Board democracy in co-operatives

A briefing paper

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1. Introduction

Co-operatives UK commissioned the Research Unit for Financial Inclusion to undertake a short research study into board democracy in co-operatives. This study was to focus on four specific questions. These are:

- Can planning for board succession go hand in hand with a democratic election process - "Can you make your own luck?"
- Is there a fundamental conflict between the appointment of Independent non-elected directors (IpNEDs) to the Board and the Values and Principles that drive co-operative businesses?
- Is there a fundamental conflict between the appointment of Executives to the Board and the Values and Principles that drive co-operative businesses?
- Is diversity the secret to ensuring a board with a balance of skills and capabilities? How would 'diversity' be defined and how could this be implemented in practice?

The study focuses solely on the four questions in relation to co-operatives that have boards of directors. Issues relating to more collectivised forms of co-operative that operate without boards are not dealt with in the study.

The purpose of the study is to assist Co-operatives UK contextualise and inform best practice guidance in co-operative governance.

2. Methodology

The study was based on a series of nine interviews with academics and practitioners within the British and Canadian co-operative sectors. This was combined with desk research of the literature in relation to the four set questions.

Among the nine interviewees, five were academics and four were practitioners. They are listed in Appendix II.

A series of five case studies were written as part of the study (in Appendix I).

3. A note on terminology

Given the sometimes different use of terminology for types of director within the co-operative sector, it may be useful to note the use of terminology in this paper.

Directors are natural persons normally elected by the members to ensure that the co-operative achieves its purpose. As a board, they form the overall governing authority of the co-operative and have the legal responsibility for its operations. The board of directors remains accountable to the members.

Non-executive directors are directors who have no role, in their capacity as director, in the management of the co-operative. In some co-operatives they are called lay directors. In some co-operatives, employees may be elected to the board as non-executive directors as their role of director remains within governance and not management.

Independent non-executive directors are directors regarded by the co-operative to demonstrate independence of character and judgment and to be free of prior connections with members or employees that may lead to any conflict of interest.

Executive directors are directors who, as director, also have a management role in the co-operative. The Chief Executive Officer would typically be an executive director in a cooperative with such positions, but other senior managers could be executive directors.

Non-elected directors are directors who are not subject to election or ratification by the members in the Annual General Meeting. In some co-operatives, a number of directors are appointed directly by the board. These are in a minority on any board that has such positions. Non-election may apply to independent non-executive and/or executive directors.

Co-opted directors are directors who are appointed by the board to fill a vacancy but who are presented to the membership for election at the first AGM or special general meeting following their co-option.

4. Can planning for board succession go hand in hand with a democratic election process - "Can you make your own luck?"

In many co-operatives, the principle of member democratic control has traditionally entailed open and free access for all members to the board election process. The conditions of membership might be defined, but, in general, all members irrespective of experience, skills, capabilities or educational attainment are able to stand for election. These co-operatives put their trust in the membership to assure board succession by electing appropriate and competent people to the board.

It could be argued that such an approach depends on good fortune or luck as it relies on appropriate people coming forward with the right attributes to oversee the running of the organisation and the good sense of electors to make the right choices. In many cases, particularly when small, co-operatives may be lucky and succeed on the basis of such an open and seemingly very democratic system.

But other co-operatives are not so lucky. People come forward who are not sufficiently experienced or competent which results in boards that are unable to oversee the business effectively and hold management to account. This is particularly problematic in larger more professional co-operatives and those that have to meet external regulatory requirements, such as co-operative banks or insurance companies. For this reason, other co-operatives endeavour to "make their own luck" by searching out and filtering board applicants against set experience, expertise and competence criteria through the use of nomination or search committees and through a more rigorous interview process. Only those applicants who meet these criteria and who are endorsed by the nomination committee are then presented for election to the membership.

Both of these approaches to the board application and election process are based on an understanding of co-operative governance principles but with different emphases. The open access approach is based on a straightforward understanding of member democratic control, whereas the search and filter approach is based on the understanding that if the needs of the members are going to be met through a democratically-controlled enterprise, then there has to be a systematic processes in place to ensure there is sufficient expertise on the board to safeguard the long-term viability of the co-operative.

These two realities of democratic control and board expertise are clearly essential to good practice in all co-operatives. Recruiting directors or allowing directors to be elected that lack expertise to oversee and control the business is bad luck all around. The problem is that these two realities, or principles, can clash and in some ways they even may be antinomic. Completely free and open access to election processes can potentially undermine board competence and the viability of the organisation. Restrictive nomination and election criteria and processes can potentially undermine wide participation in the democratic process.

The question posed in this section asked if planning for board succession could go hand in hand with a democratic election process. The answer is not just that it can, but that it must. In all co-operatives a balance has to be found between the two realities of ensuring a competent and experienced board and of maintaining member democratic control. This is already recognised in co-operative governance codes (Coops UK 2014) and in standard works on co-operative governance (Jones et al., 2017; ICA 2013).

In commenting on the Myners (2013) review of the governance of the Co-operative Group, Barber, Birchall and Mayo (2014) made a similar point when they said:

> *"The Myners Review tackles head-on the myth that there is a trade-off in the underlying co-operative model between member control and the expertise needed to direct a business. Having a Board with the relevant skills to oversee executive managers in the interests of members is exactly what co-operative structures are intended to lead to. The key is appropriate governance design".*

The last sentence this quotation focuses on what is the nub of the problem. Everybody agrees that all co-operatives, of whatever size, nature or characteristic, must have competent, experienced boards if they are to survive as well as having democratic election processes if they are to remain true to their co-operative principles. Everyone agrees on what has to be, it is the how to do that is problematic and often controversial. The key is assuring an appropriate governance design that balances planning for competent succession and open democratic processes.

The five case studies that form part of this report (Appendix I) illustrate the ways in which different co-operatives, whether consumer, worker or financial, go about endeavouring to reconcile these two elements within the design of their institutions. There are variations and differences and clearly no one way to resolve the issue apart from ensuring final overall member control of the co-operative as a whole.

Discussions with practitioners in the five case study co-operatives and with domain experts (Appendix II) have resulted in a series of recommendations for co-operatives endeavouring to recruit competent and experienced boards, whilst at the same time ensuring genuine and open democratic election processes.

These recommendations apply particularly to the recruitment and election of non-executive directors who arise normally and directly from the membership (see the definition above). The particular situations of independent non-executive directors (sometimes appointed by the boards) and executive directors (the CEO and other senior managers) are discussed in the following two sections of the report.

