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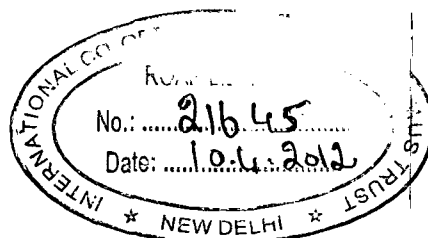
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INTERNATIONAL CO-OPERATIVE ALLIANCE  
CO-OPERATIVE WHOLESALE SOCIETY Ltd.

Report on  
CORPORATE GOVERNANCE  
AND MANAGEMENT CONTROL SYSTEMS  
IN EUROPEAN CO-OPERATIVES

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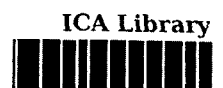


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Annex 1

SECTORAL ANALYSIS IN WESTERN EUROPE

A. REFERENCE AND WORKING PROCEDURES

At the first meeting of the ICA European Advisory Council (EAC) held in Brussels on 10th November, 1993, the terms of reference and membership of the Working Group on Internal Matters (W.G.1), led by Lars Hillbom, KF Sweden, were agreed. Included within its remit, W.G.1. has, as a task, the review of corporate governance and management control systems.

In recent years, co-operatives in different sectors and in different parts of Europe, particularly those having a large membership, have experienced various problems including management control, mismanagement, growing distance between members and their co-operatives, failure of democracy, financial scandals and unbalanced relationships between senior management and elected lay directors. These experiences appear to be common and therefore, for all co-operatives, there are valuable lessons to be learned and dangers to be avoided.

Examined in this report are the following co-operative sectors: consumer, agriculture, banking and housing. Similar findings may be true for other co-operative sectors.

A special, summarised chapter has been devoted to the co-operatives in Eastern and Central Europe (with the exception of the CIS countries). Their history and their move towards a free market economy has meant that a lot of the problems they are facing are very different to those in Western Europe.

We need a  
minutes  
summary

A detailed problem analysis was presented to the Working Group for Internal Matters and the ICA European Advisory Council at their meetings in Seville on 2nd/3rd May, 1994. This analysis, divided into the four co-operative sectors and co-operatives in Eastern and Central Europe, can be obtained from the ICA headquarters in Geneva - attention of Arsenio Invernizzi.

see Annex 1

This final report, to be presented to the ICA European Regional Assembly in Prague, focuses on general trends and common problems of the four co-operative sectors regarding Corporate Governance and control systems and ends with some conclusions and recommendations. It has to be emphasised that it has not been possible to deal with the specific differences that exist from society to society.

The findings are based on personal interviews, carried out between January and March 1994, with around 45 key Co-operative individuals in Europe.

In addition, several books, publications, internal reports, handbooks and rule books for co-operative societies have been considered. The information given has been very frank and open minded besides being very extensive. The author takes the opportunity to express his deep felt gratitude to all.

On behalf of the ICA Region Europe the report was made by Reimer Volkers, Dortmund, Germany. Project Co-ordinator was Moira Lees, CWS, Manchester.

B. SHORT SUMMARY OF THE LEGAL SITUATION

In most West European countries there are, to a varying degree of detail, legal regulations for co-operatives. These cover objectives, foundation, membership, governing bodies, audit, accounts, dissolution etc.

These regulations are partly covered within the framework of national co-operative laws e.g. in Austria, Germany, Greece, Finland, Portugal, Sweden, Switzerland, United Kingdom and are partly connected with the general laws for companies and/or associations e.g. in France, Belgium, Netherlands, Italy. It is only in Denmark and Norway that no special regulations exist for co-operatives (with the exception of housing in Norway). Their activities are guided by rule books in accordance with the general laws and co-operative principles and objectives as laid down by the ICA.

In relation to the topics of this report, the structure of the Governing Bodies is of special interest. Two different types are used:

- the monist system with the Annual Shareholders' Meeting and only one Board - the Board of Directors (in some organisations called the Administrative

Board) which, in relation to law and membership, is wholly responsible for leading and monitoring the operations of the society (one-tier Board). The Chief Executive Officer may be the President or a member of the Board.

- the dualist system with the Annual Shareholders' Meeting and two Boards - the Executive Board for running the business of the society with responsibilities defined by law and/or rules of the societies and the Supervisory Board representing the members' interests for strategies and comprehensive control (two-tier Board).

In accordance with the national co-operative law, the dualist system must be used in Germany and Austria. However, in other countries like Great Britain, France, Belgium, Finland and Netherland, co-operatives have the option to use either the monist system or the dualist system.

The legal regulations exert a certain influence on the democratic structure and on the responsibilities of the Governing Bodies. In practice, there exists many similarities between the co-operative organisations irrespective of the legal structures.



More details about the legal situation in EU countries are to be found in the booklets of Hans H. Münkner "Die Rechtstypik der Genossenschaft in den Partnerstaaten der EG" 1993 and B. Piot "Aperçus sur le droit des Co-operatives en Europe" 1993.

## C. Co-operatives in Western Europe

### I. Structure and Development

1. Co-operatives and their central institutions have large market shares within their respective fields of activities and employ significant work forces. The overall figures include, however, very different sizes, structures and developments in each country.
  
2. During the last decade, the size of co-operative societies has changed considerably due to both internal growth and rapid mergers and takeovers. Large scale enterprises have emerged which have to face increasing competition and these are now managed in line with modern commercial principles. Nevertheless, there still exist many successful small and medium-sized societies, e.g. housing, as well as in other co-operative sectors.
  
3. The role of the co-operative central organisations has changed simultaneously with the changes at the primary level. Today the central organisations work directly at the primary level (e.g. retailing, dairies), operate large national and international subsidiaries and joint ventures, and provide more advisory and service functions (e.g. full service

banks). Helped by the European Single Market, crossborder activities have increased significantly, especially within agriculture and co-op banks.

4. Planned expansion and profit goals have not always been reached. In several countries co-operatives have stagnated or failed with heavy losses e.g. consumer co-ops, banks, agriculture co-ops. Many have disappeared or were merged or have been dissolved. In some cases they have been changed into companies e.g. in Germany. Some of the reasons for stagnation and/or failure are mentioned in later chapters.

## II. Objectives

1. The main objective of co-operatives today, as in the past, is to promote the economic interests of members. Additional objectives include: to safeguard the right of consumers, to protect the environment, to work for healthier products, to offer information and education, to pursue social activities as a form of solidarity and, in some cases, to secure employment.
2. Without members there are no co-operatives. Members are owners, goalsetters and users of their joint organisation. This principle of identity is the

main characteristic feature that distinguishes co-operatives clearly from all other forms of organisation (Prof. Münkner).

3. The members expect from their co-operatives good performance including special benefits. This could be high selling prices for agri-products, accommodation of a good standard and at reasonable prices, comprehensive financial services, low price/quality products, special offers, discounts, bonus-payments, dividends etc.
4. An efficient and profitable business operation is an absolute precondition to reach the economically based targets for member promotion.
5. In theory, the co-operative profile is very clear but in practice not very well recognised by the members, customers and public. It has become blurred and interchangeable with that of private competitors.
6. This unsatisfactory situation may have developed partly as a result of the increasing importance of business transacted with non-members (with the exception of housing). Whilst this business is regarded as necessary and acceptable if it improves the potential for reaching the goals of member

promotion, a critical stage exists when growth and expansion dominate a society's policy i.e. where the membership orientation is replaced by mere customer orientation. A change in the co-operative character of the society will be inevitable.

### III. Membership and Member Loyalty

1. With a membership of around 75 million, the four co-operative sectors still hold a strong position within the West European population. Continuous increases can be noted within the housing co-operatives and the co-operative banks in larger towns and communities, whilst decreases can be observed within the consumer and agricultural co-operatives. Altogether, there are distinctive differences between different countries and sectors.
  
2. Many membership lists do not give a real picture but contain quite a number of "paper" members e.g. who have moved address, forgotten their membership, do not transact any business with the society or have even died. Paper members can be found mainly in consumer co-operatives but in other sectors too, as the updating of membership lists has shown in different countries.

3. The recruitment of new members has often been neglected because of insufficient resources and information. Too often the members have been regarded by management as a necessary evil; as a hindrance for quick decisions and development. As a consequence, the loyalty of members is very low. From their role as owners and goalsetters, the members are changing to mere customers, interested in immediate benefits from the society or elsewhere.
  
4. At present, there is evidence of some change. In several co-operative organisations (consumer and agricultural) there is lively debate and action programmes are being introduced to revitalise membership. It is increasingly recognised that good economic performance is a precondition to serving the members properly and also in offering them special benefits. There are still co-operatives paying the traditional turnover-related dividends and/or dividends on capital. However, in the consumer co-operatives in several countries, new ways for offering special benefits have been developed and introduced. Special mention is made of the electronic (per EAN Code) readable plastic cards used as membership cards, shareholder cards, benefits cards, divi-cards etc. Several economic benefits are connected with these cards, e.g. turnover-related bonus scaled between one and four

per cent, discounts on products and services, special offers, credit and payments facilities etc. The experience so far in strengthening the ties with members and recruiting new members, especially younger people, has been very encouraging e.g. in Norway and Finland.

5. In general, members of agricultural marketing societies and housing co-operatives are far more interested in the economic activities of their society than members in the consumer and banking sector. The economic success of a farmer is often closely connected with the performance of his society, especially where there are large co-operative market shares and where there is no other real alternative e.g. in the milk sector. The occupier of a co-operative dwelling has a permanent interest in his accommodation and its surroundings, in administration costs, repairs etc. This means, in practice, that these are matters the member can settle only with the society.
  
6. Despite varying interests between the co-operative sectors, it can be observed that the participation of members within the formal democratic structures is low. The distance between members and societies has grown, especially in large societies which may

be active over a large geographical area of a country.

Some of the reasons are:

- poor performance, no benefits from the society.
- members do not know very much about the special characteristics of co-operation in general and about their society specifically due to lack of information.
- members do not feel at ease with the growing size and complexity of the business operations.
- members do not want to take responsibility or offer their spare time. They want to use the services and obtain the economic benefits, but do not want any other involvement.
- genuine membership rights are transferred to delegates who are often not known to ordinary members.
- active members are disappointed about the real opportunity for influencing and controlling the operations of the society and consequently they resign from the Governing Bodies.

delegation to <sup>council</sup> advisors (local + international)



- rotation within elected delegates and members of the Boardrooms is low, giving some active members very limited chances to participate.

#### IV. The Formal Democratic Structure

1. The formal democratic structure is similar in all countries and co-operatives sectors, with some variations in detail. Within this formal democratic structure both the monist and the dualist systems are used: Shareholders' Meetings, Board of Directors/Shareholders' Meetings, Supervisory Board (Administrative Board), Executive Board.
  
2. Annual Shareholders' Meetings are either open to all members (in small and medium sized societies and most British consumer co-ops) or only to delegates (named also Council or Board of representatives). In Great Britain, such Shareholders' Meetings may be held simultaneously in several geographical districts of one society.

Delegates are elected for between two and four year terms at district meetings or on tickets (lists) voted upon in special election offices (shops, banking branches) or by letter. The method of voting for list candidates, who are often unknown to

the members, is widely used by co-operative banks but also by large consumer and agricultural co-ops.

On average, participation in elections is low. In Finland postal voting had a high return with up to more than 50 per cent.

Elections are rarely contested. Often it is difficult to find a sufficient number of candidates. In many cases candidates are pre-selected by other delegates, members of the Board and/or Administration.

Except for being a loyal member, no formal qualifications for candidates are required. Re-election is possible and frequent. In several countries, age limits e.g. between 63 and 70 years are set.

3. The duties for Shareholders' Meetings are almost the same in each country and co-operative sector. These include the approval of the balance sheet, election of Board members, changes of rules, decision about mergers, election of auditors.

Critical comments and questions to the Senior Management (CEO) about the current situation and

development of the society are rarely heard in many Shareholders' Meetings.

| Many participants are not able to control or even oversee the growing size of the business operations. They leave that to the Boards and chief officials.

