuses in term of quality of service, cost minimization, or price of service could be set.

## Policy Implications

- Can pre-defined bonuses be set even if the Co-op has no profit maximization in mind? Possibly
- Target bonuses in term of quality of service, cost minimization, or price of service could be set.
- Long run incentives: Price of service and Ratios such as  $\frac{\text{Investment levels}}{\text{price of service}}$  could be jointly analyzed to determine bonuses.

# Policy Implications

- Can pre-defined bonuses be set even if the Co-op has no profit maximization in mind? Possibly
- Target bonuses in term of quality of service, cost minimization, or price of service could be set.
- Long run incentives: Price of service and Ratios such as  $\frac{\text{Investment levels}}{\text{price of service}}$  could be jointly analyzed to determine bonuses.
- In agriculture, there seems to be a strong “farmers’ culture” of not paying enough managers. In fact, plants that appeared to be the most dysfunctional (high turnover) were those for which the (current) manager complained the most for insufficient pay (or help). CEO turnover *is* costly



## Policy Implications

- Can pre-defined bonuses be set even if the Co-op has no profit maximization in mind? Possibly
- Target bonuses in term of quality of service, cost minimization, or price of service could be set.
- Long run incentives: Price of service and Ratios such as  $\frac{\text{Investment levels}}{\text{price of service}}$  could be jointly analyzed to determine bonuses.
- In agriculture, there seems to be a strong “farmers’ culture” of not paying enough managers. In fact, plants that appeared to be the most dysfunctional (high turnover) were those for which the (current) manager complained the most for insufficient pay (or help). CEO turnover *is* costly
- In the Canadian agricultural sector: Great reluctance to involve any compensation consultant

# Policy Implications

- Can pre-defined bonuses be set even if the Co-op has no profit maximization in mind? Possibly
- Target bonuses in term of quality of service, cost minimization, or price of service could be set.
- Long run incentives: Price of service and Ratios such as  $\frac{\text{Investment levels}}{\text{price of service}}$  could be jointly analyzed to determine bonuses.
- In agriculture, there seems to be a strong “farmers’ culture” of not paying enough managers. In fact, plants that appeared to be the most dysfunctional (high turnover) were those for which the (current) manager complained the most for insufficient pay (or help). CEO turnover *is* costly
- In the Canadian agricultural sector: Great reluctance to involve any compensation consultant
- The key to change a traditional co-op is to change its board’s mind:

# Policy Implications

- Can pre-defined bonuses be set even if the Co-op has no profit maximization in mind? Possibly
- Target bonuses in term of quality of service, cost minimization, or price of service could be set.
- Long run incentives: Price of service and Ratios such as  $\frac{\text{Investment levels}}{\text{price of service}}$  could be jointly analyzed to determine bonuses.
- In agriculture, there seems to be a strong “farmers’ culture” of not paying enough managers. In fact, plants that appeared to be the most dysfunctional (high turnover) were those for which the (current) manager complained the most for insufficient pay (or help). CEO turnover *is* costly
- In the Canadian agricultural sector: Great reluctance to involve any compensation consultant
- The key to change a traditional co-op is to change its board’s mind:
  - Directors’ education

## Policy Implications

- Can pre-defined bonuses be set even if the Co-op has no profit maximization in mind? Possibly
- Target bonuses in term of quality of service, cost minimization, or price of service could be set.
- Long run incentives: Price of service and Ratios such as  $\frac{\text{Investment levels}}{\text{price of service}}$  could be jointly analyzed to determine bonuses.
- In agriculture, there seems to be a strong “farmers’ culture” of not paying enough managers. In fact, plants that appeared to be the most dysfunctional (high turnover) were those for which the (current) manager complained the most for insufficient pay (or help). CEO turnover *is* costly
- In the Canadian agricultural sector: Great reluctance to involve any compensation consultant
- The key to change a traditional co-op is to change its board’s mind:
  - Directors’ education
  - Include a (non member) director with a business background