Code of Best Practice

The Corporate Governance Working Group was established by the Co-operative Union in the autumn of 1993 to report on the direction and control of societies. Its report was submitted to the May 1994 annual Congress, which approved the following proposal from the Central Executive:-

> *This Congress commends the report of the Working Group for careful attention by the Boards of all member societies and asks the Central Executive, in the light of Congress discussion, to facilitate consultation and consideration by whatever means it deems appropriate.*

We print below the main recommendations of the Working Group which constitute a Code of Best Practice for Co-operative societies, followed by commentaries from Professor Brian Harvey, chairman of the Working Group, Lord Jacques, T.E. Stephenson and Brian Townsend.

"1 Recognising that all directors are equally responsible in law for the Board's actions and decisions, it is for the Board collectively to ensure that it is meeting its obligations. Therefore, the Board should meet regularly, and retain full and effective control over the society and monitor the executive management.

2 Every society's Board should consider, in detail, the Statement of Directors' Responsibilities, provided in this Report, and determine its application to the society.

3 Each society Board should have a formal schedule of matters specifically reserved to it for decision, to ensure that the direction and control of the society is firmly in its hands.

4 (a) The Co-operative Union, as a matter of urgency, and in consultation with member-societies and the Registrar of Friendly Societies, should devise rule amendments for adoption by consumer Co-operative societies, to ensure that such societies, in the event of solvent dissolution, are required to pass any surplus arising on the dissolution to one or more other Co-operative societies with similar rule provisions about surplus distribution, or to a charity.

(b) The Law should be changed to ensure that Co-operatives are prevented from distributing any ultimate surplus remaining on solvent dissolution, other than in accordance with Co-operative Principles.

5 Directors considering a transfer of engagements to another society must be mindful of their responsibilities as directors to safeguard members' interests in transfer of engagements negotiations, and they must provide members with all the information they need to make an informed choice whether or not to approve the transfer of engagements.

6 (a) the Board as a whole should consider carefully the society's position and prospects in order to define the society's objectives and requirements in recruiting the Chief Executive;

(b) from this, a written job description and person specification should be produced;

(c) the appointment is of such importance to the society that the whole Board should make the final selection and determine the terms of appointment.

7 The service contracts of Chief Executives and other senior executives, where applicable, should not provide notice periods in excess of three years.

8 Co-operative societies should -

(a) deposit details of the remuneration package of the Chief Executive and other senior executives (ie members of the society's Management Executive) with the Chief Executive of the Co-operative Union on an annual basis. The details to include basic salary, pension and other benefits and performance-related elements;

(b) provide details of the remuneration package of the highest paid employee of the society and of any other executive appointed to the Board in their Annual Reports;

(c) consider the current direct relationship between executive salaries and turnover and should seek to introduce improvements in the structure of executive remuneration packages;

(d) report in their Annual Report, details of any compensation payments for loss of office made to the Chief Executive or any other executive appointed to the Board.

9 Co-operative societies should recognise the importance of appropriate training for directors, by incorporating within their rules a requirement for all directors to undertake training. The requirements will include -

- A structured training programme for newly-elected directors, to be completed within 18 months of election.
- Programmes of continuing development for all directors, with a minimum requirement of 12 hours training per annum.

Societies may prefer to arrange customised training, but all director training and development programmes should be accredited by the Co-operative Union. Failure to follow the recommended training and development programmes during periods of office, would disqualify a director from office.

10 Societies should ensure that preparatory training is available to members indicating interest in participating in elections to main Boards, area/regional Boards, and/or regional/area/branch committees.

11 Societies should plan and undertake appropriate, structured training programmes for current and potential senior executives. Directors should ensure that they receive periodic reports on achievements in this area.

12 The fees paid to Co-operative society directors should recognise the important and demanding responsibilities of directors, and the efforts they are expected to contribute to equip themselves to discharge their responsibilities effectively, including, specifically, the requirement for appropriate training. The Co-operative Union should maintain a schedule of recommended fee rate ranges, to be updated and advised to societies annually.

13 Societies should undertake a comprehensive review of all aspects

of their membership activity policies and practices, taking note of -

- the number of members joining the society
- the number of members attending members' meetings
- contested elections for Board and other committee places
- the number of members participating in elections
- presentations and reports to Congress in recent years
- the recent updates to the ICD Manual

in order to establish objectives and programmes, to encourage new members and increase members' involvement and activity.

