C: CONTROL AND GOVERNANCE

Johnston Birchall

When co-operatives are very small, they do not have a problem of member control; members have a direct say in decision-making and management, and they can usually ensure the co-operative works in their interest. There may be problems to do with group dynamics but these are shared with any small group that wants to get something done. As soon as members give authority to a smaller group to take decisions on their behalf, the question of governance emerges. What delegated powers shall this group have, and how will they be held accountable? As soon as members give authority to one or two people to manage the business, the parallel question of management emerges, and again this leads to delegated powers and accountability mechanisms. The elected members then have the task of controlling the managers on behalf of the rest of the members. In economic theory, they become the 'principal' and the managers the 'agent', but it is really a three-cornered relationship between members, the board of directors and the managers.

There is a pessimistic view of co-operative governance that predicts problems. Because members have limited ownership rights, they will not have much interest in participating. Because there are many members all with equal rights, they will tend to free ride on the participation of others. Because market signals are limited (they do not have tradable shares and are not threatened by takeovers), their members will be less well informed than shareholders in conventional businesses. Because profit is not the overriding motive, the business will be harder to govern. Because their managers cannot become owners (through issue of shares as bonuses), their interest will not easily be aligned with those of members, and because of the lack of member participation they will tend to take over the co-operative and run it in their own interests. However, these pessimistic predictions are confounded in practice, since most large co-operatives do seem to be well governed. (Birchall, 2014a) They have some inherent advantages. They tend to foster high trust relationships, with no profit-taking by intermediaries, and have a long-term focus on member needs. They are able to monitor board and management performance in relation to a clear set of objectives focused on meeting member needs and expectations. However, these advantages only occur if they can find ways of aligning the interests of members and elected governors, and of controlling managers in the members' interest. Good governance is all about relationships, and focusing relentlessly on meeting the needs of the members (Birchall, 2013a).

This is easier to do in some kinds of co-operatives than others. In producer co-ops (owned by farmers, retailers or other small businesses), members have a direct incentive to participate and ensure good governance as their livelihoods depend on it. Like any other business, individual producer co-ops have sometimes failed because of poor business strategy, lack of expertise, or over-reliance on a powerful manager, but they have not shown any systematic weaknesses compared to investor-owned businesses. In consumer co-ops (owned by their end-customers in food retailing, banking, insurance and other retail sectors), members have much less incentive to participate and, when the rewards from membership are low, it is easy for boards to become oligarchic and for managers to take power. This is what happened in the consumer co-operative sectors of several European countries in the post-war period, and in some countries the sector disappeared. Also, in the 1990s many insurance mutuals and building societies were demutualised by oligarchic boards whose members had no idea that they were the joint owners. In these cases, it is better to see mutuals as 'non-owned' rather than member-owned; they are more like foundation or trust boards answerable to nobody but themselves. However, some mutuals have rejected the call to demutualise and are finding innovative ways of connecting with their (millions of) members.

Worker-owned co-operatives have a particular set of requirements for good governance. They have to involve their members, but putting limits on the extent to which they can interfere with management, and safeguards against their selling or converting the business for private gain. When they have done this (e.g. at the Mondragon Corporation, the John Lewis Trust), they can be well governed and gain the benefits of high-trust relationships and a highly motivated workforce. Some co-operatives are 'multi-stakeholders,' and the governance structure of these has to be carefully designed to balance the different interests. Examples include the Italian social co-operatives that have employees, clients and volunteers in membership, the worker-consumer owned Eroski Corporation (Spain) and the consumer-farmer owned iCoop (Korea). On a pessimistic view, they will have conflicts of interest that make their governance too costly (Hansmann, 1996). On a more optimistic view, their complex governance structures will enable them to bring the different interests into harmony (Turnbull, 2001).

How can effective co-operative governance be ensured? In designing governance structures, we struggle to give some weight to each of three different types of authority: voice, representation and expertise. We have to listen to the voice of the members, to find an effective way of representing them, and to find the expert help they need. Only when all three types of authority are present can a co-operative be governed effectively. (Birchall, 2014a: ch. 2) If one of these is weaker than the others, then there will be problems. Not enough member involvement and the board will be an oligarchy, not enough representation and it will be unaccountable, not enough expertise and it will be incompetent. The recent poor performance of the UK Co-operative Group, and the loss of its bank, are partly explained by the lack of expertise on their boards, and the very restricted member involvement that their constitutions provided (Birchall, 2014b).

A recent study of the 60 largest co-operatives (10 each in six industry sectors), found that there is no single blueprint for good governance (Birchall, 2014a). In most large, well-established co-operatives, the governance structure has evolved, sometimes over several decades, and is the result of initial design, adaptation, mutation and occasional redesign mixed in with the usual human reliance on routines and a certain amount of inertia. Member voice is orchestrated by these co-operatives in innovative ways that are not too costly and work well – informal meetings, newsletters and forums that encourage exchange of views and information, and that motivate members to vote for their representatives. Often, in order to ensure accurate representation, the members are divided into natural constituencies by geographical area or interest group. Some co-operatives have a two-tier system in which a larger representative assembly can call to account a smaller board of directors.

Expertise is achieved by having a mixed board of representatives and appointed experts. Around half of the 60 boards have independent appointed experts on them, and others are actively considering this option. Most boards achieve some balance between representativeness and expertise by controlling the appointment of new board members through nomination committees. This can become undemocratic, particularly when they neglect member voice and make sure only their recommended candidates get elected. It is better to open up elections of representatives to competition while ensuring expertise through appointing extra independent board members.

What should be the place of management? Most co-operatives have an executive board or committee of top managers that relates to a separate board of directors, but among the 60 co-operatives there are some interesting permutations. Having a large assembly of representatives enables some co-operatives to have a smaller, mixed board of directors and managers that seems to work well. It is all about the effective distribution of different types of authority.

It has become normal for co-operatives to adopt the governance codes that are available in the business sector they operate in, but these have had to be adapted to make them fit the 'co-operative difference.' The co-operatives that impress are the ones that confidently adapt existing codes, explaining why they cannot always comply with codes written for investor-owned businesses. They supplement their governance codes with ethical guidelines that go further, or introduce a rating system that grades the performance of different parts of their group. From their websites, it is clear that some co-operatives are continually striving to improve their governance processes; they define what good governance means in practice.

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