

The Prior Problems

by John Anderson

The governance of Co-operative societies is not a problem which should be allowed to divert our attention from the major structural problems which, unless dealt with urgently will lead to our certain demise in the next decade or two. In fact, the long term solution to our structural problems could, at the very least, alleviate any governance problems.

One or two well publicised weaknesses of governance in major societies have captured the attention of the movement and provided an excuse for ducking, yet again, our real problems in favour of our favourite hobby, i.e. setting up committees to chase red herrings.

The Bigger the Worse?

In my opinion, there is no evidence to support the theory widely expressed that the bigger the society, the greater the problem.

There is certainly a scale problem. A manager on £200,000 a year, fooling his board into awarding him four times his salary as an early retirement incentive, will certainly get more than his equivalent manager in a smaller society getting £25,000. The crime, if crime it is, is surely of equal proportion. There is no doubt that with each passing year, retailing and business in general is becoming more and more complicated. So complicated in fact that some chief executives are heavily dependent on financial controllers and others for advice, so that board members in the main have even more need to rely on others for advice.

I am certainly not advocating that appointed advisors sit in on board meetings. Once you denude the chief executive of total responsibility for actions in carrying out approved measures, then some, if not many, will be quite happy to sit back and let the advisors take the blame if decisions go wrong, as surely some will. If the board is not happy with the chief executive's performance, he should be sacked with compensation, if appropriate, and replaced. It would be difficult to measure this performance if board advisors were making decisions and recommendations with which the chief executive clearly disagreed.

It is certainly important that the board are well informed before making decisions, especially vital decisions, but in my opinion it is the chief executive's remit to supply this.

Compulsory Efficiency Audits

The main difference between Co-operative societies and stock market companies is that outsiders monitor the private companies and the chief executives' performance. A poor performance in a stock market listed company results in a drop in the share price and, as often as not, the board will respond to outside measurement of performance by dismissing the chief executive and sometimes the chairman. We do not have that service in the Co-operative movement. The Co-operative Union measures the performance of societies all right, but then it keep the results to itself, unless societies ask for an efficiency audit.

The chances of poor-performing chief executives asking for an efficiency audit are remote. Even then, this monitoring service has been weakened by the insistence that the chief executive has first sight of the efficiency report for his amendments (or excuses) before a milder version is shown to the boards. Compulsory free efficiency audits with which there is no interference from the chief executive would do much to improve the movement's governance problems.

The Rôle of Directors

There is no doubt there is a shortage of young committed Co-operators capable of replacing the older generation of directors. This is understandable for, in the main, the position of Co-operative director is demanding and poorly paid. Because we still have so many independent societies and as many again of C.R.S. and C.W.S. Retail Committees, we are spreading our resources thinly.

We need democratically structured tiers of committees, which will ensure the ablest of committee members sit on the top echelons of the movement. At present, we do not have this. It is perfectly possible for anyone, irrespective of ability, to get on the C.W.S. board if he, or she, happens to be a member of the board of a large regional society. Votes are traded on the basis: you vote for our candidate, we will vote for yours. What we need is a structure where the members, say in Dartford elect members to a Dartford board, who appoint to a regional board some of their members, and the regional board appoint to a national board. This system exists in some of our larger societies, but not all, and certainly not C.W.S Ltd.

A National Society

I am a longtime advocate of a national society for the United Kingdom, and a national democratic structure, as I outlined above, would do much to improve our governance problems.

Board members, once elected at local level, would move up and down the tiers according to ability and performance, surely the essence of democracy? The lower tiers would be a mixture of raw Co-op recruits and members with experience who had dropped down the tiers for some reason. The higher up the ladder, in theory, the greater the chance of having more able and more informed board directors. This could be backed up with suitable training for each level, rather than the present all - embracing director training of today.

Similarly, salaries for board members should reflect the tier in the ladder they have reached. I am not advocating vast amounts, but reasonable salaries for time given up and services rendered.

To Summarise

Here then are the guide-lines as I see them:-

1. Governance is not a major problem in the movement.
2. Advisors on boards would make the problem worse.
3. The Co-op Union should perform, free of charge for boards, the monitoring service provided by stockmarket analysts for private companies.
4. A national society structure, as proposed above, would ensure a better trained and more able director at all levels.

