Scottish Parliament, Cross Party Group on Co-operatives
Tuesday 24 June 2014, Room P1.02, 6pm.

Minutes of AGM

1. **Attendance**
    - Willie Coffey MSP, Claudia Beamish MSP, James Proctor (Secretary), 13 Non-MSPs.

2. **Apologies**
    - John Scott MSP, James Kelly MSP, Jim Hume MSP, 11 Non-MSPs.

3. **Appointment of Office Bearers**
    - All co-conveners indicated their willingness to continue. **Agreed.**
    - James Proctor of Co-operatives UK agreed to continue as Secretary. **Agreed.**

No further business was indicated. The AGM closed at 6.20pm.

CPG Meeting on Governance of Large Co-operatives

1. **Attendance**
   Willie Coffey MSP, Claudia Beamish MSP, James Proctor (Secretary)
   Speakers: Professor Johnston Birchall, University of Stirling
   Attendance: Hugh Donnelly (Co-operative Education Trust Scotland), James Graham (SAOS), Iain Macdonald, Jaye Martin (Co-operative Development Scotland), Martin Meteyard (Enterprise Hub), Ian Miller (Scotmid), Euan Renton (Edinburgh City Council), Sam Roger (Ethics Girls), Stephen Pennington (Highland Home Carers), Louise Scott (Media Co-op), Charles Sim (Scot West Credit Union), Michael Wood (Supporters Direct)

   Apologies
   MSP: Jim Hume, James Kelly and John Scott
   Non-MSP: Eric Calderwood (University of Stirling), Neil Cuthbert (Public Affairs Co-op), Tracey Cunningham (Glasgow City Council), Sarah Deas (Co-operative Development Scotland), Andrew Jenkin (Supporters Direct), Mark Kiehlmann (East Dunbartonshire Cycle Co-op), Diana Mackenzie (Highland Home Carers), Richard McCready (Co-operative Party), Frank McKillop (ABCUL), Emma Patterson-Taylor (SAOS), Douglas Prentice (GeoCapita),

2. News and Updates from Co-operative Sector
   - Willie Coffey MSP passed on his condolences on the passing of John Smith, a driving force behind the creation of the Fenwick Weavers' Society and for the recognition of Fenwick in the history of the wider co-operative movement.
   - The Co-operative and Community Benefit Societies Act had been given Royal Assent and will come into force as of 1st August. This consolidates existing legislation, increases the amount of capital one single investor can put into a co-operative and make other changes to the naming of co-operative types. More details on the implications of the Act can be found on the Co-operatives UK website:
     http://www.uk.coop/documents/practical-implications-changes-industrial-and-provident-society-legislation-2014

- This meeting of the CPG was taking place during Co-operatives Fortnight (21 June and 6 July) this year. Co-ops across Scotland are involved with some holding events, some contributing to the Co-ops Fortnight film and others using web and social media to raise awareness of co-operatives.
- All co-operatives were urged to get involved in this yearly awareness raising campaign. Congress is in Birmingham on 27 and 28 June and will be less costly to attend and more collaborative that in previous years.
- The annual Co-operative Economy report has been published by Co-operatives UK. It showed that the number of UK and Scottish co-operatives has increased year-on-year and that growth in turnover has been double that of UK GDP growth since 2009 (13.5% and 6.6% respectively). The report can be downloaded from Co-operatives UK's website:

Presentation – Governance of Large Co-operatives

"Governance of Large Co-operatives" written by Professor Birchall and published by Co-operatives UK can be downloaded from: www.

Professor Johnston Birchall, University of Stirling

- Johnston started the presentation by explaining that existing political, legal and economic frameworks privilege the investor-owned model and therefore inadvertently disadvantage the co-operative and member-owned model.
- When problems happen in a co-op mainstream commentators wonder if the co-op model can ever be made to work. If an investor business fails people wonder why it failed – without questioning the robustness of the underlying model.
- This different reaction demonstrates the difficulty in getting co-ops properly understood.
- Conventional economic theory has difficulty understanding member-owned businesses and predicts governance problems.
- For example conventional economics thinks the lack of market indicators such as share price makes co-ops less transparent. There are questions over the lack of market discipline such as the threat of takeover and that this can make managers complacent. Co-ops are unable to align the interests of managers with the interests of members/shareholders due to the lack of share options. Many members can 'free ride' on the participation of others and that the relative lack of members financial interest in the co-op means they have no incentive to exercise good governance.
- However, there is no evidence that these theoretical problems actually exist in co-ops outside of one or two failures. In this respect the Co-op Groups problems are the exception rather than the rule, which runs counter to the prediction of conventional economic theory.
- In contrast investor-owned businesses have their own problems with governance, for example financial scandals at Enron and the 2008 banking crisis.
- So all large businesses can have governance problems irrespective of their ownership model. The evidence demonstrates that there is no fatal governance flaw in co-ops that guarantees failure. Indeed the failures are few and far between.
- This however doesn't mean that there are no problems with governance in large co-operatives.
- The context of the research was to look at whether there was a general problem with governance in large co-operative businesses and was part of a stream of work on governance issues covering other aspects of the Co-operative Group's problems and as a response to some of the research being done specifically on the Co-operative Group's failures.

