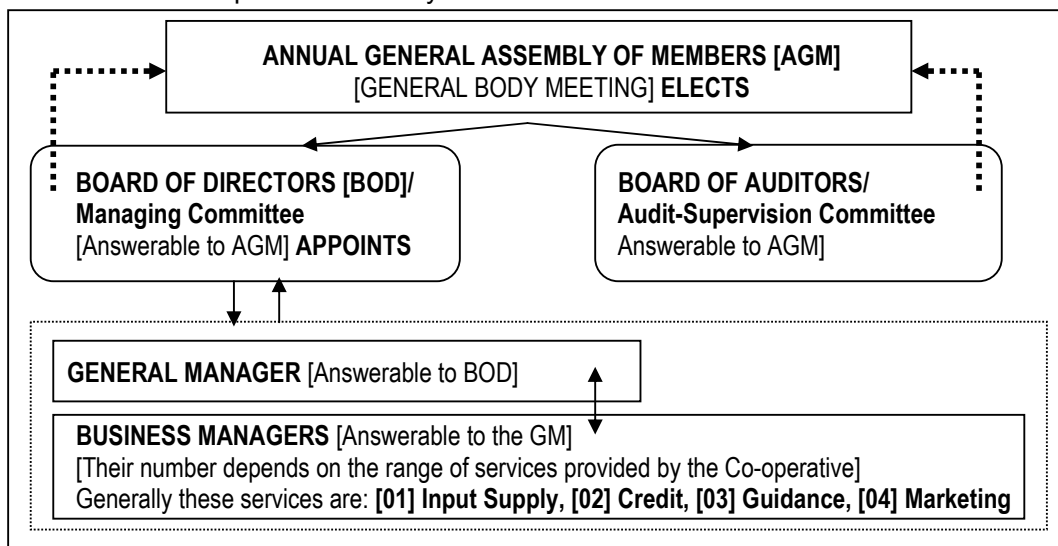


Professionalisation in Co-operatives Promotes Good Governance

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Instruments of Governance in Co-operatives

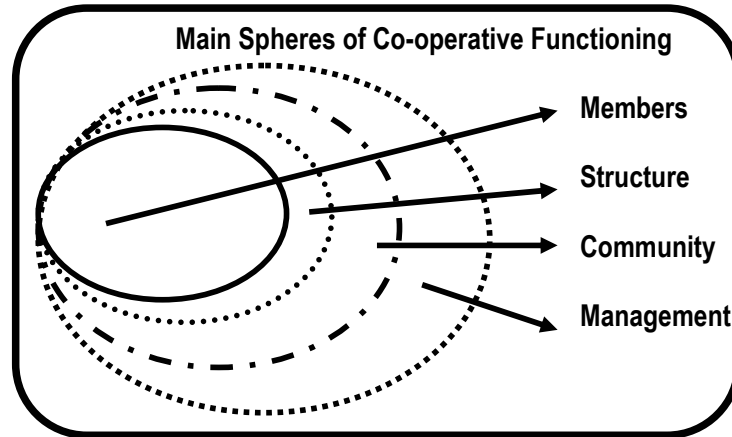
A co-operative has a constitution [called byelaws] which establishes formally several organs of governance. These are: Annual General Meeting of Members [AGM] [also called General Body or Members' General Meeting] which elects a Board of Directors [BOD] [or Managing Committee], a Board of Auditors [BOA] [or Audit and Supervision Committee]. These two organs are independent of each other and directly answerable to the AGM. The BOD appoints a General Manager [GM], the chief executive officer, who is also supported by several business sub-managers. The GM is answerable to the BOD. The illustration below explains the typical organisational structure [governance frame] of a co-operative in Asia. This structure is the product of the byelaws.



The rights and duties of all these organs and functionaries are explained in the byelaws. The AGM is fully empowered [within the overall framework of the prevailing Co-operative Law] to amend the byelaws.