14 There should be an agreed procedure for directors to take independent, professional advice, at the society's expense, subject to the request being supported by directors making up more than 33 per cent of the full Board.

The agreed procedure should be laid down formally, preferably in Board Standing Orders.

15 Co-operative society Boards should recognise that it is their responsibility to ensure that the society's Annual Report presents a balanced and understandable assessment of the society's position -

- the report and accounts should include a coherent explanation of the society's performance and prospects;

- balance requires that setbacks should be explained alongside successes;

- the report should be not only fair, but clearly written so as to be easily understood by members.

16 Directors of Co-operative societies should ensure that their society adopts and conforms strictly to Accounting Standards recommended from time to time by the Co-operative Accounting Standards Committee. In the event that a society chooses not to observe the recommended Co-operative Accounting Standards, this must be reported clearly to the society's members in the society's Annual Report.

17 Co-operative societies should provide half-yearly Interim Reports

for their members, in which is published outline Revenue Account, Balance Sheet and Cash Flow information for the half-year, together with outline forecasts of profits, transfers to reserve and indebtedness for the forthcoming year-end. Directors should request and receive an Audit Review of these interim results.

18 Each Co-operative society Board should review the summary of the information that we recommend to be provided to directors, which is listed as Appendix 4 of the Report, and determine and document the information to be provided to the Board. In doing so, directors must ensure that they receive all of the information which is necessary for them to discharge fully their responsibilities as directors.

19 (a) The Chief Executive to be an appointed member of the Board during his or her term of office.

(b) The Chief Executive should not be permitted to act as Chairman or President of the society or to serve on the Audit Committee or the Remuneration Committee if such committees exist.

(c) The financial controller or equivalent officer of the society should also be appointed to the Board of a society during his or her term of office.

20 (a) Boards of societies should make appropriate use of independent professional advice in discharging their responsibilities for running the society's business.

(b) The Co-operative Union should elaborate and update from time to time guidelines on the use of such advisers by society Boards.

(c) The Co-operative Union should establish a list of recommended professional advisers, for the use of member societies, in those fields in which the Union does not itself provide advice and assistance.

21 (a) The Board of each society should make its own regular assessment of the skills, training and experience of the elected directors.

(b) If this leads to the conclusion that further input is required on a continuing basis, which cannot be provided by the 'one off' use of outside professional advice, one or more paid outside non-executive directors with relevant expertise should be appointed to the Board. Society rules should be amended to permit such appointments.

(c) The Co-operative Union should maintain a register of suitable persons who might serve in this capacity.

(d) Such directors together with the appointed executive directors and any elected employee directors or any other directors dependent on the patronage of the society as defined in Recommendation 23 should constitute less than fifty per cent of the number of Board members that constitute a bare quorum.

22 (a) The Central Executive of the Co-operative Union should make full use of its existing powers under Rule 11 of the Union's rules.

(b) The rules of the Co-operative Union and of member-societies should be amended to give the Central Executive of the Co-operative Union power to appoint a Board member to a society if, after a report is made on the affairs of the society under the existing Rule 11 of the Union, this is deemed to be necessary by the Central Executive.

23 The combined number of the appointed executives, any employees or superannuated ex-employees, any suppliers dependent on the society's patronage to a material extent or senior employees of such suppliers, and spouses of the foregoing should not exceed 33 per cent of the total membership of the Board and, together with any other unelected directors, should constitute less than fifty per cent of the number of directors constituting a bare quorum.

24 The President/Chairman should:

(a) stand back sufficiently from the day to day running of the business to ensure that the Board is in full control of the society's affairs and alert to its obligations to its members;

(b) not be a society employee, superannuated ex-employee or a supplier who is dependent on the patronage of the society to a material extent or the spouse of any of the foregoing;

(c) be prevented by rule from holding the office of President/Chairman of the Board or of the society for a period of more than five years without a break of at least one year between successive periods in office.

25 (a) The positions of Chief Executive and Secretary should not be occupied by the same person except, possibly, in the case of the smallest societies.

(b) All directors should have access to the Secretary and the removal of a person from this office should be a matter for the whole Board.

26 (a) A separate Audit Committee should be established in societies with more than, say, ten Board members. In societies with fewer directors, a separate and clearly designated series of Board meetings should be held to carry out the functions that would otherwise be entrusted to an Audit Committee.

