Enlightened co-operative governance

Balancing performance with broader principles in co-operatives and mutuals
The co-operative movement, however, having proven successful even in times of financial crisis and through ever-shifting conditions, may be poised to play a more important role than ever.

With its unique approach to balancing conventional profit goals with broader principles, this distinct business model has tremendous potential to offer new solutions to economic challenges. But like their corporate counterparts, co-operatives and mutuals are facing pressure to demonstrate that they are equipped to thrive in a rapidly evolving global economy.

While many co-ops and mutuals have embraced a commitment to good governance as an important indicator that they’re thinking about the future, the challenge remains to find an appropriate balance between the principles of good governance and the unique characteristics that form the very core of the co-operative model.

A paradigm emerges

In summer 2012, we gathered viewpoints from executives and directors of some of the world’s largest co-operatives and mutuals ahead of the 2012 International Summit of Cooperatives and identified the key governance issues facing co-operatives and mutuals now and in the future.

During the October 2012 summit in Quebec City, Canada, we took part in various workshops, sessions and networking activities to reach out to co-operative and mutual leaders from over 90 countries. The discussions proved highly constructive and enlightening.

In the weeks following the summit, we gave more thought to validating a series of findings. Exclusive interviews with executives and directors complemented our research and cast new light on concerns about striking a balance between organizational performance based primarily on three pillars, with leading governance practices.

What emerged is a snapshot of an industry trying to find a way to deal with a critical challenge: carving out an approach to governance that inspires confidence, elevates the status and reputation of co-ops and mutuals as solid and unique business entities, and enables them to be viewed as a robust long-term approach to building competitive enterprises and economies.

We’ve identified this emerging paradigm as enlightened co-operative governance – a philosophy that takes the leading governance practices common to all enterprises and blends them with an approach that optimizes member proximity and enables the co-operative or mutual to remain true to its initial raison d’être.

In the hope of contributing to the ongoing evolution of this dynamic and vibrant sector, we’ve compiled some highlights of the ways today’s co-op and mutual leaders are meeting the challenge of adopting leading governance practices tailored to their reality while balancing financial performance with the broader principles of co-operatives and mutuals.

Co-operatives: business with a difference

Like other businesses, co-ops and mutuals must remain efficient, provide products and services to customers and be financially viable. But they differ from other businesses in one fundamental respect: co-ops and mutuals are owned by a member community, not by shareholders. Thus, they maintain a different approach to philosophy, structure, ownership, governance, investment and disposition of profits.

The membership of a co-op or mutual is composed of those who use its services, and the organization they own and share is a business entity based on democracy. Members generally do not only join for the purpose of profit making.

In recent years, businesses and citizens in even the most prosperous nations have struggled to deal with the fallout that results when organizations place the profit motive above all else.
Co-operatives and mutuals generally use a democratic system of “one member, one vote,” so members are all equal decision-makers in the enterprise. In turn, all members share the benefits of co-operation, generally based on how much they use the co-operative’s service.

Co-ops and mutuals often emerge when important services are not available, or important community needs are not being met. Therefore, it is the needs of a community that are paramount, with profit generation being a secondary concern. The existence of co-operatives and mutuals is driven by both social and economic concerns. The priority for the co-op is to improve the quality of life for its members, not to make profits for shareholders. Of course, to be successful and grow, co-ops must also be financially robust and well managed – just like any competitive investor-owned organization.

A powerful economic engine

The significant contribution co-operatives and mutuals deliver to the world economy remains poorly understood and perennially underestimated. Co-operatives and mutuals operate in all economic sectors and have proven to be solid and dynamic competitors with conventional enterprise structures.

Three reasons co-operatives and mutuals have yet to be recognized as the modern economic drivers they are:

- Lack of advocacy to policymakers about the role of co-ops and mutuals, which leads to under-representation in policy and regulatory environments
- Neglect by academics as a subject of study, related to the changing role of economists who emphasize top-down solutions
- Lack of cohesive sector-wide communications strategy to the general public, members, governments, and regulators


Did you know?

Co-ops and mutuals...

