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Cooperatives and Family Businesses

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Introduction

So far within this book we have considered social accounting within the private, public and third sectors and have explored related concepts and their growing momentum in the drive towards increased organisational and social accountability. In this chapter, we consider two further economic sectors, namely cooperatives and family businesses. Cooperatives and family businesses vary in size and skill and cover a diverse variety of activities ranging from healthcare, social care, and housing to sustainable agricultural and renewable energy sources. Currently in the UK, there are nearly 7,000 independent cooperatives, contributing £36bn to the UK economy. Cooperatives differ from public and private businesses, which exist to produce goods or services in the public interest or to maximise the profits of their owners, respectively. In contrast to public and private companies, the main purpose of a cooperative is the advancement of its members and not the pursuit of public interest or economic gain.

We are, of course, familiar with the profit seeking motives of private business and the social motives of public sector organisations, but cooperatives do not fit well into either of these conceptions due to their hybrid function, which seeks to satisfy both social and economic objectives (Fairbairn 1994).

Governance describes a firm's system of decision-making, direction and control. In the case of cooperatives, effective accountability and governance depends on the pro-active participation of its members. It is recognised that just as traditional businesses, cooperatives should make sure they comply with the accounting as well as the legislative regulations (Jenkins, 2008; Campbell, 2003), and that attention is paid to the level of training of the cooperative board along with their quality (Campbell, 2004) as well as the board's ability to look after

the interests of both the cooperatives members and other stakeholders (Cross and Buccola, 2004). Moreover, the board, and the executive team for which it is responsible, directly impact the value proposition that determine members' and other stakeholders' willingness to engage with the cooperative business.

While cooperatives provide a significant contribution to the economy, a large proportion of the UK's economy is also supported by family businesses. Indeed, it is estimated that family businesses account for almost 25% of the UK's gross domestic product (GDP). As such these two areas are of increasing importance when considering the accountability and governance responsibilities of organisations. With new questions arising every day to challenge the contributions that cooperatives and family businesses make to our communities, it is essential that we have the tools to clearly demonstrate their worth. Likewise, given the importance of the role boards play in the success or failure of cooperative organisations and family businesses, and the importance of these organisations in the wider economy, it is prudent to develop some knowledge and understanding of the complexities of the way in which these boards are structured and the role that they play in achieving accountability and governance within their organisation.

In this chapter, we consider the following: who governs; board roles and board relationships with management; board size and director selection processes; the importance of board members' participation; and the input of managers in relation to accountability and governance in these two sectors. The chapter begins with a short overview of the evolution of cooperatives and what constitutes a family business. This is followed by a discussion of the organisational model and governance structures and their effectiveness.

The cooperative movement – evolution and aims

Notwithstanding a recent claim that the origin of the cooperative movement began in 1761 with the creation of the Fenwick Weavers Society in Ayrshire, Scotland and its subsequent formation of a consumer cooperative in 1769 (Carrell, 2007; McFadzean, 2008), the cooperative business model is generally held to have begun amongst grassroot organisations in Western Europe, North America and Japan in the middle of the 18th century. The prototype of the modern cooperative society is commonly considered to be a group of northern English artisans called the Rochdale Pioneers, who opened a store in 1844 (Lambert, 1968). Working in the cotton mills of Rochdale in the 1840s and unable to afford the high prices of food and household goods, they pooled their resources to access basic goods at a lower price. Their enterprise was founded upon the belief that shoppers should be treated with honesty and respect, that they should have a share in the profits and that they should have a democratic right to have a say in the business. Every customer of the shop became a member and thus had a stake in the business.

The International Cooperative Alliance (ICA) recognises that the foundations upon which the Rochdale Pioneers created their business still underpin modern cooperative enterprises today (ICA). The ICA defines a cooperative as “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” (ICA, 2015). The seven internationally recognised cooperative principles are: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; provision of education; training and information; cooperation among cooperatives, and concern for the community (ICA, 2015). Considering the underpinning principles, cooperative enterprises cannot fit into the current organisational models and are often regarded as unique business models. This is largely because they do not only serve an economic purpose, but a social one as well (Fairbairn, 1994). Correspondingly, the development and implementation of good corporate governance practice for cooperatives is viewed as still being in its early stages (Shaw, 2006).

Cooperatives, like other public and private sector or investor owned firms, have not remained untouched by recent scandals that relate to accountability and corporate governance, nor by the development of codes of good practice. According to Co-operatives UK (2005), the fairly new development of a corporate governance code related to relevant performance measures was encouraged by external governance scandals and acknowledgment that cooperatives had to implement “cutting edge practice in corporate governance” (Co-operatives UK, 2005). The high demand of governance standards as well as increased accountability in different business sectors could not leave the cooperative movement untouched. Yet, the development as well as the implementation of both good accountability and governance practice for cooperatives remains very much in its early stages. The codes adopted by cooperatives so far have been developed based on the codes for companies owned by investors (as explained earlier, these companies serve a different purpose) normally adding in further provisos concerning membership but not substantively reworking them (Shaw, 2006).

A cooperative’s main aim is to increase its members’ value (professional or household) through the members’ use of their facilities, or, in general through their operations, and not to achieve and experience profit. Those who create a cooperative are looking to serve their own needs in terms of goods and services; this means that their main purpose is not to serve people outside the cooperation. However, this is not achievable in practice, and transactions with people outside the cooperation can be justified, because such transactions can help cooperatives to avoid experiencing losses (Kagiamis, 2003).

Having outlined the cooperative movement we now turn our attention to some theoretical perspectives which help to highlight issues cooperatives face in determining governance structures.