The Author

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Annual Reports and the Member

by James Bell

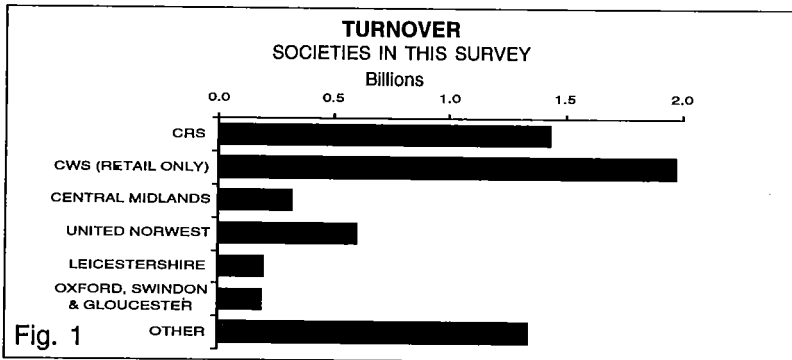
Co-operative societies can afford to be much more open in their financial reporting. Indeed, if increasing member participation is to be given its due priority, then Co-operatives must strive to make their annual reports more transparent.

There are considerable barriers to be overcome by the ordinary lay member, to understanding the average annual report. Legal obligations placed on retail societies result in their format being very similar to those of public limited companies (plc's). How appropriate is this for a Co-operative? It clearly is not and for two reasons. First, the majority shareholding in most plc's is represented by financial institutions who have developed sophisticated techniques for analysing annual reports. Such sophistication is vital for understanding a reporting system controlled by the accountancy profession. Professional status is not readily preserved if lay people are too easily able to understand the output. It is not surprising, then, that financially unsophisticated lay members will experience some difficulty reading the annual report of their Co-operative society if all it does is meet the minimum requirements for reporting.

Secondly, and more significant, the interests of shareholders in a private enterprise and those of members of a Co-operative are very different. The narrow profit-maximising motivation of the former exerts tremendous pressure on the managements of private enterprise continually to deliver profits growth and to demonstrate profits growth potential. The pressure is so great that it can lead to dubious and "creative" practices in financial reporting. The same pressure does not exist for a Co-operative enterprise in its pursuit of a broader set of objectives.

The Survey

The published annual reports of twenty retail Co-operative enterprises (listed at end) were used to assess the current level of communication with the membership (Fig. 1). These annual reports relate to financial year-endings between October 1992 and September 1993, with most society year-ends in the month of January.

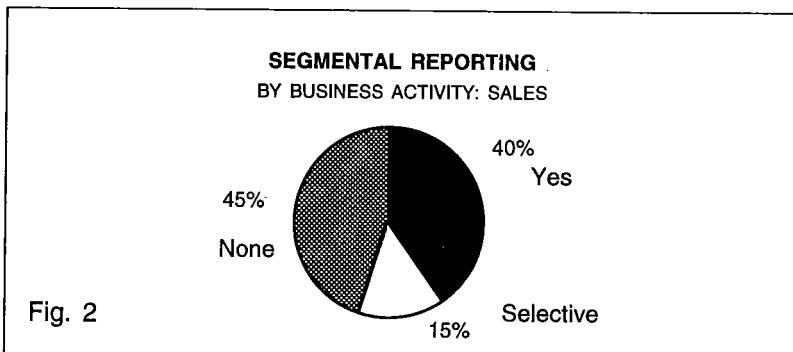


The survey is confined to the annual report itself. It should therefore be recognised that societies may well have other mechanisms for assisting their membership with digesting the financial information, such as regional reports or even visual presentations at members' meetings.

This assessment of user-friendliness is confined to three categories; the degree of desegregation of sales and profit figures, visual presentation and supporting explanation.

Segmental Breakdown

In this survey, 45% of the sample give no sales breakdown and 90% no profit segmentation by activity (Figs. 2 & 3). To encourage active interest, the members will need a breakdown of sales and profit performance by business activity and where applicable by trading area. To a degree this is provided for by the relevant accounting standard (SSAP 25 Segmental Reporting). Regarded as non-controversial, this standard requires disclosure of sales, profit and net assets by business activity and geographical area (divided by national boundaries). The exception allowed is when publication is judged to be "seriously prejudicial" to the interests of the company.