The following are the recommendations that arise from the study in relation to the recruitment and election of non-executive directors (sometimes termed lay directors) within the context of a democratic process:

- **Clear definition of the purpose of the board of directors –** potential applicants require a clear statement, written in plain English, of the roles and responsibilities of the board of director, a director job description, and person specification and of fiduciary and legal responsibilities. These should be easily accessible on the website
- **A strategic and structured approach to board succession** - boards need to prioritise the development of a director recruitment and election strategy and a detailed action plan. The latter is often within the remit of the nominations committee. The action plan should include ideas for widening diversity on the board.
- **Members and employees** – boards need to consider opening up access to the democratic election process to employees as well as members (not applicable in the case of worker co-ops where members are workers). Employees often have a more direct knowledge of the activities of the co-operative than do members.
- **Transparency and clarity -** transparency and clarity in recruitment, nomination and election procedures are critical to ensuring member engagement and control. It is the responsibility of the board to set out, agree and publish the criteria, processes and procedures for nomination and election. Applications should be encouraged directly from the membership, and all members (and employees) should know that they can put themselves or others forward for nomination and election
- **Competency and experience criteria** - co-operatives do need to set out in writing the basic skills and competencies that they would expect any director to have or to be able to gain in a short period of time. However these criteria should be reasonable and the bar should not be set so high as to discourage member applications.
- **A strong focus on co-operative values and principles –** co-operatives have a tendency often, when endeavouring to strengthen their boards, to prioritising the recruitment of directors with industry or business skills; competencies in the implementation of co-operative values and principles can be downplayed. Co-operatives need to prioritise equally the recruitment of directors who are able to apply co-operative principles in practice
- **A nominations (search) committee** - all co-operatives should have a nominations or search committee to seek out board members with the required skills and expertise. However, the nominations committee should not be under the sole control of the board, otherwise there is a danger that it recruits just in the image of existing board members. On the committee there should be independent HR and member representatives. The latter could be drawn from a member representative committee. The balance of control between board and independents on the committee depends

on the context of the co-operative. A member-oriented nominations committee would give a veto to member representatives in regard to nomination.

- **Member representative committees** - alongside boards of directors some co-operative have developed member representative committees. The Co-operative Group's Members' Council is one such example. These sorts of bodies are common in other countries and they aim to extend engagement and participation among the membership. To a greater or lesser degree, many have a voice on the nominations committee.
- **Director and board evaluation** - ensuring board expertise and competence depends on understanding the level of that expertise and competence currently on a board. Board evaluation informs recruitment and board development strategies.
- **Size of the board** - a larger board offers the possibility of ensuring that among participants there is a wide range of skills and abilities. It is for this reason that consumer co-operative boards may have twelve or as many as sixteen directors. This enables the co-operative to recruit widely from the membership
- **Term limits** – Without terms limits boards can become comprised of many of the same people over many years. This can lead to self-perpetuating and aging boards becoming fossilised in time and result in a lack of drive to seek out new competent people with new ideas and perspectives to serve on the board
- **Contested elections –** contested elections both strengthen the democratic election process and increase the possibility of electing skilled and competent people to the board. Nominations committees should ensure that all elections for non-executive directors are contested; the debate about perspectives and ideas alone can strengthen the competence of the board.
- **Education and training** – when co-operatives set competency criteria as a basis for nomination to the board, they have also to ensure there are pathways into the democracy for people who may consider standing for the board in the future. Member training days in preparation for nomination are a good idea, so too is the idea of allowing observer status so that potential new board members can learn first-hand what would be expected of them as a director.
- **Additional expertise** - co-operative boards will often need to consider how to ensure additional expertise on the board that may not immediately come from non-executive directors elected from the membership. Some boards consider appointing independent non-executive directors or executive directors onto the board or buying in skilled expert assistance (see the next two sections of this paper)
- **Nomination by petition** – to ensure ultimate democratic member control in the case where the nomination committee is deemed to have acted unfairly, nominations for vacancies on the board could be made by petition directly from the members. This would involve a petition being filed with the co-operative in advance of the AGM and signed by a number or a percentage of the membership as determined by the board.

Nominations by petition do not have to be agreed by the nominations committee or the board to be moved for election at the AGM.

5. Is there a fundamental conflict between the appointment of Independent non-elected directors (IpNEDs) to the Board and the Values and Principles that drive co-operative businesses?

In standard terminology an IpNED is an independent non-executive director and is to be distinguished from an executive director (FRC 2016, CGL 2016, Mutuo 2007).

In this question, IpNEDs are referred to as independent non-elected directors. As is discussed in this section, independent non-executive directors in co-operatives may be unelected and appointed by the board without reference to the membership (as in East of England Co-operative), appointed by the board but subject to non-binding ratification by the membership (as in Central England Co-operative), appointed by the board but subject to binding member ratification (as in Dulas Ltd) or selected by a nominations committee and presented to the membership for election (albeit for an uncontested position) as in the Co-operative Group[1].

The exploration of the issue of non-election, as set in the question, includes a consideration of binding and non-binding ratification, and uncontested election as currently practices in co-operatives in relation to independent non-executive directors[2].

The report *'21st Century Pioneers'* written by Mutuo (2007; see section 5) for the Co-operative Group's Constitutional Review Board gives the background to the development of independent non-executive directors as distinct from non-executive directors within the corporate world and the later adoption of the distinction within the co-operative sector. Following major corporate governance failures in the corporate world, there was an increasing focus on the importance to recruit non-executive directors who could be regarded to be independent of management and of the shareholders. As Mutuo explains, independent non-executive directors became*, "more like protectors of the corporate purpose of the company, rather than representatives of a different interest group from management*".

All non-executive directors have the responsibility of overseeing the strategy, finances and the performance of a company, and of holding executive management to account. Independent non-executive directors bring an added dimension. They are people who, in the eyes of the board, demonstrate independence of character and judgement and are free from any conflict of interest and from all ties whatsoever with the business.

In its report on the Co-operative Group, Mutuo argued the importance of recruiting independent non-executive directors to the board of the Co-operative Group and to the

1 Rule 52. "Every resolution of an Annual General Meeting for the election of an Independent Non-Executive Director or an Executive Director shall relate to one named person and a single resolution for the election of two or more persons shall be void" (CGL 2016)
2 There is one other situation where directors are not elected. This is the case of co-options of non-executive directors to fill a vacancy before an AGM. These directors must be put forward for election at the next AGM or special general meeting. Co-option of directors to fill vacancies is standard practice and is uncontested.

boards of larger co-operatives more generally. At the time (2007), there were already independent non-executive directors on the board of Cooperative Financial Services (CFS) in order to meet the regulatory requirements in the financial sector. These independent non-executive directors brought the kind of independent expertise that would not have been assured through normal non-executive director recruitment channels.