(b) The Chief Executive should not be entitled to attend the meetings of the Audit Committee or of the Board when functioning as the Audit Committee, but could attend if invited to do so for a specific purpose.

27 In all societies every director should receive a copy of the management letter provided by the auditors. In addition, adequate time must be provided for the Audit Committee (if it has been established) or, otherwise, for the full Board to:

(a) discuss in full the management letter provided by the auditors,

(b) consider remedial actions or changes to procedures proposed by management, and

(c) monitor progress in carrying out the proposed actions.

28 Societies should ensure that the remuneration of senior executives is determined, monitored and reviewed on the basis of full information and careful consideration. Senior executives should take no part in the Board's process of determining their own remuneration. A sub-committee of the Board could be established to collect and consider detailed information and to make recommendations to the Board, but the Board must make all decisions in this area.

29 Societies should review their procedures for checking documents

requiring the use of the seal so as to ensure that any document being executed carries out the Board's decision.

30 Society Boards should appoint two or more elected non-executive main Board members to serve on the Board of each subsidiary society or company controlled by the society. An appropriate amount of time should be spent by the main Board discussing reports on the progress and circumstances of all society subsidiaries.

31 No audit engagement partner should remain in charge of the audit of a Co-operative society for a period exceeding five years.

32 Fees paid to audit firms for non-audit work should be disclosed in the society's Annual Report.

33 Societies should, as part of their Annual Report, make a statement on the effectiveness of the system of internal control in place in the society and the auditors should report on that statement.

34 Directors should report to the members each year on the reasons for their view that the society can be regarded as a going concern with the necessary supporting assumptions or qualifications.

35 Societies proposing transactions, acquisitions or disposals, involving 25 per cent or more of the society's net assets should report to members at a consultative meeting. Societies may wish to go further and invite members' approval for such decisions in the interests of democratic accountability.

36 Each Co-operative society should develop and introduce its own Code of Business Ethics.

37 Societies should amend their rules to prevent any person who is or becomes a bankrupt or who served on the Board of either a society or a company immediately before it went into insolvent liquidation, receivership or administration from becoming or remaining a Board member.

38 The Co-operative Union must require an annual statement from each society to the Co-operative Union and to the society's own members about its implementation of each of the recommendations. Such a statement must explain in detail how

the society has implemented each recommendation and give full reasons for any failure to implement a recommendation.

39 (a) All societies in membership of the Co-operative Union should amend their rules to insert an obligation to remain in membership of the Co-operative Union and thus to require a rule amendment for the society to decide to leave the Union.

(b) The Co-operative Union should amend its rules to require societies wishing to leave the Union to give a minimum of one year's notice, lodging formal notice by the end of January for report to the next Congress, from the end of which the notice would apply.

40 The Central Executive of the Co-operative Union, in its review of the Co-operative Deposit Protection Scheme should seek to include among the criteria for admission to membership and continued membership of the Scheme a requirement that members of the Scheme should comply with the Code of Best Practice.

41 Persistent and serious failure on the part of a society to comply with the Code of Best Practice should result in its expulsion from the Co-operative Union.

42 The Central Executive should establish a body to monitor the implementation of the Code of Best Practice and to keep the Code up to date."

Responding to the Challenge

By Professor Brian Harvey

The Co-operative Union is the national federation of, largely, retail (consumer) Co-operative societies - a sector which has over 4,000 Co-operative shops, 75,000 full-time equivalent staff and a turnover in excess of £7 billion. Its Corporate Governance Working Group was established in the autumn of 1993 to report on the direction and control of Co-operative societies to the May 1994 annual Congress, and "make recommendations on good practice to achieve the necessary high standards of reporting and accountability".

The quality of governance of Co-operative societies - the effectiveness of management, direction and membership- had not only been called into question by occasional dramatic instances of lack of competence and/or probity. Over the last thirty years, both food and non-food market share had more than halved; poor financial performance had resulted in eight hundred independent societies being subsumed; and the continued ability and willingness of the remaining fifty or so societies to absorb failed societies was uncertain.