The Board of Directors is responsible for management, accounts and provision of services. It takes care of 'ordering' and 'marketing'. Both the items are concerned with **money, management and manpower [3-M]**. How far these services have been handled well is reported to the General Meeting by these two institutions depends on how accurate and transparent information is available to them.

The main spheres of a co-operative institution are: the members, its organisational structure, the community which produces the co-operative members, and the management which professionally manages the organisational and business affairs of the co-operative. With all the resources at its command, a co-operative has to remain in constant touch with all the functions and continue to improve upon them.



Characteristic of a Co-operative Institution

A co-operative is a non-governmental, independent, autonomous organisation which has been promoted by the members on their free will to meet their social and economic needs. The ICA Statement of Co-operative Identity [ISCI] defines a co-operative thus: “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-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Co-operative institutions, all over the world, observe the following seven universally-accepted Principles of Co-operation: [i] Voluntary and Open Membership; [ii] Democratic Member Control; [iii] Member Economic Participation; [iv] Autonomy and Independence; [v] Education, Training and Information; [vi] Co-operation among Co-operatives; and [vii] Concern for the Community.

Application of these Co-operative Principles and belief in Basic Ethical Values, a co-operative institution must ensure that some of the following indicators of good governance are safeguarded: Fair dealings, transparency in business, objective and fair decision-making, ability to change with the times, respect for the members and their household members, clean and fresh work environment, education and training of members and office-bearers, professionalisation of employees, proper and genuine interaction between the management and office-bearers, concern for the community and environment etc. A co-operative should always remain keen and anxious to listen to the views of its members and strive hard to accomplish them.

Governance vis-à-vis Performance

‘Governance’ and ‘good governance’ are two different aspects. General governance is followed according to the established structures which have been innovated upon. Innovation, without damaging the established procedure, emerges from ‘co-operative political leaders’ and ‘co-operative management leaders’. Innovative governance delivers benefits to the organisation and to the persons who have formed the organisation, and, which have helped to make life easier is ‘good governance’.

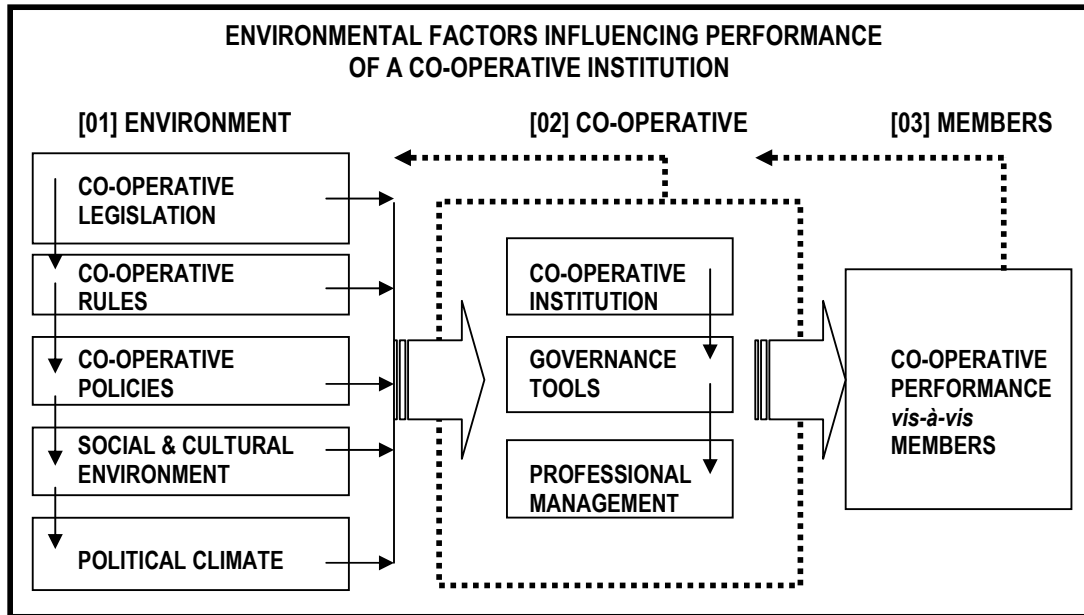
Governance calls for participation by members in organizational structures and business operations. Governance without member participation is an empty slogan. It is through participation that members express themselves, make their needs known and express their feelings and future plans. Members expect their co-operative to deliver well certain services. Participation is thus the key to the success of a co-operative.

