

# Women in Trade Project

implemented by

**Uganda Women Entrepreneurs  
Association Limited**

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## **MODULE 2:**

# **COOPERATIVES STRUCTURE & GOVERNANCE**

# LEARNING OBJECTIVES

By the end of the training session, participants should understand:

- Unique approach and benefits of cooperatives
- Cooperatives governance and management structures
- Conditions for effective governance and its indicators
- Qualities of a good cooperatives leader
- Governance challenges in cooperatives

## Definition of a Cooperative

- According to the International Cooperative Alliance(ICA):

A cooperative is an **autonomous** association of persons united **voluntarily** to meet their common economic, social and cultural needs and aspirations through a jointly and democratically controlled enterprise.

# Types of Cooperatives

- Key types – producers, consumers and credit cooperatives
- In Uganda, we are more familiar with producers' (agriculture and marketing) and credit cooperatives. However, cooperatives can be formed in virtually every activity of human endeavour.
- Cooperatives can be rural or urban-based.

## Unique Cooperatives Benefits

- Cooperatives can effectively mobilize people and resources for development, through their highly cherished values of solidarity, self-help and self-reliance.
- Genuine cooperatives are *owned, used* and *democratically controlled* by the members in orders for them to derive *benefits*.

# Acid Test for a Genuine Cooperative

- Cooperatives have a dual purpose – economic and social-cultural.
- The acid test for a genuine cooperative - it must be:
  - a) based on members' needs;
  - b) owned by members, through their share contributions;
  - c) patronised (used) by members through doing business with their cooperative;
  - d) democratically controlled by the members; and,
  - e) members must derive benefits from it.

# Acid Test for a Genuine Cooperative

Members must answer “yes” to the 5 questions below.

1. Do I *need* this cooperative?
2. Do I *own* it?
3. Do I patronise (*use*) *it*?
4. Do I *control* it through democratic participation?
5. Do I derive *benefits* from it?

If any of the responses is “No,” that cooperative is not a true cooperative although it may be called one.



## Definition of Governance

Governance can be defined as follows:

1. Governance is the process through which a cooperative organization is directed and controlled to achieve its objectives.
2. The system by which a business organization is directed, controlled and held to account.
3. It refers to the mechanisms that frame the duties and powers of cooperatives to deliver benefits to those who have invested resources in them and those that are directly impacted by their activities.

# Cooperate Governance and the Cooperatives Board

- Boards (Committees) are elected from among the cooperative members, by cooperative members.
- Boards must obtain the right knowledge and skills to carry out their leadership, oversight and monitoring roles effectively.
- Boards must receive considerable support in order for them to oversee the running of their cooperatives in a satisfactory manner.
- Boards appoint managers (professionals) to run cooperatives businesses on their behalf.