It was the clear recommendation of Mutuo in the report that

> *"The absence of any independent directors [on Co-operative Group board] is a weakness.*
>
> *To comply with modern governance best practice, independent directors should play a part in the mainstream governance of the Cooperative Group.*
>
> *The combination of independent directors and representative directors could improve on the company model and address some identified weaknesses" (Mutuo 2007)*

Among the five co-operatives that participated in this study (Appendix I), four have the provision to appoint independent non-executive directors, three of which do have them actively engaged on the board. The co-operative without independent non-executive directors is Manchester Credit Union (MCU). All its directors are elected in the standard manner. However, in practice, as explained in the MCU case study, the credit union does search out volunteer directors with the kind of expertise that may be expected of an independent director. Currently it is not common practice for credit unions to pay directors, and independent directors are always remunerated, often at a rate higher than non-executives in general.

It is important to note, as referred to in the Mutuo report that the logic of independent non-executive directors entails that these directors are not elected in the same way as executive directors, even within the co-operative sector. As Mutuo explains:

> *"Independent directors are carefully chosen for their particular skills and experience, to do a particular job. The lottery of democracy, with its lack of any pre-qualification based on skills and experience, cannot possibly be expected to produce individuals with the necessary ability to discharge onerous functions. Elected directors cannot currently be seen as discharging the role of independent non-executive directors.*

Of course, this quotation does not take into account the moves since 2007 to ensure that elected non-executive directors do have the skills and experience to participate effectively within a co-operative board. But the point is well made; independent non-executive directors bring another dimension to the business and offer skills, expertise and experience that cannot always be obtained through the democratic process. They are then board appointees, in fact as indicated in the title, independent non-executive directors are to some extent, independent non-elected directors.

In the research interviews, all nine academic and practitioner participants appreciated how the appointment of independent non-elected directors could strengthen a co-operative in the interests of its members. Particularly in larger co-operatives, or those subject to external regulation, participants understood that the expertise and experience that independent directors bring might be essential to the good running of the business.

No interviewee considered that there was any a fundamental conflict between the appointment of independent non-executive (non-elected) directors to a co-operative board and the values and principles that drive co-operative businesses. However, this was dependent on members retaining and being seen to retain overall democratic control of the business, either through the direct election of the majority of the directors or through other mechanisms that protect democratic member control.

In most co-operatives with independent non-executive directors, the demonstration of overall democratic member control is unproblematic. Such independent directors are few in number, only appointed for a set period of time for a particular purpose and are subject to dismissal by the board if no longer required.

However, the appointment of such directors by the board and their non-election by the membership, if not a real issue for interviewees, it felt like an issue. They realised that recruiting independents with the kind of expertise required would be seriously hampered if part of the contract was submission to a contested election. They felt that most independents would not apply for the position if it meant they were subject to open and contested election.

Yet, for the interviewees, to appoint such directors without any reference to the membership felt out of kilter with the co-operative ethos.

The feeling that independents should be referred to the membership has led the East of England Co-operative not to appoint any independents, even though in its rules it can appoint two of them. The East of England board considered it more appropriate to hire in professional experts as consultants if any specific new expertise was required, even though this probably was a more expensive option than recruiting independent directors.

Both Central England and Dulas do refer their independents to the members in the AGM for ratification. In Dulas's case, the ratification is binding and if the members failed to ratify the appointment of their one independent (the chair), the company would have to bear the consequences and pay compensation. In the case of Central England, the ratification is not binding on the board, but if the members failed to ratify an appointment, it would be regarded as a major vote of no confidence in the board. Members ultimately have control over the election of non-executive directors on the board and can call them to account for their appointment of independents.

At the Co-operative Group, the situation is someone different, and, in the rules, independent non-executive directors are subject to election by the members, even though in practice these elections are not contested. But members have the right to reject the appointment of an individual independent non-executive director if collectively they were so minded.

Unlike in the other co-operative case studies, the independents on the Co-operative Group Board are not in the minority. In fact, the rule states that the *"Independent Non-Executive Directors shall be equal to or greater in number than the other Directors"* (Rule 47.1 CLG 2016). This has caused some debate with the co-operative movement with, for example, Barber, Birchall and Mayo (2014) arguing strongly that the members' council, as a representative body of the membership should have a much stronger role on the board nominations committee in regard to the selection of the independent non-executive directors. In the event, it is the president of the members' council that sits on the nominations committee and has to approve their nomination for election. The president, in the name of the membership, in fact has a veto on any independent director nomination for election.

Overall, it can be concluded that there is no fundamental conflict between the appointment of independent non-executive (non-elected) directors to the board of a co-operative and no conflict with the values and principles that drive co-operative businesses.

It is therefore recommended:

- **Recruitment of Independent Non-Executive Directors** - Larger co-operatives, and those subject to regulatory requirements, do consider the recruitment of independent non-executive directors to the board on the grounds that such directors can strengthen the governance of the co-operative in the interests of the members.
- **Ratification or election of Independent Non-Executive Directors** - To remain transparently close to the co-operative ethos, co-operatives with independent non-executive directors should submit such directors for ratification or election (even if uncontested) by the members at the AGM. There seems no reason not to give members the final voice over the recruitment of individual non-independent directors.

6. Is there a fundamental conflict between the appointment of Executives to the Board and the Values and Principles that drive co-operative businesses?

In this study, this was the most contested question. Of the five case study co-operatives, three had executive directors on the board and two did not. There were strong feeling in either direction – some people considered that the CEO and other senior executives must be on the board, and others were of the totally opposite opinion and were adamant that executives should never be on the board.

However, nobody could give a reasoned argument as to how, and in what way, there might be a fundamental conflict between the appointment of executives to the board and the values and principles that drive co-operative businesses. Nobody could identify which of the ten co-operative values and seven principles would be compromised by having the CEO as an executive director on the board.

Not having the CEO or other senior executive on the board is the traditional custom and practice within the co-operative sector. Most co-operatives, including most credit unions, do not have executive directors. In Canada, according to the interviewees, it is very rare for a CEO to be a board member. But there are exceptions. The CEO of the Desjardins Group is in fact the chair of the board[3]. Increasingly in the UK too, there are exceptions. The majority of participating co-operatives in the study had executive directors. It is becoming more common within the British credit union sector.

Interestingly the two participating co-operatives that did not have executive directors did have employees on the board as non-executive directors in their capacity as members. In one of the co-operatives, technically the CEO could be elected to the board but as a non-executive rather than an executive director. There is nothing in the rules to stop this, as the eligibility criteria for election allows for the nomination of any employee. But it certainly would be frowned upon and disapproved of by the board as a whole.

[3] Note this would be contrary to best practice in the UK and contrary to the UK Governance Code.

The reason that CEOs and other senior executives are not elected to co-operative boards is not to do with any consideration of the values and principles of the co-operative sector but rather with a particular view of the nature and relationship of governance and management. The dominant theory that has informed co-operative thinking on boards has been what is called the principal-agent theory (see Cornforth 2003) in which the owners of the co-operative represented by the elected directors engage an agent (executive management) to manage the organisation in their interests. The main function of the principal, in this case the board, is therefore to monitor the performance of management and ensure the CEO achieves the aims and objectives as laid out in the strategic plan. There is a suspicion that management is there to act in its own interests and it only by close oversight and control that the board can ensure that the co-operative achieves its purpose in the interest of the membership.