A Critical Moment

The members of the Working Group included directors and senior managers of societies and also those who provide independent financial and legal advice to the Co-operative movement. As chairman, I found agreement that this was a critical moment in the history of the consumer Co-operative sector, and that the Group's deliberations had to be comprehensive, reflecting the seriousness of the governance issues confronting the movement and the singular opportunity which the presentation of the report would offer. At risk was not only the service being provided to current members of societies, but also the preservation of Co-operative assets and even the Co-operative form of retail enterprise for future generations of Co-operators.

The prime distinguishing feature of the Co-operative movement is the centrality of membership and member-control. The questions addressed by the governance Working Group were therefore: how are members' interests articulated?; how effectively are these interests represented by the elected (non-executive) directors of which society boards are entirely composed?; and how successful are those boards in governing the performance of the chief executive and professional team to whom they delegate operational management?

The report was not intended to be a routine continuation of long-standing past efforts to revitalise the consumer movement. As the terms of reference indicated, the selection, conditions of service and responsibilities of executives and directors, the functioning of the board, and its systems of reporting and control - the elements of corporate governance - are vitally important. They are central, both to the commercial success and effective member-control of Co-operatives - and therefore to the continued survival of the Co-operative form of retail enterprise.

The Objectives

In making its recommendations, the Working Group was guided by the shared conviction that priority should be given to the requirement for transparency and accountability in the governance of Co-operative societies. Is there any reason why such societies should choose to be less financially accountable than the best companies of similar size, or, as member-organisations, why they should not subject themselves to the highest standards of transparency?

The objectives of the Working Group were to:-

* Improve the quality of direction and management in pursuit of improved business performance.
* Achieve the highest standards in management's accountability to the board.
* Promote openness and transparency in relations between directors and members.
* Re-invigorate membership recruitment and involvement.

The main thrust of the Report's recommendations can therefore be summarised under these headings.

Quality of Direction

One of the key distinguishing features of Co-operative societies is that the board is made up entirely of 'lay', or non-executive directors. These are elected from the membership of the society, they do not necessarily (or usually) have relevant professional or managerial experience. They rely upon their appointed chief executive to run what have in many cases become multi-million pound retail businesses. Several of the recommendations of the governance report aimed to ensure high quality in the direction of societies.

One of these encourages directors to take independent professional advice as required, even by a minority of the board, and also to consider appointing an appropriate outside director to the board, having made its own assessment of the skills, training and experience of its elected members. In making this recommendation, the Working Group was responding to strong evidence that many of the problems of commercial failure and inadequate governance in the Co-operative movement arose from the absence of relevant skills and expertise from the boardroom. This places directors at a great disadvantage when they deal with chief executives and other senior managers who have years of business experience, relevant education and training and full access to information about the society's affairs.

Management Accountability

The accountability of professional management to the elected board is a central issue in the quality of governance, and of commercial management, in Co-operative societies. The chief executive is the inevitable focus of great power and influence. He or she supplies information and advice to the board, and is the filter for communications between the board and the management team. But this power, even where it is not abused, is not necessarily matched by an equivalent sense of responsibility.

In the case of Co-operatives, unlike the company sector, the chief executive is not a director. It is quite possible for the holders of that office to believe and/or claim that as mere employees they are not truly responsible for their society's policy, strategy and overall performance. One of the recommendations of the Working Group was that chief executives and financial controllers should be appointed to the board.

Openness and Transparency

As member-based organisations guided by Co-operative principles, Co-operative societies should be characterised by openness and transparency in their relations with members. This requirement translates specifically into an obligation upon a society's elected directors. Several of the Working Group's recommendations aimed to highlight these obligations, including a rule requiring that no one could serve as president for a period of more than five years without a break of at least one year between successive periods of office, in order to reduce the risk of 'permanent' occupation of that office.

Effective Membership

In a member-based organisation such as a Co-operative society, the ultimate guarantee of effective governance is an active and informed body of members. The need for a Working Group on Co-operative Governance was evidence in itself, therefore, that all is not well with Co-operative membership. Most of the recommendations of the Working Group were aimed at putting effective mechanisms of governance in place in the absence of an adequate level of membership participation and vigilance. But, with the longer term future of the Co-operative movement in mind, the Working Group also made the recommendation that the directors of societies should undertake a comprehensive review of all aspects of their membership activity, policies and practices - taking note of the members joining, attending meetings and participating in society elections.