In a co-operative institution both the players – the co-operative as an institution, and the members who are the owners – should benefit. These benefits are the results of the services performed by the co-operative and the economic and social benefits that have been received by the members. If the performance on both counts is reasonably satisfactory it can be assumed that there exist some traces of 'good governance'. There is no yardstick which confirms that there has been 'good governance'. Some reasonable indicators in this context can, however, be established.

Performance is measured against the satisfaction level of the members. If the members receive good services in the right place and in right time, it is good performance. Performance is the product of governance. Co-operative governance comprises of – Members [General Body of Members], Co-operative Leaders [Board of Directors and Board of Auditors – representatives of grassroots members], and Management [professional management]. These are the management tools and service-providers in accordance with the expressed needs of members. They enjoy all the authority. Members expect services and expect the co-operative to provide such services. This provision of service and its usefulness at the user-end is 'performance'.

A co-operative has a legal personality which has been given to it by the State through legislation. Legislation has three core elements – the **law** by itself, **policies** on the basis of which the law has been enacted and which the law is expected to accomplish, and the **rules** which have been made to implement the law. Law is enacted by the legislature, rules are framed by the government [executive] to implement the law, and the policies are generally political pronouncements. The policy is also the line of action on which the government would like to proceed – it is an official strategy.

In any piece of legislation there are always flaws which come to the fore in the process of implementation. Enlightened members and officials identify them and try to incorporate corrections. It is generally hard to get amendments to the law. It is a long, complicated, nerve-wrecking and time-consuming route. The desired results can be achieved by suitably modifying the rules and restatement of policies. It is easier to make changes in policies and rules because in this process the legislature is not involved. Much depends on how flexible and sympathetic is the executive.



All laws conform to national social and cultural environment and are made under certain political climates e.g., free political democracy and economy, socialism, and others. The environment influences the co-operative, and the co-operative influences the life and activities of its members. The question now is: *what is the governance climate in the country as a whole, how democratic and liberal is the co-operative law, and how positive are the policies, and how elastic or accommodating are the co-operative byelaws.* It is also pertinent to assess the level of understanding between the executive and non-officials. In case there are confrontations, the performance of the two institutions [government and the co-operatives] gets distorted.

Entrepreneurial Performance of a Co-operative

Provision of services by the co-operative is one of the factors to determine the level of 'performance'. How then is to assess the performance? Performance should be viewed in the context of [these are the indicators which can be sharpened further]:

- General benefits - economic and social – accruing to the members in short-term and long-term perspectives;
- Credibility, creditworthiness, goodwill, acceptability, 'market value' of the organisation itself which procures goods for them and then supplies them to the members. Transparency in these transactions, ability of the Board of Directors, management and employees come under the scanner;
- Efficiency, quickness, professionalism also are the factors. All these factors lead to a good performance – that means good delivery and higher level of satisfaction of users, members, general public;
- Co-operatives are not expected to make 'profits' [*it might sound great but not true – how can a business organisation survive without making some profits – whatever names are attributed to these profits!*]. They are not the exploiters either. Co-

operatives have to provide services at reasonable cost. However, it does not mean that they are charitable institutions. All services, big or small, are to be paid for. Co-operatives are to make investment in installing modern methods and techniques and tools and these costs need to be recovered;