This is the reason that most boards rigidly divide strategy and policy, their role, from management and operations which are the role of the CEO. So strongly is this division perceived that some co-operatives, such as Central England, have it written into the rules that *"At least one Board meeting per year shall be held without any of the Management Executive present"* (Rule 94).

But this principal-agent approach to the relationship between the board and the executive is just one model of understanding the operation of governance within a co-operative. As Cornforth (2007) and Spear et al. (2007) illustrate there are other models of governance including models based on more partnership and collaborative approaches. In one partnership approach described by these authors, the board assumes, not that management has to be controlled, but that it is equally committed to the mission and values of the co-operative and it sees its own role as adding value to strategic and key decision making in partnership with the executive. But this only works if the CEO and managers are truly committed to the values and principles of co-operation.

In practice, in most board meetings, the CEO participates in the discussion and the decision making in the same way as directors present. It is rare, and inappropriate, for CEOs not to participate in the policy and strategic decision making of the board. Indeed, the board comes to conclusions and makes decisions most often taking into consideration the information and analysis supplied by the CEO. The power and the influence of a CEO hover around a boardroom irrespective of whether or not he or she is a director on the board.

It is to ensure that the CEO and other senior executives share the same legal and fiduciary responsibilities as other directors that some co-operatives decide that the CEO and other senior managers should be appointed or elected as a full voting member of the board. The CEO becomes then an executive director; the rest of the board members being non-executive directors.

Keeping the CEO off the board or out of board meetings does nothing to protect the stability of the co-operative. It really just allows the CEO and senior management, possibly the most powerful people in the organisation, to walk away from all responsibility when things go wrong. It is so easy for a CEO to say that it was the directors who decided not me, even though their decision making was based on information and thinking supplied by the CEO.

Birchall (2014b) gives multiple examples of where CEOs walked away from co-operatives with some disastrous consequences. Interestingly in the credit union sector with the introduction of the senior managers' regime this ability to walk-away is much reduced.

Making a CEO an executive director does not change the accountability of CEO to the board for meeting the board's expectations for performance. The CEO as executive director retains the same executive delegated authority to deliver on board policy and strategic objectives and retains the same relationship with the chair as a CEO who is not a member of the board. In fact, it could be argued that by being director of the board, the relationship with the chair is strengthened as it more clearly demonstrates the equality of the two functions.

Even though among the research participants there were those who were adamantly against having a CEO on the board, there were others that considered that the progression to a governance structure based on executive, non-executive board and independent board membership is to be welcomed if the co-operative sector is to be strengthened. Dulas, the Co-operative Group and Manchester Credit Union could not operate without their executive directors. For the executive directors bring skills and competences into the boardroom and by being on the board strongly demonstrate to the members and other stakeholders the shared accountability of the non-executive and executive functions.

The issue of election is similar to that as discussed in the section on independent non-executive directors. In some co-operatives, the CEO is an ex officio member of the board and not subject to presentation to the membership, in others he or she is presented to the membership for ratification and in others, as in the Co-operative Group, for election albeit uncontested. Interesting in the Desjardins Group in Canada, the CEO, as executive director, is elected through a contested election. So variation is possible. However, given the co-operative ethos of member control, it seems appropriate that the CEO should be presented for ratification or election by the membership. If the board have got the appointment so wrong that the CEO or others are rejected by the membership, they would just have to suffer the consequences and pay compensation. Undoubtedly the board would be held to account for such a poor appointment.

In conclusion, there is no fundamental conflict between the appointment of executives to the Board and the values and principles that drive co-operative businesses. For those boards that would never consider appointing a CEO as an executive director, the conflict arises not from the values and principles but out of traditional approaches to understanding the relationship between the board and the executive.

It is recommended therefore that:

- **Allow executive directors**. Boards of co-operatives should actively consider appointing their CEO and senior executives as executive directors on the board.
- **Values and principles**. However, they should only consider appointing the CEO and other senior executives as directors if they are sure that management shares and is committed to co-operative values and principles. Without this commitment, the partnership model of governance is undermined.

- **Ratification or election**. Executive directors should normally be presented to the membership for ratification or election at the AGM in the same way as non-executive directors. This is a regulatory requirement in the corporate world and in the case of mutual building societies and would be strange if the same requirement did not apply in the co-operative sector.

7. Is diversity the secret to ensuring a board with a balance of skills and capabilities? How would ‘diversity’ be defined and how could this be implemented in practice

Historically, many co-operative boards have been relatively homogenous. Understandably like-minded individuals, with similar interests, experiences and backgrounds, often came together to achieve a common purpose through serving on a board of directors. It was even more the case in the corporate world where boardrooms were often full of white, middle-aged or older professional or business men from similar socio-economic backgrounds.

In more recent years, research into the board room dynamics has demonstrated that excessive homogeneity in the board room leads to insularity and groupthink resulting in a lack of mutual challenge, critical debate and the rigorous exploration of issues. Homogenous boards can lead to a failure to critically question the executive and to a cosy going with the flow of events. The results can be disastrous.

There have been strong moves therefore, particularly, in the corporate world to stress the fundamental importance of diversity in the boardroom. Having people in a boardroom who are different from one another, who have different capabilities, expertise and skill sets, and who have different educational and professional backgrounds, life experiences and personal attitudes and attributes, offers a much greater possibility for debate, collective insight and critical questioning. It also offers the opportunity for a business to connect more closely to its operating environment and to be more open to the possibility of innovation and change. Homogenous boards tend to fossilise and therefore are at risk of executive control and manipulation.

The importance of diversity is clearly recognised in the UK corporate governance code, which states in its preface:

> *“Essential to the effective functioning of any board is dialogue which is both constructive and challenging. The problems arising from “groupthink” have been exposed in particular as a result of the financial crisis. One of the ways in which constructive debate can be encouraged is through having sufficient diversity on the board. This includes, but is not limited to, gender and race. Diverse board composition in these respects is not on its own a guarantee. Diversity is as much about differences of approach and experience, and it is very important in ensuring effective engagement with key stakeholders and in order to deliver the business strategy” (FRC 2016).*

In defining diversity, it is important to recognise that diversity is a multi-layered concept. The difference between people occurs on multiple levels. There are at least three basic levels of diversity:

- The experiential level – this includes capabilities, skills, competences, business, industry and co-operative experience, achievements, qualifications and education.
- The demographic level – this includes gender, age, race, disability, geography and sexual orientation
- The personal level – this includes personality, interests, role preferences, beliefs and values

In constructing a diverse board, it is important to address diversity at all three levels so that the board can display a broad spectrum of competences, demographic attributes and personal characteristics.