4. The Board of Directors/Supervisory Board is elected for a two to four year term. Except for being a loyal member, no formal qualifications for candidates are required.

In many co-operatives, elections are not often contested but this has increased somewhat during recent times. It is known, and generally accepted, that candidates are often pre-selected and proposed by the sitting Board and chief officials.

Re-election is possible and frequent. In order to improve rotation in the Board room, several co-operatives have introduced age limits between 63 and 70 years. In the Danish agricultural co-operatives, only active farmers can be members of the Board.

5. In the monist system, it is the Board which legally exercises the ultimate power and responsibility in all matters of the society but it delegates the

running of the daily operations to the chief official (CEO) and his management team who are appointed/approved by the Board. In some countries and societies, the chief official is a member of the Board e.g. Sweden, or its President e.g. holding the office of PDG in many French and Italian societies, thus putting him in a very strong position.

6. In the dualist system, e.g. as in Germany and Austria the exact responsibilities of the Supervisory Board and the Executive Board are laid down in the co-op laws and/or rules of the society.

The Supervisory Board monitors closely the development of the operation and performance of the management, examines the financial statements and balances sheets, follows up the results of the external auditors and, most importantly, appoints and removes the Executive Board. The Executive Board runs the business in its own right and in the framework of given guidelines and limitations set by the law and the statutes of the society.

It has become practice that, in respect of some important matters, joint responsibilities for both types of Boards are fixed and laid down in the rules of medium sized and large societies, e.g. for annual

budgets, investment programmes, guidelines for loans, buying and selling of assets etc.

7. In large societies, the Executive Board consists increasingly of full time, salaried executives only. This is to ensure that the business is run in accordance with the best commercial practices, skills and efficiency. Nevertheless, there exist many successful small and medium sized societies, whose Boards consist of a combination of elected directors and full time executives or of elected directors only.

The Dutch co-op banks and agricultural co-operatives operate a system of elected directors only in the Supervisory Board as well as in the so called Administrative Board, leaving full responsibility for running the business to a full time professional management who are appointed by the Administrative Board. This Board decides also about long term policies and strategies and monitors the performance of the management. The Supervisory Board controls the Administrative Board and management within given guidelines and protects the interests of the members.

8. Employee representation in the Boardrooms i.e. elected by the employees, is governed by workers'

participation laws or by voluntary agreements. Representation ranges from nil to 50 per cent as in Co-op Society, Dortmund - Kassel, leaving a casting vote with the chairman who is always member-elected. Severe conflicts of interests between employee representatives and the general interests of members were not reported but, realistically must occur in cases of crisis, staff reductions and closures. Urgent changes and decision making may be slowed down because of such conflict.

In Great Britain, most consumer co-ops have some directors who are employees but who are elected as members. This can cause conflicts as mentioned. The Registrar of Friendly Societies is limiting numbers of employees to below quorum level.

9. The frequency of Board meetings varies between six and twelve times a year, with dates set beforehand e.g. up to one year. In general the attendance is high, up to 90 to 100 per cent. A varying degree of sophisticated information is sent out before the meetings, supplemented by further documentation and reports by senior management at the meeting.

It was stressed that it was important that the information must be well documented but short, to the point, easy to understand and well presented

*violations.*

e.g. the use of graphs was mentioned. In this context, deficits in the information provided in some societies are evident.

10. To a varying degree the Boards, especially of larger societies, work with sub-committees on specific areas, e.g. finance and financial statements (auditing), investments, membership, personnel, loans etc. The presidency or a special sub-committee is often responsible for determining the remuneration package for chief officials and senior management.

11. The national and regional federations and subsidiary companies are organised similar to that of the primary societies, mostly with a combination of elected lay persons and professional managers in the Governing Bodies but with the tendency to employ more professionals in the Board rooms. Often, sophisticated election procedures, to preserve the balance of power, are used.

12. In all West European co-operative sectors and societies strengths and weaknesses in the functioning of the formal democratic structures and in the collaboration between Boards and management are to be found. This can be due to personalities,

qualifications, commitments, confidence and openness of individuals on all sides.

Success often creates success. During such a period there are few problems in the Boardroom and there is confidence in the ability of the management to run the business in a proper way. It is only a slight exaggeration to say that co-operative democracy is working at its best in times of progress and success. ("Nice weather democracy".) But there is a warning voice from Sweden which has to be taken into account - that continuous success creates inaction and lack of drive for new initiatives and innovations.

13. Only a few women are represented on Governing Bodies, which means that Boards do not necessarily represent the interests of all members.
14. The following weaknesses and problems in the Boardroom and in the collaboration with management have occurred in one way or another:

- the elected directors have not been strong enough to exert the authority and power given to them by the law and rules in relation to management. In the case of continuously failing to meet budgets and excessive losses, the Boards



did not take, or only hesitantly took, the necessary measures e.g. the removal of the executives. Often, critical questions were not put to management. If budgets were not achieved, the Board was satisfied with mere explanations without demanding convincing action programmes for improvement.

- Some of the Board members did not have the background and ability (and/or time and commitment) to lead and monitor large complex business operations thus failing to recognise wrong developments, mismanagement and heavy losses in time. Matters became worse by gaps in vital information provided by management. There were many examples, that even highly qualified Board members were not always able to fulfil their duties in a proper way.

- The balance of power is sometimes inappropriate. The real power lies with chief officials. Only they have, detailed knowledge of the business. They have an information monopoly and may decide, to a large extent, the information to be given and the topics to be dealt with on the agendas of the Boards.

This kind of dominance cannot be changed - as an

Italian co-operator underlined. The elected Board members do not have any real opportunity for detailed control. They have to rely on submitted figures and reports. Criminal actions by management can rarely be detected. / who has to detect?

- The Board appointed inadequately qualified management who lost control of a growing, complex business in an increasingly competitive environment, thus leading to disaster.
- Management is not generally interested in membership nor in responding to a questioning Board but in pursuing own priorities in relation to rapid expansion and own careers!
- Boards have grown too close to management, leaving too little room for critical questioning and unpopular decisions. It may result in conflicts of interests if large customers, suppliers, creditors or debtors are also elected directors of the society in question.
- Board rotation is too low, giving younger active members very little chance to participate.

#### V. The External Control (Auditing)

1. The important external control and supervision role is executed by external auditing. As a rule, co-operatives are audited every year under law e.g. in Austria and Germany and/or in accordance with the rules of the societies. These services are provided by external professional auditing companies elected by the Shareholders' Meetings or by the co-operative federations. In several organisations, additional auditors from the membership, are appointed by the Shareholders' Meetings. Their role is to monitor the professional audits and to ensure that the results and decisions are in accordance with the interests of members.
  
2. The professional auditors have, not only to examine the accuracy of the accounts and balance sheets, but in most cases, also the efficiency of the society and quality of the management in reaching the set goals. They have also to audit special aspects of the business as asked for by the Governing Bodies.
  
3. The audit reports are given to the Governing Bodies for discussion and for taking necessary action. At the annual Shareholders' Meetings, it is normal for a short summary of the audit to be presented, including a statement on the accuracy of the balance sheet and accounts.

4. The audit reports help the Boards to carry out their control duties, despite the fact that the information is historical. In reality, Shareholders and elected directors do not always recognise the importance of the auditors' role. Critical points and wrong developments of the business should be pointed out clearly, likewise possible risks and poor results, thus giving the Governing Bodies the chance to take necessary action. The auditors themselves do not have any such power for change. The presentation of the reports should be relatively short, to the point and easily understandable (which at present is not always the case).
5. There may be danger that the necessary critical distance between the auditors and management of societies may not always be maintained. This may occur in cases where the societies are the most important clients of the auditing companies and co-op federations and/or the bodies of the federations are dominated by professional executives from the societies. It is recommended that the auditors be changed from time to time and more elected laypersons be appointed to the bodies of the federations.
6. Co-operatives have to comply with the national laws. As a rule, special supervision by the State is not

to be found. In Great Britain, the Registrar of Friendly Societies (a Government Department) has a duty to review whether the guidelines for co-op societies are being met, however, intervention is very rare. In Germany, the auditing department of the co-op federations have to examine new co-operative societies to ensure the legal requirements are observed. Only in that case will the society be registered. The Austrian housing co-operative has the status of a non-profit making body, with heavy public subsidies for building dwellings. Accordingly, the state authorities have the legal right to supervise and control its activities. This has not created any problems so far.

## VI. EDUCATION AND INFORMATION

1. To a varying degree, most co-op organisations offer their elected directors introductory seminars and/or educational programmes on commercial and co-operative matters. In general the directors' interest in participating is high. Training seminars for elected delegates and ordinary members are only available in exceptional cases, e.g. in Denmark, Norway, France or Germany.

2. In some co-operative organisations e.g. in Great Britain, Germany and Norway, Board members are provided with a detailed handbook about the background and structure of their society and the rights and duties of the elected lay-persons. These are reported as being well received. In other societies, some similar information is included in rule books, standing orders and/or in so called "Leitbilder" in Germany. In Great Britain and France (Credit Mutuel) a Code of Behaviour is to be introduced. The Congress of the British Consumer Movement held in May, 1994 in Manchester discussed a comprehensive report of the Working Group on Corporate Governance with 42 recommendations for the introduction of a "Code of Best Practice". The intention is to help improve the members' influence and define more clearly the responsibilities of the Governing Bodies and management. →
  
3. As a rule, management and staff training has a high priority in most societies and is carried out internally e.g. some co-operatives have their own schools, and externally using outside training schools and seminars. The training concentrates largely on commercial matters and on improving professional skills. Employee knowledge about co-operation is generally poor and is often not seen as important by management. For many staff, →

interest in the co-operative is confined to paid employment, a secure working place and, to career progression.

4. In large societies it is inevitable that only a small number of members are able to be directly involved in the formal democratic structure. In varying degrees, societies are trying to explore new ways of providing information and improving communication and consultation with members, especially within consumer co-op organisations but also in some agricultural co-operatives e.g. Denmark and housing co-ops. Examples given include members' meetings around shops or housing complexes, district meetings, shop committees, study circles, debate evenings, cultural and leisure time arrangements, consumer forums, women's guilds etc.

Currently, there is a wide variety of new initiatives, which do not necessarily involve extra costs. However, generally these are not sufficient to improve the often poor knowledge of members about co-operation or to revitalise the interest of members in the affairs of their society. Important and additional activities include the giving of regular information via member magazines, newsletters, press releases, films and TV spots, short annual reports, social balances etc. These

information channels are known but used insufficiently. High costs are mentioned by management as a reason for doing little or nothing. But, as only informed members are loyal and active members ignoring the regeneration of membership is dangerous.

## VII. FINANCIAL INVOLVEMENT

1. In most West European co-operatives members invest one or more shares in their society, with a minimum and maximum amount. As the amounts are widely different, anything from £1 to £20,000, members play a varying role in financing and risk bearing in their societies.

In Denmark, Holland and Switzerland member shares are not required. Instead, a large part of the profits are retained and transferred to the reserve. Members in Denmark and Holland are liable, in equal terms, for any losses or deficits incurred by their co-operative, either unlimited (in most Dutch agric-co-ops) or limited (in most Danish societies and Dutch co-op banks).

2. For improving the level of risk bearing equity capital, new financial instruments for attracting more capital have been developed. Some German societies e.g. consumer co-op Kassel- Dortmund have



issued "participation certificates" (Genuss-Scheine) via the Stock Exchange and banks. In France and Italy new legal regulations provide the possibility of placing preferred non-voting shares with members and non-members and also shares with "investor members" or to float co-operative investment certificates. The envisaged European Co-operative Statute includes similar regulations.

3. Several European consumer and housing co-operatives collect savings from members, which are shown as <sup>(de)</sup> liabilities in the balance sheets, but add to liquidity and financing of the societies (but are withdrawable on short notice). Due to banking laws, such saving accounts are not permitted in some countries, e.g. in consumer co-ops in France, Switzerland or Germany. Members of housing co-operatives have to make a substantial extra contribution, in shares and loans, when moving into a new co-operative home.