**SEGMENTAL REPORTING
BY BUSINESS ACTIVITY: PROFITS**

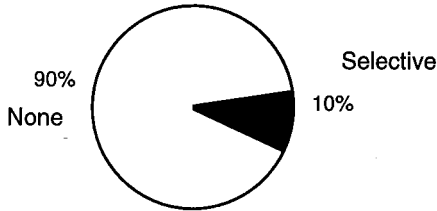


Fig. 3

Assessing the segmentation on a geographic basis is more difficult. Clearly, some of the larger societies have distinct trading areas whilst at the other extreme the issue is not relevant. Deciding where it becomes applicable is rather subjective. At least a quarter of the total sample do not provide a breakdown of sales by region when they could do (Fig. 4). Unsurprisingly, the proportion of non-disclosure of profits on this basis is higher. These figures should be of concern because by implication these are the larger societies representing a majority of the total membership covered by the survey. Larger societies appear to face a greater challenge in overcoming disaffection amongst the membership.

**SEGMENTAL REPORTING
BY TRADING AREA: SALES**

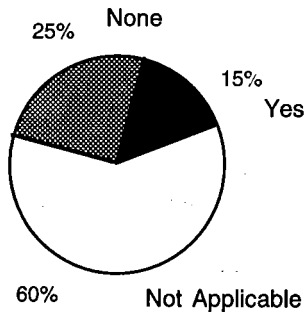
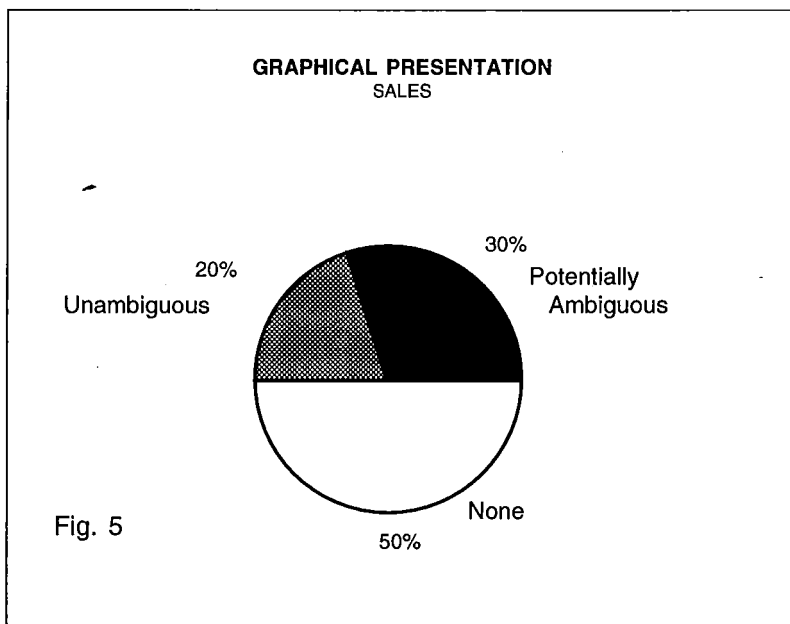


Fig. 4

Visual Presentation

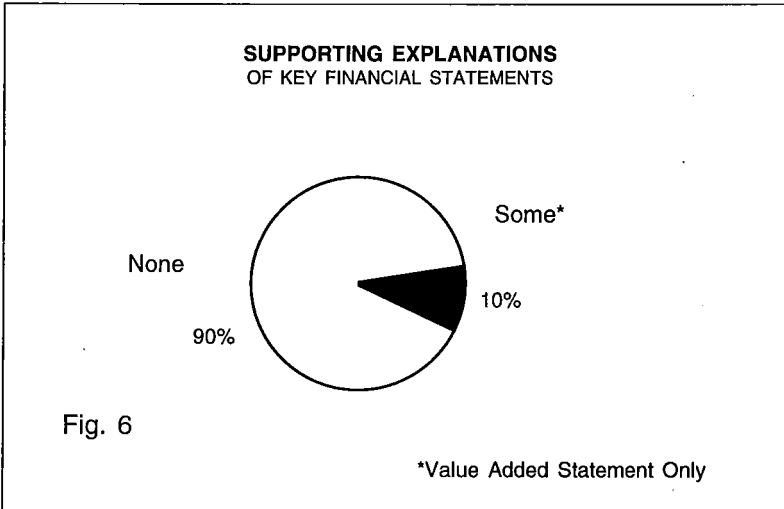
There is no formal obligation to include any diagrammatic presentation of the financial information. However, charts and graphs have become a feature of published accounts from the private sector and when such techniques result in a faithful illustration, this can help the reader to digest the information. The implication here is that the practice is open to abuse. Graphics can distort the figures and do more harm than good. Of the sample half made no attempt graphically to illustrate their results (Fig. 5). A further 30% have charts that are potentially ambiguous because they use three-dimensional perspectives. Given that visual representation has a very positive contribution to make, there is much room for improvement here.