- Good governance is a judicious and fair way of doing business based on 'best practices, ethics and code of conduct'. It provides a co-operative with a humane face and with economic advantages to itself and to its members;
- Felt-needs of the members and the level of response from the co-operative to meet those needs e.g., insurance coverage for a certain group, supply of certain types of food items to the consumers, building a special type of houses for members, supply of a special type of chemical/bio-fertiliser to the farmers at a specific time and in a certain quantity and at a certain place etc. etc.;
- Continuity and consistency in service delivery are other factors connected with performance;
- Meeting the statutory requirements [e.g., submission of reports to the Department, retirement of loans in time, reconciliation of bank accounts, preparation of audit and annual reports, convening of meetings and holding of elections as per procedure, amendment of byelaws, maintaining proper books of accounts etc. etc.] are also the indicators that a co-operative has been performing well;
- How quick is the turnover of professionals, and how do the compensations [salaries and perks etc.] differ from other similar co-operatives or business houses;
- Member awareness and staff development leading to professionalisation, are also the important factors to achieve good governance. Member awareness and staff training are the legal requirements – in fact, a corporate responsibility.

Co-operatives Strive to Promote Fair Dealing and Transparency

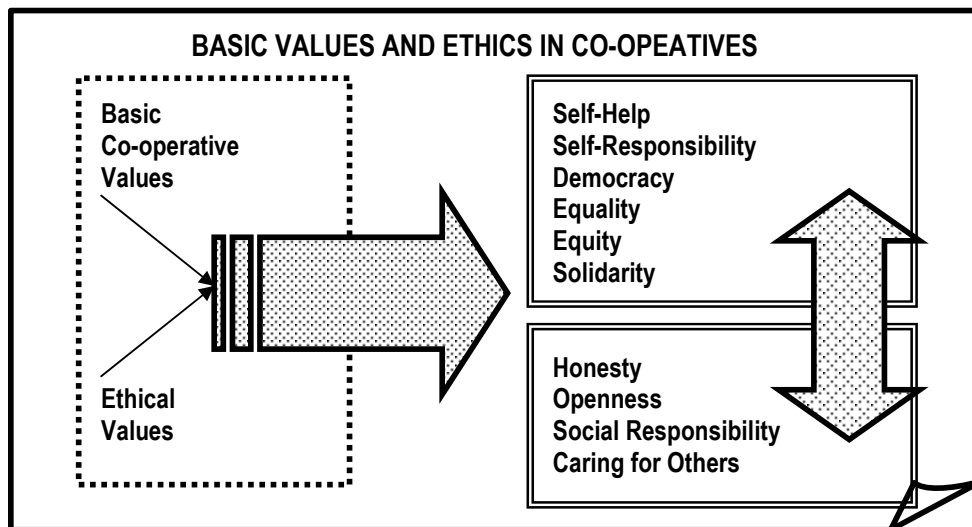
Co-operative institutions are small, medium and large business organisations. Some of the outstanding features of co-operatives are:

- They are formed by the members on their free will;
- Members join and leave their co-operative on their free will;
- They are managed democratically by the members themselves in accordance with the Principles of Co-operation believing in the concept of 'One-Member One-Vote';
- Co-operatives protect the interests of their members. Members' liability remains restricted only to the extent of their contributed shares;
- They are free to take their own decisions including the freedom to expand, reduce and dissolve their own institution;
- They are autonomous and are not directed, guided or controlled by the State;

- They have the capacity and advantage of making use of the State facilities without subordinating themselves to the State;
- They are free to develop their own linkages with private and co-operative agencies which help achieve and promote their social and economic aspirations; and
- They take care of the community, women and youth.

Co-operatives, in a number of economies of the world, are considered as a respectable third pillar of the national economy standing besides the State and private enterprises. They are, therefore, more accepted and durable. Their bargaining power lies in the collectivity of their members. They are the most acceptable and genuine NGOs.