- The research found that the few failures there had been in large co-operatives around the world were individual rather than collective failures. In essence these businesses made the same mistakes as other investor-owned businesses made.
- In the case of producer co-ops these ranged from over-paying for acquisitions to badly executed business strategy to problems of the board lacking the depth of skills required to manage the business.
- In consumer co-ops governance failures tended to be more systemic with boards getting out of touch with member interests and allowing managers too much control. This was the cause of some retail co-op failures in the 1980's and 90's and the demutualisation of many building societies. The 2008 financial crisis had little effect on co-operative banks around the world apart from one or two examples, sadly one being in the UK.
- The study of governance in large co-operatives, which forms the basis of much of this analysis, was conducted in 2013 and 2014. It looked at six industry sectors and examined the ten largest co-ops in each sector.
- The broad findings were that co-operatives have evolved different structures of good governance and there is no single model. Half have independent expert directors with others considering these appointments. There is a mix of regional structures and direct member relationships.
- The research suggests there are three key elements to governance; member voice, representation and expertise, and that these three are all required for good governance but should not be mixed up.
- The Co-operative Group's governance structure is quite different from the other large co-ops in the wholesale and retail sector. It has a mix of individual membership and membership by other retail societies. Members must also be elected to the main board firstly through area then regional committees and then remain elected to those committees to stay on the main board.
- The proposal from Lord Myners removed all elected members from the main board and replaced them with elected independent directors chosen for the expertise. There would be an independent chair and the nominations committee would be a sub-committee of the board. A member representative council would be elected my members but have no say over the business.
- The Myners proposal differs significantly from the broad principals of governance in other consumer co-ops. Generally the chair of the board and the member council are the same person, the nominations committee would be controlled by the members' council and the council would have real powers of oversight.
- The critical governance issue in co-operatives is identifying who is central to the governance of the co-op. In producer co-ops it is the producers themselves. In consumer co-ops it can be members, customers or the community.
- Professor Birchall's preference for a 'member governance' approach is to ensure that the members are the owners and that other stakeholders are important but must some second else the business loses focus. The social goal of the co-op must be central to the function of the business and not an add-on and that governance must be designed around members being central to the business.
- The SOK corporation was viewed as a good example of this in action.

Discussion

- Willie Coffey MSP asked if there were commonalities in failures of governance. In reply it was stated that each failure tended to have a different mix of causes. It was always important for members to have the connection to the business and keep management under scrutiny. The Kelly report into the failures at the Co-operative Bank had lessons for all financial businesses nit just co-ops.
- Ian Macdonald commented that it was important to look at examples from Europe to see that large co-operatives could be effective and successful.
- Martin Meteyard said that good governance in co-ops was about harnessing the knowledge and expertise of members as well as being careful about growing through debt financing.
- Other comments expressed disappointment at the Co-operative Group's problems with the feeling that there had been a lack of member engagement. There was recognition of the difficulties created by the complexity of larger co-ops and the importance of the board, members and management all playing their part.
- There was further discussion around how to attract board members who had the right skills to take the business forward and how to ensure that people are willing to give up their time to serve in those positions or stand for election. Examples from abroad showed it could be done.

The Convener rounded the session up by stating that the evening had shown that co-operatives are a vibrant business model that can be important in a number of different business areas. Community involvement and ownership of these projects was vital and had unlocked significant equity finance. The Convener looked forward to seeing growth in this area now that the DTA Scotland led Community Shares project had been agreed.

3. **AOCB**
   No other business was raised.

4. **Date of Next Meeting**
   The next meeting will be held in Committee Room 6 at 6pm on Wednesday 19 November.

The Convenor thanked everyone for their attendance and closed the meeting.