Supporting Explanation

To anyone without a commercial background, financial statements such as the balance sheet or the cash flow statement must remain a complete mystery. Do Co-operative societies offer any simple explanations of the purpose of the financial statements themselves? Broadly speaking the answer is no. A mere 10% of the sample offer anything in this regard (Fig.

6). In each instance the explanation relates to the value-added statement only. Clearly there is scope further to assist the ordinary members with their understanding of the annual report. This would comply with education as a Co-operative principle and need not detract from the experience of the more financially aware reader.



Conclusion

The prospect of a new transparency in financial reporting is in the hands of the current lay directors. Reference was made in the introduction to the pressure on the managements of plc's to be creative with their reporting. The point was made that the same stress did not apply to Co-operative societies. However it should be noted here that some lay directors might seek to resist moves towards transparency and that potentially this is common ground with their executive management. The concern here must be that whilst stimulating active membership is a worthy objective to which most societies would subscribe, in practice there are some powerful forces beneath the surface mitigating against any real progress. As an example; for a large society with a range of interests to excuse itself from disclosing any segmental information on the grounds that to do so would be "seriously prejudicial" to its interests, is perfectly legal but rather disingenuous. The individual member of such a society could be forgiven for wondering what the directors were trying to hide.

The purpose here has been to assess the current standard of communicating financial information between the retail Co-operative and its lay member,

via the annual report. The issue is seen as significant, if the interest of the individual is to be stimulated. It should not be seen as a panacea. There are many other factors that stimulate members' interest and these are not dealt with here. However, it should be recognised that any encouragement to become actively involved, is likely to be frustrated if society boards are not seen as open in their financial reporting. Very probably, transparency will improve as societies respond to recommendations on corporate governance. It will need to if Co-operative fortunes are to be revived.

Societies in Survey

The published annual reports of the following Co-operative societies were used as the basis of this survey;

Brighton	Leeds
Central Midlands	Leicestershire
Chelmsford Star	Lincoln
Chesterfield	Oxford, Swindon & Gloucester
Colchester & East Essex	Plymouth & South Devon
Co-operative Retail Services	Portsea Island
Co-operative Wholesale Society	Scotmid
Coventry & East Mercia	Tamworth
Invicta	United Norwest
Ilkeston	West Midlands

The Author

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Reflections of a Non-Executive Co-operator

by Jim Craigen

But for a society rule limiting continuity of service to four years, I doubt if I would have been elected to a board of directors at 25; and, at that, the board of a retail Co-operative society which was the largest in Scotland in its day and amongst the liveliest in Britain.

Incumbency has always held inordinate sway in a movement which prefers known quantities to untried qualities. The experience of able directors was only temporarily lost as a consequence of this rule, for in practice many returned to the boardroom after the required 12 month sabbatical. Limiting the period of office merely dislodged Co-operators who might otherwise have remained in the boardroom for life, if not beyond.

The 'sixties were after all the age of Youth! Some years earlier, a 40-year old candidate in his bid for the post of society President pointed across the Atlantic to the election of a young JFK; although there were older members who viewed the US Presidency as an office of lesser importance.

Prior to my own election, I had been attending quarterly, half-yearly and annual general meetings for almost a decade, but the society President speaks for the platform on these occasions. Thus, apart from personal contacts or knowledge of other directors, an average member can only assess individual abilities from any election contest. Inside the boardroom - as with any organisation - one soon recognises the contributor and the passenger.

Directors and Managers

The interplay between lay directors and professional managers in the Co-operative boardrooms, and indeed those of voluntary bodies generally, has long struck me as a volatile combination of mutual collaboration and suspicion. Accountants it seemed to me disproportionately shaped Co-operative management and practices.

Experience in the Co-op boardroom introduced me to the artistic aspects of accountancy besides the practical arithmetic involved and offered early insight into what auditors do and do not do for their fees. This was long before recent calls for auditors to provide more financial analysis in company management - demands strengthened by the BCCI scandal and

Polly Peck affair and arising from the criminal investigations into these companies.

In the remorseless postwar slide in Co-operative trading fortunes I was all too aware of the importance of market share and discovered at an early age how management explanations of sales performance can so readily be accepted at face value in any boardroom cross-examination. Elsewhere in the private sector marketing and merchandising have been more thrustful elements in management teams as they must in these keenly competitive times.