Each and every phrase and word contained in the ICA Co-operative Identity Statement [ICIS] goes to confirm and emphasise that co-operatives are business organisations and that they have to be run in accordance with the norms and philosophy of a business enterprise. There are, however, some underlying values, and ethos which help integrate social and moral values with democratic, professional and management principles and practices.



The Principles of Co-operation which are observed by the Co-operative Movement world over are based on the Basic and Ethical Values. Good governance calls for incorporation of these values in the operational frame of the co-operative. Co-operative institutions thus qualify to be the best and most comprehensive business institutions which allow the rich and the poor, farmers and non-farmers to satisfy their social and economic needs and aspirations.

Objectivity of Governance

Each nation's path to good governance is different, depending on culture, geography, political and administrative traditions, economic conditions and many other factors. Governance is a simple concept at heart: good governance is good government. The concept relates to the quality of the relationship between government and the citizens [here, in our case, the co-operative and its members] for whom it exists to 'serve' and 'protect'. To put it more precisely and simply, governance means *the way those with power use that power*. The concept, therefore, has political and economic dimensions. Issues of political

governance include the mechanism by which the public's political preferences are ascertained and leaders chosen. These are the fundamental governance concerns.

Governance can be studied under various perspectives. A brief discussion follows:

[01] *Governance by Objectives*: Every institution has some goals which it strives to achieve through various activities, programmes, and missions. Each objective becomes the threshold on which all efforts are resting. Each objective is linked with the successive objective[s]. The management programmes itself in such a way that not only the objectives are achieved but also the wishes of the members are fulfilled. The methodology to achieve objectives is by having a structure – organisational and business. How effective is the structure is an indicator of governance;

[02] *Governance by Consensus*: Objectives are achieved by various means and methods. Because human beings are involved, there is a need for discussion and then arriving at some common strategy. Consensus is regarded as the key element of any democratic institution where 'majority' counts. How far is this consensus effective in order to satisfy the wishes and needs of those who have been ignored by the sheer show of strength – majority. Good governance ensures that even a single individual who did not agree with the broad line of thinking also gets rewarded and his wishes get fulfilled;

[03] *Governance by Compulsion*: Some of the objectives of the organisation are hard to be accomplished mainly due to political and bureaucratic 'over-enthusiasm'. This over-enthusiasm leads to certain compulsions. For instance, in order to obtain loans under certain programme of the government, the co-operative and its members are compelled to have a certain person as a chairman or a secretary. Are these compulsions the true paths to have good governance? Is compulsion a 'force' or a 'pressure'? Is there any room for such forces or pressures?

[04] *Governance by Compromise*: Compromise is not an agreement. Nor it is consensus. It is an element which forces the institution to compromise on certain basic values and ethics – in other words – closing the eyes towards certain unacceptable actions. Compromises erode the ethics, values, principles and human behaviour. In good governance, achievement of objectives is never done at the cost of social values or economic exercises.

[05] *Governance by Force/Coersion*: This element is far different from 'compulsion'. Here pressure is applied from an external authority to make the institution 'bend'. Institutions are forced by government or certain elements from the society to accomplish a certain task by bringing pressures on the president or secretary or on another functionary. This type of pressure does not produce good governance. Instances of such pressures are not lacking. Here, manipulations in laws, byelaws, rules and regulations are brought in without any fear. The institution loses its identity and gets far away from member-owners. Over a period of time the institution extinguishes its identity;

[06] *Governance by Technical Means e.g., E-Governance*: This is the need of the modern times when electronic media is used to govern the institution. This includes updating accounts, maintaining inventories, overseeing the activities of branches, keeping track of employees and their emoluments. It also includes development of linkages, preparing annual reports and audit reports in time and distribution of profits or bonus or dividends among the members. It is increasingly assumed that IT applications can help promote greater transparency.

Good Governance

Good governance calls for *belief in systems*, the systems which ensure continuity and faith. It also calls for the leaders to *change and adapt with times* and circumstances and enable the *organization also to change* to walk along with the needs and requirements of times. Indifference, cussedness and stubborn attitudes do not produce good governance. It also is necessary to take proper care while taking decisions. Decisions taken should not be subjective and partial. All views, facts and opinions should be taken into consideration before arriving at decisions.