However, building a diverse board is not a tick-box, exercise; there is no point or advantage of a diverse board for its own sake. Diversity is important for one over-riding purpose, already expressed, in the UK Code of Governance, but stressed in Principle 2.2 of the ICGN Global Corporate Governance Principles (2009). This states that:

> *"Boards need to generate effective debate and discussion around current operations, potential risks and proposed developments. Effective debate and discussion requires:*
>
> *(c) that there is a sufficient mix of relevant skills, competence, and diversity of perspectives within the board to generate appropriate challenge and discussion"*

The purpose of diversity is to generate effective debate and discussion and, as the UK Code states, to stimulate dialogue that is constructive and challenging. The definition of diversity is above all the difference of perspective that each individual brings to the boardroom, which undoubtedly arises from the various levels of diversity as explained above.

Deloitte (2015) further stresses this point:

> *"Having a wide range of perspectives in the room also means that the status quo is constantly challenged and critically reassessed, which guards against the notorious "group think". And although this may initially lead to "storming" around the boardroom table, it is likely to yield a more favourable result for the company ultimately. Interestingly enough, experts believe that due to group bias, homogeneous groups don't come to better solutions - they're simply convinced that they did. Heterogeneous groups, on the other hand, come to better solutions - they just don't think that's the case."*

This is the essential point – boards, including co-operative boards, need to realise that it is not the inclusion of people with various diverse traits or characteristics (as illustrated in the levels above) that matters in itself, but it is the breadth of perspective that people with those characteristics bring to the co-operative that is essential.

The question set in this section was, *"Is diversity the secret to ensuring a board with a balance of skills and capabilities?"* The answer is no, it is not. Rather, diversity is the secret to ensuring a broad range of perspectives on a board that are essential to critical debate and dialogue. Of course, these perspectives arise from the range of skills and capabilities, demographic characteristics, life experiences and personalities of the directors.

In ensuring a range of perspectives on a board, it is argued that certain levels, elements or characteristics of diversity are more important than others. In the discussions with the research study participants, it was recognised that a diverse board is built primarily on the experiential level. Effective and critical debate is dependent on having a board with the capabilities, skills, competences, and the professional, business, industry and co-operative experience to ask the right questions and hold the executive to account. It is for this reason of course that the introduction of independent non-executive directors and, indeed executive directors, is essential, in some co-operatives, to ensuring a competence based diversity of views on the board.

Once experiential levels of diversity have been identified, it is then important to address other elements of diversity and weave these into the board to promote effective and robust decision-making and discussion in the boardroom. Of particular importance is the engagement of women, who are recognised as making a particular contribution in the boardroom. Laura Liswood (2015) in the Harvard Business Review makes this point strongly based on research into the participation of women on boards:

> *"Many women brought to the boardroom, and to decision making, a different set of perspectives, experiences, angles, and viewpoints than their male counterparts. Board members also observed that female directors are "more likely than their male counterparts to probe deeply into the issues at hand" by asking more questions, leading to more robust intra-board deliberations. Most women appeared to be uninterested in presenting a façade of knowledge and were loath to make decisions they did not fully understand (something recent McKinsey research suggests might be fairly common). Board members observed that female directors tended to have a different style of engagement, seeking the opinions of others and trying to ensure that everyone in the boardroom take part in the discussion".*

Encouragingly, as reported by the International Cooperative and Mutual Insurance Federation[4], the percentage of women on boards of mutual and cooperative insurers rose to 20.6 per cent in 2015, compared to an insurance industry average of just 17.8 per cent. It still appears though there is still a long way to go.

Another important element of diversity is age. Many co-operative board members tend to be older, and indeed many boards equate age with experience. Younger members tend to be in their fifties. But board do need to engage with young people under 35 as they bring fresh perspectives into the boardroom which should not be underestimated or undervalued. If co-operatives are to remain relevant in the marketplace, they have to engage younger people.

It is important for boards to consider all the other levels and elements of diversity, whether race, gender, disability, geography, sexual orientation or indeed personality. There is not space in this paper to go into all these elements in turn, but co-operatives should in some way reflect the communities they serve or want to serve. Many credit unions for example having ageing memberships, which will undermine their stability in time, they need to engage young people on the board. If they are to engage with ethnic minority communities, they will need to ensure that there are ethnic minority representatives in the boardroom.

Leung (2017) expresses the importance of diversity well when he writes:

> *"Diversified board members are more likely to possess different personal characteristics, which lead to dissimilar leadership, thinking, emotional styles and even risk preferences and behaviours. Not only may this foster creativity in delivering solutions to problems, but also*

[4] http://www.icmif.org/cooperative-and-mutual-insurance-sector-has-significantly-higher-numbers-women-ceos-stock-companies

> *provide a more comprehensive oversight to the operations of the organisation through a further enhancement of the company's sensitivity to a wider range of possible risks such as reputation and compliance risks. This may then support a greater supervision on the boards in its performance evaluation and in the decision-making process" (Leung, ACCA 2017)*

It is clear that diversity in the boardroom is essential if co-operatives are to grow and develop in the contemporary complex and dynamic marketplace. In fact this is already recognised by many co-operatives and policies on diversity already feature in their registered rules (cf. CGL 2016). However, many other co-operatives have a long road to travel. It is recommended that:

- **Policy** – all co-operative boards should have and commit to a diversity policy that applies both to the board and to the workforce.
- **Homogenous boards** – all homogenous boards should recognise that they face the challenge to diversify in the interests of their members and future development.
- **AGM** – progress on the implementation of board policy on the multiple elements of diversity should be reported to the members at the AGM.
- **Board size and composition** – co-operative boards should be of sufficient size to ensure a wide range of skills and competences, and a diverse range of backgrounds, views and perspectives.
- **Gender** – all co-operative boards should commit to a balance of men and women on the board.
- **Young people –** all co-operatives should prioritise the engagement of young people under 35 years of age on the board. This was seen as a priority by some interviewees in order to ensure the continuing relevance of co-operatives to the younger generation.
- **Nomination committee's action plan** – the nomination committee's action plan should address the issue of diversity to ensure that a creative tension of different perspectives, expertise, background and personalities exists with on the board.
- **Accountability to the board** - The nomination committee should report to the board on how it takes diversity into account when nominating candidates to the board.
- **Gap analysis** – the nomination committee should undertake, at regular intervals, an evaluation of the levels of diversity on the board to inform the action plan
- **Board champions** – co-operatives could consider appointing individual directors to reach out to engage with particular groups to encourage board participation.

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Appendix I - Five co-operative governance case studies

These series of case studies are based on the interviews conducted with participants in the study. The focus of the case studies is to explore in practice how co-operatives balance democratic member control in governance with an assurance of board expertise.

The case studies have all been checked by the interviewees for accuracy.

i. East of England Co-operative

East of England Co-operative is a consumer co-operative operating in Norfolk, Suffolk, Essex and Cambridgeshire. It has a board made up of 16 directors elected directly by the membership. If particular expertise is required, the board also has the option of appointing two additional independent directors who are not subject to election or ratification by the members.