Roles and Relationships

The key stakeholders who have the task of achieving this balance between their own different interests, as well as exercising their responsibility to their Co-operative heirs, are the members, directors, and senior managers. The report, following the terms of reference, therefore, concentrated on the roles of, and relationships between, these groups. These are the main actors for whom the report was written, and it is to them that one must look for the implementation of the report's recommendations - the Code of Best Practice. The quality of governance resides in the relationship between the prime stakeholders - the membership, board and senior managers.

As the term 'stakeholder' implies, there are different interests at stake. The corollary of this fact is that the present state of Co-operative governance results from the existing accommodation between these interests. Equally, it follows that in order to bring about changes in the quality of governance, this accommodation must also be changed. The report therefore makes demands on each of the main stakeholders - directors, presidents, senior managers, chief executives and members. It represents a serious challenge for everyone.

The Report is a distillation of the collected wisdom of all those who contributed their views and of the best practices which can be found among member societies of the Union. To that extent, the report itself carries some weight but its true impact will depend on the use which is made of it by members, directors and chief executives. The Governance Report supplements this emphasis on self-regulation by each individual society (including the conduct of every-day business relationships) with several proposals on the role of the Co-operative Union, including a requirement that it should make membership of the Co-operative Deposit Protection Scheme contingent upon compliance with the Code of Best Practice on Co-operative Governance.

The Author

PROFESSOR BRIAN HARVEY is the Co-operative Bank Professor of Corporate Responsibility, Manchester Business School.

He has been particularly engaged as author, editor and consultant in the ethical and social issue of business - including his book *Managers and Corporate Social Policy: Private Solutions to Public Problems?'*, published by Macmillan 1984.

In Passing

> *In England we have come to rely upon a comfortable time-lag of fifty years or a century intervening between the perception that something ought to be done and a serious attempt to do it.*
>
> *H.G. Wells in the Work, Wealth and Happiness of Mankind*

V.G. - Worth Improving!

by John Jacques

During the past 150 years the consumer Co-operative movement has learned many lessons from both its successes and its failures. In addition, much has been learned from the process of trial and error. And, gradually there has developed a package of "best Co-operative practices" observed by successful societies. Now, we are to have a code rather than a mere package. This could be a most significant development in the history of the movement.

Some Reconsideration?

The code presented to the 1994 Congress is a first-class job, containing excellent proposals and the movement should be indebted to those who have devoted their skill and time to its production. It would, however, appear that rather too much attention has been paid to the Cadbury proposals# and too little to the "best Co-operative practice' developed over a long period of years. Consequently, a few substantial amendments will be required to make the code acceptable to societies, but we should still end up with an excellent code. Here are some examples:

Separating Offices of CEO and Secretary?

The movement has had a great deal of experience in alternative management structures. Except for the national organisations such as C.W.S. and C.R.S., the majority opinion and practice does not favour separating the offices of chief executive officer and secretary, because it leads to infighting and overlapping. The appointment of a deputy to the C.E.O. is preferred. Sometimes a society has more than one deputy, eg, one for finance and one for trade.

C.E.O. on Board?

The proposal that the C.E.O. should be a member of the board will, in my opinion, never be accepted. They have different functions. The C.E.O. advises, the board decides and the C.E.O. carries out the decision. Ocassionally, a mistake is made in the appointment of C.E.O. It is difficult enough to undo the decision without adding to the difficulty by making him (or her) a member of the board. The same applies to the financial controller.

#At the end of 1992 Sir Adrian Cadbury's committee presented a Code of Best Practice drawn from the boardrooms of the best-run companies.

Publish the Remuneration?
The proposal that remuneration packages should be published in the annual report is unlikely to be accepted. The board should be prepared to answer questions in the general meeting of members but that is quite different from publication.

Standing Down for a Year?
The proposal that the president/chairman should stand down for one year after each five years' service is unlikely to be accepted because the disadvantages are greater than the advantages. To make the best use of the time spent in the boardroom, the board needs an experienced and capable chairman who commands the respect of the board and is allowed to discipline the meetings. If the board has such a chairman, it should keep him: if they have not , he should be opposed and not re-elected.

Expulsion from the Union?
I doubt whether the proposal that persistent and serious failing on the part of a society to comply with the code should result in expulsion from the Co-operative Union is realistic. I think persuasion, rather than compulsion, is needed.

Strongly Approved!