Four Pillars of Governance

The instrumental nature of governance implies that the *four governance pillars* are universally applicable regardless of the economic orientation, strategic priorities, or policy choice of the government/organization in question. As mentioned in the 1998 Annual Report of the Asian Development Bank [ADB] these four pillars are: Accountability, Transparency, Predictability and Participation. *Accountability* is the capacity to call officials to account for their actions; *Transparency* entails low-cost access to relevant information; *Predictability* results primarily from laws and regulations that are clear, known in advance and uniformly and effectively enforced; and *Participation* is needed to obtain reliable information and to serve as a reality check and watchdog for government action. Governance intervention should encourage the formation of *social capital* i.e., the stock of trust and information exchange at the base of civil society.

Governance in Co-operatives

Governance emanates from the guiding principles [Principles of Co-operation]. In having a more member-driven co-operative law, the national federations have to play an important role. The role of the national apex unions and federations which are supposed to represent the Movement as its spokesman at various national and international fora becomes more pronounced. These institutions, through their ethical governance, set an example of a '*Role Model*' for others to follow and thwart the anxious designs of the government to make inroads into the management of their affairs directly or indirectly – to satisfy the wishes of politicians and the bureaucrats. The situation gets worse when the national leadership, in order to satisfy their self-interest e.g., overshooting the mandate of term of their office etc. succumb to external directives and hidden high ambitions. Consequently, the leadership is tempted to temper with the sanctity and ethical values of the charter and manipulate the well-established norms, precedents and practices. The governance thus is eclipsed with methods which run contrary to the spirit of the Principles and Values of Co-operation.

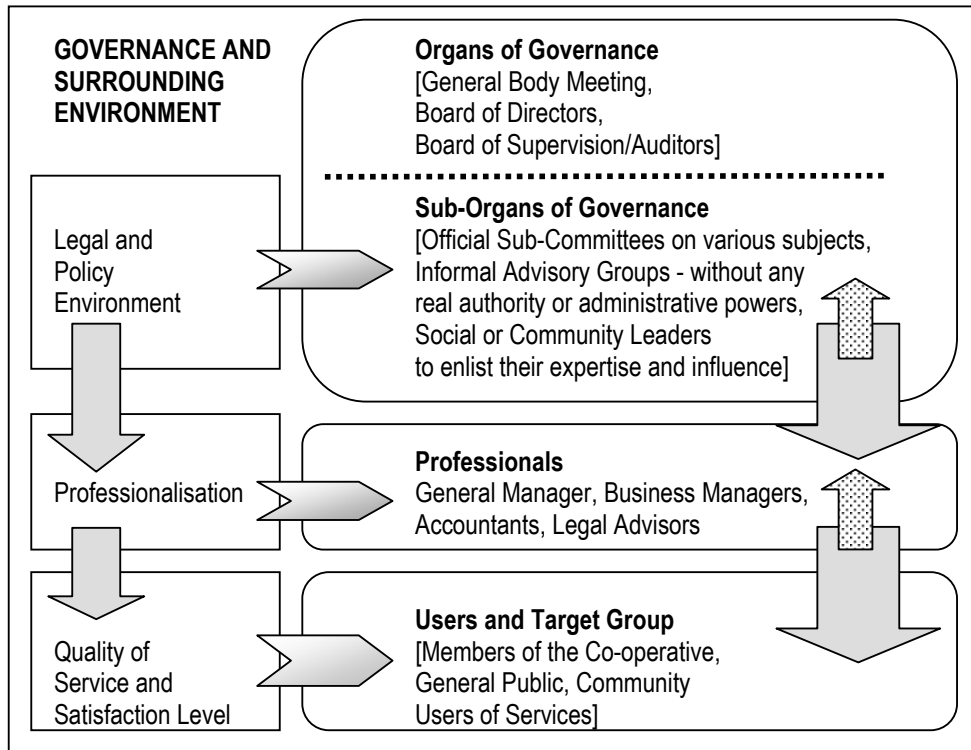
The principal objective before a co-operative is not only to earn the participation of its members but also to offer good services to them so that the members are able to generate additional income and social comforts for themselves. In this task the role played by the Board of Directors and the professionals managing the affairs of a co-operative cannot be overlooked. Both these arms should make all efforts to set up good governance without any compromise with self-interest of a group of individuals or of individuals. Members of co-operatives always look for good governance in their co-operatives through the implementation of Values, Co-operative Principles, legal norms and procedures. Good governance will be experienced if the existing laws are honestly applied and if co-operative spirit, with due respect, is put into practice. So, here we talk of two elements i.e., existing laws to be 'applied honestly', and the 'co-operative spirit' to be respected.

