

**Ownership and  
Governance  
Why Co-operatives  
Matter**

# What are companies for?



- What is the basis for organisation's existence?
  - Profit making vs. Stakeholder service
  - Single or multiple stakeholders?
  - Acknowledgement of obligations to segments of society other than key stakeholders

Company, date scandal broke	Nature of offence	Outcome
AOL Time Warner, July 2002	Inflated the value of its sales	No prosecution; the company has voluntarily 'written down' the value of its stock
Arthur Andersen, November 2001	Shredded documents relating to its client Enron to obstruct the investigation into that company	Convicted of obstructing justice. It has changed its name to Accenture
Enron, October 2001	Artificially boosted profits and hid debts worth more than \$1bn.	Kenneth Lay and former CEO Jeffrey Skilling were prosecuted and found guilty of fraud in 2006

# 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

- 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
- Principals cannot be sure if agents are using resources effectively

# 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)

- Think of up to three co-operatives
- What makes the 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?

**What do you already know?**

- It is only now that the urgency of addressing the banking system has abated that business leaders, policy makers, commentators and citizens have begun to reflect on what alternative types of capitalist structures might be more inclusive of all stakeholders, be more resilient in the long term and reduce the risk of future crises.
- Demos report
- Greater diversity
- UK employee-owned sector is worth £25 billion

**Reinventing the firm—Why?**



- Jack Welch, the former CEO of General Electric admitted that 'shareholder value is the dumbest idea in the world'.
- The shareholder value creed – the belief that a company's primary purpose is to maximise its value for the benefit of external shareholders – was as much a part of the neoliberal 'intellectual edifice' as Greenspan's belief that financial markets are self-correcting.
- Plus scandals we previously looked at



## Crisis of corporate model

- Ownership and control are distinct *but both matter*
- Start with the simple assumption that companies do exist for the purpose of serving the economic interests of their legal owners
- Ensuring that companies are organised around this principle is, after all, the central task of most corporate governance models.

## Governance

# What is a co-operative business?

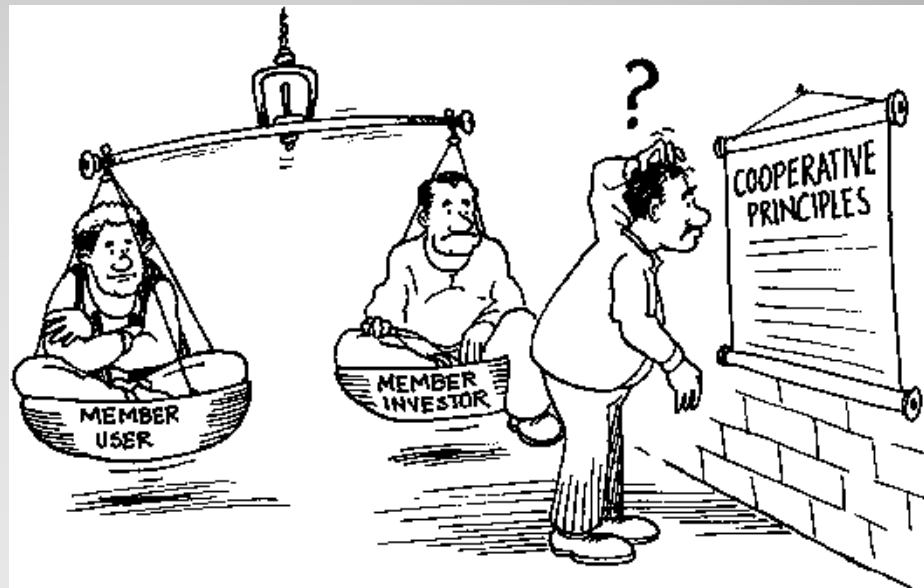
- *Co-operative businesses* are owned and run by and for their members, whether they are customers, employees or residents. As well as giving members an equal say and share of the profits, co-operatives act together to build a better world.
- The *definition of a co-operative business* is that they are owned and run by the members - the people who benefit from the co-operative's services.
- Co-operatives share their profits between the members, whether customers or employees
- 100 million people around the world are employed by co-operatives, whilst over 1 billion are members.

# Three types of co-operative



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

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



**Economic significance**

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



**Worker co-operative: Tower Colliery, Cynon Valley**



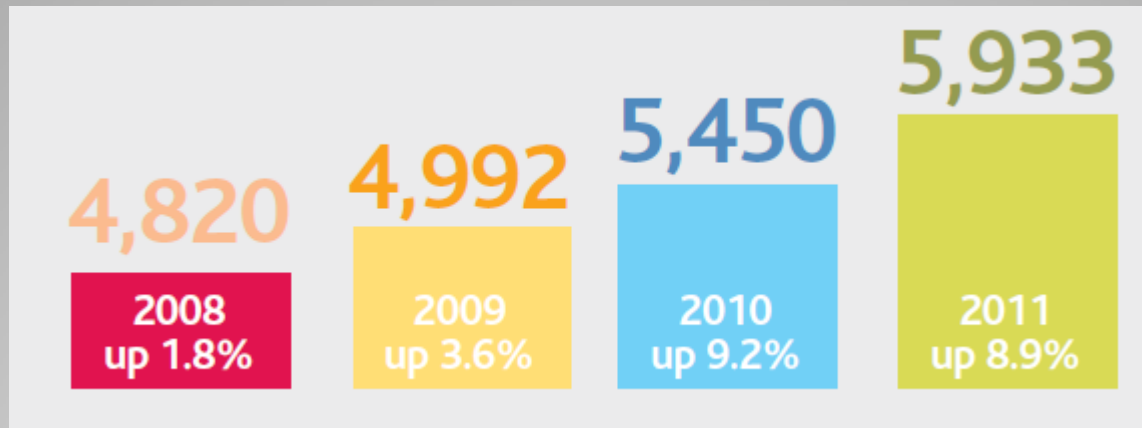
- Farmers coming together to increase their market power
- Common form in the agricultural sector
- Profit maximisation is a priority

**Secondary co-operative: Cambrian Organics, Mid Wales**

- 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

**Consumer co-operative:  
Midcounties Co-op**





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

**Co-operative Economy in UK:  
2011/12**

- 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.

**Eroski: Spain's largest retail company**



- 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

**Mondragon**

- 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

# 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

- 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 Principles**

- 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

## Co-operative Values



- 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

**How can co-operatives do this differently?**