

WAYS FORWARD 2: CO-OPERATIVE RENEWAL

MAURO IENGO, CHIEF LEGISLATION AND FISCAL DEPT, LEGACOOP, ITALY

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Introduction to Legacoop, Italy

Founded in 1886, Legacoop, Lega Nazionale delle Cooperative e Mutue, (National League of Cooperatives and Mutuals) is the oldest Italian co-operative organisation.

Legacoop promotes the development of co-operation, the economic and solidarity relationships of its member cooperatives and encourages the spread of co-operative principles and values.

Legacoop represents: 15,000 cooperatives, present in all the Italian regions and productive sectors; 493,000 employees and almost 9 million individual members.

Legacoop member cooperatives can be found in leading positions in sectors such as consumers' and retailing, construction, agro-food, services and manufacturing. The aggregated turnover amounts to 78 billion euros.

Member co-operatives have also created important companies in the insurance, finance and credit sectors.

The contribution of Italian co-operatives to GDP is around 8%; one Italian citizen out of 5 is member of a cooperative, one Italian citizen out of 3 makes their purchases in a co-operative.

Like Co-operatives UK, Legacoop carries out a role of representation, assistance and protection in the co-operative movement. It also acts as the control and supervision body for its member co-operatives.

Legacoop also co-ordinates international relations for the member co-operatives, relations with European Union institutions and the management of co-operative industrial relations, also providing support to the various sectors.

Legacoop is member of the International Co-operative Alliance and Co-operatives Europe, the largest European cooperative representative body set up in November 2006 in Manchester.

Challenges for UK and Italian Co-operative Movements

The news about the difficult situation affecting part of the British co-operative movement has now reached Italy. Considering the statements of those closely involved in this unpleasant situation, it requires thoughts and proposals about the self-regulation of British co-operatives in order to renew their governance framework.

We are talking about events which are not new to the history and the current situation of the Italian co-operative movement.

Historically, governance has been an important element of the co-operative enterprise, being a factor which, when correctly prepared and implemented, has significantly increased the competitiveness of co-operatives. We are convinced that the role of, and the entrepreneurial features of, cooperatives can be more valuable if the reciprocal relations of trust between the management and the cooperative member does not reduce or eliminate the responsibility of those members.

Over years of crisis we have witnessed forms of mutual solidarity among members, such as wage reduction or member capital contributions.

In some cases, the crisis has highlighted the existence of structural issues. Undoubtedly, in many cases, the co-operative society boards have shown a lack in being able to manage and control. The outcome has resulted in company strategies which are too conservative or too unbalanced in terms of costs and benefits.

However, it's also true that often these board attitudes arise from the resistance of members in accepting proposals for new economic activities or merging with other co-operatives to be more competitive in the market. In these cases, boards often prefer the status quo even when this choice leads to failure and/or they show a major difficulty in changing their management. To cope with crisis implies the need for diversification or merger among co-operatives in order to increase the asset or the business dimensions. However, these processes can result in conservative and negative reactions by members who are worried about the possibility of losing jobs or because they have to move to other markets or regions to seek opportunities.

German co-operative governance

We have opened up a debate. According to the opinions of some co-operators, and academics, the problem is to assure high quality manager training - here we can look to the German experience. Our German colleagues have specific rules. The opportunity for a member to become a manager is reserved only

for those members who have made an adequate investment in training. Within this position, the supporters of the German co-op model also sustain a two-tier system. This entrusts the operational running of the co-operative to professionally qualified managers. They, however, must respect the guidelines of the supervisory body and be subject to its control. In fact, the supervisory body represents the co-operative members in carrying out the governance in the cooperative¹.

Other structures have underlined the need for a higher level of member involvement in the decision-making process of the co-operative. This is achievable, for example, by forecasting in the governing document that some decisions are entrusted to the General Assembly².

In both models, there are important and shared elements and, in my opinion, it would be more useful to combine the two in order to improve the quality of co-operative governance.

Membership contributions

¹ The main tasks of the Supervisory Committee (elected by member's Assembly according to the principle one member/one vote) are:

- to nominate and remove the members of the Board of Directors;
- to hold the Board of Directors to account;
- to approve the financial statement;
- to implement the tasks **of the internal auditing body** (respect of law and standing orders; respect of the principles of good administration; to make written report to the Assembly about the supervisory activities carried out; the financial auditing control; etc).