4. X Many of those interviewed stressed that a substantial financial involvement contributes to stronger loyalty and commitment by members in the affairs of their society and this involved paying them an attractive dividend or interest rate.

5. Limited liability companies and stock holding companies are used at secondary levels for large scale subsidiaries, daughter companies and take-overs. They were either wholly owned by co-op groups or joint ventures with other parties. In Germany, several co-operatives were changed into stockholding companies trying to maintain the co-operative character by corresponding regulations in the new statutes e.g. voting rights, auditing. That proved to be a failure in the case of the consumer co-ops and in the end the majority of shares were taken over by large private trading groups.

#### VIII. SOME CONCLUSIONS AND RECOMMENDATIONS

1. It can be realised, that within the different co-op sectors there are a lot of problems connected with Corporate Governance and Management Control Systems, and these are able to threaten the profile and identity of co-operatives. Weaknesses and flaws are not new but become more evident with the emergence of large scale co-operative enterprises.

Ready-made solutions for improvement are not available. It is recommended that the individual societies and their Boards carefully consider their own situation and, if necessary, draw up and

implement the necessary measures. This could be done within the framework of a Corporate Governance sub-committee of Board members and some other elected member representatives. Against the background of the Corporate Governance report and experience of members, the ICA could act as a catalyst for information and recommendations.

2. The message and corporate identity of co-operatives towards members, customers and public has become blurred, without clear profile and is interchangeable with that of private competitors. Weaknesses in detail can easily be detected by each society by member interviews and feedback.

2) A radical change can only be made if both Boards and top management really want it and implement the necessary action programmes. The policy and strategies of the society have to be redefined with priorities set for member orientation and member promotion but which will in no way harm or hamper the efficiency and profitability of the business operations. They are, on the contrary, preconditions to reach the necessary economically based targets for member promotion.

At present profile programmes have been introduced in Italy, Sweden, Norway, France and Denmark. The

ICA Working Group for External Matters is dealing, amongst others, with questions of Co-operative Image.

3. It is generally recognised that an active and involved membership remains the motor of each society. On the basis of an agreed Board policy, strong efforts have to be made to revitalise the interests of members and to recruit new members. Appropriate financial and management resources have <sup>(BA)</sup><sub>(MV)</sub> to be budgeted for. It is recommended that responsibility for membership should be placed with the top management with the obligation to report regularly to the Board about the development and measures taken.

Furthermore, membership lists should be updated from time to time, allowing a realistic review and launching of action programmes aimed at existing members loyal to the society.

4. With the revitalisation of member interests it should be possible to encourage qualified members to become candidates for elected delegates to annual meetings or directors of the Boards. Whilst it seems to be legitimate and in order for elected delegates, Board members and/or administration to identify and propose suitable candidates it should

be normal practice that candidates are nominated by ordinary members either in writing or spontaneously at the election meetings. The society should positively encourage members to do so.

For a healthy democracy it is of great advantage if elections are contested. Direct elections at election meetings are to be preferred but participation could be improved by more attractive arrangements at these meetings. If list votings are used, information on all candidates should be added to the lists to allow informed voting. New methods of voting should be examined e.g. postal ballots, ballots in election localities in easy reach (shops, banking, branches).

5. To be a loyal and active member should still be the only formal qualification for the elected member representatives to the Governing Bodies. Further formal qualification conditions, even if desirable, would limit the rights of members to nominate and elect a candidate of their own choice and reduce further the grassroots interest. As many examples show, it is possible, especially in societies with large membership, to find member representatives with the appropriate skills, strength and qualifications. More important is that these elected delegates and directors are willing and able

to offer sufficient time and commitment for their new office, to become acquainted with the business and to fully involve themselves in the demanding duties of the Governing Bodies, not least in the Boardrooms, and to attend ongoing training programmes.

One solution discussed in some British co-op organisations, is to appoint a limited number of professional outside directors. However, this looks to be very controversial seen from a member/democracy viewpoint and more time and experience of this is needed before it can be evaluated.

6. In order to improve the knowledge and skills of the elected Governing Bodies it should be the obligation of all co-op societies to offer introduction courses and comprehensive training programmes on commercial and co-operative matters. At the same time it should be an obligation for the elected member representatives, especially elected directors, to attend any training that is provided. In addition, handbooks and other written documentation could be of great help in explaining the co-op structures and targets as well as the duties of the Governing Bodies.

7. In co-op societies, especially with a large share of females in the membership, it should be an objective to employ more women in the Governing Bodies.
  
8. There should be a clear cut division of legally binding responsibilities between the Board of Directors and chief officials, ( and the respective Supervisory Board and Executive Board) written down in the society's rules and/or standing orders where the law does not provide for it.

It is recommended that the ICA (within a small working group) should make an in-depth study about the advantages and disadvantages of the monist and dualist systems (including the example in Holland). The results should be made available to all interested ICA members.

In this framework, the role of the chief official (CEO) could be dealt with, including the question of whether the CEO should be a member or even President of the Board. A further topic could be employee representation in the Board rooms and possible conflicts.

9. An age limit for elected member representatives, introduced already by several co-op organisations, is one example which other societies may wish to

consider. The effect of age limits is to improve rotation, giving interested members the possibility to participate within the Governing Bodies.

10. For their important, responsible and time-consuming work the Board members should be paid a realistic financial fee. This fee could be fixed in collaboration with the co-op federations or in accordance with guidelines provided by the federations. In the comments to the financial statements presented to the Shareholders' Meetings, information about the total sums paid to elected directors should be given as a sign of full openness to members. Consideration should also be given to disclosing the remuneration for the most senior management (Executive Board).

11. Board meetings, with set agendas, should be held at regular periods, with timetables fixed well in advance. An absolute minimum seems to be six meetings a year. The notices for meetings are sent out by the society but in the name of the Board's President, who is also responsible for setting up the agenda. The topics on the agenda should be well documented.

The Board (Supervisory Board) has to instruct the chief officials (Executive Board) which information



and key figures are to be supplied to directors on a regular basis between meetings and before and at the meetings. The information has to be comprehensive, but short and to the point, and easily understandable.

At any time, the Board has the right to full information about the affairs of the society. On the basis of an agreed Board policy and guidelines Board members should have the right to seek independent advice if special problems, developments and proposals have to be clarified in more detail.

For such requests, the elected auditors or the auditing departments of the co-op federation should be available.

12. Dependent on the size of the Board, it is advisable to employ sub-committees for special areas, which are able to consider the subjects in question in more detail and inform the Board as a whole accordingly. Such sub-committees are used for example for finance and financial statements (auditing), investments, loans, personnel, membership.

In many cases, a special Board committee for senior management has the responsibility of preparing for the appointment of the chief official and his

management team, deciding service contracts with remuneration and terms of office. The appointment of the top management (Executive Board) is often made for a four to five year term. Re-appointment is possible and common but gives the directors the possibility of reconsidering the qualifications and achievements of the management in question.

13. As with the functioning of the formal democratic structures and management within primary co-operatives, the collaboration between the primary societies and their central organisations is of great importance for the progress of the whole group. Due to weaknesses and flaws e.g. lack of confidence, much time, energy and resources have been wasted during recent years. As shown by successful examples, it is important to have a clear division of work and responsibility on all sides and on different levels. In this context, the election of qualified member representatives onto the Governing Bodies of the central organisations is highly desirable, giving them influence in protecting the overall membership interests.

14. The reports of external audits, either by elected independent professional auditing companies or by auditing departments of the co-op federations, can be of great assistance for the control of the

business operations of the society. They support the supervising duties of the Governing Bodies. Furthermore the auditors are available if special audits are required.

The results of the audits should be thoroughly evaluated by the Board. In this context the sub-committee for Finance and Financial Statements (sometimes called the Audit Committee) should examine the audit report together with the auditors and formulate, if necessary, critical questions to be put to the management.

The audit report should openly mention all critical points, losses, risks and wrong developments. The presentation should be relatively short, to the point and easily understandable.

In order to guarantee, from the outset, the necessary distance between the auditors and the administration of the society it is advisable to change the auditors from time to time.

15. In large co-operatives only a small number of members are able to participate actively within the Governing Bodies.

Therefore, it is of the utmost importance that societies develop and introduce new ways for consultation and information as already adopted by consumer co-ops and societies in some other sectors. Among other methods mentioned are district meetings, shop committees, study circles, debate evenings, consumer forums, cultural and leisure time arrangements etc.

In addition, members should receive by right, on a regular basis, information about their own society and other co-operative and consumer related matters.

Only informed members are loyal members and therefore providing information must be a priority.

The existing information channels are known, and to a varying degree used, e.g. Member magazines, news letters, press releases, films and TV spots, short annual report, <sup>business</sup> social report etc.

16. Co-operative aims and targets can only be reached if the employees at all levels are motivated and encouraged to achieve these targets. They need a high standard of professional skills which are mostly obtained through training provided internally in own schools and externally at seminars. It is also important that the employees identify themselves with co-operative philosophy and with the special profile of co-operatives in order to

understand the significance of the economically based targets of member promotion in their daily work. In this context, staff education in co-operative matters should be intensified.

17. In many societies, financing and increasing the risk bearing own capital are a high priority. Besides the traditional form of member shares, new financial instruments are available or under consideration. It is recommended that the ICA Banking Committee and the Association of the Co-op Banks of the EU in Brussels keep ICA members informed of the latest developments.

From several sides, it was stressed that a substantial financial involvement on the part of the members would contribute to more loyalty and activity in the affairs of the society.

18. As demonstrated above, Corporate Governance and Management Control systems include many aspects of membership and membership involvement. In some countries (Great Britain and France) Co-op organisations are trying to identify the most important aspects in Codes of Behaviour or Codes of Best Practice. It should be of great interest for the European co-op organisations to follow the working of these codes and the future experiences.

#### D. CO-OPERATIVES IN EASTERN AND CENTRAL EUROPE

The intention of the following review is to give a short overview about some important common developments and problems within the co-operative organisations in East and Central Europe (except the CIS countries). It was not possible to demonstrate the undoubted differences existing between the different co-operative sectors and countries, as there are rapid and continuous changes. Important details and information are filed at the ICA headquarters in Geneva and at the Co-op Network for Co-operative Development in Eastern and Central Europe, likewise in Geneva. This information is available for all ICA members.

##### I. The Transformation Process

1. Following the collapse of the socialist regimes of which the co-operatives were an integral part, the new political and economic systems are passing through a stage of transition very rapidly but without a clear direction. All these countries are in search of new solutions in virtually all fields e.g. political institutions, legal systems, public administration, infrastructure and economic structures (market economy).

2. The attitudes of the new state authorities towards the existing co-operative movements were mostly rather negative. Co-operatives had the image of being an economic-political organisation of socialist character under full control of the "nomenclature", in other words, being ruled by the nominees of the Communist Party and serving the interest of the old regime.
  
3. The Governments believed that the solution to the different economic problems the countries were confronted with, could be achieved by the introduction of a market economy but important preconditions and structure were not in place and could not be achieved so rapidly.
  
4. It took a hard struggle and help from the ICA and Western Co-op organisations to convince the Governments of the special character of co-operatives as private self help organisations solely owned and controlled by their members. In some countries, co-op shops and production units were privatised and sold, central unions dissolved and co-operative property withheld by state authorities.

In the meantime, most countries introduced new co-op laws (or transition laws) taking into account the

autonomy and independence from the state and self governance of the co-operative organisations. The ICA co-operative principles and the formal structure were reinforced.

5. At present, the co-op organisations are fighting for the reshaping of modern organisational structures and for adapting their operations to the conditions of a free market economy. They are aware of the fact that the growing competition from private companies and the needs of members will make it necessary to improve the efficiency of their operations considerably.
  
6. In general, market share has decreased but is still important. A trend towards concentration and mergers can be noted, likewise the closure of small shops and production units thus reducing the numbers of employees. Membership is declining with the exception of housing.

Due to the privatisation of farmland and change of ownership, the farmer co-ops are under renewal and reconstruction.