The East of England board has a strategic approach to planning for board succession based on a strong commitment to democratic member control. It has a search committee that is responsible for board succession and regularly seeks applications for election to the board through advertising in stores, online, in publications and through direct mailings to members. It holds candidate events to which all members are invited to give them the opportunity to find out more about what being a director involves. And clearly board members and executive staff speak to people in the community and encourage them to come forward.

All members who spend at least £500 per annum in the stores are eligible to apply for election to the board, so long as they are nominated and seconded by other economically active members, are not a dismissed employee and meet the basic legal requirement to be a director of the company. In order to maximise participation in the democratic process, the board has no other qualification, skill or expertise criteria for application to become a director. It is keen not to put unnecessary barriers in the way of people standing for the board.

If there are any barriers, these are the soft barriers of having to complete an application form on which the applicant has to state the reasons for application and of being encouraged to attend a candidate event (even though not obligatory, attendance is noted on the information about candidates sent to the membership). The board is now considering accepting application forms online given that computer literacy is increasingly an essential skill for participating effectively in board deliberations.

Given the absence of prior criteria, the board puts trust in the wisdom and good sense of membership to elect board members who have the experience and competence to serve on the board. The board has prioritised and achieved contested elections to ensure that members have a real choice, which itself tend to favour stronger candidates. The board leaves the decision to the members; there are no board recommended candidates. The board also feels that a large board of 16 members (plus two possible appointees) also favours collective expertise and militates against any lacunae in the expertise of individual members.

To support the collective expertise of the board, the board has the option of appointing two independent non-elected directors to fill particular high-level skills gaps. These directors have full voting rights on the board, but are only appointed for a specific period of time. However, they could be re-appointed again by the board for an indefinite number of times. They must be or become members of the co-operative.

However, even though considered in the past, currently the co-operative has no independent non-elected directors. Board members hesitate to appoint them for a number of reasons. First, they are concerned that these board members may be seen as elite experts on the board and disturb the dynamics of the participation of other board members. Secondly, on the grounds of equity, they are reluctant to remunerate non-elected directors at a higher rate than those elected, which results in reducing the possibility of attracting high-level professionals to the position. Thirdly, there is a concern that the membership in the AGM might question the appointment of directors over whom they have no say or control.

Fourthly, and importantly in supporting the collective competency of the board, when there is a need for particular expertise on the board, directors are more comfortable in hiring in professional expertise for particular purposes (e.g. legal, human resources). Board members feel better about paying professional rates to external experts than paying those same rates to non-elected board members.

East of England has no executive directors. In fact it would be true to say that there is a strong feeling on the board that the CEO's should not be board members. This is based on the traditional approach to an understanding of board control and of the division of strategy as a board responsibility and of operations as the role of management.

However, employees in their capacity as members can be non-executive directors. There is a maximum of two employee directors at any one time. The rule reads, "Not more than two of the places on the Board shall be held by members of the Society who are employees of the Society or who have left the Society's employment within three years of the date of nomination" (rule 10.2). Technically this does mean that the CEO could be a director, but not in the capacity of CEO. This would not meet with board approval.

ii. Central England Co-operative

Central England Co-operative is a regional consumer co-operative operating in the English Midlands and East Anglia. It has a board of 12 non-executive directors with the option of appointing two additional independent, external, professional non-executive directors. It does not have executive directors on the board and senior management are barred from standing for office. However, it does allow other employees to stand for election to the board, in their capacity as members of the society. However no more than 25 per cent of the board can be employees and no more than 49 per cent can be employees, recent employees or independent external non-executive directors. The society aims to ensure consistent democratic member control by ruling that non-executive member (as opposed to employee) directors are always in the majority. No board meeting can be quorate unless non-executive member directors are in the majority.

Until recently Central England had a traditional open access approach to the recruitment and election of non-executive member and employee directors. The only criteria for standing for election was being an economically active member (based on a £500 annual spend in the co-operative), not having been dismissed as an employee of the society or under disciplinary proceedings, being nominated and seconded by two other economically active members of the society and meeting the legal requirement to be a director of the company.

However, to ensure the board competence and expertise, it has recently developed a more structured approach to director recruitment through the establishment of search (nomination) committee. This committee of the board has the remit of driving forward board effectiveness through *“leading the selection process and making recommendations to the board concerning independent non-executive directors and directors; monitoring the composition of the board; and evaluating board and individual director performance”* (CE notes to the rules). It is a committee comprised of board members and attended by the CEO and HR executive.

In order to set the context within which this search committee operates, the board has also in 2016 introduced a new clause into its registered rules to the effect that it “*shall from time to time determine reasonable eligibility criteria relating to knowledge and experience to apply to the election of candidates to the Board*”.

To date these criteria have not yet been formulated or published, but it is expected that they will outline the basic skills, competencies and experience required to be a board member. It is stressed that these criteria should not be set so high as to debar the majority of members from applying to become board members. A careful and flexible approach is being taken by the board to the composition of these criteria. Prospective board members, however, will have to evidence these skills to the satisfaction of the search committee.

The board has also the option, in the rules, in order to strengthen expertise on the board, to appoint two independent, professional non-executive directors. These directors are neither drawn from the members nor employees, but are external experts in their field and are recruited through the search committee to augment specific professional skills and competencies on the board. They are presented to the members in the AGM for ratification, but this ratification is not binding on the board. Essentially they are appointees of the board. No appointed external independent director can become the chair of the board.

Central England does not allow the CEO or other senior managers to become executive directors, even though it does allow other employees in the company to become non-executive directors. However it is written in the rules that the CEO shall attend every board meeting, unless requested by the board not to do so. The rules also state that at least one Board meeting per year shall be held without any of the management executive present.

iii. Dulas Ltd

Dulas Ltd is a worker co-operative in Wales in the business of renewal energy installation. It has 70 worker members (shareholders). It endeavours to balance member democratic control and board expertise through a multi-stakeholder approach to board composition. There are seven board members, three are non-executive directors elected directly by the membership, three are executive directors on the board ex officio and there is also an independent non-executive chair appointed by the board but ratified by the members in the AGM. Dulas has recently established a nomination committee to ensure succession planning in relation to the three non-executive board members drawn from the membership. The committee is made up of board members and a representative from the independent shareholders' (members) committee that runs alongside the board to ensure member concerns generally are transmitted to the board. The nomination committee's role is to identify skills gaps on the board and seek out and interview suitable candidates for election. In order to ensure overall democratic member control, if any member can find ten per cent of the workforce to nominate him/her, he or she can circumvent the nomination committee process and be submitted for election directly at the AGM.