- Have over one billion members globally
- Employ more than 100 million people and account for more jobs than all of the world’s multinationals combined
- Have a top-300 cohort that turns over more than US$1.1 trillion per year – taken together, they would represent the 10th largest world economy

Source: canada2012.coop/en/what_is_a_cooperative/The-global-co-operative-sector
Governance: structuring for success

Governance refers to the set of processes, customs, policies and structures that drive the way an organization is directed, administered and controlled. It usually also includes the relationships among the many stakeholders involved and the overall goals. Stakeholders include those who are directly involved in the organization - members, management, the board of directors - but may also involve a broader community of suppliers, lenders, regulators and the community at large. How each of these stakeholders is treated within the context of governance can depend on the nature of the organization.

Like other enterprises, co-ops and mutuals require capital investment, leadership and management expertise. Unlike many other kinds of enterprises, however, they must communicate and respond very effectively to the needs of their members, and successfully engage all members in making decisions that direct the policies and governance of the business.

Co-operative governance is different from corporate governance because the boards of mutuals and co-ops not only act as the watchdogs of upper management and oversee strategic decisions to maximize return on investment (as do corporate boards), they go one step further: a co-op or mutual's board of directors must effectively look after its members' needs while simultaneously remaining competitive in the market. As co-operatives grow, one of the most serious threats they face is the inability to maintain sufficient connection to members' common goals while managing a complex economic entity.

In co-operatives and mutuals, the board represents an essential vehicle for identifying, tracking and representing member needs and wishes, and has an essential role to play in reporting to members in order to ensure its democratic nature.

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Co-operative principles vs. governance principles: a complex balancing act

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Promoting member proximity

One of the greatest challenges to co-operative board effectiveness is managing member proximity - that is, ensuring regular, frequent and meaningful interaction with members. So how do organizations remain connected to members and ensure their voices/opinions are being heard, while putting adequate governance practices in place to secure the co-op’s performance?

Complicating this challenge, member-owners of co-operatives and mutuals are frequently targeted by competitors. Members may compare and even purchase (or use) these competing products and services – yet remain loyal to the values and goals of the co-op.

Meanwhile, although they remain members, some may no longer actively take part, or participate only minimally, in their association’s activities, which are the very foundation of the co-operative business model.

We started by exploring how well co-operatives and mutuals are currently handling the challenge of maintaining proximity with their members.

Key to success: governance structure and management commitment

Most of the sector leaders with whom we connected reported that they believe their co-op is handling this issue with some success. They cited the following key factors in their success:

- Governance structures that give priority to member needs. This might include, for example, an election or nomination committee that oversees the process of electing board members to ensure that it remains fair and democratic. Similarly, some co-ops and mutuals have established a communications committee to oversee the quality and quantity of disclosures provided to the membership. In addition to sharing important information with the membership, the committee can also be a valuable driver of member input, through surveys or other vehicles of soliciting feedback that help identify member needs. Above all, an essential ingredient is a clear management commitment to giving priority to member needs.

- Other key factors of success include distribution channels that have adapted to member needs and effective change management, among others.
It emerged that a core element of success is the combination of commitment, structures and tactics in play to help organizations monitor and stay informed of changing member needs and values. Only in this way can co-ops stay relevant and capable of meeting the demands of its primary community.

This leads to the natural question – how do co-operatives and mutuals promote member proximity to foster the meaningful input required to understand members’ needs? What tactics are proving to be particularly helpful in this regard?

Co-op and mutual leaders indicated that while general meetings and focus groups remain popular mechanisms put in place by boards to enable the organization’s members to participate, boards are increasingly recognizing the value of virtual tools and emerging technology to engage their members.

In particular, clever boards are making use of social media as a way to facilitate regular, two-way communication and exchange with members. This can include the use of accessible popular tools such as Facebook, Twitter and online surveys, among others.

As leaders evaluate how best to keep channels of communication open and engage members in a discussion of their needs, the emerging trend appears to be the growing investment in technology to support electronic communication as a supplement to person-to-person interaction.

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Similar to every other enterprise in their respective markets, co-ops and mutuals need to effectively promote the quality and fair price of their products and services in order to differentiate themselves from the competition. In fact, these organizations may have a head start when it comes to differentiating themselves: they can take advantage of their social impact within their communities. Far-sighted organizations may find that promoting the social impact of the co-op and the mutual is an added bonus – on top of promoting quality and fair price – that could provide a competitive advantage in the market.