Legislation is the umbrella under which the tree of an organisation grows. It provides protection against harsh and difficult conditions. It provides the needed comforts and nourishments. So long as the legislation is objective and progressive the institutions under it grow well and provides the users with all the protection, nourishment, comfort and initiatives. The protective shade works like a prime-mover for all the functions of the institution to be working in complete harmony with each other.

Governance, and, for that matter, good governance, is not the game of singles. In this case, the governments and the Co-operative Movement have to join forces to bring about positive changes in favour of the ultimate basic members. Co-operatives have enormous strength to work as pressure groups.

Professionalisation Promotes Good Governance

Let us consider the governance game in the following way: If the legislation is objective, honest and conforming to the national social objectives, every things works fine. If the legislation is enforced in an honest and objective manner, the institutions which draw inspiration from it also grow and bloom. If the legislation is not restrictive in any way, it allows the institutions also to grow and develop. The institutions develop their own business, social services and general acceptance in a correct perspective. Personnel turnover is less, personnel show greater confidence in their employers, personnel demonstrate a high level of dedication, personnel prosper with the prosperity of their own organisation, and so on and so forth.



A self-propelling institution is responsive not only to its users but also to the employees. The employees become more competent – rather professional – by undertaking a variety of services within the organisation. The institution evaluates them and provides development opportunities e.g., training and retraining. The personnel get professional. The process of

professionalisation takes place at a higher pace. High professional employees put themselves in their institution as magnets.

Once the institution is placed in the hands of professionals, its expansion in other functions is not only impossible but also becomes faster. Due to a high level of professionalisation, members and users get better services – rather value-added services and their loyalty stays intact. When both the elements – professional employees and the users – are happy, naturally the Board of Directors feels confident to take up additional activities with greater vigour.

Conditions to Promote Professionalisation

There are, however, certain conditions which promote professionalisation in co-operatives. Some of these are: Sweet, cordial and professional relationship between the BOD and the General Manager; Competitive and progressive work conditions which promote career planning and job security; Clear and religious-like division of responsibilities between the leaders and professional managers; Keeping local politics, nepotism and groupism separate from professional work; Strong belief in ethics, morality, transparency in economic transactions; Adherence to legal requirements; Professional exposures through visits, exchange of ideas, training and retraining; Appreciations and rewards for good performance; Belief in co-operative philosophy; Constant interaction with grassroots members and service-users etc. etc. Senior level positions should be occupied by insiders only who consider and honestly believe that prosperity of their organisation leads to their own prosperity. Deputationists have their loyalties to their parent employers because their interests lie there. They generally get themselves assigned to co-operative institutions mainly either to mark time for a better posting or to enjoy comforts and benefits without really having any responsibility.

Good, honest, objective, loyal, satisfied and dedicated professionals contribute to good governance in co-operative institutions. It is their duty and obligation to simplify procedures, avoid bureaucratic wrangles, and develop strategies to respond to the needs and demands of co-operative members. Such steps strengthen good governance.