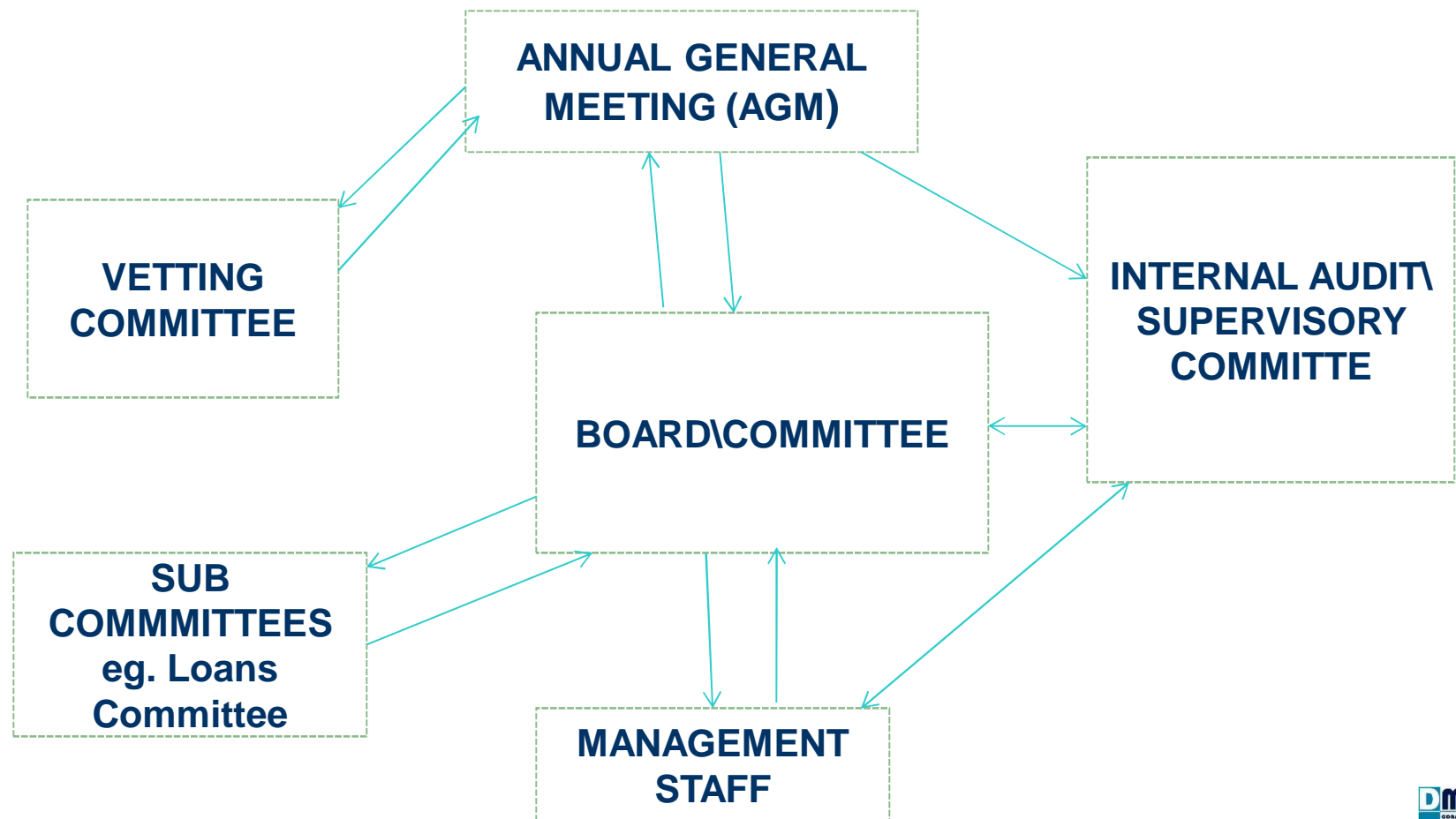
# Corporate Governance in Cooperatives

- **Firstly**, cooperatives are based on the internationally accepted cooperative principles and values of *self-help*, co-operators that are inspired with ethical values of honesty, openness, social responsibility and caring for others.
- **Secondly**, cooperatives are both ‘social ‘ and economic business organizations. They, therefore, walk on two legs. They have to keep the right balance between ‘commercial business practices’ and ‘association practices and values’.

# Corporate Governance in Cooperatives

- **Thirdly**, cooperatives, members (shareholders) are the ‘customers’ or the ‘suppliers’ of their cooperative. Cooperative business, therefore, depends on the economic participation of the members.
- **Fourthly**, directors on profit-oriented boards are often *selected* on the basis of their specific knowledge or expertise in a given business activity. Cooperative directors are almost always elected from the membership irrespective of whether or not they have the necessary expertise.

# Model Governance Structure of a Cooperative



## Governance Structure

- A Cooperative is formed and therefore **owned by fully paid up members** who are either individuals or organizations as is prescribed in its Bye-laws.
- Once a prospective member fulfills the condition for becoming a member he/she becomes part owner of the Cooperative.

## Governance Structure

- Fully paid up members have full powers to participate in decisions which commit the Cooperative. The fully paid up members therefore make up the group of owners who take decisions in an AGM as the top most policy making organ of the cooperative.
- The AGM therefore delegates its responsibility for making policies by electing the committee to run the affairs of the Cooperative on behalf of the many owners.

## Governance Structure

- This is logical and practical because not all the fully paid up members i.e. who are often many in number can exercise the powers for policy making and overseeing the operation of **hired Professional management** of the Cooperative.
- If they were to do it, there will be problems of coordination due to the different views and ideas which are discussed in a very big group.



## Governance Structure

- The elected Cooperative Committee Members therefore are supposed to carry out their delegated functions in the best interest of the Cooperative's owners who are the **fully paid up members**.
- The elected committee members are therefore very important in the governance organs of the Cooperative but they are not the final decision makers that commit the organization.

## Governance Structure

- The elected committee members have to **periodically refer to the owners** when **taking key decisions** which commit their Cooperative through AGM/SGMs.

## Example of Sub-Committee: Loans Committee

**Consists of members of the board with good standing in society. They shall:**

- Review loan policies and procedures for adoption by the board (must be written).
- Explain policies and procedures to the members.
- Approve loans on behalf of the Board and management.

# Importance of Good Governance

- Good governance of a cooperative society will result in:
  - The fulfillment of vision, mission and realization of its aspirations.
  - Protection of the society's assets, reputation, values and its relevance over time.
  - Management is guided and knows the operations of the society.
  - Effective monitoring and oversight by various organs of the implementation strategy of the society is done.

# Conditions for Effective Governance

- Individual directors must have:
  - Independent minds and freedom to express their views and aspirations
  - Personal integrity
  - Competence in terms of leadership/management and technical skills
  - Commitment to the society so as to avoid detrimental conflict of interest
  - Time to participate actively and regularly in the affairs of the society.

# Conditions for Effective Governance

- Clear responsibilities of Committee/Board members and management to avoid conflict of interest and responsibility overlap.
- Regular and objective audit of Board and management. Corrective action taken where necessary.
- There must be something at stake: finance or reputation.
- High quality MIS for accurate, concise and timely reports to the board, and other committees.
- Policies and procedures developed to ensure continuity and proper board succession.