Women and Employees on the Board?

An average Members' Rule Book tells more about who is not eligible to be a director than who is qualified for office; such as age limits of over 18 or under 70 or limitations on the number of employees who may serve on the board at any one time. Reference to minimum numbers of women directors would be unusual which is interesting considering the contribution women Co-operators have made. Generally women have fared better at entering the Co-op boardrooms than in taking seats in Parliament as Co-operators.

Vested interests have probably never been absent in the world of Co-operation. As societies came to engage more workers it is natural that employees constituted an important constituency. How that interest is best represented in the boardroom is another matter especially in these times of E.C. directives on worker directors. Recollection of an observation on the subject does come to mind. A co-director who was a full-time officer with USDAW, when trying to be helpful to a trade union delegation which appeared before the board, was told firmly by their spokesperson: "You leave me to make the representations!"

What Shareholders Look For?

In the private sector individual shareholders, more so than the institutions, often sense their lack of real influence on company practices. Of course the investors can sell their shares and move on if company results are not to their liking or when rising share prices encourage them to do so. Despite the pre-flotation hype about shareholder power it has been the growing power, if not pay packets, of managers after privatisation which feature in reports of the former public enterprises.

Co-operative managers operate in a more nebulous environment. Their shareholders are no longer accustomed to a financial return - in the sense that Co-op dividend is a thing of the past - and interest on share capital

is largely ignored. Yet a lady interviewed in a recent *BBC 2 Money Programme* featuring the Co-operative movement fondly recalled the dividend which for many of today's Co-operators is part of the living memory.

At least there is a satisfaction return, whatever that might mean, for those scant numbers who attend shareholders' meetings. The performance indicators by which they judge the society are unlikely to be found in any management textbook. Yet directors in a democratic society, though responsible to their entire membership, find themselves answerable in the first instance to those stalwart attenders of members' meetings.

Even the purchasing qualification for directors lost any relevance with the demise of dividend. For the customer price, convenience and quality count for more. A salutary requirement for directors might be regular shopping trips to Tesco, Sainsbury, Safeway and ASDA or the new breed of rivals such as Shoprite and Aldi to compare price labels for the same standard items.

Non-executive Co-operative directors are fewer in number than a generation ago as a result of mergers and failures and last year's collapse of Norco (Northern Co-operative Society) is a contemporary reminder of trading vulnerability.

Responsibilities and Rewards

While the number of directors has gone down their responsibilities have increased with competition and legislation. Keeping abreast of business performance, alive to management responses and recommendations and informed of legislative changes is more demanding of time and judgment.

Unless a society President is unusual in being able to hand pick other directors a board gets those willing to serve and able to command any necessary votes in a contest. A Co-op boardroom is not a Cabinet of specialists each with a portfolio. Nor do the rewards for lay directors compare with those of private or public company directors whose status is perhaps better recognised: though neither consideration ranks high in the ethos of Co-operation anyway.

Co-op managers too have developed their own institutions and for the most part seldom fully mesh into the mainstream management or professional bodies. It is an inherent strength and inherited weakness for a movement now less understood by those who are not part of it. Over the

past 25 years more outside entrants have come to work for Co-ops but with the continuing disappearance of independent community-based societies this has done little to broaden public awareness of the Co-operative identity.

The concept of One Big Co-operative must increasingly come under discussion as the century draws to a close and the relative merits of integrating the CWS, CRS and Co-operative Union are already under consideration. Displaced executives have more often been accommodated in new structures than outgoing directors. Whether a redundancy fund for displaced directors would have facilitated past mergers is now mere conjecture.

Structure rather than Purpose

Co-operators often appear more absorbed by structure than in purpose. 'Trade union structure is a function of purpose' contended a former TUC General Secretary during a debate on organisation.

As Co-operators commemorate the 150th anniversary of the Rochdale Pioneers it is not so much the role of directors as the direction of the movement which needs examination. Possibly the saddest and most paradoxical aspect of British Co-operation is an overall disinclination to change; particularly for a movement whose *raison d'être* was dissatisfaction with the *status quo* and whose pioneers most certainly upset the *modus operandi* of the day.

And yet, innovation in business or ethical values pops up now and again whether in retailing or banking practice as a reminder of that Co-op capacity to make the pace for others to overtake.

Author

JIM CRAIGEN was briefly on the boards of the former Glasgow South Society and wider Glasgow & District Co-operative Association before becoming involved in local government and later serving in Parliament from 1974-87 as a Labour & Co-operative MP. He is a Companion of the Institute of Management and holds a Master's degree in Business Organisation.