7. In some countries e.g. Czech Republic, Poland, Hungary, a tendency for changing the legal status into limited liability companies/stockholding



companies can be observed. There is also a trend to set up joint ventures with private companies and additionally there are take-overs by the management leading to a clash with members' interests.

8. Under the guidance of the federations, new co-op sectors are being developed e.g. savings and credit, insurance, pharmacies, travelling. Housing co-ops are taking over large parts of the state owned dwellings e.g. in the Czech Republic.

## II. The Future Development - Some Problems and Consequences

From the information available, mainly from ICA sources, it can be stated that there are undoubtedly differences between the co-op organisations of the different Eastern and Central European countries but also similar trends (some of these being in line with those in Western European co-op organisations).

1. The co-operative principles and objectives are not always clarified and made clear to the members. The members are not aware of the fact that they are the owner, goalsetters and users of the joint organisation.

The interest of the members has to be revitalised by economic performance, special benefits to members and regular information about co-operative targets and results.

2. The formal democratic structure is in place but rarely functioning well. Participation and commitment of the ordinary members is very low. In the past they were not used to (nor permitted to) influence and control the affairs of their society. At present most of them do not care. This lack of active membership also means that there are no strong protests from members when local and/or state authorities make decisions that harm the co-operatives e.g. sell or give away co-op property.

One of the big problems seems to be that the Boardrooms now, as ever, are dominated by the elected Presidents who hold at the same time, the position of CEO. In practice, the President has enormous power, often being able to choose both Board members and Vice Presidents.

The elected lay persons rarely have the background, qualifications and information to be able to take important strategic decisions and monitor the performance of the management, especially in complex large scale enterprises. It means, amongst other

things, that unsuccessful or, even worse, dishonest executives are not removed. It is obvious that a strength of purpose and education in commercial and co-operative matters are necessary to change this situation.

The autonomy and independence of the society away from the state is being achieved but the danger still exists that this means the autonomy of co-op managers instead of co-op members.

In some countries like Estonia and Czech Republic, a strict division between the responsibilities of the elected bodies and the management is envisaged.

3. By and large, external and internal audits are not yet well established. Endeavours are being made to change this situation but only gradually. Educated auditors having experience in the new conditions of the free market economy are not available in sufficient numbers.
4. A modern and profitable business organisation has to be built up quickly in order to fight the growing competition and to meet the expectations of the members. This means high investment in reconstructing, modernising and closing down unprofitable units.

In this context, the lack of know-how and experience on how to run a business under conditions of the free market economy has to be bridged by intense education and training. This may be provided with the help of outside experts from ICA and other sources. Some progress has been made in this area.

5. Financing is another big problem to be solved not only by obtaining bank loans and international aid programmes but also by inducing members to invest more share capital into their society and paying them an attractive dividend or interest rate. Such financial involvement should increase the motivation of members to feel more responsible for the affairs of their co-op society. Pre-conditions are information, confidence, performance and benefits.

6. The image of co-operatives is still suffering from having been part of the old system. Successful developments and continuous public relation efforts should improve the confidence and stabilise the relations to the new powers on local, regional and national levels.

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## CHAPTER 1

### CONSUMER CO-OPERATIVES IN WESTERN EUROPE

#### I. Structure and Development

1. Seen from a statistical viewpoint the consumer co-operatives are still the largest trade group in Europe despite the fact that private retailers have reduced the gap. In 1992 the co-op retail turnover was about 50 billion ECU achieved by about 2,500 societies in 25,000 shops. The figures are impressive but include very different sizes, structures and market shares per country. The largest market shares are to be found in Scandinavia (e.g. more than 30% in Denmark and Finland), the lowest in the southern part of Europe (Portugal, Spain, Greece).
2. By mergers, the number of co-op societies has reduced by more than 50% during the last 10-15 years. The turnover is concentrated more and more on large regional societies. In Finland nearly all societies of the E-Group and the wholesale society OTK merged to one unit, similar in Austria with KONSUM Austria. A lot of small and medium sized societies still exist in the southern part of Europe but also in Denmark and Norway.
3. The traditional role of the co-op wholesale societies has changed considerably. They are now more and more involved in retailing. Due to mergers and acquisitions CWS and FDB are the largest co-op retailers in their countries and at the same time suppliers to the independent societies - partly through delivery and chain contracts. In Sweden a growing number of societies have transferred their business operations to the KF daughter company KDAB which includes all retail activities and supporting operations like purchasing and logistics. KDAB supplies also the remaining independent societies.
4. Supermarkets are still the cornerstone of the shop networks and much emphasis is placed on modernisation and closing down small inefficient shops. A large part of the shop investments are directed towards the opening of hypermarkets/superstores and, in the case of Scandinavia, discount stores with a limited assortment.
5. Membership decreased from 24 million to 21 million households during the last 15 years, especially in Germany, France, Great Britain and Austria. Increases could be noted in some Scandinavian organisations, also in Italy and Spain.

#### II. Objectives

1. The main objectives of consumer co-operatives is now, as ever, to promote the members' households by providing them with excellent services and special benefits. This means amongst other various shop types covering the shifting needs of members and customers, low prices, good quality products

taking into account health protection and care of environment.

To safeguard the rights of consumers on national and international levels, to offer education and information and to pursue social matters in a way of solidarity are also mentioned as further co-operative objectives.

2. Efficient and profitable business operations - being in the forefront as a retailer - is an absolute precondition to reach the economic founded targets for member promotion.
3. In theory the co-operative profile is very clear but in practice not very well transferred to the members, consumers and public. It has become blurred and interchangeable with that of private competitors.

Since a few weeks ago the Swedish consumer co-operatives started extensive and ambitious profile programme under the headings.

- win customers (by high economic performance)
  - value for members (by special benefits)
  - look after the interest of consumers (by information, education and research in relation to environment, quality, security etc.)
4. From time to time the size and importance of trade with non-members are discussed. This trade is regarded as necessary and fully acceptable as far as the results improve the possibilities for reaching the goals of member promotion. A critical stage is arrived when growth and expansion are dominating the business policy - where customer orientation replacing the membership orientation. The change of the co-operative character of the society will be inevitable.

### III. Membership

1. On average the consumer co-operative membership decreased considerably during the last 10-15 years but with great differences and exceptions from country to country and society to society.

It is further to be seen that most of the membership lists don't give a real picture but contain a large number of 'book' members who have moved, forgot their membership, don't buy any longer in co-op shops or even died.

In recent years there has been some updating of the membership lists (e.g. in Finland, Norway, Great Britain) in order to concentrate the efforts on the active or core members (membership cards, special offers etc.).

2. For the decreasing or stagnating membership several reasons can be found, starting with an already high penetration,

lack of resources and/or interest of management to recruit new members. More important are insufficient economic performances and no or minimal benefits for members.

3. Members are customers and meet their co-operative society first of all in the shops where they make the daily purchases. The shops determine success or failure. In this context modernisation and innovations, atmosphere and efficiency, assortment and price policy, skilled and committed staff are important key factors within all levels of operations.
4. High performance, however, is seemingly not enough, to hold people's interest alive in co-operation and to activate the hidden reserves in membership meaning to get a higher proportion of members' buying power through their own co-op shops. Members do expect something extra, namely economic benefits for their engagement.

Cash dividends on purchases are still paid in some societies but due to depressed profit margins the rate of dividends was gradually reduced, in many cases completely abolished. In recent years some new benefit schemes were introduced with success including special offers, discounts, bonus scales, partly in connection with new membership cards, e.g. in the Scandinavian countries.

5. The distance between the members and large societies which are engaged in several parts of the country has grown. The interest of members to commit themselves in the democratic structures has declined accordingly, but due to different reasons. Some are:
  - poor economic performance, no special benefits for members - better alternatives in private trade.
  - members don't want to take over responsibilities or offer spare time. They want to buy good quality products at low prices, nothing more.
  - members don't know much about co-operation in general and about their society specifically due to lack of information. Management is not really interested in membership.
  - members are not able to overlook the growing size and complexity of the business operations.
  - active members are disappointed about their real influence within the democratic structure.
6. In most countries successful co-op societies are to be found due to an active membership policy and effective business operations. Despite a good image the necessity is felt to increase the participation, involvement and interest of the members in co-op matters finding new ways of communication.

#### IV. The Formal Democratic Structure



1. Within the formal democratic structure both the monist and the dualist system are used - with variations in detail: Shareholders' Meetings, Board of Directors/Shareholders' Meeting, Supervisory Board (Administration Board), Executive Board.
2. Annual Shareholder's Meetings are either open to all members (in small and medium sized societies and most British consumer co-ops) or only to delegates (named also Council or Board of representatives). In Great Britain such Shareholders' Meetings may be held simultaneously in several districts of one society.

The delegates are elected on district meetings or on tickets (lists) voted upon in special election offices (shops) or by letter. Postal voting, e.g. in Finland, had a high return, up to 50% per cent. In Switzerland (Co-op Basle) the candidates, formally to be elected on 4 district meetings, are pre-selected by electoral committees who consist of members connected to the conservative and left parties. According to the results of the last political election the respective share is arranged. In the Finnish E group and Elanto Co-op society, the political parties present their lists of candidates - each party one list. In the end there are many more candidates than vacant seats voted upon by letter. The seats in the Boards are also divided in accordance with the results of the elections to the Shareholders' Meetings/last political elections (Co-op Basle).

The number of delegates varies from 30 to 550 due to size, tradition and approved election procedures.

The duties for the Shareholders' Meetings are almost the same in each country; including approval of the balance sheets, election of Board members, change of the rules, distribution of profits, mergers.

3. The Board of Directors/Supervisory Board (Administration Board) are elected for a 2-4 years term. Except to be a loyal member, no formal qualifications for candidates are needed.

The elections are not often contested but increased somewhat in some co-op societies. It is known, and more or less accepted, that the candidates are pre-selected and proposed by the sitting Board (Chairman) and CEO (but note the special procedures in Switzerland and Finland).

Re-elections are possible and in several countries age limits (63 - 70 years) are set.

4. In the monist system it is legally the Board who exerts the ultimate power and responsibility in all matters of the society but it delegates the running of the daily operations to the chief official (CEO) and his management team appointed respectively approved by the Board. In Great Britain a Secretary of the Board (appointed by the Board)

serves as an important link between Board and management; he may be at the same time CEO of the society. In some countries and societies the chief official is a member of the Board (like in Sweden) or its President (PDG - organisation in many French and Italian societies) giving him a very strong position. In Italy some discussions are going on to have an elected President and separately a full-time CEO. →

In the dualist system (Like in Austria and Germany but also in some societies in France and Finland - SOK) the exact responsibilities of the Supervisory Board as well as of the Executive Board are laid down in the co-op laws and/or statutes of the societies.

The Supervisory Board monitors closely the development of the operation and performance of the management, examines the financial statements and balance sheets (often by a sub-committee), follows up the results of the external auditors, decides about medium and long-term programmes on proposal of the Executive Board and - most important - appoints and removes the Executive Board.

The Executive Board runs the business in its own right but in the frame of given guidelines and limitations by the society. In large societies this Board consists solely of full-time paid executives.

For some important fields joint responsibilities of both Boards are laid down in the statutes, e.g. budgets, investments, opening and closure of shops, buying and selling of assets and/or shares in third companies.

Employee representation in the Board rooms (elected by the employees) is bound to workers' participation laws or to voluntary agreements. It ranges from 10% (Co-op Basle) up to 50% (Co-op Society Dortmund-Kassel) leaving the casting ~~vote~~ vote with the always member elected chairman. Severe conflicts of interests between employee representatives and the general interest of members are not reported but surely occur in cases of crisis, staff reductions and closures. Necessary measures may be slowed down.

In Great Britain very few societies allow employees sitting on the Board as employee representatives. Most societies have Directors who are employees but who are elected members. This can cause conflicts as mentioned. The Registrar of Friendly Societies is limiting numbers of employees to below quorum level.