While the leaders we spoke to did not identify their organizations’ “social impact” as a distinctive feature, it is possible that by under promoting their unique community or environmental impact, co-ops and mutuals are missing valuable opportunities to build reputation and cultivate more active member solidarity and participation. After all, members who are more informed and aware of the impact of co-ops and mutuals in their community may be more likely to feel personally motivated and rewarded by participating more explicitly in its activities.
In an increasingly global market, co-operatives and mutuals are faced with the challenge of adapting their values and principles to business practices that reflect those of corporate or investor-owned companies. This is a potentially game-changing emerging trend with many facets of complexity that may affect the very model of co-operative business.

To stay competitive, co-ops and mutuals need to be able to quickly adapt to evolving market trends. The board therefore needs to be agile enough to make rapid business decisions – like acquiring a competitor or investing in the latest technology – all the while taking the time to listen to its members and maintaining member proximity.

Co-ops and mutuals face growing pressure to compete on a more level playing field, and to be innovative in growing their business base, since today’s consumers are presented with more options than ever in an increasingly global economy. Thus, in addition to sustaining a close connection to members and implementing strong branding, co-ops and mutuals that want to remain competitive need to leverage the components of an agile governance structure.
Components of an agile governance structure

Cultivating a structure of governance that promotes member proximity and fosters a responsive, attuned management has emerged as an essential component of success for co-ops and mutuals.

Although these organizations offer a unique, stable and proven alternative to the traditional business model, many are unsure of how to evolve their governance structure in the years ahead to pursue this success.

Generally co-ops and mutuals do not operate under the auspices of market regulatory authorities (unless they provide products or services in a regulated industry, such as the financial services industry). That, however, has not prevented many co-op and mutual leaders in the unregulated sectors from recognizing the value of a solid governance structure as a step toward long-term viability, continued growth and greater transparency among their community of members.

For example, nearly half of the leaders we spoke to indicated that their co-op does not operate under the mandate of any regulatory authorities. But they uniformly endorsed the importance of a leading-practice approach to good co-operative governance.

What is not so universal is the approach to pursuing this objective. Here is where the complexity of co-operative versus traditional corporate governance emerges starkly. While many leaders are feeling that their current governance structure is successful and well equipped to respond to members’ needs, we also see an emerging pattern of what can be considered incongruous factors.
Member participation and independence on the board

Independence of board members toward upper management

Leading practices generally stipulate that board members should be, for the most part, independent - that is, they must have no significant relationship, direct or indirect, with the senior management of the co-op or mutual that could reasonably interfere with the exercise of independent judgment.

Many of the sector leaders we spoke to explicitly endorsed this goal. Most indicated that their boards are exclusively composed of members, and should stay that way. Co-operatives must adopt strong democratic practices and safeguards to reconcile the importance of having members as board directors and achieving independence from senior executives.

A new trend we've observed in certain co-ops is the appointment of non-members to the board in order to have an outsider’s point of view or simply to access specific expertise that the board otherwise lacks. In both cases, the organization may not have the ability to change its statutes or rules and would name those new members as “guest” board members.

Our point of view

An optimal governance structure will accommodate the unique nature of member-owned organizations. Building thoughtful safeguards is an important part of protecting the co-operative’s members and their directors’ independence. At the very least, disclosure and review of each board member’s financial interests in the co-operative can be a simple yet effective safeguard to balance leading practices and member involvement. This type of transparency can also establish and build trust among the membership.

Other safeguards put in place by successful organizations include defining the diverse skills and expertise required, sharing and clarifying values to guide decision-making, adopting a code of ethics, establishing clear conflict policies and, in many cases, receiving training on the roles and responsibilities of board members.

Segregation of duties

Leading practices in corporate board structure in regulated industries generally stipulate that the roles and responsibilities are clearly defined and segregated for CEOs and board chairs. While the leaders of large co-ops and mutuals with whom we’ve interacted have indicated that they already follow this practice, it’s important to acknowledge that it is not necessarily a tactic that all organizations consider appropriate in their environment.