The proposal that suitable persons should be co-opted to the board is timely. The percentage of the membership taking part in elections has been declining for years. In most societies it is negligible. The board of the society of which I am a member tries hard to get members to vote. It advertises. It has "community meetings" in the shops, and it provides voting facilities in the shops. I recently went to my local branch to vote between noon and 1 p.m. and was the first member to vote at that branch - and I would be surprised if anyone else voted in the afternoon. The members, in general, are just not interested.

The proposal that there should be co-option will be criticised on the grounds that it is not democratic. In most societies the voting is done by a handful of activists. I question whether this is really democratic control.

And Two Additions?

There are two additions to the code I would like to see.

First, what I have always called the Golden Rule, first expounded by a Professor of Glasgow University who later became chairman of B.P. A board when considering policy is fully entitled to consider the benefits of success, providing it regards as paramount the consequences of failure. Some of the greatest failures experienced by the movement would have been avoided if this rule had been applied.

Second, speed of decision has a merit of its own. It fosters confidence in the leadership. It is, however, possible only if the necessary research has been done. For example a board should know what sites or premises it requires in each part of its territory and the current asking prices in the locality. It is then in a position to act quickly.

The Author

LORD JACQUES, a student and later a tutor at the Co-operative College, served as Chief Executive Officer ofthe Portsea Island Society 1945-1965. He is a believer in the Rochdale marketing ploy - dividend on purchases - and during his term of office the society paid a dividend of 1s. 8d in the £, in today's money 8%. On retirement, he was chairman of the Co-operative Union for 5 years. From 1968 he was a full-time member of the House of Lords for 20 years and nowadays manages to get there about once a week.

Power in Governance

by T.E. Stephenson

The Code of Best Practice, produced by the Working Party is a thought provoking document, raising almost as many questions as it seeks to answer. The questions relate basically to the implementation of the Code: 'how is it going to work?' Behind the Code's formal statement lie the dynamics of the relationship between the board of a Co-operative society and its senior management, notably the chief executive. Within that relationship and between the different parties there exist matters of power, politics and interests.

This dichotomy between the formal statement and the underlying dynamics is not peculiar to Co-operative societies. It exists in all organizations where there are elected representatives of the voters, whether they be members of Co-operative societies or the general public, and full-time professional managers or civil servants. In other words it is an inevitable part of many democratic organizations and systems.

Board and Chief Executive - Tensions?

Divergencies and tension between the parties should not cause undue surprise. While there may be common bonds between the elected representatives and the full-time professionals, there will be differences of standpoint and interest. In many instances the elected members are part-time, with limited commitment, in contrast to the full-time managers and others, who have a strong sense of commitment through their career investment in the organization. These differences bring diversity of perception to many of the issues that arise. Throughout, the elected members are dependent upon the full-time professionals for information, advice and guidance.

For instance, even though members of the House of Commons are full-time, their relationship with the civil service is on a similar footing to that of part-time elected members of other democratic organizations.

At the core of the dynamic relationship between a Co-operative board and its chief executive, is power. The critical factor is achieving a working balance between the two.

The power of the chief executive lies in his knowledge and understanding of the total working of the society, the managerial and administrative support he can call upon to back up whatever he places before the board, his presentational skill, his access to powerful people outside the society, his membership of outside boards and committees. All these provide him with a power base, from which he can exercise his political skill in dealing with the board.

Control of Information

Of outstanding importance is his control of information to the board. He largely determines the items and the quantity of information the board receives. He can supply them with such quantities the board is swamped, or he can provide the bare amount required by the board to make decisions.

It is a matter not solely of quantity of information, but of presentation. Here the chief executive has a number of political tactics at his disposal. These include:

- *the 'crisis' tactic*

Senior management highlights a crisis in one of the society's activities which, it is claimed, can only be resolved by drastic action. Focusing on the crisis effectively cuts off discussion of alternative solutions to the underlying problem. To increase the pressure on the board to make a decision, the crisis is shown to be of such urgency there is only time for limited debate. Now in truth the problem may have existed for some time, but management has either not wanted to deal with it, or has allowed it to smoulder before bringing it forward, because for a variety of reasons they 'did not consider the time to be ripe.'

This tactic illustrates another source of managerial power - the control of alternatives. By claiming there is no alternative, or proposing two or three in such a way that only one is acceptable, the chief executive gets the decision he wants.