Expertise on the board is further assured through the appointment of the three executive directors. These are the managing director, the finance director and the sales and marketing director. These are on the board as part of their terms of employment. However, even though executive members are not presented to members for election or ratification, members in the AGM could pass a vote of no confidence in any executive director and remove him or her from the board. The co-operative would then have to pay compensation to the director in line with standard contractual and legal requirements.

In order to strengthen the competency of the board as a whole, Dulas has engaged an independent non-executive director as chair of the board who is not a member of the co-operative but who has wide experience of and expertise in board governance and strategic planning. This is a post that is advertised and filled through standard recruitment processes. It is a board appointment but the appointee is presented for ratification to the membership in the AGM. If ratification were not to be assured, the company would have to pay compensation as in the case of a vote of no confidence in an executive director.

iv. Manchester Credit Union Ltd

Manchester Credit Union is a 20,000 member financial co-operative serving those living or working in Manchester, Rochdale, Tameside, Trafford, Stockport, Bury and High Peak.

Like many credit unions in the past, Manchester Credit Union had an open access approach to board recruitment based on a traditional understanding of democratic member control. Potential board members were sought through social and community networks within the membership and anyone who wished to stand for election was free to do so, so long as he or she were a member, was nominated and seconded by other members and met the basic legal and regulatory requirements to become a director of a company. There were no set competence or expertise criteria with which applicants had to comply. They would have been regarded as barriers to participation by many members.

Information on the role of a director was available but there was no rigorous application or interview process in place. Applications to fulfil a vacancy on the board if no prior applications had been received could even be taken from the floor of the AGM.

However, over recent years, there has been a marked changed in approach to planning for board succession. It became increasingly clear that if recruitment and succession was left to ad hoc opportunity, chance or to the social and business connections of existing directors, boards were in danger of failing to ensure that they possessed the required range of skills and competences to oversee the credit union in the interests of the membership.

Now enshrined in the rules of the credit union, and in its operating policies and procedures, is an integrated and strategic approach to director recruitment and succession planning. This approach is based on a number of key elements. These include:

- A clear definition of the purpose of the board of directors, including a statement on the roles and responsibilities of directors and a director job description.
- The identification of the skills and competences required of all directors of a co-operative financial institution. The aim has not be set the bar so high as to exclude potential applicants but to be clear about the level of expertise the regulator would expect to see on a credit union board. These have been determined as being able to or have the capacity to:
    - demonstrate a commitment to credit union ethics and values;
    - understand the financial needs of the communities served by the credit union
    - understand the business of delivering a co-operative financial service
    - interpret financial statements and to assess financial performance;
    - identify risks and how they can be mitigated and controlled;
    - study credit union legislation and regulation;
    - think critically and independently, to ask questions and challenge assumptions
    - be a team player, to respect confidentiality and collective decision making, and to act in the best interest of the credit union and its members
- Identification of the specific competencies required to fulfil particular roles. The credit union will search for people with higher level competencies and skills as required. The chair of the finance committee is expected to have an accountancy qualification.
- A system of director and board evaluation. This is regarded to as central to board succession plan as it aims to evaluate strengths as well as skills gaps on the board.
- The introduction of term limits. Traditionally credit union directors served a three year term of office and then present themselves for re-election. This process can continue indefinitely with the result that often boards can become comprised of many of the same people over many years. In some credit unions, directors are re-elected continually and serve 20 or 30 years in the same credit union. The same process can take place with the chairs of the board who, with continual re-election, can serve many years in the same position. This has now been accepted as having more disadvantages than advantages. It can lead to self-perpetuating boards becoming fossilised in time and result in a lack of drive and commitment to seek out new competent and imaginative people to serve on the board. Directors at Manchester Credit Union have to resign after three consecutive terms of three years.
- The effective use of a nomination committee. The role of the nomination committee is to ensure that skilled and competent people are put forward for election or re-election. Assessment of competence is undertaken through a consideration of the application form and an interview with any new applicant. There is no formal assessment against the competency criteria and no qualifications are sought. The committee depends on the personal self-assessment of potential applicants against these criteria.

- An agreed approach to co-opted directors. The board can co-opt directors to the board to fulfil a vacancy prior to an AGM; the co-opted director must be submitted for election at the next AGM after co-option. Candidates for co-option to the board are subject to the same assessment process by the nomination committee as candidates proposed directly to the AGM.
- Creation of the position of board observer. Individuals with the requisite commitment can be invited to attend and participate in board meetings for up to a year prior to their possible nomination for election to the board. These observers do not have the legal status of director, are not able to make motions or vote at meetings, but can participate in board discussions. This position is regarded as assisting people to develop a better understanding of the responsibilities of a director before applying formally as a candidate for election.
- A recruitment and succession action plan. The nomination committee has the responsibility of developing a recruitment and succession action plan. This action is to address such issues as making information on directorships available through social, community and professional networks, advertising and seeking out contacts who could be personally approached to consider joining the board, giving presentations at events and ensuring articles on volunteering as a credit union director appear in local publications. The action plan is address issues such age, gender and race among director representation on the board. The aim is that board composition should reflect the nature of the communities the credit union serves
- Transparent and clear election procedures. Transparency and clarity in nomination and election procedures seen as critical to ensuring member engagement and control. It is the responsibility of the board to set out, agree and publish the criteria, processes and procedures for nomination and election. Applications are encouraged directly from the membership, and all members should know that they can put themselves or others forward for nomination and election.
- Nomination by petition. To ensure ultimate democratic member control in the case where the nomination committee is deemed to have acted unfairly, nominations for vacancies on the board may be made by petition directly from the members. A petition needs to be filed with the credit union at least 90 days before the general meeting and signed by at least one per cent of the members (around 200 in Manchester Credit Union). Nominations by petition do not have to be agreed by the nominations committee or the board to be moved for election at the AGM.

The introduction of a more systematic approach to board success and the recruitment of skilled directors have had an impact on the make-up of the board. In general, it is a more professional board than in the past, when most of the directors were representative of the members. Further a significant number of the non-executive directors did not emerge from the membership. They were recruited for their expertise and only subsequently joined the credit union after being nominated for election.

In order to ensure greater member representation, the credit union did attempt in 2015 and 2016 to establish a members' committee. However this did not succeed due to lack of member engagement and lack of staff time to commit to the venture.

v. The Co-operative Group

The governance reform of the Co-operative Group in 2014 was designed to balance an assurance of relevant expertise and experience on the Group board in order to control and oversee the world's largest consumer co-operative with assets of £8.9 billion[5], with democratic control within a member owned organisation. Myners (2014) argued that director competence in providing challenge, guidance and support to the executive team was the essential foundation of business success but that this had to be achieved within a context that was *"fully compatible with the core values and principles of co-operative ownership".*

To do this effectively, there had to be a structure that ensured a succession of board expertise and member democratic control. It was to this end that the Myners (2014) recommendations were to establish:

- A Group Board that would possess the skills, expertise and experience, and the commitment to co-operative values, which would enable it to oversee and control the business effectively in the interests of the members.
- A National Membership Council that would provide a representative forum of elected members which would be able to hold the Group Board and the Executive to account through the election of member nominated directors. The Council would act as the guardian of co-operative values.
- Full AGM voting rights to all individual members of the co-operative group and thus increase genuine participatory democracy.