In particular, it can be particularly difficult for smaller start-up co-ops and mutuals to fill two roles of such senior responsibility, given the already onerous challenge they face in attracting members to board positions that can be demanding of both time and expertise.
On the other hand, certain secondary co-operatives, such as federations of co-ops with their own co-operatives supplying pooled services, have opted for combined chair/CEO roles for greater effectiveness and stronger member communications.

In those cases, a distinction is made: strategy is defined by the board and chair/CEO, while operations are managed by a senior executive.

Our point of view

Although attracting experienced talent to a board can be difficult, and finding two people to play the roles of CEO and chair can pose a challenge, effective governance requires expertise to fill two different, clearly defined roles.

Savvy co-operatives and mutuals will start by building explicit definitions for the roles and responsibilities of board directors, and those of management. In crafting the scope of activity and decision-making, the nature and extent of the required expertise becomes clearer. This helps to define the strategy for identifying and fostering potential board talent, and seeking out additional training or capacity-building where necessary.

Member proximity comes into play here, as well. Organizations should strive to communicate clearly and frequently regarding available board positions and corresponding duties and areas of responsibility. This helps to clearly define the kind of expertise and experience best suited to the role, which supports an informed membership better equipped to elect candidates with an appropriate knowledge base.

“Leading practices generally stipulate that board members should be independent. Many leaders explicitly agreed. Most indicated that their boards are exclusively composed of members, and should stay that way.”
Corporate governance in regulated industries generally demands that board members require a degree of accounting, financial and business expertise. In some markets, this is even backed by specific requirements for types of demonstrated knowledge. And while, as noted previously, many co-operative and mutual leaders express frustration that their boards are too big, many also express the need to attract more talent with specialized expertise in these areas.

No clear trend is emerging with regard to director education to build skills. Formal continuing education programs are widely used in North America to develop board talent and capabilities, but that is not the case as often in European boardrooms.

Our point of view
Forward-thinking governance starts with the clear definition of roles, responsibilities and scope of expertise requirements, as discussed. This helps to identify the specific areas of knowledge on the board that may be unique to that co-operative, or may be common across sectors and types of organizations.

A careful monitoring of board composition will ensure a clear understanding of gaps and excess capabilities. This feeds a strategic approach to board and talent development that can guide how opportunities for member participation and knowledge-building are shaped inside and outside the organization.

Co-operatives and mutuals should explore whether formal or informal training for current or potential board members can address knowledge gaps, especially in a fast-paced global context where legal, accounting and market changes are evolving rapidly. Whether it is formal training or greater use of mentoring and in-house capacity-building, it is conceivable that the offer of skill development will help attract member participation and foster proximity – while achieving governance objectives.

Meanwhile, a trend of critical importance emerging in the corporate sector is equally relevant in co-operatives and mutuals. A growing number of companies are recognizing the importance of having board members who bring a wide range of perspectives and experience to the table. While this is conventionally interpreted to mean a broad range of business expertise, astute organizations are realizing the very measurable benefits of including other types of diversity in their leadership – including gender, ethnicity, international experience, non-traditional knowledge areas and more.

A demonstrable commitment to fostering a culture of ethical behavior, strong industry knowledge and depth of contacts are also valuable factors to consider.

Identifying these kinds of key ingredients that suit the distinctive features of your co-operative or mutual will help populate a board with the right mix of strategic expertise and leadership to oversee management and guide the organization’s vision.

“While co-operative and mutual leaders express frustration that their boards are too big, many also express the need to attract more talent with specialized expertise in accounting, finance and business.”
Other characteristics of the board

Board size

Often - though not always - co-ops and mutuals have larger boards than their counterparts in comparably sized shareholder-owned organizations. This comes as no surprise, given that co-ops want to engage their members as much as possible.

Board size across the co-op sector varies widely, from as small as six members to over 40. Of course, the larger the group, the more cumbersome decision-making can be. So there’s a general tendency among co-ops to want to reduce the size of their boards.

What’s clear from an examination of corporate boards is that, depending on the specific industry, they, too, have a fairly broad range of board size, with no given standard on a global or comparable scale. And of course, they are not constrained by a desire to maximize opportunity for member input.

Our point of view

Rather than focus on the size of the board, a more successful approach may be to carefully craft a board that features a combination of diverse skills, expertise and perspectives that can help drive effective decision-making. Drawing on a wide range of expertise and supported by a clear understanding of roles and responsibilities, astute organizations can maximize the effectiveness of the board and build opportunity for valuable member input.