A Management Code of Practice

by Dr. R. Houlton

“Too many officials nowadays are ready to admit in their more intimate moments that they have few illusions left about the Co-operative movement. Perhaps this is true of all great movements, but men toil on for them because they still see the ideal.”

Co-operative Official, May 1953 (emphasis added).

Managers within Co-operative societies work for commercial organisations which are dedicated to the service of their members and pursue long-established social and ethical goals. Therefore, management roles within the Co-operative sector have a dimension of responsibility not normally present in the profit-maximising joint-stock companies.

There are other areas of employment where managers are expected to develop and sustain an “ethical” approach to their job. These include charities and other ‘not-for-profit’ organisations, medicine, law, teaching, nursing, journalism, and social work. A common element in these jobs is dealing with ‘ordinary’ people in situations where the managers/professionals can manipulate or take advantage of the situation for their own personal or financial advantage. In some of these areas the confidence of the public in the practitioner is boosted by the existence of a written ethical code of conduct. Anyone breaching the code is liable to be stigmatised by his or her colleagues and possibly arraigned before a tribunal of their peers.

The authority of these codes varies. Their influence is greatest where the association responsible for the code can determine legally whether a breach of the code has actually occurred and whether the miscreants can continue to practise their skills. The codes are weakest where some employers and/or practitioners are able to hold the code in contempt and profit from its breach. A notable example is the code of the National Union of Journalists.

In some quarters there is justified scepticism about the eagerness of, say, the BMA or the Law Society to investigate and discipline their members. But their power is real and they can discipline and, if necessary, “strike off” doctors or lawyers who are in breach of their respective codes. It is important to remember that these powers are additional to and independent of those enshrined in the civil and criminal law. They exist in order to influence behaviour rather than secure justice.

A Code of Co-operative Management?

To my knowledge there has never been an ethical code for Co-operative managers. This may be because of a long-standing assumption that the personal integrity and commitment to Co-operative goals and values of Co-operative managers could be taken for granted. As the quotation above indicates, 'Co-operative managers have seen themselves traditionally as people serving not only the commercial interest of members but also the values of the movement. Both the Co-operative Secretaries Association and the Managers Association were founded in Edwardian Britain because the secretaries and managers of that time felt that their role was incompatible with membership of the Association of Co-operative Employees, then a militant union building up a strike fund with the declared intention of using it in their struggle with societies.

We have no way of knowing whether the attitude and values of the current generation of managers is different from that of its predecessors. Certainly some of the more senior recruits have taken to the movement with the zeal of the newly converted. There are former senior managers of my acquaintance who have every excuse to distance themselves from the movement and yet continue as volunteer foot-soldiers within the ranks.

Lay leaders and directors have voiced concern that some managers have risen to senior positions within the movement despite character traits that were decidedly negative to Co-operation, which later became apparent. In these circumstances it may be appropriate for the National Association of Co-operative Officials, as a professional association and trade union, to take the lead in creating a code of practice on behalf of its membership. What is needed is a clear exposition of the traditional values and a declared commitment to the highest standards of personal conduct that is part of the NACO heritage. There has never been a better time for NACO to nail its colours to the mast.

Since the publication of James Burnham's classic book, *The Managerial Revolution*, it has been accepted that most business organisations are controlled by a small oligarchy of managers. A NACO code of conduct would be concerned with the use, abuse and allocation of power by these oligarchies within the Co-operative movement. It would also have to confront a Co-operative culture that has its roots in a era that has long gone when most Co-operatives were small and simple.

Small and Simple

In the 19th century, managers employed by Co-operative societies were

often indistinguishable from the members. In many cases they were members who had volunteered for increased responsibilities which eventually led to full-time employment. As a Co-operative society was an integral part of a community life, many of the society's members would be familiar with the character, family and life-style of all their managers. Any managers appearing to live beyond their means or above their station would be noticed - and questions could and would be asked.

At that time Co-operative retail skills and techniques were simple enough to be grasped by the layman and business operations were either small-scale or based on the repeating pattern of standardised branch retailing. Small-scale Co-operative structures were understood by many members. Dividend payments, a major motivating factor for the membership, meant that relevant comparisons between one society and another could be made in a way that was understood by ordinary people. There was close and strict accountability from management to the board, from the board to the active members and from them to the wider community. It was possible for ordinary members to judge the efficiency and effectiveness of their society and the honesty of its employees.