- *the 'drip' tactic*

Over a period of months, statements are made to the board, or papers laid before it, indicating there is a problem to be dealt with. By this means the board is softened up so that when a solution is proposed, the board accepts it without discussion.

There are many other tactics available, but these two illustrate the importance of presentation.

The chief executive's power over information is further highlighted by his influence in shaping the agenda, in deciding the order in which items will be put forward.

In addition, the chief executive and his senior management are able to call upon complex and sophisticated systems to support their advice to the board, and this, too, strengthens the power of senior management.

Behind the possession of power is senior management's concern with survival, with their professional reputation among their peers.

To the board they have to appear successful, so a failed project tends to make them defensive. Here again the control of information plays an important part.

Achieving a Balance

The role of power in the relationship between the board and the chief executive and his team, may seem out of keeping in a Co-operative organization with its ethical conscience. Before casting stones at senior management, the onlooker has to recognise imbalance in power is inherent in the relationship. Because of the full-time nature of the chief executive's position, the expertise he possesses, the information he acquires in both the normal operations of the society and from external sources, the chief executive inevitably has greater sources of power available to him than the part-time lay director. What is crucial is how he uses those sources of power; the extent to which he uses them for the benefit of both the society and himself. To deny him his own self-interest is to lose sight of his career investment and his desire for a successful career.

Of importance is the degree of mutual trust that exists within the relationship. Trust is not some abstract virtue, but is built upon the behaviour of the parties and the congruence of that behaviour to their spoken statements. Trust cannot be legislated for in any code of practice.

The Working Party's Recommendations

To restore the balance, the Working Party has produced a number of recommendations indicating the information the board should receive. It lists the type of information and states, 'directors must ensure that they receive all of the information which is necessary for them to discharge fully their responsibilities as directors.'

In an appendix which lists the information to be provided, it points to the importance of 'monthly' information and states:

'This is necessary to ensure that:

- directors are not misled about the society's performance:

- decisions are not taken on the basis of inaccurate, inappropriate data;
- all concerned avoid shocks and disappointments when year-end accounts are audited.'

To ensure directors understand this information, the Report advocates they undertake a strong training programme.

Taken together, these recommendations seek to redress the balance between board and chief executive. The extent to which they succeed will vary according to circumstance. It appears certain the balance will remain tilted towards management for several reasons:

- formal arrangements do not take changing circumstances into account, within and without the relationship. Changes in the economic climate which alter the position of the society, impact upon the relationship.

- the board cannot receive all the information that is available. It receives data that is selected and interpreted by management.

- the written word is accompanied by verbal comments and statements and these may put an entirely different light upon the printed page.

- the board has appointed the chief executive on the grounds that he is the expert. In doing so they are acknowledging his views must carry weight. He has been given not only authority, but power. To attempt to balance that power totally would be to deny the chief executive's position.

The Essential Dilemma

In essence this is the dilemma of democracy: however it may be phrased, the elected representatives are in a relationship with their officials where the inherent power of the latter produces an imbalance, which at best may be mitigated but not eliminated. The Report of the Working Party has created a framework, but it cannot legislate for the dynamic nature of the relationship between the board and chief executive.

The Author

TED STEPHENSON, formerly of the University of Leeds, was then and is now lecturer, writer and consultant on Co-operative management. His writings include *Management of Co-operative Societies* (Heinemann 1963) and *Management: a Political Activity* (Macmillan 1985).

Through a Member's Eyes
by Brian Townsend

Once again, rigid Congress procedure failed to tackle thoroughly another report. The hard work of the Corporate Governance Working Group surely demanded workshops for the delegates, followed by a full debate in Congress?

Instead, we were allowed a mere 5 minutes to sum up our thoughts upon a 125 page document containing 42 recommendations which we had only received shortly before . . . so much for meaningful debate!

Lord Jacques put his finger on the main question regarding the report: was its influence Cadbury or Co-operation? This is not an idle question, for the Cadbury Report was sponsored by the London Stock Exchange whilst our report was sponsored by a Co-operative movement.

If Cadbury seeks to appease worried shareholders, whom is our report aimed at? Surely it must be our members?

The Question to Ask
Each recommendation should be subject to this question: does it strengthen or weaken the members' control of their Co-operative society? If any clause weakens member influence then that clause is an enemy of Co-operation. It does not matter if it is acceptable to the legal profession, it does not matter if it makes sense to the accounting profession . . . Co-operation must not be tampered with!