# Qualities of Good Cooperative Leaders

- Know the business, able to guide, open to views and respectful of decisions reached by consensus.
- Basic understanding of laws and regulations governing the cooperative societies. Adherence to the cooperative values and principles.
- Dedication and loyalty to the cooperative cause and the community at large. Good knowledge and commitment to the cooperative business model.

# Qualities of a Good Cooperative Leader

- Visionary.
- Objective and fair.
- Good listener and consensus builder
- General business aptitude including marketing concepts.
- Ability to make logical judgment on a wide range of cooperative issues.
- Ability to work as part of a team.
- Strong oral communication skills.
- Trustworthy and honest.



# Indicators of Good Governance

1. Participation.
2. Transparency.
3. Accountability.
4. Consensus Orientation.
5. Efficiency and Effectiveness.
6. Equity (fairness to all).
7. Respect for Rules, Policies and Regulations.
8. Strategic and Visionary Leadership.
9. Knowledge and Skill in Leadership/Management
10. Organizational performance and growth.

# Cooperative Governance Challenges

## Challenge – Cooperative Leadership

- At the Annual General Meetings (AGMs), laypersons elect laypersons, with little or no experience in running business organizations, to serve on the committees/boards of cooperatives business organizations. As a result, leaders have limited relevant experience, if at all.
- Often, elected officials have interests and motives that differ from the cooperative. *“They may be nest featherers, ego builders, recognition seekers, political ladders climbers, hijackers etc.”* (Edgar Parnell).
- It is difficult to find leaders who establish and adhere to sound systems of internal control to safeguard shareholders’ interests.

# Cooperative Governance Challenges

## Challenge – “unempowered” members who do not hold leadership accountable

- Shareholders must have the courage to hold leaders accountable.
- Cooperatives are focused on self-help, self administration and democratic control. These values require shareholders that understand their rights, responsibilities and obligations.
- Ordinarily, shareholders do whatever the Board of Directors tells them to. Good corporate governance requires shareholders to actively exercise their rights.
- Members must be trained to ensure that cooperatives benefit owner-members over management and board members.

# Cooperative Governance Challenges

## Challenge - laymen versus professionals

- Cooperative members elect laymen, from amongst themselves, to become board members. Elected officials may not necessarily possess relevant knowledge and skills to exercise supervisory and oversight functions.
- Board members are part-time and usually appoint professionals to run the cooperative full-time.
- Cooperatives with lay boards and skilled professionals are often **management-driven** instead of being **owner-member driven**. Such cooperatives lose their direction and cease to serve the real needs of their members.

# Cooperative Governance Challenges

## The challenge of the dual purpose of a cooperative

- Cooperatives should present two balance sheets – a social one and one that shows its assets and liabilities.
- Properly addressed ‘social’ needs allow shareholders to benefit from being shareholders e.g. moving from grass thatched houses to houses with iron sheet roofs etc.
- When boards and management concentrate on building their own assets and awarding themselves generous packages, they do so at the expense of the social needs of shareholders.

# Cooperative Governance Challenges

## The challenge of multi-tier cooperative structures

- Through the committee/board of directors' representative system, each tier of the cooperative structure is in theory, represented in the next level above.
- This hierarchical representative structure separates grassroots members from the 'legal persons' in the tiers above them.
- The more the tiers the more the bureaucracy and the more the owner-members become tiny cogs in a machine over which they have no control.
- The challenge is to design a flexible structures that allows members to exercise significant control over the entire structure.
- Structures should be adjusted to remain relevant and deliver value to shareholders.

# Cooperative Governance Challenges

## The challenge of staff recruitment and retention

- Leaders and managers sold to the dual philosophy of cooperatives (economic and social) are difficult to find.
- Cooperatives remuneration packages tend to be low and not as attractive as profit-oriented businesses.
- Cooperative jobs are largely in rural areas which could be less attractive for the majority of capable employees.

# Cooperative Governance Challenges

## The challenge of gender in cooperatives

- While the cooperative act emphasizes 30% of board members to be women and youth, most rural women either don't have the share capital to join cooperatives, are uneducated or face cultural barriers that prevent them from joining. Many who join boards do not feel confident enough to contribute towards governance. **Women must be equipped to participate effectively.**
- Some women face restrictions at home that prevent them from effectively participating in cooperatives. Additionally, some women face domestic violence if they return home late from meetings and workshops. **Cooperatives should take these circumstances into account when planning activities.**



## Conclusion

- Good corporate governance goes hand-in-hand with effective member empowerment and healthy internal democracy. It moves to strengthen members' role in their own cooperatives also strengthens the cooperatives' leadership and management.
- The Laws, Regulating, bye-laws, policies, values and principles of co-operatives should always be cherished as a way of strengthening governance.



# Questions & Answers

**Thank you**