



**COMMUNAUTE EUROPEENNE DES COOPERATIVES DE CONSOMMATEURS**

**EUROPEAN COMMUNITY OF CONSUMER CO-OPERATIVES**

# **Euro Coop guidelines on cooperative governance**



 **uro Coop** is the European Community of consumer co-operatives. Its Secretariat is based in Brussels. Its members are the national organisations of consumer co-operatives in 17 European countries. Created in 1957, Euro Coop today represents over 3,200 local and regional co-operatives, whose members amount to more than 20 million consumers across Europe.

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# WHY A PUBLICATION ON CO-OPERATIVE GOVERNANCE

The idea to write this short booklet comes from the interest shown by Euro Coop members towards this current and controversial issue.



As **jointly-owned** and **democratically-controlled enterprises**, consumer co-operatives follow the specific principle of consumer representation: each co-operative member has in fact a right to vote under the clause "**1 member, 1 vote**". This basic principle, which characterizes the governance of co-operative enterprises, has raised several considerations on the best way to manage co-operatives.

The aim of this booklet is to present the **current reflections undertaken** and to **analyse the future stakes of the co-operative governance**. Of course, it will not constitute a ready-to-go solution to all co-operative problems but it will hopefully be a good starting point to raise a fruitful debate around the identified issues.

## CO-OPERATIVE GOVERNANCE: A DEFINITION

The term "**governance**" is a very adaptable one. It is used in connection with several contemporary social sciences, especially **economics** and **political science**. It comes from the need of economics and political science for an all-embracing concept capable of conveying diverse meanings not covered by the traditional term "government".

Referring to the exercise of power overall, the term "governance", in both corporate and State contexts, embraces **action by executive bodies, assemblies and judicial bodies**.

**Corporate governance** refers to the way in which organisations are governed and powers are distributed and exercised by different groups.

**Co-operative governance** implies therefore rules, tools and concrete procedures through which co-operative societies are managed. Governance must be **consistent with values, principles and the mission of consumer co-operation**, in order to allow their correct implementation.

# GENERAL PRINCIPLES OF GOOD GOVERNANCE FOR CO-OPERATIVES

Co-operatives are organisations that belong to the members, who influence and control co-operatives' activities at every level. They run a particular type of business which is aimed at conciliating the need to be healthy commercial enterprises with the primary objective to be of **use to its members and defend their interests**.

Co-operatives are based on the values of **democracy, equality, social responsibility, equity and solidarity** and the co-operatives general principles of good governance are guidelines by which co-operatives put those values into practice. All co-operatives should manage their business following these 5 principles:

## 1) *Openness*

Co-operatives are organisations which membership is open to any person able to use their services and willing to accept the responsibility of it. They follow an equal opportunity policy, promoting non-discriminatory employment procedures and practices (religious belief, gender, ethnic origin...).

## 2) *Participation*



Members' involvement is key to a successful co-operative enterprise and **members** should be encouraged to **actively participate** to the co-operative **democratic life**. Members' democratic participation represents indeed a fundamental part of the co-operative identity, as co-operatives found their power in a **strong member base**.

In addition to that, **members' economic participation** constitutes a further obligation for co-operatives to meet members' needs.

## 3) *Member representation and democratic principle*

Members' participation in the management of their co-operatives is ensured through a **complex process of representation**, which can differ from one country to another or from one co-operative enterprise to another, but which is always seeking to ensure that co-operatives' activities meet consumers needs and interests.

The basic principle of consumer representation is that each co-operative member has a right to vote. **Co-operatives belong to their members** and this is the reason why members should be fully integrated and represented in the policy process.

#### 4) *Transparency* \_\_\_\_\_

Employees and members should be regularly informed and made participative through active explanations about policies and actions undertaken. Top managers have a high responsibility *vis-à-vis* co-operative members and must therefore ensure that those **policies and actions** are **coherent with the co-operative philosophy and values** and satisfy member needs.

## THE CO-OPERATIVE SPECIFICITY: ISSUES TO TACKLE AND POSSIBLE SOLUTIONS

### 1) *Real participation of members* \_\_\_\_\_

Real participation of members to co-operative life is a point of capital importance as in co-operatives the link between the base (members - owners) and top management structures has to be constantly assured.

As co-operatives grow in size, number of members and geographic implantation, it becomes more and more difficult to ensure there is a **constant link between the base (members - owners) and top management positions** and therefore real participation of members to co-operative life could be jeopardised.