Length of service

Closely related to the issue of board expertise is length of service on a board. Though the average term of office for corporate board directors varies widely depending on the specific market, leading practices in corporate governance generally appear to favor limits on the number of consecutive terms a director can serve on the board. In co-ops, renewable terms of two to three years are typical.

But many leaders question the value of term renewal limits, in part as a factor of the challenge to find suitable board talent among members or external communities.

Our point of view

Continuity is important for sound guidance, but at the same time, co-operatives and mutuals will benefit from a regular influx of new ideas and voices. This also allows greater opportunity for direct member involvement in shaping the organization.

Progressive organizations consider succession planning an essential element in good governance, creating procedures for recruiting potential new board members and establishing intern officer programs to attract young talent, and using structural opportunities like committees and working groups to cultivate new talent. This is especially important if there are a significant number of board members approaching retirement.

Mentoring and training - whether formal or informal - are essential ingredients in fostering both the expertise for potential or new board members, and passing along the organizational history and “board memory” that supports continuity of operations and vision.
Transparency and disclosure

An important element of good governance is transparency and disclosure. We’d argue that transparency is perhaps more important in member-based organizations than any other kind, with members’ interests so directly at stake.

We looked at current trends and opinions within co-operatives and mutuals around the world to identify any emerging patterns. We found that, in most cases, even without the external pressure of regulation or other policies in place, board members voluntarily wish to disclose more information than what is currently being disclosed, particularly around such issues as board compensation, competency and attendance.

Our point of view

Co-operatives and mutuals rely on a high degree of trust and confidence among their members. Full and transparent disclosure on sensitive issues such as director competency, director attendance and board accountability is an important way to sustain this trust. It is also a valuable tactic that offsets the risks inherent in having only members as board directors. It fosters an environment of transparency and ethical commitment that supports director accountability. Transparency toward members can help support a strong connection between the board and the community it serves.

Top five issues board members wish to disclose

- Director attendance
- Director competency
- Director fees
- General accountability of the board
- Others

The tools of enlightened governance

Our review found that an important component of success is the degree to which a co-op or mutual has implemented specific tools dedicated to supporting good governance. Some of the tools cited include:

- A reference document on shared values and a code of ethics
- A code of conduct and/or ethics
- A formal process of director assessment/self-assessment in which each board member prepares an evaluation of the entire board’s performance for the year, quarter or other period of activity
- A risk map providing insights on trends and challenges to objectives and operations
- A dashboard to track performance indicators
- Management accountability, such as when management presents annual (or quarterly, trimester, etc.) results in a formal presentation to the board
- Strategic project monitoring

Savvy organizations engage directors in regular review of the current tools available to identify emerging needs, and to promote the use of these tools.

“... Board members voluntarily wish to disclose more information than what is currently being disclosed, particularly around such issues as board compensation, competency and attendance.”
Co-ops and mutuals come in all shapes and sizes, and face broadly varying challenges at every stage of their growth and service trajectory. Regardless of their unique circumstances, they can likely benefit from a further examination of enlightened governance.

Enlightened co-operative governance is an approach that can successfully balance leading practices – common to many enterprises – while optimizing member proximity and staying true to the organization’s core values and mission.

While each situation is unique, the leading co-operatives and mutuals are those that promote their unique values and principles and are committed to remaining competitive in the marketplace while leveraging the components of a governance structure that gives priority to members’ needs. Leading co-operatives and mutuals will need to attract the required expert and independent board members, disclose transparent information and implement the specific tools dedicated to support good governance.

By adopting a solid governance structure that features the leading practices of corporate firms, augmented by tools and tactics that serve the unique purpose and drivers of the co-op environment, co-operatives have an opportunity to develop and grow as a business model – one that can exemplify the best of what competitive economies bring with values that ensure that shareholders, entire communities, nations and peoples benefit together.

In pursuing enlightened governance, co-ops and mutuals can inspire confidence in the marketplace, elevate their status and reputation as solid and unique business entities and contribute to building competitive economies and cohesive communities. The key to success lies in establishing the framework for effective growth and financial viability, while sowing the seeds for even better co-operation in the future.
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