In the two-tier system the rules and standing orders of a co-operative allow that the members' General Assembly can approve the financial statement in case of missing approval by the Supervisory Committee or if it is asked for by one third of the members of the Board of Directors or of the Supervisory Committee

² We are talking mainly of the General Assembly which approve the financial statement, but also of special assemblies convened on specific agendas. The issues could be more or less strategic ones: for example, we can entrust to assembly the task of approving the rules concerning the relations between members and cooperatives about their economic activities with the cooperatives. Moreover, we can entrust to the Assembly the task to define rules and provide guidelines to the Board of Directors on all the issues which have an impact on attaining the mutual goals (especially as far as the spin-off operations or the establishment of a company for specific goals connected to the activities of the cooperatives with private partners or the participation in terms of capital contribution to joint stock company)

Consequently, to improve the quality of co-operative governance, we should pay greater attention to contributions of members. Membership contributions are a prerequisite to achieve a qualified and professional Board of Directors, under both managerial and co-operative values and principles structures. In other words, the quality of Board of Directors is based on and depends on the contributions of the co-operative members.

If we speak of co-operative member contributions, we must:

* Dedicate more attention to the open-door principle. In most workers', retailers and agricultural cooperatives, the admission of new members requires that they have professional or entrepreneurial competences. It would be worthwhile to use criteria which guarantee the entry of workers or entrepreneurs committed to the co-operative aims and also raise awareness of the democratic mechanisms for managing the company.

Alternatively, in consumer co-operatives where it is not necessary to have specific professional or entrepreneurial competence, mechanisms must ensure meeting the goals of the co-operative in the best possible way. It is important to *verify* the real and ongoing interests of the members in the economic activity of co-operative, as a condition of maintaining his or her member status.

* Guarantee the effective communication of information to members on the more important choices of the co-operative (the criteria followed in the company management to achieve the mutualistic aim; the information concerning the trends of controlled companies, on the consistency between the activities of the latter and the co-operative goal of the leading co-operative)³.

Quality of the Board of Directors

It is necessary that:

* The co-operative must have transparent, clear electoral rules and be able to incorporate the full leading character of the members, thus making them able to contribute to the choice of the management bodies and have access to business responsibilities;

* Particularly focus on the **training** of future potential managers, for the different roles - economic, social, etc.

³ Regarding these mechanisms, we can learn from best practices in some experienced Italian co-operatives: for example, the implementation of intranet system devoted to the co-operative members or the formalization of pre-assembly meetings between the Board of Directors and members in order to evaluate particular issues.

Italian governance models

From our Italian experiences, still underway and being developed, we can propose some governance models.

Firstly, some important consumer co-operatives, along with co-operatives in other sectors, have adopted the two-tier management and control system in order to establish and effectively distinguish between the responsibilities within the co-operative.

A Board of Directors has responsibility for managing the company - and a Supervisory Committee has responsibility to guide and check the Board of Directors.

It is the Supervisory Committee (nominated by the General Assembly of members) that represents the interests of the members and takes on some important roles, including the approval of the financial accounts. Therefore, the Supervisory Committee is a qualified body, made up of people with proven co-operative experience (such as former board members or officers or representatives of co-operative association) and specific professional competencies.

It maintains very close relations with the members, in constant dialogue with them⁴, providing general information on the overall performance of the cooperative and entrusting the choice of how the member dividends will be distributed and the allocation of profits.

Therefore, we are speaking of a system which, if correctly applied, can create an interesting debate between the management and the members. Members are represented by a qualified and professional body that provides guidelines of an entrepreneurial nature and carries out effective control on management operations.

⁴ We mean commissions or members committees which carry out advisory functions – which may be compulsory or not- in favour of the Board of Directors and/or of the individual Board member with specific responsibilities, also in order to allow an increased involvement of membership in the cooperative decision making process. I wish also to share with you a recent legislative initiative devoted to the Italian consumers cooperatives and aiming at assuring the strengthening of information and participation rights of members in the assemblies, also through the possibility to raise questions on specific issues about which the Board of Directors will be obliged to replay before or during the assemblies.

However, the risk to be avoided in this model is to distance the members, not involving them and not informing them of the more important cooperative decisions.

A second model is widely applied in worker co-operatives. It involves eliminating the split between ownership and management, by incorporating into the Board of Directors all of those with a management role - ie the Board contains many Executive Directors. This model provides a valid solution especially to avoid the error of concentrating all the powers of representation and management into one single individual. On the contrary, it could be worthwhile to identify the responsibilities to guarantee the competence of the body collectively and the responsibilities to be allocated to each individual member of the Board of Director. Each Director becomes the proactive point of contact for members and their participation in the cooperative.

Board size, change and removal

In any case, it is always wise that the number of members of Board of Directors is limited. A huge number of Board members could result in the concentration of power in the hand of one single Director or in the hands a few.

These are all very demanding and challenging issues and choices requiring the willingness and commitment of both co-operative members and Board of Directors. Especially when it involves a reform of a deeply rooted governance model and removing mechanisms and relations established over time.

For instance, it may happen that it is necessary to replace all or some of the Directors, for various reasons. Other Directors may find it difficult to take these decisions, simply because there are old friendly and working relationships with the Board members that need to be removed.