Large and Complicated

Today's situation could not be more different. The range and scale of operations of many Co-operative societies is beyond the comprehension of most members. With the loss of the dividend system there is no simple standard measure of efficiency available to the people who own the organisation. Easy access to Co-operative strategic information is a thing of the past.

Board of directors find it difficult to exert sustained systematic control over a society's senior management team. Indeed, the control exercised by some directors is often spasmodic, unpredictable and more related to the "politics" of the organisation rather than any long-term strategy for development. Some senior management teams feel a clear need to control the membership dimension and actively 'manage' their boards. Through their subordinates and the employee and pension vote it is possible for these managers to determine the result of elections and in this and other ways "massage the democratic structure".

This influence is further extended when senior managers compete with lay directors for election to the CWS board and are then appointed to the Central Executive of the Co-operative Union. The Union is the body which is meant, among other things, to monitor the effectiveness of the

management of Co-operative societies and intervene when it is found wanting. But the reality is that the Union can become part of a closed loop when it comes to monitoring management performance.

There are management theorists who would claim that these arrangements, which have developed within the Co-operative movement over the past forty years, are inherently incestuous and must create conflicts of interest. In reply, the pragmatic managers actually involved can retort, with some justification, that the structures they have inherited from the past are difficult to reform and even more difficult to operate. Arguably, without the participation of highly experienced managers on the CWS board and in the Union committees, the system could collapse.

Looking to the Future

Over the years the power and status of Co-operative managers have increased relative to the membership and the directorate. This was probably inevitable. What is not inevitable is the displacement of Co-operative values by the ideology and assumptions of joint-stock companies, particularly those of the movement's competitors. It would be wrong to blame the managers who have been recruited from "outside". Some of the most effective sceptics and underminers of Co-operative values and procedures have been managers with a long track record in the movement. And these people have never concealed their attitudes from their colleagues or their boards of directors.

It is normal for the ideology of a business organisation to reflect its goals. It is most abnormal for a business to tolerate serious disagreement by its senior employees with core values. Yet this has happened within the Co-operative movement, not only in terms of what managers believe but also in what they have done. The purpose of a NACO code would be to set the limits of acceptable and unacceptable management behaviour.

The Way Forward

There is a right and a wrong way to go about producing a code of conduct. The wrong way is to set up a select committee to deliberate and descend eventually with a text carved in tablets of stone. Admittedly there are precedents for this kind of approach - but not in 1994. The right way is to involve the members, the directorate and anyone else who can claim a legitimate interest in the behaviour of managers. What is needed is a full-blown debate and discussion.

There should be no difficulty with NACO members, many of whom recognise that events over the past three or four years has given rise to

considerable unease. As one manager observed, "It's back to the Middle Ages. Take the goose from the common and you're hung. Take the common from under the goose and you join the elite!"

A NACO management code could be a small but important contribution to a new system of Co-operative corporate governance. Implementation would come from the adoption of the code by the Association and by individual Co-operative societies. Once accepted by managers and employers, the code would be incorporated into the terms and conditions of employment. The code would also provide an important foundation for management training programmes at the society and national levels.

Who knows, a management code might be valuable in other areas of Co-operative activity and might even become a milestone in the regeneration of Co-operative enterprise. It would also be a very effective way of commemorating the Pioneers.

The Author

BOB HOULTON, Principal of the International Co-operative College, has been a member of NACO since 1977. He is also a long-standing member of the National Union of Journalists and has also been an elected officer of the Association of University Teachers and the NAOP.

The Changes Needed

by Alan Middleton

A number of recent events have caused people to question the adequacy of governance in the modern Co-operative society of the 1990's. In this article I will attempt to identify some of the issues and suggest solutions.

The principal responsibilities of the board of a Co-operative society are three-fold. They have to set the objectives, appoint a chief executive officer and monitor his or her performance. In order to undertake the last it is essential for the board to meet, at least annually, specifically with the objective of assessing the CEO against a pre-determined set of criteria, without any of the officers present. The board should also have a clear idea of what they are going to do if their assessment is unfavourable. I suspect that no society has any disciplinary procedure in place for the CEO.

I believe that the board of every society should cause to be written a code of conduct, which sets out, quite clearly, what is and is not acceptable. This should cover contacts with suppliers, gifts and hospitality. All such gifts and hospitality, given or received, should be recorded in a register.