The frequency of Board meetings varies mostly between 6 - 12 times a year with dates set beforehand. In general the attendance is high, up to 80-100%. More or less sophisticated documents are sent out before the meetings supplemented by accounts of senior management.

The importance was stressed that the information has to be well documented but short, to the point, easy to understand

and well presented (graphs). In this context important key figures should be at hand, e.g. return on capital employed, ratio of equity to assets (solidity), dept/equity ratio, liquidity, difference between budgets and results, reasons for differences and responding measures.

Most societies employ Board sub-committees on specific areas, such as personnel, finance and financial statements (auditing), investments, membership.

8. The national and regional federations and companies are organised similar to the primary societies, that means mostly with a combination of elected lay persons and professional managers in the Governing Bodies but with the tendency to employ more professionals in the Board rooms.

CWS Manchester and FDB Copenhagen are wholesalers as well as large retailers with corresponding corporate and individual members both to be represented in the Board rooms and Shareholders' Meetings (General Meetings, Congress, Council of Representatives). Nominations are presented in a complex procedure directly from the corporate members (societies) or together with the individual members on district meetings or on district meetings only for the individual members (CWS).

Several Swedish co-operatives transferred their business operations to the KF subsidiary KDAB and lost consequently the direct influence on this part of their activities. Influence is only possible via the Boards of KF and KDAB.

9. In all countries more or less successful co-op societies can be found where the formal democratic structure and collaboration between Boards and management are functioning well. That's not at least a question of personalities on all sides, especially in relation to chairpersons and chief officials. Success often creates success without larger problems in Board rooms and with confidence in the abilities of the management to running the business in a proper way.

But a warning voice from Sweden:

"Our success in the 50's and 60's became our largest enemy for dealing actively with the future lacking behind with new initiatives and innovations!".

10. By and large the following weaknesses and problems have occurred in one way or the other:

- The Boards hadn't been strong enough to exert the authority and power given to them by law and statutes in relation to management. In case of continuously bad results, the Boards didn't take or only hesitantly took the necessary actions (e.g. removal of the executive). They often claimed too little information from management. If budgets were not reached the Board was satisfied with mere explanations without measures for improvement.

- Part of the Board members didn't have the background to lead and monitor large complex operations thus failing to recognise wrong developments in time. This may result in apathy, acquiescence and lack of commitment because the operations have grown so large and technical so that it is next to impossible to do anything (in the opinion of these Board members).
- The real power lies with the chief officials because they have an information monopoly and decide to a large extent the topics to be dealt with on the agendas of the Governing Bodies. ("The Board is in the pocket of the management").

A voice from Italy:

"This dominance has to be accepted. The elected Boards don't have any real chance for a detailed control. They have to rely on submitted figures and reports and take therefore corresponding measures and decisions. Criminal actions can hardly be detected."

- Management is not interested in membership and in a questioning Board but pursuing own priorities.
- The Board failed to appoint an appropriate management who lost grip on the growing complexity of business in increasing competitive surroundings. In an investigation on behalf of KF the known Swedish "company doctor" Ulf af Trolle pointed out (1989) some often found weaknesses of management, e.g. no drive for new initiatives, thinking in old ways, being afraid of making mistakes and taking unpopular decisions, power orientated, no team worker, not able to delegate.
- Board has grown too close to management leaving little room for critical questioning and unpopular decisions.
- Board rotation is too little, giving younger active members little chance to participate.

## V. Auditing

1. Annual external auditing (by law and/or statutes) are provided by external professional auditing companies or by the federations. In several organisations additional auditors from the membership are appointed by the Shareholders' Meetings.

The auditors have not only to examine the correctness of the bookkeeping and balance sheets but in most cases also the quality of the management in reaching the set goals. They have also to audit special sectors asked for by the Governing Bodies and to supervise that guidelines and decisions in the interest of members are observed.

2. Reports are given to the Shareholders' Meetings and Boards.

3. It was underlined that the auditing reports help the Governing Bodies in their controlling duties despite the fact that the figures represent the past. Critical points and wrong developments should be pointed out quite openly giving the Governing Bodies at least the possibility to take necessary measures. The presentation of reports should be relatively short, to the point and easily understandable (which at present is not always the case).

The importance of the external auditing is often not recognised by the Governing Bodies.

4. It may occasionally come to a clash of interests if the bodies of the auditing federations are dominated by professional executives from the societies and/or societies are the most important clients of the auditing companies and federations.
5. Consumer co-operatives are not supervised by any Government departments. In Great Britain, the Registrar of Friendly Societies (a Government Department) has the duty to review if the guidelines for co-op societies are met. Interventions are very seldom. In Germany the auditing departments of the federations have to examine new co-operative societies (not only consumer co-ops) if the legal requirements are observed. Only in that case the society will be registered by the Court.

## VI. Education and Information

1. Most co-op organisations offer the elected directors introductory seminars and/or regular education programmes on commercial and co-operative matters. In general the interest to participate is high. Some societies (e.g. in Norway and Great Britain) provide handbooks which explain in detail the co-op organisation and duties of the elected lay persons.
2. To a large extent staff training is provided in own schools and/or outside sources concentrating mainly on improving the professional skills and more occasionally on co-op matters. In recent times some reductions in training resources could be observed. On average the knowledge about co-operation is low. Many societies complain about insufficient commitment and knowledge of staff members because of a high staff rotation.

At present the Norwegian co-op group has started a big drive to inform all employees about the co-op profile and objectives of the group.

3. In large societies it is inevitable that only a small part of members are able to be directly involved in the formal democratic process. In varying degrees most societies try to explore new ways of communication with the members. Mentioned are amongst others member meetings on shop and district level, shop committees, study circles, seminars, cultural and leisure time arrangements, theatre and opera

circles, sport promotion, festivals around the shops, consumer forums, women's guilds.

There are no limits for new ideas and initiatives (but many result in <sup>some</sup> extra costs for the Co-op society).

4. A Code of Best Practice is not known so far but parts of such a code are included in rules and standing orders. In Great Britain an ad-hoc working group of the Co-operative Union are preparing a Code of Best Practice for the work of the Board of Directors and Senior Management based on "the principles of openness, integrity and accountability" and taking into account several aspects of Corporate Governance. This Code will be discussed and decided upon at the next Co-op Congress, at the end of May 1994 in Rochdale.

## VII. Financial Engagements

1. In most countries the members invested one or more shares in their society - with a minimum and maximum amount. As the amounts are widely different - from £1 to £20,000 - they play a varying role for financing and risk bearing own capital of the societies.

In Denmark and Switzerland no member shares are required. Instead a large part of the profits are retained and transferred to the reserves.

2. For improving the equity capital "participation certificates" (Genussscheine) have been placed (Dortmund - Kassel Society) and new financial instruments were developed within the frame of the French, Italian and (suggested) European co-op laws, that means preferred non-voting shares from members and non-members, shares from "investor-members" and issue of co-operative investment certificates.
3. Several European consumer-co-operative organisations collect savings from members, which are shown as liabilities in the balance sheets, but adding to the liquidity and financing of the societies (but are withdrawable on short notice). Due to banking laws such saving accounts are not permitted amongst others in Germany and France.
4. From some sides it was stressed that a substantial financial engagement will contribute to a stronger loyalty and commitment of members in the affairs of their society - paying them an attractive dividend or interest rate.
5. The company forms of limited liability companies and stockholding companies are used at secondary levels for large scale subsidiaries and takeovers wholly owned by the co-op groups or as joint ventures together with other parties. In Germany several co-operatives were changed into stockholding companies. This proved to be a failure since the co-operative character could not be maintained, in the end the majority of shares were taken over by large private trade groups.

### VIII. Benefits for Members

Kinds and amounts of benefits for members varies greatly from country to country and society to society, partly dependent on possibilities which national taxation laws permit.

The range of benefits include:-

- member magazine without charge
- cash dividends on purchases
- special offers and product discounts
- bonus payments according to a turnover scale
- vouchers which accompany a calendar each year
- dividend on shares

In the end, the bottom line (profit) will decide about the possible size of benefits.

### IX. Gender Policy

In relation to their share in the membership (and customers) the participation of women in the Governing Bodies of the societies and federations, especially in the Board Rooms, are still too low but improved somewhat during recent years - (Scandinavia, Germany). In most countries a gender policy is not promoted actively.

## CHAPTER 2

### AGRICULTURAL CO-OPERATIVES IN WESTERN EUROPE

#### I. Structure and Development

1. The agricultural co-operatives include the majority of the farmers in their respective countries and represent an important part of the agro-business in Western Europe thus considerably influencing the farmers' income by their commercial activities. Recent statistics published by COGECA - the General Committee for Agricultural Co-operation in the European Community - show that in 1992 around 33,000 societies represented 14 million members and reached an annual turnover of ECU 207.465 billions including all EU countries, Austria, Finland and Sweden. To these impressive figures those of Norway and Switzerland are to be added.

The strongest positions are held within the milk, meat and grain sector, in several countries also in wine, fruit, vegetables and flowers, eggs and farm supply. The co-op societies are delivering directly to the wholesale and retail trade, to private and own food industries or export. In this context the co-operatives of different countries are competitors.

2. Multi-purpose societies (banking and marketing and supply) as well as single purpose marketing and processing societies and single purpose supply societies are to be found in different sectors.

The sizes of the societies are quite different. Still at present there are a lot of small and medium sized societies (in fact still a majority) but the tendency goes to large scale units by mergers and takeovers accompanied by big subsidiaries and joint ventures at secondary level. Due to pressures from the markets the concentration process will continue.

During the last decade the crossborder activities have strongly increased by the large European market including more or less all Western European countries and in long term perspectives possibly also some Eastern and Central European countries.

3. Individual societies are working together within regional and national federations and companies which represent important business and service links for improving the framers' impact and competitiveness on the market place.

Together with the farmers' associations the agricultural co-op organisations stand in the forefront to represent and to protect the farmers' interests towards the national and EU authorities. As widely known their lobbying work has been and is very successful.

#### II. Objectives



1. The sole objective of the agricultural co-operative is to cover the economic interests of the members, that means paying the highest price possible when buying from members and asking for the lowest price possible when selling to members. While members cannot influence price calculations as individuals they can create countervailing power by acting collectively.
2. If the co-operatives are not living up to these expectations the members will sooner or later lose interest in the co-operative affairs and change to other sources. Most members measure the immediate price advantages and not the advantages which may be possible in medium or long term perspectives whether the co-operatives like it or not. Solidarity and self determination are valid as far as the own income is concerned.
3. The demands from farmers are high, especially in the present times of crisis, overcapacity in production and price pressure. They require efficient and profitable operations on all levels. Appropriate sizes, lean organisations, cost cutting, intense buying and marketing efforts are some of the keywords, but not expansion at any price. Many changes have already been introduced with Denmark and Holland in the lead. More changes are to be expected, not at least in the new EU applicant countries, where the national support systems are removed and the Common Agricultural Policy (CAP) is introduced.
4. The pros and cons of business with non-members are again and again discussed in co-operative circles but without conclusive results. This business is widely accepted as far as benefits for members are to be gained.

### III. Members

1. In general membership decreased during the last decade due to the ongoing concentration within the farming sector. Many small farmers stopped production, many small production units (dairies, slaughterhouses, mills) were merged to large modern factories. Some farmers left because they were of the opinion that their co-operative was not competitive. An exception is Great Britain where more farmers are joining co-ops for economic reasons.
2. The interest of farmers in the business operations of the marketing co-operatives is strong because their income is highly dependent on the skills and results (product prices) of the society, especially in those sectors with large market shares (milk, meat, grain, wine) and without strong alternatives. Firm delivery contracts give the co-operatives as well as the members a kind of continuity and stability in their economy. There are constant contacts between the members and the society about ongoing commercial transactions. The supply co-operatives are far more considered as one supplier amongst others.

3. The keen interest of the farmers in the economic affairs of their society does not necessarily mean that the participation and commitment of members within the formal democratic structure are particularly high. Especially younger farmers with large farms are less acquainted and interested in co-operatives ideas and principles but more in economic results. Their priorities are concentrating on the development of their own farm.

