



Two's Company; Three's a Co-operative



What do you already know?

- Think of up to three co-operatives
- What makes them special?
- How do you know they are co-operatives?
- Can you join the co-operative or are you already a member of a co-operative?



Structure of the presentation

- Defining co-operatives
- Introduction to the co-operative sector in the UK
- The co-operative sector in the Czech Republic
- Co-operative values and principles
- Governance and power in businesses

Three types of co-operative



- Worker co-operative
- Secondary co-operative or co-operative consortium
- Consumer co-operative



Economic significance

- Reconnects producer and consumer
- No loss of surplus value
- Work autonomy and involvement
- Direct commitment to success of enterprise

Worker co-operative: Tower Colliery, Cynon Valley

- Worker buyout following closure
- Operated profitably between 1994 and 2007
- Strong commitment to community and environment



Secondary co-operative: Cambrian Organics, Mid Wales



- Farmers coming together to increase their market power
- Common form in the agricultural sector
- Profit maximisation is a priority



Consumer co-operative: Midcounties Co-op

- Second largest independent co-operative in the UK with a turnover of £712 million
- Trading in Oxfordshire, Gloucestershire, Wiltshire, Berkshire, Shropshire, Worcestershire, Staffordshire and the West Midlands.
- Over 7,000 colleagues spread across around 450 sites
- A range of businesses: Food Stores, Travel, Pharmacy, Funeralcare, Childcare, Motors, Post Office, News Express,
- Over 300,000 members

Eroski: Spain's largest retail company



- 81% of employees are women in their 30s. As a result of positive discrimination, 25% of the top management are women
- 10% of annual benefits go to the Eroski Foundation to improve consumer rights
- Strong emphasis on the improvement of community and the environment, including optimum use of road transport for goods to the shops and increasing sea and rail transport.
- Eroski Foundation works in Asia with programmes for children and micro-credit schemes.
- 80% of the workers involved in company decision-making.



- They have long-term (three-year) contracts with over 100 agricultural suppliers, which they offer irrespective of climatic or other conditions. They prioritise supplies from other cooperatives.



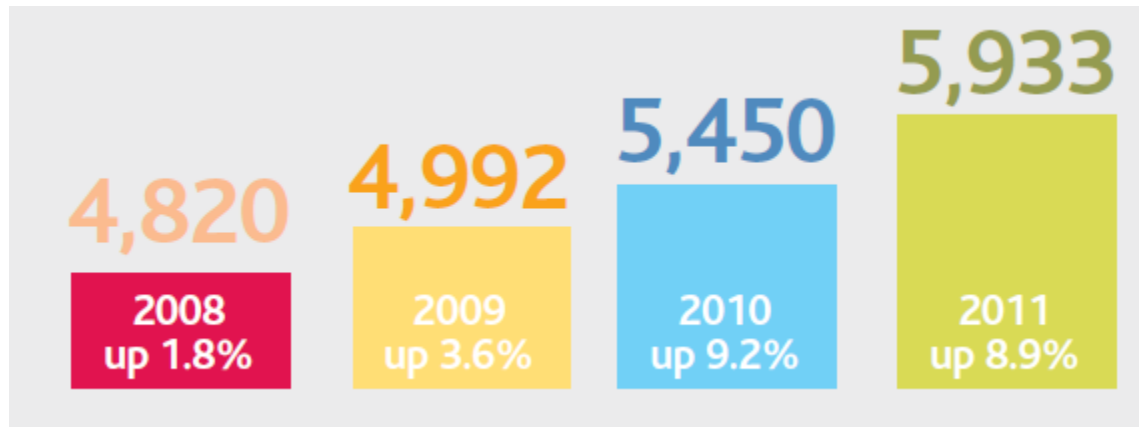
International Year of Cooperatives Short Film Festival



2012
International
Year of
Cooperatives

19 November 2012

Co-operative Economy in UK: 2011/12



- The big ones:
 - The Co-operative Group: £14.8bn
 - John Lewis: £8.2bn
 - Midcounties Co-operative: £738m.
 - Milk Link: £586m.