Accounts and Auditors

Co-operative societies have grown much larger and more complex over recent years to a point where the accounts are understandable by only a tiny fraction of the membership. I therefore believe that a simplified form of accounts should be published.

I would also say that the auditors should be required to express an opinion in ordinary language, about the narrative part of the directors' report and the current viability of the society. There have been some horror stories in recent years, but at no stage have the ordinary members been warned of the disasters that were hiding just around the corner. I think that it is vital that the full board of every society meet with the auditors annually for a frank and open discussion.

Operation of the Board

Given the events of recent years, I have come to the conclusion that the Co-operative Union should appoint one additional director to the board of every member society. I further believe that the chief executive officer should be a member of the board, so that he or she has the same responsibilities and obligations as directors.

I would like to make some reference to the position of committees and sub-committees. My advice would be, first, do not assume that committees and sub-committees are inevitable or essential. They are not. It is perfectly possible to run a successful £200m Co-operative society without them. Boards should be aware that if they set up a committee and give it decision-making powers, the decisions are still made in the name of the board. The committee may do things the board do not agree with, but the board are still responsible for those decisions. If a board feels that it has to do something in this area, I would advise that it set up sub-committees, the minutes of which go to the board as recommendations for approval.

Role of President

Next I would like to say something about the position of President. The role of the President is to be chairman of the board, a first among equals. I would however caution against giving any power of decision to the President or any other individual member. Most decisions which need to be taken between board meetings can be taken by the CEO under delegated authority. Where it is clearly the board's responsibility to decide and the decision really needs to be made before the next scheduled board meeting, then a special board meeting should be called. There should be no such thing as 'chairman's approval'.

It would seem that it is still the practice in most societies to have a permanent or semi-permanent President. I would question whether that arrangement has served the movement well. After very careful consideration, I have concluded that it would be safest to have a quadripartite hierarchical structure within the board. This would comprise the Second Vice-President, the First Vice-President, the President and the immediate Past President. Directors would be eligible to serve in each office for two or three years.

Management of Agenda

There needs to be some tightening up of the rules regarding agenda. These should be sent out to directors at least four days before the meeting. There should be a presumption that most items will be supported by an explanatory paper and that papers tabled will not be discussed at that meeting; the proper course is for them to be placed on the agenda for the next meeting. No item which requires decision should be introduced under "any other business".

Emergency items can crop up but boards should be very cautious about dealing with items not on the agenda. They should never deal with an

emergency item on the basis of a verbal report. Whatever the emergency it should always be possible to prepare a brief report and allow directors time to read it.

Training of Directors

The key to solving some of our problems must be director training. The current level of training is abysmally low. In my view it should be a requirement within the rules of every society and it should be much more specific than in the rules of most societies at present. As a minimum, I would suggest that every director should become a member of the Institute of Co-operative Directors and complete the certificate programme within three years and the fellowship within five years.

The rules of the society should specify the nature and extent of on-going training. I would suggest that this should amount to a minimum of six hours every year, half of which should be undertaken away from the society's premises (preferably at the Co-operative College). The rules should apply to existing directors. There must be a role for the Co-operative Union in policing director training.

More Power to the Union

The time has come to give the Co-operative Union some teeth. Rule 11 gives the Union certain powers in the case of societies with poor trading and financial performance. They can demand a meeting with the board, make recommendations and require action to be taken upon them and, where all that fails, they can convene a meeting of members and report the facts to them. This clearly has not worked.

In order to have the maximum authority and credibility, I would suggest that more powers of intervention should be given to the Union and the Registrar of Friendly Societies. These powers should be specific and should include the appointment of additional directors, the requirement of certain action, the imposition of rule changes and the running of a society. These powers may seem draconian and anti-democratic. They are however necessary in the interests of the members, for their own protection.

The conferring of significant additional powers on the Co-operative Union will require some restructuring of the Union itself. The movement will need to be convinced of its credibility before it will be prepared to give it such powers. Criteria need to be drawn up for measuring the performance and standards of every society. Only those who fully meet the criteria should be eligible to nominate for the Central Executive. The Co-operative

Union rules should be amended to prevent any society, including CWS, from holding a majority of seats on the Central Executive.

I believe that these changes would substantially enhance the quality of governance and provide some of the essential checks and balances which might prevent further disasters in the future.

The Author

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In Passing

The object of government in peace and in war is not the glory of rulers or of races but the happiness of the common man.

William, Lord Beveridge – Social Insurance

*He that would govern others first should be
The master of himself.*

Philip Massinger – The Bondman