In recent times leaders from the German co-operative federations again and again are stressing the problems and necessity to revitalize and improve the members' participation and to convince qualified farmers to commit themselves within the Co-operative Governing Bodies.

#### IV. The Formal Democratic Structure

1. Within the formal democratic structure both the monist and the dualist system are used - with some variations in detail.
2. Annual Shareholders' Meetings are either open to all members (in small and medium sized societies and all British societies) or only to delegates (named also Council or Board of Representatives). These delegates are elected on district meetings or they are on tickets (lists) voted upon in special election offices or by letter. The election procedures are decided upon by the Boards or Shareholders' Meetings. In some organisations like in Denmark the elections are contested but in most societies contested elections are rare.
3. The Board of Directors/Supervisory Board are elected by the Shareholders' Meetings for a 2 - 4 years term. The number varies according to size and tradition.

Except to be an active member-farmer no special qualifications for candidates are needed. In Great Britain some outside directors are welcomed for increasing the professional knowledge in the Boardrooms.

The elections are not often contested but increased somewhat in recent years. It is not unknown that candidates are preselected by the sitting Board and CEO.

Re-elections are possible and age limits are set (63 - 70 years). A precondition can be that a Board position can only be held by active farmers. (Denmark).

4. In the monist system it is the Board who exerts the ultimate power in all matters of the society but delegates the running of the daily operations to the chief official and his management team appointed/approved by the Board. In some countries and societies the chief official is simultaneously a member of the Board (like in Sweden) or its President (PDC organisation in many French and Italian societies) giving him a very strong position. In Italy it is being discussed whether to have a clear-cut division

between the elected President and the professional chief executive.

5. In the dualist system (as in Germany and Austria) the Executive Board is elected by the Supervisory Board, in some cases by the Shareholders' Meeting, being responsible for the business operations in its own rights (Co-op law). The Board consists solely of elected laypersons or in a combination of elected laypersons and full time executives or solely of full time executives. In large societies the trend goes to full time executives. For the time being in Germany a fierce debate is going on about the practicability of having elected non-professional members within the Executive Board - so far with no results. All combinations can be found. Their effectiveness depends on the quality of the people concerned.

The exact responsibilities of the two Boards are laid down in the co-op law and the rule books. For some important fields joint consultations are foreseen but with separate votings. Such votings are seldom in practice.

6. Employee representation in the Boardrooms are limited and bound to workers' participation laws or to voluntary agreements (e.g. in Germany, Denmark).
7. The Dutch agricultural co-operatives exercise the system of solely elected directors in the Supervisory Board as well as in the so called Administration Board leaving the full responsibility for running the business to a full time professional management appointed by the Administration Board. This Board decides also about long term policies and strategies and monitors the performance of the management. The Supervisory Board controls the Administration Board and management in respect to given guidelines and taken decisions protecting the interest of members.
8. The frequency of Board Meetings varies between 4 - 12 times a year with dates set beforehand. In general, more or less sophisticated documentations are sent out beforehand supplemented by accounts of the administration. With variations from society to society Boards often work with sub-committees on specific areas (also due to size).
9. The national and regional federations and companies are organised similar to the primary societies that means mostly with a combination of elected laypersons and professionals in the Governing Bodies and with the tendency to employ more professionals in the Boardrooms. The Danish agri-co-operatives are holding strictly to elected active farmers. Since a few years ago in Finland there has been a move back to elected laypersons due to mistrust of the management.
10. The well-functioning of the formal democratic structures and the collaboration with the management - and this was again and again underlined - is not at least a question of personalities, qualifications, openness and trust on all

sides. From society to society differences can be found. Interest and commitment of the elected layperson are in general high. By and large the following problems and weaknesses were mentioned:

- The participation and commitment of farmers in the formal democratic structure are to be improved. That is not a lack of interest but more a lack of sufficient time.
- The competence of the Board members to lead and monitor complex business operations are not always sufficient - also in relation to the most important duty namely to appoint an appropriate and able senior management. Mismanagement, wrong developments and losses are observed at a late stage and necessary hard consequences hesitantly taken.
- The rotation in the Boardrooms has to be improved. Vacant seats are to be filled with younger farmers with good commercial backgrounds.
- The balance of power shifted to the senior management who dominate the Boardrooms and pursue its own objectives.
- Executives lost <sup>no reservation/control</sup> grip over their (too) quickly expanded business operations (new business activities) with consequent losses and failures.

## V. Auditing

1. Annual external auditings (by law and/or statutes) are provided by external professional auditing companies - or by the regional federations. Normally they are elected by the Shareholders' Meetings, in some cases by the Supervisory Boards (Holland, Finland). In several organisations additional auditors from the membership are appointed to follow the professional auditings, to examine special sectors asked for by the Governing Bodies and to supervise that guidelines and decisions in the interest of members are observed.
2. Reports are given to the Shareholders' Meetings and Boards.
3. It was stressed that the auditing reports are important control instruments for the Governing Bodies despite the fact that the figures represent past developments (up to one year old). Critical points should be pointed out quite openly.

The importance of the external auditing is not always understood by the Shareholders' Meeting when hearing the auditing reports.

4. Agri-co-operatives are not supervised by any Government Departments. In Great Britain the Registrar of Friendly

Societies has the duty to review if the set guidelines for co-op societies are met. Interventions are very seldom.

## VI. Education and Information

1. In somewhat varying degrees, the sectoral organisations and federations are offering education and training programmes for elected laypersons either in own schools and/or outside sources (especially comprehensive in Denmark, Holland, Sweden). The interest for participation has generally been high and improved further in recent years. In Germany and Great Britain it was said that the interest of the societies to delegating elected laypersons are to be increased. The training programmes comprise professional as well as co-operative topics.
2. Management and staff training concentrate largely on commercial matters and on improving the professional skills. The knowledge about co-operative principles and objectives are generally low. For the staff, the co-operative offers a paid employment, perhaps professional promotion. In strong societies the staff are proud and motivated by successful progress and results combined with a good working atmosphere.
3. The knowledge of the ordinary members about the co-operative background and principles are limited. Decisive are the economic performance and results. In some countries like Denmark and Sweden special arrangements for members are organised for improving their know-how and to foster the collaboration and community between the farmers and between the farmers and their co-operatives. In this context member magazines and newsletters are part of this policy. Member magazines and newsletters are likewise used in other countries.

It is the firm conviction of the Danish co-operatives - reflected in their actual working programmes and methods - that only through education, information, through discussions and feed-back at all levels it is possible to live up and to secure an active democratic structure and participation.

4. A Code of Best Practice is not known so far but parts of such a code are included in rules and standing orders. In Denmark quite recently new ethical rules for the Boards within stockholding companies were adopted. The agri-co-ops decided to follow these rules. In Germany the national federation has worked out a "Leitbild" which contains recommendations and guidelines concerning the objectives, working methods, Governing Bodies and control systems etc.
5. Besides the participation within the formal democratic structure there are scarcely other ways to participate in the societies' affairs. Mentioned are some study circles, debate evenings, social arrangements and advisory committees (Germany).

## VII. Financial Engagements

In most countries the members invested one or more shares in their society - with a minimum and maximum amount. They are playing only a small part in the financing of the operations which is mainly covered by cash flow and loans (and retained profits).

In Denmark and Holland the members don't have any shares but are liable, in equal terms, for any losses or deficits incurred by their co-operatives, unlimited in most Dutch agri-co-ops, limited in most Danish societies, either a percentage of the turnover or a fixed maximum amount.

For financing large scale operations on regional, national and international levels, limited liability and joint stock companies have been introduced, owned wholly by the agri-co-op groups or together with financial institutions and private investors, leaving the majority in the hands of the co-op groups. Some important German co-operatives changed to joint stock companies, but the shares cannot be sold without consent of the Executive Board. The co-operative objectives are laid down in the rules, the companies remain members of the co-op federations including the auditing. It has to be seen if these co-operative joint stock companies are able to maintain their co-operative character.

## VIII. Benefits for Members

The members are entitled to dividends if the financial situation (after full depreciation and transfer to reserves) allows it, but their main interest is to get the right price for the merchandise on the spot.

## IX. Gender Policy

So far, the participation in the Governing Bodies of the agri-co-op organisations have been a high degree of men. A policy for changing that is not to be seen (but discussed in some Scandinavian organisations).

## CHAPTER 3

### CO-OPERATIVE BANKS IN WESTERN EUROPE

#### I. Structure and Development

1. Mr. G. Ravoet, Secretary General of the Association of Co-operative Banks of the EU, Brussels published quite recently some interesting key figures and developments of its member organisations (29) comprising all the EU states, Austria, Czech Republic, Finland, Sweden and Poland (in "The Challenge Facing European Co-operative Banks" Published in: The World of Co-operative Enterprise 1994 - Plunkett Foundation).
2. At the end of 1991 these 29 member organisations collectively represented almost 11,000 local or regional banks, manned some 56,700 banking points, spoke on behalf of a 33 million strong membership base and employed a staff of more than 400,000. The combined assets came to more than ECU 1,100 billion, while total deposits and loans amounted to almost ECU 800 billion and ECU 700 billion respectively.

Co-operative Bank thus have a market share of around 17 percent of savings in the EU as a whole, thereby ranking third after the commercial banks (44 per cent) and the saving banks (23 per cent). And yet the figures could be misleading in that the importance of the co-operative banking sector varies sharply from one country to another. In some member states of the EU they are in the lead. The Credit Agricole in France is the largest non-Japanese Banking Group in the world. Germany's Raiffeisen and People's Banks also occupy a dominant position with a share of over 28 percent of that country's saving market. Rabobank Nederland has a market share of some 25 percent, while Austrian Raiffeisenbanks occupy 22 percent of Austrian savings, the co-op banks in Finland 30 percent.

3. The history of the co-operative banking movement has been one of growth: growth from small local credit co-operatives working for member - clients in the neighbourhood towards a group structure of a large number of local and regional units working together under regional and central federations. The next step in this process was the central body itself becoming a bank working for large clients on national and international level.
4. Mergers of local and regional credit and savings co-operatives and people's bank, often in larger cities and communities, have created rather big units but there are still a lot of local societies in the countryside.

All of them have moved towards universal bank status providing a full range of financial services to all types of customers (members and clients alike) helped by co-operative banks on regional and/or national level including special finance institutions. This move towards universal bank

status has had the consequence that co-operative banks, in contrast with the past, are now subject to banking supervisory legislation, be the legislation national, European or international.

5. In adopting to the needs and wishes of the market place it is expected that the co-operative banks will successfully meet the challenges within the national and international banking sector.

## II. Objectives

1. Promoting the interests of members by providing them with all kinds of financial services is the main purpose of the co-operative banks.

In addition to that some organisations feel a responsibility towards the society as a whole, helping old-age and disabled persons and/or promoting cultural, educational and sport programmes (e.g. in France).

2. The mentioned trend towards larger units and full banking services has largely increased the transactions with non-members. It is said that the expansion of business with these clients is to be regarded as a necessity for building up an efficient and profitable banking operation in order to survive on the market and to fulfil the main purpose of servicing the members (and gaining new members as well). On the other side, opinions are expressed that growth and expansion into new activities have become the most important objectives of the bank management neglecting the interests and the role of members as owners, goalsetters and users of their co-operative bank. This on the background that only minimal or no special benefits are offered to members.

## III. Members

1. In general membership increased in cities and large communities due to strong performance and new activities; in several countries and societies also due to the obligation that loans are only granted to members. Exceptions are to be found in cases of mismanagement and heavy losses. In relation to the whole population or number of clients the membership share is still low.

This share is much higher in the countryside (agriculture) but often with stagnating or decreasing membership in accordance with the falling number of farmers and craftsmen.

2. Success or failure in getting new members are also strongly dependent on the interest of senior management to recruit members thus allocating sufficient resources, responsibilities, staff training and information to that purpose.

In this context distinctive deficits can be noted especially in larger banks. But examples demonstrate (amongst others from the Credit Mutuel) that it is possible to acquire a



number of new members by an active membership policy and recruitment campaigns mostly around the banking points with the help of elected laypersons and staff.