This approach was recognised within the co-operative sector not only as a way forward in strengthening the co-operative business but also in moving towards increased member democratic control (in the former governance structure, individual members had no say in the direct election of board members, only at sub structure local area committee level). As Barber, Birchall and Mayo (2014) said at the time:

> *"The Myners Review tackles head-on the myth that there is a trade-off in the underlying co-operative model between member control and the expertise needed to direct a business. Having a Board with the relevant skills to oversee executive managers in the interests of members is exactly what co-operative structures are intended to lead to. The key is appropriate governance design",*

It was widely accepted that planning to achieve a competent board not only was fundamental to success but could not hand in hand with a democratic election process. Debate and controversy, as illustrated by Barber, Birchall and Mayo (2014), on the Myners' proposals turned not on the idea of organisational planning, but on the detail and the appropriateness of the governance design.

In the new governance structure, the Group Board could comprise not less than seven directors consisting of independent non-executive directors, up to two executive directors (of whom one will be the CEO) and up to four member nominated directors (originally three and increased to four in 2016). According to the Co-operative Group rules (47.1), The Group Chair shall decide the appropriate number of directors and the independent non-executive directors shall be equal to or greater in number than the other directors. In the event, the current Group Board has 12 directors, six independent non-executive directors (including the chair), two executive directors and four member nominated directors.

[5] Co-operative Group Limited Interim Report 2016

The definition of the three types of director is[6] a fundamental aspect of the Group's approach to assuring board expertise and democratic member control. Even though in the boardroom, all directors have the same role and responsibility, and are remunerated on an equitable basis, their paths to the boardroom are different. As part of board recruitment and election processes, all are, however, rigorously assessed against competence and expertise criteria and all must equally demonstrate a commitment to co-operative values and principles. All must also satisfy the membership requirements and all, although, differently are presented to the members for election by postal or electronic ballot linked to the AGM proceedings.

A key element in the governance design of the Group is the establishment of a national members' council through which council members are sought for election by the entire Co-operative Group membership. The members' council is itself made up of 100 members representing three member groups: individual members; employees and Independent Society Members. There is a nomination process that includes fulfilling member trading and membership requirements and commitment to Co-operative Values and Principles. Council members are organised based on a number of geographic areas with seats allocated based on number of members and trade undertaken in that area. The Council members elect from their number a President who chairs meetings and two Vice Presidents. It elects a senate of 15 members which forms the link between the members' council, the board, the business and a number of sub committees.

Any member who can show that he or she has the relevant level of skills and experience can put themselves forward for election as a member nominated director of the board. There is a rigorous process of short-listing of candidates against set and published competency and expertise criteria, commitment to co-operative values and principles and any diversity policy. This shortlisting is carried out within the parameters set by the members' council and the board by a Joint Candidate Selection and Approval Committee with professional HR input. The final shortlist has to be agreed by the Chair of the Board and the President of the Members' Council.

Shortlisted member nominated director candidates are submitted to the members for election as part of the AGM process[7]. In the first cycle of member nominated director elections, the shortlist just matched the places available on the board. Elections were not contested. However, following changes to the process following joint working by the Council and board a greater number of candidates than seats available are now to be put to the members if suitable candidates come forward.

The largest single group of directors on the board is the independent non-executive directors, which includes the chair[8]. Independent non-executive directors are defined in the Board Composition Charter as "independent in both character and judgement and free of relationships or circumstances which are likely to affect, or could appear to affect, their judgement". They are selected for their expertise and experience and, as all directors, have to demonstrate commitment to co-operative values.

[6] Independent Non-Executive Directors, Executive Directors and Member Nominated Directors
[7] All elections happen in advance of the AGM and are announced at the AGM – elections are by postal / electronic ballot for board (all seats) and Council
[8] "The Independent Non-Executive Directors shall be equal to or greater in number than the other Directors" (Rule 471. CGL 2016)

Vacancies for independent non-executive directors are advertised nationally. The process of selection is through a nominations committee, on which sits the chair of the board and the president of the members' council. Nomination for election has to be agreed unanimously by all the committee – the president of the members' council being part of the committee.

In the rules, each independent non-executive director must be presented to the membership for election individually. However, even though technically possible, elections for independent non-executive director are not normally contested. There is only one candidate for each vacancy. The justification is that the process of recruitment is robust, the members have effective oversight through the president of the members' council and submitting people for election could easily result is less high-level applications for the positions.

In order to further strengthen expertise on the Group Board, there are two executive directors, the CEO and currently the Chief Financial Officer. It is recognised that UK co-operatives generally do not have executive directors. They normally follow a traditional principal-agent relationship in which the board is responsible for governance and strategy and the CEO and senior managers for operational management. However, at the Group, the motivation to appoint the CEO and CFO executive directors is to ensure that they are fully engaged as a partner in the strategic development of Group and share the same fiduciary and legal responsibilities as other board members. The attendance and participation of the CEO and CFO is so influential on any board, even if not board members, that appointing them as executive directors ensures that there is full accountability for ensuring the good running of the business.

The executive directors are also presented to the membership for election. These positions cannot in practice be contested (even though in some co-operatives in other countries, the position of CEO is subject to a contested election as in the Desjardins Group in Canada). However, technically, the members could refuse to ratify the appointment of the CEO or CFO and the Group would have to settle any compensation claim on behalf of these employees.

Appendix II – Acknowledgements

The author would like to thank the nine academics and practitioners who agreed to be interviewed as part of this study. The study would not have been possible without their engagement support.

The participants were:

1. Professor Johnston Birchall, Emeritus Professor of Social Policy, University of Stirling
2. Sally Chicken, President of East of England Co-operative Society, Chair of Rainbow Saver Anglia Credit Union Ltd and director of Eastern Savings and Loans Credit Union Limited
3. Shelagh Everett, Associate of Co-operatives UK, Manchester
4. Phil Horton, Managing Director of Dulas Ltd., Machynlleth, Powys,
5. Karen Miner , Managing Director, Graduate Co-operative and Credit Union Management Education, Saint Mary's University, Halifax, Nova Scotia, Canada
6. Professor Sonja Novkovic, Professor, Department of Economics, Sobey School of Business, Saint Mary's University, Halifax, Nova Scotia, Canada and Chair of ICA Committee for Co-operative Research
7. Ian Snaith, Consultant Solicitor, author and member of the Study Group on European Co-operative Law
8. Professor Roger Spear, Chair of the Co-operatives Research Unit and Professor of Social Entrepreneurship at the Open University (now semi-retired).
9. Jim Watts, Secretary of Central England Co-operative Society