### GUIDELINES \_\_\_\_\_

*Members' participation should be supported by all means. **General assemblies** must be organised at least once a year, and members should be encouraged to actively participate in them.*

*It is vital for co-operatives to establish a system guaranteeing that local members can participate in the general assemblies or at least of ensuring that their opinions are duly taken into account, as co-operatives find their specificity in their local implantation.*

*A two-layer or **three-layer system** with national, regional or local assemblies should be established if the geographic dispersion of the co-operative hinders participation.*

*Representatives or delegates from the lower layers should be able to participate in the upper layers to guarantee that the democratic system is maintained at each level and that members are able to effectively monitor co-operatives' activities.*

*During election processes, **voting practices** should be made **easier and more flexible** in time and technique, in order to allow a great number of members to participate.*

*Ballot boxes should be fixed in different places such as co-operative stores and head offices and **posting voting** should be organised for members unable to attend the election. Moreover, new voting practices through IT-tools should be promoted such as **on-line or telephone voting**, in order to facilitate members participation.*

*Members should be also informed of the place and addresses of election early enough through **post, information in co-operatives stores** (posters, leaflets...) or **internet** (email, website...).*

## 2) *Social reporting*



Social reporting is the systematic communication of a company's **social, environmental and ethical impact** and its commitments to enhance that capacity in the future. Consumer co-operatives are increasingly involved in elaborating this kind of publications, which loyally reflect their general objectives and philosophy.

Taking care of social aspects has always been a prerogative of consumer co-operatives, which, for their specific nature, see in society their most important value and strength.

Social reporting is not yet a widespread practice. Although social activities constitute a considerable part of their action, some co-operatives still include social indicators in their annual report without however dedicating a specific section to them.

### **GUIDELINES**

*A yearly Social Report should be elaborated reflecting the co-operatives' activities in the social area. This is a great opportunity for co-operatives to express themselves as an alternative business and societal model.*

*Most co-operatives carry out a **big number of social activities**. For this reason, it is advisable to let this strong co-operative specificity emerge and then start enucleating and classifying social parameters in which to include, for example, also **environmental indicators**.*

*These first steps could be then beneficially strengthened through the setting up of **specific co-operative indicators**, so as to underline the difference between co-operatives and other kind of businesses.*

*Another aspect that could be constructively included in social reports is **benchmarking with other co-operative organisations**: this would result in a feeling of transparency and openness towards the general public and would contribute to a reinforcement of the “co-op brand”. This would then turn out to be a solid communication tool to express co-operative values and diversity.*

### **3) Recruitment of top manager positions** \_\_\_\_\_

Top manager positions are the **leading engines** of every company and, even if in co-operatives there should be a strong control of the base over managing positions, their role remains nevertheless of capital importance.

In some co-operatives recruitment at the highest levels does not take into due consideration skills and experience but rather personal trust and reliability. Besides that, managers hired generally lack co-operative knowledge due to their previous academic and/or professional experience. Another aspect that is often neglected relates to criteria like religion, age, sex, and ethnic origin, which are seldom taken into consideration.

#### **GUIDELINES** \_\_\_\_\_

*Skills and experience should be the first criteria to be taken into consideration when recruiting top managers.*

*Specific training should be provided for the development of a solid co-operative knowledge, as this is fundamental to make managers aware of the particular philosophy inspiring the co-operative business.*

*A responsibility scheme should though be put in place to ensure accountability of the managers to the board.*

*Elements relating to religion, age, sex, and ethnic origin should also be included in the selection criteria especially in countries where the preservation of diversity and pluralism represents a particularly sensitive issue.*

### **4) Composition of the board** \_\_\_\_\_

The board is the executive body of a company and therefore the competences and composition of its members are matters of the utmost importance.

Some of the problems that emerged from the discussions are particularly related to the size and composition of the board. In fact, in a number of cases boards result to be too large and therefore ineffective or too slow in relation to the tasks they are called to fulfil.

## GUIDELINES

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*The board size should reflect the co-operative societies' nature, complexity and scale. It must not be too large in order to ensure the necessary flexibility in seeking compromise.*

*The board should retain a full and effective control over the co-operative society and the executive management should refer to it. Directors should examine the performance of the executive management in meeting co-operatives' objectives and should have the necessary competences and powers to challenge it, if necessary.*

*The board should remain independent from the management team and thus hold a part of the meetings not at its presence.*

*The board meetings should have a regularity and periodicity that enables it to respond adequately and timely to the problems that arise.*

## 5) Training provided to board members \_\_\_\_\_

Training is an essential part of a company's activities as it allows members to constantly keep up with the times and be ready to face new challenges in a fast-changing world. Due to the executive tasks they fulfil, a specific training to board members has to be regularly provided for.

Some co-operatives still do not have specific training courses, while others find it difficult to establish a real programme of training activities or training is not given the attention it would deserve. Besides that, it occurs that board members lack knowledge of co-operative issues as well as business issues.