3. The interest of members to participate in member meetings and Governing Bodies is mostly low exceeding not more than a few percent of total membership. The distance to the co-op society has grown with a lack of knowledge and information about the objectives, results and development of their society. The profile of the co-op banks is blurred and in danger to become interchangeable with the competitors. Again there are successful exceptions.
4. Mr. E. Pflimlin, President of the Credit Mutual, stressed the policy of his group to maintain the structure of small societies in rural districts, communities and cities, in order to safeguard the close links with the individual members. It had been a strategic choice that has proven to be successful.

#### IV. The Formal Democratic Structure

1. Within the formal democratic system both the monist and the dualist systems are used - with some variations in detail.
2. Annual Shareholders' Meetings are either open to all members or only to delegates appointed by members. These delegates are elected on district meetings or they are on tickets (lists) voted upon in the banking outlets or merely published on put-ups in the outlets without real choice. Elections are rarely contested but increased somewhat during recent years. Candidates are often pre-selected by the sitting laypersons and management, e.g. in Germany.
3. The Board of Directors/Supervisory Board are elected by the Shareholders' Meeting. Except to be a member no special qualifications for candidates are needed. If an outsider is strongly valued it is not unknown that he or she becomes a member with the election. Re-elections are possible and in many societies an age limit fixed (63 - 70 years). A pre-selection of candidates are often to be found by the sitting Board (Chairman) and chief official.
4. In the monist system the Board of Directors is responsible for all matters of the society but delegates the daily operations of the bank to a CEO and his senior management being appointed/approved by the Board. In some countries the CEO is at the same time a member of the Board (like in Sweden) or its President (PDG-Organisation in many French and Italian societies), giving him a very strong position.
5. In the dualist system (as in Germany and Austria) the Executive Board is elected by the Supervisory Board being responsible for the business operations in its own right (Co-op law). In small and medium sized societies this Board consists of laypersons or a combination of laypersons and full time executives. In larger co-operatives full time professionals are the rule. The exact responsibilities of

the two bodies are laid down in the co-op law and the rule books. For some important fields such as loan matters, budgets, investments, joint responsibilities are foreseen with joint consultations but separate votings. In practice such votings are rare.

6. Employee representation in the Boards are only found in very large co-op banks according to participation laws and on a voluntary basis.
7. Similar to the Dutch agriculture co-operatives the Rabobank group in Holland exercise the system of wholly elected laypersons in the Supervisory Boards as well as in the Executive Boards leaving the full responsibility for running the business to a full time professional management (see p.18).
8. The frequency of Board Meetings varies between 4 - 12 times a year with dates set beforehand (twelve or six months). In general more or less sophisticated documentations are sent out before the meetings supplemented by accounts of the management.

Board sub-committees are often established for loan matters, for personnel and for finance and balance sheets.

9. The federations, regional and national banks and financial institutions are organised similar to the primary societies that means a combination of elected laypersons and professionals in the Governing Bodies. On the background of the ever growing complexity of the business, a tendency to more well-educated professionals in the Boardrooms can be observed.
10. The functioning of the formal democratic structure, especially between elected directors and the senior management, is not at least a question of personalities, qualifications, openness and honesty and the will for collaboration on both sides. There are many cases to be found without larger problems but the following weakness can be found.

- Low participation and commitment of members who in large societies don't have much insight and information about their society. They delegated their voting rights to delegates often unknown to them.
- Members and delegates in Shareholders' Meetings are often unable to follow the complex business operations presented to them, to ask critical questions and to decide about huge financial statements and balance sheets. Discussions are often limited and not to the point.
- Elected Board members lack the background to lead the society, to decide about long term strategies and to monitor the performance of the management and thus

protect the interests of members. Critical developments are neglected, critical questions not put in time and urgent consequences not taken. In time of crisis the necessary quick decisions to overcome the situation take too much time.

- The rotation in the Boardrooms is too slow.
- Chief officials dominate the Boardrooms. The information supplied is insufficient and badly presented. These managers see only the business i.e. more expansion and new activities and promote their own careers but without connection to the membership basis, co-operative values and principles. The appointments of appropriate chief officials are surely one of the most important duties of the Boards and is decisive for the for societies' progress or failure.
- Executives have lost grip over their (too) quickly expanded business operations. Heavy losses occurred by careless loan granting, neglecting the given guidelines (limits) and security requirements.
- Conflicts of interest possible if members of the Board are simultaneously large debtors of the Co-operative Bank.
- A detailed survey of problems and weaknesses is given in the book of Eberhard Dülfer and Jost W Kramer "Schwachstellenanalyse und Frühwarnsysteme bei Genossenschaftsbanken" including Executive Boards and internal control systems, Shareholders' Meetings, Supervisory Boards and Auditing. The book analyses 174 cases of German co-op banks in acute danger of insolvency during the last decade.

## V. Auditing

1. Annual external auditings (by law and statutes) are provided by the regional federations or external professional companies. They are elected by the Shareholders' Meetings, who in several cases elects additional auditors from the membership.
2. Reports are given to the Board of Directors/Supervisory Board and to the Shareholders' Meeting.
3. These auditings are not only a control of the correctness of the book-keeping and financial statements but often extend to the development and quality of the management in reaching the goals of the society seen from a commercial and co-operative point of view. It has to be underlined that the report has to be really independent, pointing out weak points and wrong developments in an easily understandable presentation enabling the Governing Bodies to take necessary actions.

4. Banking laws permit state authorities to supervise and control the bank activities in respect of legal guidelines and limits (often connected with the national central bank).

## VI. Education and Information

1. Ordinary members have little knowledge about the co-operative background and objectives as special educational seminars and information are not available. In the countryside member have a closer contact to their banks than in cities and large communities.
2. Seminars, training courses and conferences for elected directors (partly also for delegates) are provided on local, regional or national level concentrating mostly on their right and obligations and improving professional knowledge about banking. Little is done about co-operative matters. The participation could be improved.
3. In Germany the regional federations developed a handbook for Supervisory Board members which contains amongst others the rights and obligations, working and control methods. This folder is widely accepted and used.
4. Extensive professional training is arranged for management and staff in order to increase their knowledge and skills in banking matters and marketing (service), but little is done to improve the knowledge about co-operative topics.
5. A Code of Best Practise is hardly known but partly included in the rule books and standing orders for the Boards and senior management. At their Convention in June 1994 the Credit Mutual Group will discuss and decide upon an ethical code for elected laypersons as well as for the employees.
6. In addition to the formal democratic structure and of being a client there are only very limited ways for members to participate in the activities of the society, e.g. on district meetings in France or regional assemblies in Holland (a consultative body).
7. Information to members in the form of member magazine and newsletters varies very much from society to society and country to country - from none in some peoples' banks in Germany to a lot of different brochures and magazines within the Credit Mutual Group. The motto is openness, truth, confidence, loyalty and solidarity on all levels.

## VII. Financial Involvements

1. In most countries and societies co-op members are financially involved with one or more shares, but with varying amounts. In Holland the members don't have any shares but are liable, in equal terms, for any losses or deficits incurred by their local bank, up to a maximum of 5,000 hfl. per member.

2. The percentage of the share capital in relation to the whole own capital or balance sheet is marginally low. The most part is covered by reserve capital and retained profits. Since profit margins are under pressure new financial instruments are under development (e.g. co-operative investment certificates) which can draw on the financial market and increase the capital basis. In addition there exist certain group guarantees for covering losses, e.g. in Germany, Holland and France.

#### VIII. Benefits for Members

According to a recent investigation of the European Association of Co-operative Banks in Brussels most Co-op banks are not granting their members any special conditions in relation to savings and loans or service fees. Mentioned is that loans are only granted to members (e.g. in France, Holland, partly in Germany), travelling discounts in Germany, refunds in some German co-op banks, special loan and saving conditions in Finland.

In addition dividends on shares are paid.

#### IX. Gender Policy

The participation of females in the Governing Bodies is low, between 5 and 10 percent in general.

## CHAPTER 4

### HOUSING CO-OPERATIVES IN WESTERN EUROPE

#### I. Structure and Development

1. In several West European countries housing co-operatives hold a large share in the national housing stock, in developing and building new homes at reasonable prices and in setting a good housing standard for low and medium income households, especially in Scandinavia, Austria, Germany, Italy and Spain. Their origins go back to the last century and show a wide variety of social groups which promoted and used the co-operative ideas of self help, solidarity and self determination in the housing sector.
2. With a membership from around 5 million people housing co-operatives are considered important partners by the state authorities in carrying through the official housing policy, sometimes heavy subsidies are paid for pushing the building of new homes.
3. Two forms are to be found, which also can be practised in one co-op society: building for home ownership or building homes with proprietary leases.
4. In general the co-op housing organisations are built up on three levels:-
  - Local societies, mostly small and medium sized, but also some large units.
  - Regional federations and associations, providing several services to the member societies including auditing, some also projecting and building (Sweden, Norway).
  - National federations, amongst others for developing general policies and services, lobbying, promoting of international collaboration (e.g. with ICA and CECODHAS).
5. At present the development in Europe is somewhat different. In Scandinavia the building activities have nearly come to a standstill due to an overcapacity of homes. The housing co-operatives are now more concentrating on administration and maintenance, services for members, energy saving programmes, promotion of homes for old age members etc. In Germany and Austria the demands for new housings are still high - (Sellers market).

#### II. Objectives

1. The main purpose of the housing co-operatives is now, as ever, to provide the members with homes of good standard at reasonable prices.

In this context the principle of security is a significant argument for many people to meet their housing needs by joining a co-operative. There is no landlord giving notice since each member is shareholder and user. The rights and obligations for using the accommodation are laid down in the proprietary lease contracts/administration and service contracts in case of private ownership.

2. Housing co-operatives feel also a social obligation in\* relation to environment, education and leisure activities, kindergartens, old age and disabled persons.
3. To reach their objectives the housing co-operative organisations are forced to work efficiently on all operational levels, that means in relation to administration, services, development, financing, building etc. using up-to-date commercial know how and techniques.

### III. Members

1. In general, membership increased during the last decade due to continuous building activities. The user of a co-operative home has to be member of the society.
2. This doesn't mean that all members are users, e.g. not in Sweden and Norway. On primary levels all members are at the same time users of a co-operative housing and they are also compulsory members of the regional associations. Connected to these associations are a second group of members (the so called "free group") who have saving accounts with the association for financing a flat in due time (around 50% of all members). For the time being a part of the "free group" is not interested to acquire a flat and leaves the associations.
3. Most members, especially in small and medium sized societies, are very interested in all matters concerning their own homes (environment, maintenance, fees etc.) but in a much lesser degree to participate in the formal democratic structure. For them the house administrator (or caretaker) represents the most important link with the society.

### IV. The Formal Democratic Structure

1. The formal democratic structure is not different from other co-op sectors. Somewhat different is the dominance of small and medium sized co-operatives with a high number of elected laypersons in the Governing Bodies and a relatively small full time work force.
2. In these societies the democratic structure is quite simple:
  - Annual Shareholders' Meeting - open to all members - elects a Board of Directors (up to 10 persons for a 3 - 4 years term), bearing the whole legal responsibility for all matters concerning the society. The day to day running is done by a small administration and/or by the

regional associations/service companies according to contractual agreements.

3. In large societies the Annual Shareholders' Meeting is open only to delegates who are elected by the members on district meetings or by postal votings. The Board of Directors appoints a CEO who at the same time is a member of the Board.
4. In Austria and Germany a Supervisory Board and an Executive Board have to be elected with exact defined responsibilities according to the law and statutes of the societies. In addition some important matters (laid down in the rules) have to be agreed upon by both Boards (e.g. budgets, investments, financing, allocation of co-op flats) by joint consultations but separate votings (in practice rarely done).

Both Boards consist of laypersons, in large societies the Executive Board of a combination of elected lay persons and full time professionals. According to law there are some employee representatives on the Boards of large societies (Norway, Germany).