Suma Wholefoods

- Set up in 1975 as a wholesaling operation to service wholefood shops in the north of England
- Now employs around 150 people and delivers UK-wide
- Still owned by its members, who rotate work tasks including management roles and specialist jobs such as accounting and van driving



- Gary: chilled food supremo
- Joined in September 2004
- Became a member in early 2005
- Now on the management committee

Suma Wholefoods




Governance at Suma



- Separate the board from the executive: the Management Committee (elected, non-executive directors) run the Function Area Coordinators, who are the executive managers (executive directors)
- Dynamic dialogue between the two; neither can operate without the other
- Ongoing relationship between the MC and the general meeting of member shareholders: Suma has six GMs a year
- MC can only operate with impunity for a maximum period of three months at most,
- Executive managers at Suma are answerable to MC on a weekly basis

Consequences

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- Separation between the democratic governance of the cooperative and the executive management of the business
- Authority of members clearly defined: operational when they are as GM
 - Otherwise they are employees subject to management culture they have chosen democratically
 - In collectives member-employees can refuse instructions from colleagues: 'stop – go – stop' style of management
 - Most collectives suffer from the problems of most small partnerships of equals – the tyranny of the individual veto

Stroud Community Agriculture



- Close to zero food miles
- Genuine ownership
- 180 shares per week
- Seasonality and concept of 'share'
- Annual cycle and community in festivals





ICA Statement on Co-operative Identity

- A co-operative is 'an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise'



Co-operative Principles

- 1. Voluntary and Open Membership
- 2. Democratic Member Control
- 3. Member Economic Participation
- 4. Autonomy and Independence
- 5. Education, Training and Information
- 6. Co-operation Among Co-operatives
- 7. Concern for Community



Co-operative Values


- Self-help: mutual aid
- Self-responsibility
- Democracy: OMOV
- Equality
- Equity—not based on capital investment
- Solidarity—co-operation among co-operatives
- Ethical Values
 - honesty
 - openness
 - social responsibility
 - caring for others



Time for a break . . .

- Any questions so far?
- Any reflections on the companies you identified at the beginning of the session?
- Anything you've learned?

Agency Theory



Agency relationship arises where one party (the principal) delegates decision-making authority or control over resources to another (the agent).

- Exemplified by relationship between stockholders (providers of risk capital) and senior managers
- Agency relationships also exist within the organisation
 - e.g. between top managers, who delegate decision-making authority and control to business unit (divisional) managers

Agency Theory cont.



- Emphasis is on different attitudes and preferences towards risk of principals and agents
 - Agents may take actions not in principals' best interest, usually due to information asymmetry
- CEOs may justifiably withhold information from stockholders to prevent competitor access



Dealing with Agency Problems

Confronted with agency problems, principals face challenge to:

- Shape behaviour of agents to act in accordance to goals set by principals
- Reduce information asymmetry
- Develop mechanisms for removing agents not acting in accordance with principals' goals and trying to mislead them



Governance Mechanisms

Mechanisms principals put in place to align incentives between principals and agents and to monitor and control agents

- Four main types of governance mechanisms for aligning stockholder and management interests include:
 - Board of directors
 - Stock-based compensation
 - Financial statements
 - Takeover constraint (market for corporate control)



Stock-Based Compensation

- Use of incentives as a means of ensuring agents act in best interests of principals
- Managers incentivised through pay-for-performance systems. e.g.
 - Stock options (at predetermined price in future) – motivates managers to adopt strategies that increase company share price thereby increasing value of own stock.
 - Granting managers stock if they attain predetermined performance targets



How can co-operatives do this differently?

- Greater autonomy
- Participatory decision-making
- Respect for people and their expectations
- Balance between efficiency and social mission
- Closer attention to customers and society
- Ownership—economic and psychological
- Emotional and technical leadership
- Fulfilment of array of personal needs and desires

HRM in social enterprises

SEs are usually labour-intensive

Importance of 'intrinsic rewards'

- Psychological contract between employees and organisations is different in nature
- Balance between extrinsic incentives (pay, flexibility of work hours) with intrinsic (participation, autonomy, moral values)
- Distributive justice: balance between effort and incentives
- Flatter hierarchy

Not all businesses are the same



- What is the governance structure in your organisation?
- Where does the power lie? Who makes decisions?
- Who owns the business?
- What happens if you work hard and the company makes more profit?