## GUIDELINES

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*Co-operatives should establish training courses to the board members.*

*The kind of training to be provided should not only be linked to business issues but also has to tackle aspects related to developing a co-operative sensitivity and knowledge. A co-operative mindset is in fact fundamental to carry out a co-operative business.*

## 6) *Involvement of independent advisors in co-operative board meetings*

Independent advisors are more and more used to manage company's activities. This occurs because of the complexity and specificity of the tasks big companies are called to accomplish. Besides that, their employment is often synonym of independence of advice and professionalism beyond any possible political constraint.



It is still very rare to employ independent advisors in co-operative board activities and it is preferred to train board members to specific skills than to call for independent advice.

### GUIDELINES

*The employment of independent advisors should not be source of prejudice from the co-operative management side as it can provide a **real added value** on a number of issues which, for example, require a very specific competence.*

*Training to board members is equally important and has to be taken into the utmost consideration. In any case, ultimate decisions have to be left to the board responsibility.*

## 7) *Compliance to co-operative principles of the acquired businesses*

Co-operatives are a very specific kind of business as they are based on the principles of democracy, equality, social responsibility, equity and solidarity. Acquired businesses have then to respond to requirements which go beyond commercial profitability and are therefore sometimes difficult to meet.

Compliance with co-operative principles by acquired businesses is not always looked for and when this kind of provision exists there is a loose control over it.

Co-operative businesses carry a sound reputation which has differentiated them in time from other kinds of commercial activities. However this reputation could be endangered if co-operatives opt for an acquisition policy unable to maintain the necessary compliance with co-operative principles.

## GUIDELINES

*It is fundamental to train employees and managers working for the acquired businesses to the co-operative culture.*

*A strong system to assess compliance of the acquired businesses with the co-operative principles should be established until the co-operative culture has definitively been implanted in those organisations.*

### 8) *Inspection of external bodies in the co-operative activities*

The use of external bodies to carry out inspection activities is synonym of professionalism and good health for a business which has no fear to interchange with external world.

The recourse to the inspection by external bodies over co-operative businesses does not constitute a widespread praxis and in some cases they are just used in special circumstances.



## GUIDELINES

*To accept inspection from external bodies is surely an advisable action co-operatives should put in place to improve co-operative governance. This accomplishment will in fact engender a healthy perception of transparency from the general public side and, from a technical point of view, lead to better managing.*

### 9) *Employment and remuneration policy*

Caring about a fair remuneration policy and employment policies are, in general, of extreme importance for businesses which are deeply concerned about social issues. In spite of this, they represent - especially for remuneration - a chapter of sensitive importance as they touch the private sphere of every employee and, besides that, they constitute a kind of taboo element in many cultures.

Transparency in these kinds of policies is seldom outspokenly expressed, especially for what relates to top management positions. In addition to that, discrepancies between co-operative social objectives and a number of policies adopted by co-operatives towards employees have been registered and need to be carefully monitored and eventually adapted.

## GUIDELINES

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Co-operative social values are at the core of co-operative businesses and therefore a strong attention has to be drawn to them when implementing employment and remuneration policies.

Employment policies should ensure **highly protective standards** to employees, with particular attention to **sensitive categories** such as **people bearing handicaps**, or **women having small children**. In this regard, provisions like **architectural adjustments** of co-operative buildings to people bearing handicaps is an immediate effort to be made. Another practical hint could be to provide co-operative buildings with **kindergartens** to help women having small children.

The **remuneration policy** has to be **transparent** at all levels and should not leave top manager positions aside. This device would represent an element of high transparency in internal as well as in external corporate policies and would be an effective tool of good governance.

## CONCLUSIONS





A debate on governance is symptomatic of a **widespread sensitivity** coming from the co-operative world about its role, objectives and, above all, of its willingness to discuss about itself, to better progress and to always satisfy consumer - members needs and expectations. The transmission belt between consumer - members and top managing positions is the richness that makes co-operatives businesses so different from all other commercial activities and constitutes the privileged channel to be always in touch with people's needs and expectations.



This value has allowed co-operatives to feel society's pulse but, in some cases, it has led to slowness and reluctance to change because of difficulties encountered, for example, in long representation processes.

This guide is meant to be a rapid blink over consumer co-operative's most relevant problems and it is aimed at giving a few hints to start solving them. For co-operatives there is nothing more relevant than consumer - members, their participation, needs and satisfaction. For this reason, when they are put at the very centre of the business, all policies and decisions will follow. Keeping consumer - members at the very centre of their business is actually the real challenge co-operatives are called to take up: a challenge which is worth engaging and to which co-operatives are surely among the best business and social actors to respond to.

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