So let us view it like this: Objective legislative, and policy environment enables the Board of Directors to give free hands to the professionals, the professional staff provides the best of services to the members. The other side of the coin is: when the members and users are happy, it provides greater encouragement to the professionals, and when the professionals are able to deliver benefits to the institution, the Board of Directors feels satisfied and encouraged. This approach – good and objective legislation, enables the Board of Directors to formulate better operational policies, which, in turn, helps produce professional employees who deliver quality services to the users and members. The other side of the coin is the negative version: if the services are not good, it reflects adversely on the competence of the professional staff, which, in turn, reflects on the competence of the Board of Directors, which, also, in turn, reflects on the quality of legislation and policy regime.

Let us look at this once again from a different angle: bad or subjective legislation and wrong policy regime produce bad governance, lack of professionalisation, leading to inadequate services. Governance is, therefore, closely linked to the legislation, institution's constitution and professional and management methods employed to operate the business.

Another important point is about the assessment of level of satisfaction at the user end. Methods need to be devised to undertake this appraisal – there are a variety of evaluation instruments for this purpose.

Good Governance Calls for Harmony, Not Conflict

Co-operatives are not and need not to be completely under the shadow of the government. They are recognized by the State and hence a legal identity has been accorded to them through the instruments and functionaries of the government. Both of them are concerned with the well-being of the people. They are not the rivals to each other. They are the equal partners in the process of social and economic development. The point of conflict arises when the people's organizations are controlled, manipulated and managed by the government leaving the owners high and dry, and, when their rights and initiatives are encroached upon. There is a need for instituting the feeling of harmony rather perpetuating conflicts.

In Conclusion

A co-operative institution is created by the members on their freewill to be managed in a democratic manner to serve their social and economic needs. In order to enable the co-operative to provide the needed services it has to be managed professionally ensuring independence, efficiency and transparency. The level of delivery of services indicates the level of satisfaction of the members. Better and objective services are the results of the type of governance. The quality of governance is produced by the objective leaders and highly professional management. *Good governance is, thus, the product of true, dedicated and efficient managers.* Such managers are, in turn, the products of positive, progressive and responsive environment surrounding them e.g., good working conditions, harmonious relationship between the BOD and the managers, positive and democratic legal framework, flexible byelaws, and reduced bureaucratic procedures. Remember – Co-operative performance is the result of 'governance' – bare 'governance' means *status quo*, 'good governance' means better performance, and, 'bad governance' means there is a lot more of work still to be done.

Professionalisation+Governance-dp
October2004

About the author...

Dr Daman Prakash, born 1939 in India, is the Director of the Rural Development and Management Centre, New Delhi, India. He is also the Senior Consultant [HRD] of the IFFCO Foundation [promoted by the Indian Farmers' Fertiliser Co-operative Limited – world's major producer of urea and DAP]. Dr Prakash served the International Co-operative Alliance Regional Office for Asia and the Pacific since 1962 in various capacities and retired recently from there as Director [Agricultural Co-operatives Management Training Projects]. He had served in Indonesia in two phases: first, as Chief Technical Advisor of the ILO/UNDP and ILO/SWISS Projects on KUD Management Development, Training and Education [1981-88], second, as Senior Consultant to the JA-Zenchu/JICA Study Mission on Development of Rural Co-operatives in Indonesia [1996-98]. Dr Prakash had also served in Sri Lanka as Senior Consultant to the ICA/SCC Co-operative Teachers' Training Project [1978-81]. He also works as consultant to the FAO, UN/ESCAP, MAAF-Japan, Co-operative League of Thailand, Lapenkop-Indonesia etc. He has served as senior consultant to the JA-Zenchu/MAFF-Japan on fact-finding survey missions in Indonesia, Laos PDR, Mongolia, Cambodia and Uzbekistan. He has several articles and publications on co-operatives and allied subjects.

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