Every step away from a mutual and collective ownership is a step towards a future somewhat like the building societies wherein mutual ownership is dying.

Let us look at some of the recommendations in the Code of Best Practice in the light of this danger.

Recommendations 1, 2, 3 and 4
Members would rightly expect the Board to meet regularly, to be in full control (1), exercise its responsibilities (2) and ensure that the direction of the society is firmly in their hands (3).

The distribution of any surplus arising from solvent dissolution remaining in Co-operative hands is surely welcome but need we add "or to a charity" as an alternative destination of funds (4)? Perhaps a reference to other forms of Co-operation might be appropriate or else the local Cats' Home might be the recipient of our Co-operative assets!

Recommendations 5, 6, 7 and 8

Members being given the information to make an informed choice regarding a transfer of engagements is long overdue (5). In too many instances the only guide as to the ultimate destination is the chief officer's influence, (unbiased, of course!), and the members are faced with a take it or leave it 'decision'.

The suggestion that a job description for recruiting a CEO should be drawn up is welcome (6) but surely we could add "and the position to be widely advertised". Too often it is a case of the retiring CEO virtually picking his successor. It is time the members knew the exact nature of the CEO's employment package including notice period (7) and had such details published within the annual report (8).

Recommendations 9, 10, 14 and 15

As someone who has benefited from ICD courses run at our Co-operative College, I recognise that it must be in the members' interest to insist that all directors have adequate training (9) but societies must be able to assist those directors who have caring responsibilities, especially for young families. We must not discourage the younger activists we wish to see come into Co-operative service.

The further requirement for training for those showing interest in Co-operative activity is excellent (10). It is time to rip away the 'mystique' of office.

Independent advice will provide a welcome blast of fresh air in boardrooms where the only voice is that of the CEO (14).

Members will welcome annual reports written in a way designed to inform and not blind them with PR froth (15). Our accounts need not just to meet accounting standards but to be designed to interest and inform our members.

Recommendations 19, 20 and 21

Members control is clearly *not* enhanced by the chief officer and the financial controller being appointed board members (19) and, whilst independent professional advice is always welcome (20), members' control is further weakened by paid outside non-executive directors being appointed to the board (21), even if such appointees constitute less than 50% of the quorum.

It is true that directors carry overall legal responsibility and not the CEO and therefore directors should be diligent and not abdicate decision making. It is not good enough to distort a Co-operative board structure because some of today's directors are bone-idle.

Members must enjoy the right to elect every member of a board room in a Co-operative society and those who 'claim' to represent them on both national and federal bodies. Indeed the report does not go far enough in this area. Perhaps our Movement would not be in the state it is in if chief officers actually stayed within their own societies, running the business, instead of seeking election to every central committee in the Co-operative movement..

Recommendations 23, 24 and 26

Lay members will welcome the curb on the number of superannuated ex-employees and employee spouses within the board room. We can get dangerously close to being just a CEO's 'love-in' rather than an independent board (23). Restrictions on length of office for the President/Chair will bring fresh blood and new ideas (24).

Advice from the Secretary independent of the chief officer would be a welcome break from the practice of a trading manager, sometimes newly appointed from outside our movement, trying to advise Co-operators upon Co-op principles they themselves know little about (25) and a separate audit committee or meeting, without the CEO, is particularly welcomed (26).

Recommendations 28, 30 and 35

The whole board must take decisions on CEO pay (28) but we should go further and make realistic comparisons with conditions outside our movement, comparing a CEO of a county-based regional society not with the head of Tesco but with his/her relevant private sector regional manager.

The suggestion regarding subsidiary boards does not go far enough. Once again, members are not best served by unelected officers sitting as directors on any sub-board or federal (30).

The effect of asking the members to vote on acquisitions or disposals involving 25% of the society's assets is revolutionary (35)! (In fact, it is revolutionary to ask members' opinions about anything!!).

Well Done!

So, through a member's eyes, an historical Report which begins to extend the members, access to information. We shall have firmly to oppose the appointing of non-elected directors to Co-operative board rooms but, apart from this dangerous proposal, . . . *well done!*

The Author

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In Passing

All the world over, I will back the masses against the classes.

W.E. Gladstone 1886