5. Similar structures are in force within the regional associations/federations and national unions with a combination of laypersons and full time executives in the Boardrooms.
6. In general, Board Meetings are held about 4 - 10 times per annum on the basis of documentations, proposals and accounts by the executives/Board-Chairman. Dates are set in advance. Sub-committees of the Boards are only used in some larger societies and federations.
7. In the frame of the interviews and written reports especially, the following problems were mentioned:-
  - Insufficient participation of members.
  - Elections are rarely contested. The selection of candidates are influenced by the sitting Board (Chairman, ECO).
  - Low rotations in the Boardrooms (with exceptions).
  - Commitments and qualifications of Board members could be improved.
  - There should always be a good collaboration between the elected directors and the executives but at the same time some personal distance leaving room for critical comments and necessary unpopular measure (no "buddies").
  - The management dominates the Governing Bodies, little discussions on shareholders' and Board Meetings.



but it was also said: successful results show the abilities of the management, ease the responsibilities of the elected Governing Bodies and make critical discussions unnecessary. The democratic structure is functioning in times of progress and success.

#### V. Auditing

1. Annual external auditings (by law and/or by the statutes) are provided by the federations or external independent auditing companies. They are elected by the Shareholders' Meetings, who - in several organisations - also elects auditors from the membership.
2. These auditings are not only a control of the correctness of the book-keeping and financial statements but often extend to the development and quality of the management in reaching goals of the co-op society. Reports are given to the Board of Directors (Supervisory Board) and Shareholders' Meeting.
3. In Austria several state authorities have the legal right to supervise and control the activities of the housing co-operatives due to the status of non profit which means heavy public subsidies up to 50% of the actual building costs. Only the costs are to be covered by the rents of the members.

#### VI. Education and Information

1. The ordinary members know very little about the co-operative background and ideas. He and she meet their co-operative via the house administrator, in some arrangements around their housing complexes and through member magazines and newsletters which are distributed mainly 4 - 6 times per annum.
2. The elected directors are offered seminars and courses about commercial, housing and co-operative matters. Interest and participation are reported to be satisfactory.
3. Staff training are mainly concentrated on professional topics. Knowledge about co-operative principles and objectives is limited.
4. A Code of Best Practise is not known but is partly included in the rules and standing orders for the Boards and management. Some societies in Germany are working with a "Leitbild" which contains the objectives and guidelines for the business operations.

#### VII. Financial Involvements

1. The co-op members are involved with one or more shares, varying from 300 shillings in Austria to several 1,000 DM in Germany.

2. When moving into a new co-operative home members mostly have to make a substantial extra contribution (in shares or loan) for covering part of the building costs.
3. In Norway and Sweden but also in several housing co-operatives in Germany members are holding saving accounts with high deposits in order to finance their contributions. As large parts of this money is not used for this objective the Swedish organisation HSB is planning the foundation of a full service bank.

#### VIII. Benefits for Members

As special benefits are mentioned:-

- Easy and simple way to get a housing accommodation.
- Security in relation to rent development and ownership.
- Attractive rents and administration costs.
- Attractive house insurances.
- Social activities.
- Limited rents on shares but attractive conditions on savings.

#### IX. Gender Policy

Within member meetings and Shareholders' Meetings the participation of women is up to 30 percent, especially in Scandinavia; in the Boards and management the share is much lower. (With exceptions e.g. HSB Sweden).

## 1. Interviews (Jan. - March 1994)

### General

Dr. W. Jäger, University of Münster / Germany  
Prof. Dr. Hans H. Münkner, University of  
Marburg / Germany

### Consumer Co-operatives

I. Barberini, Pres., ANCC, Rome / Italy  
J. Benum, Chairman of the Board of Directors,  
NKL, Oslo / Norway  
A. Buch-Joergensen, Mrs., Dir., FDB,  
Copenhagen / Denmark  
A. Bußmann, Chairman of the Supervisory Board,  
Dortmund / Germany (retired)  
B. Burlton, CEO, Oxford, Swindon & Gloucester  
Co-operative Society / Great Britain  
D. Fischer, Sec. General, Co-op Alsace,  
Strasbourg / France  
A. Gross, Dir., Co-op Basel, Basle (retired)  
S. Halvorsen, Dir., NKL, Oslo / Norway (retired)  
L. Hillbom, Dir., KF, Stockholm / Sweden  
R. Itkonen, Mrs., Dir., Finnish Consumer Co-  
operative Association, Helsinki / Finland  
R. K. Jones, Dep. Secretary, CWS, Manchester /  
Great Britain  
I. Koskinen, member of the Supervisory Board,  
EKA, Helsinki / Finland  
R. Mäkeläinen, Dir., SOK, Helsinki / Finland  
G. J. Melmoth, Secretary, CWS, Manchester /  
Great Britain  
Prof. Dr. A. Rauter, Chairman, Konsumverband,  
Vienna / Austria

A. Remes, CEO, EKA, Helsinki / Finland  
J. Seppänen, CEO, Elanto, Helsinki / Finland  
H. Uski, CEO, Finnish Consumer Co-operative  
Association, Helsinki / Finland  
L. Wilkinson, CEO, Co-operative Union,  
Manchester / Great Britain  
H. Winiger, CEO, Co-op Basel, Basle /  
Switzerland

### Agricultural Co-operatives

O. Hakelius, Chairman, SLR, Stockholm /  
Sweden  
H. Hasle-Nielsen, CEO, Federation of Danish Co-  
operatives, Copenhagen / Denmark  
Dr. F. B. Hausmann, Sec. General. Deutscher  
Raiffeisenverband, Bonn / Germany  
Dr. H. Kellner, Gen. Sec., COGECA, Brussels /  
Belgium  
Pagliani, Pres., Anca, Rome  
E. Parnell, Dir., Plunkett Foundation, Great Britain  
H. S. Rinn, Chairman of the Executive Board,  
Westfälischer Genossenschaftsverband, Münster  
/ Germany  
S. Skurnik, CEO, Finn Co-op Pellervo, Helsinki /  
Finland  
S. Valk, CEO of the diary co-op "Friesland Friko  
Domo", Netherlands (retired)

### Co-op Banks

J. Moreau, Honory Pres., Credit Co-operatif,  
Paris / France  
E. Pflimlin, Pres., Credit Mutuel, Paris / France

M. Ravout, Secr. General, European Association of Co-operative Banks and member of the Board of Directors of CERA, Brussels / Belgium

H. S. Rinn, Chairman of the Executive Board, Westfälischer Genossenschaftsverband, Münster / Germany

S. Valk, member of the Board of directors of a local Rabobank /Netherland

Dr. H. D. Wülker, Secr. General, International Raiffeisen Union, Bonn / Germany

#### Housing Co-operatives

I. O. Hansen, Dir., NBLL, Oslo / Norway

J. Heiser, CEO, Baugenossenschaft Dennerstr. - Selbst-Hilfe, Hamburg, member of the Presidency of Gesamtverband der Wohnungswirtschaft, Cologne / Germany

K. Johansson, Mrs., Dir., HSB National Federation, Stockholm / Sweden

Prof. Dr. Knauer, Delegate of the Shareholders' Meeting, Hanseatische Baugenossenschaft, Hamburg / Germany

Dr. H. Ludl, Chairman, Gesamtverband Gemeinnütziger Wohnungsunternehmen; Chairman of the Board of the Housing Co-op Society "Die Familie", Vienna / Austria

E. Mauseth, CEO, NBLL - National Housing Federation, Oslo / Norway

#### Eastern and Central European Co-operatives

M. Ahnlund, Dir. Gen. Co-operative Network, Geneva / Switzerland

Dr. I. Fiedler, Dir., Co-operative Association of  
the Czech Republic, Prague

O. Karen, Pres., Co-operative Association of the  
Czech Republic, Prague

W. Richter, Chairman of the Executive Board,  
Consumer Co-op Society "Sachsen-Nord"  
Eilenburg / Germany

## **2. Books, booklets etc.**

### Western Europe

#### **ANCC, Rome:**

- 150 years Rochdale - Proposals for operative guidelines for the European Consumers' Co-operatives (Internal ICA-paper), 1993
- Co-op in Italy up to 31.12.1993 and development for 1993 - 1996 : 1993

**BdK (Bund deutscher Konsumgenossenschaften):**  
Die Wahrung der Mitgliederinteressen in der  
Genossenschaft - Eine Istanalyse, 1974

#### **Beuthien, Volker:**

100 Jahre Genossenschaftsgesetz - wie  
genossenschaftlich ist die genossenschaftliche  
Rechtsform, 1989

#### **Boetcher, Erik:**

Die Genossenschaft in der Marktwirtschaft,  
1980

**Böök, Sven Åke:**

Co-operative Values in a Changing World, 1992  
(ICA Congress-Report)

**Bol, Herman H. J. + Dierich, Albert M.:**

The Co-operative Banking System in the  
Netherlands, 1990

**Bonus, Holger:**

Das Selbstverständnis moderner Genossen-  
schaften, 1994

**CECODHAS, Brussels:**

Social Housing Europe, 1993

**Co-operative Union, Manchester:**

- Report on the Corporate Governance, 1994
- Service on the Board, 1987

**Credit Mutuel, Paris:**

Organisation du Credit Mutuel (without year)

**CWS, Manchester:**

Submission to the Co-operative Union Working  
Group on Corporate Governance, 1994 (Internal  
paper)

**Deutscher Raiffeisenverband e. V.:**

Raiffeisen Jahrbuch 1992

**Jäger, Wilhem:**

Genossenschaften: Eine Chance für die Zukunft,  
1991

**Kooperativa Förbundet, Stockholm:**  
Medlemsorganisation och konsumentpolitisk profil, 1993

**Middleton, Alan:**  
Fostering a more active membership in: Co-operative News, Feb. 15, 1994

**Münkner, Hans H.:**

- Genossenschaftliche Identität und Identifikation der Mitglieder mit ihrer Genossenschaft, 1990
- Chancen der Genossenschaften in den neunziger Jahren, 1991
- Die Rechtstypik der Genossenschaften in den Partnerstaaten der EG, 1993
- Critical role of Governing Bodies in Co-operative Societies, 1993 (lecture in Helsinki)

**NKL, Oslo:**

Forbruker Samvirket, Profilarbeidsbok 1994

**Piot, B.:**

Aperçus sur le droit des Cooperatives en Europe, 1993

**Plunkett Foundation:**

The World of Co-operative Enterprise, 1994

Several articles, a. o. from Hans. H. Münkner, L. Marcus, T. Thomas, G. Ravoet

**Rabobank, Utrecht:**

- The Rabobank Group (without year)
- The financing of Dutch agriculture, 1990



**Ringle, Gunther:**

Akquisition von Mitgliedern und Kunden der Genossenschaften, 1993

**Schaefers, Thomas:**

Co-operative Housing - more than just housing, 1992 (GdW-documentation)

**Stephenson, T.:**

- Management in Co-operative Societies, 1963
- Power plays by some Top Executives in: Co-op News, March 15, 1994
- Boardroom battles down to a nicety in: Co-op News, February 1, 1994

**Trolle, Ulf:**

Effektivt styrelsearbeite, 1989

**Volkers, Reimer:**

- Konsumgenossenschaften in Europa: Die Wiederentdeckung der Mitgliedschaft, 1994
- Membership and Membership Participation - Lecture 1993

**Wülker, Hans-Detlef:**

Die Attraktivität der Mitgliedschaft in einer Genossenschaft, 1991

In addition several annual reports, brochures and rule books have been at disposal.

Eastern and Central Europe

**Ahnlund, Mats:**

Estonia, Latvia & Lithuania, 1993

**Bosiak; Jergova; Majernik; Virsik; Manda:**

Slovakia, 1994

**Juhász, János:**

Hungary, 1993

**Kovalak, Tadeusz:**

Poland, 1993

**Mavrogiannis, Dionysos:**

Bulgaria, 1994

**Sozánski, Gabriella:**

Romania, 1994

**Vávrová, Vladimira:**

The Co-operative Movement's - Development on  
the Territory of the CSFR, 1992