

Governance Issues in Cooperatives – Agenda for Research

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1. Introduction

In the last decade of the last century, 'Governance' as a theme has emerged as a central concern. Increasing fragmentation in the polity and political systems accompanied by an increasing size of the polity, emergence of centre less society accompanied by inability of the central authority to command, inability of either public sector or market institutions to meet all service needs of the society, and emergence of stronger third sector – the civil society, is influencing the policy discourses and institutional arrangements created as delivery systems. In this context, it is held that the nature and quality of governance has a strong bearing on the course and impact of development. In part the new emphasis on governance comes from the understanding of the development process itself which encompasses expansion of the real freedom that citizens enjoy to pursue objectives they have reason to value, and in this sense expansion of human capabilities is seen as the central feature of the process of development.

2. Development : the Governance Paradigm

It is in this context and supported by such understanding that the Tenth Five Year Plan has enunciated that 'Governance relates to the management of all such processes that, in any society, define the environment which permits and enables individuals to raise their capability levels, on one hand, and provide opportunities to realize their potential and enlarge the set of available choices, on the other.' It recognizes each of the state, the civil society, and the market as critical for sustaining human development.

The Tenth Five Year Plan recognizes the unique role of civil society and describes several thousand civil society organizations as voluntary organizations, non profit making companies, corporate bodies, cooperatives, and trusts. This provides the first cue for any debate on 'governance' on cooperatives. If cooperatives are seen as part of the civil society, with no mechanisms of its own for revenue and capital mobilization, and ever

dependent for its sustenance and survival, can 'cooperatives' perform the broader role of societal development envisaged under the 'policy for development'?

3. Governance: the Function

Governance, in a functional sense refers to the institutional frameworks that define the structure and linkages, fixing the rules of conduct, behavior, interaction and conflict resolution, and provide for incentives/disincentives for behavior (of organizations, firms, and individuals). Thus governance is applicable for analysis at various levels like a sector, a group of organizations, a firm, and groups. In short in any situation where the consequences of a unit's behavior can impact the rights and interest of other units, either at the same level or at a higher (aggregate) or sub-level (disaggregate).

3.1 Corporate Governance

It is in this context that the 'corporate governance' emerged as the main theme for the private corporations (companies) across the world. The Cadbury Committee in UK, the Aditya Birla Committee in India are just two examples of the same. What lies at the heart of the discourses on corporate governance are three issues, viz., conflict of interest between the shareholders (owners) and managers (agents), the role and functions of the board, and evolution of suitable practices and procedures including incentives/disincentives for effective corporate governance.

3.2 Governance in Cooperatives

On the other hand, governance debate in cooperatives have for long focused on the structure of the board and its relationship with membership; accountability of the board to members versus the state who, in the Indian context, have been the main capital providers; control of the board by the state and relevance/irrelevance of the laws including overbearing role defined for the institution of RCS (Registrar, Cooperative societies), etc. While these issues are important, it is seen that the most central issue from the governance perspective, viz., the objective of a given cooperative institution has received relatively less attention. In our view, a key task for the governance function is to align the intent with action. In the absence of clarity

about the intent, the action can at best be vague and sub-optimal if not totally misdirected.

4. Link between Corporate Governance and Cooperatives

The debate and discourses on 'corporate governance' suggest that transparency (openness and disclosure of information), integrity (straight forward dealing), and accountability are the three pillars of effective corporate governance. All the three are equally applicable to cooperatives. But it is the 'accountability' in cooperative context that needs to be explored more in depth, as the accountability is directly linked with measurement. As a matter of fact, measurements are the means through which accountability can be implemented. In the cooperative organization context, the duality of social, not for profit organization versus business organization imposes severe limitations on the truthful measurement of the cooperatives performance and therefore severely limits the 'accountability' dimension of governance at the organizational level.

Equally important to our mind is provisioning for governance knowledge and skill for 'governance function' in terms of performance of key roles identified for the board in the corporate governance literature, viz., strategic conceptualization of business, skills in simultaneously establishing collaborative and control relationships with the agents (managers). It is in this context that we need to critically examine the intent, content, and impact of the cooperative education both at academic institutions and the training and research institutions aligned to the cooperative sector.

5. Design of Cooperatives and Governance

5.1 Another key area that has been studied in great depth relates to the distinctive design features of a typical cooperative institution. It is held that the key concepts are that, cooperatives are built around members resources and not merely capital; cooperatives depend upon members economic participation; democratic control has built in accountability through elections; voluntary membership provides, apart from offering choices, drive through legitimacy etc. However, the nature and impact of linkages in the multi tier cooperative structure has not received sufficient attention. While it is true that federating structures, another key design feature of cooperatives, offer

enormous scope for better economic performance through specialization, economies of scale, and improved access to wider markets, technology, innovation and capital, the actual experience of federal structures in our context needs to be studied in depth. Insightful information on this dimension shall be of great value for designing new strategies and programmes for cooperative's restructuring.

- 5.2** There are two other important issues that need attention. The first relates to the basic one member-one vote feature of cooperatives. Traditionally, the cooperative principles stipulate 'one member-one vote' and it has been accepted widely. However, researchers have raised doubts about the efficacy of the principle as it does not provide sufficiently strong economic motivation to the members to be involved in the affairs and be concerned about the performance of their cooperative. In the recent times, the one member-one vote, irrespective of the share holding or patronization by a member has been an issue for debate. It is suggested that to enhance member centrality of the cooperatives, voting rights should be linked to patronization. In India, some apex cooperatives have adopted patronization linked voting rights and patronization linked share holding. While intuitively this conceptualization appears attractive, it needs to be examined in greater detail, more particularly at the primary level where individuals comprise the membership as against the apex level where the cooperative institutions comprise the membership. The impact of such 'new generation' cooperatives needs to be understood in terms of its impact on performance, capital generation capacity of cooperatives, equity considerations, and other consequences. Absence of residual claims among the cooperatives is another area of concern recognized in the literature. The consequences of this are mostly reflected in the lack of capital build up by cooperatives over period of time. This obviously has serious implications for cooperatives to sustain economic activities in the long run, as to remain competitive, the cooperatives do need funds to assimilate new technologies and undertake expansion, as and when required.

6. Leadership and Cooperative Governance

Similarly, the key role of leadership and its impact on cooperatives performance has been written about in great detail, more particularly for a few successful cooperatives, but the key processes for identification, training and

grooming, and induction of leadership have not received sufficient attention. While in other contexts the leadership has been studied in great depth.

The literature suggests that leadership is not merely a function of traits that a person is born with; it is equally dependent upon the subsequent experiences, education and training. Grooming talented individuals for future leadership roles is a common practice across organizations. But in the specific context of Indian cooperatives, our enquiry has not gone beyond the description of successful individuals. It needs to be undertaken in the right earnest due to the following reasons:

- (i) By and large cooperatives (except a few large cooperatives) are a local institutions, addressing local needs, employing local talent, and lead by local leaders. This limits the choices and therefore implies that more attention is required for this critical area.
- (ii) Cooperatives by design define dual role for members, viz., the owners (as shareholders), and consumers of the services provided by the cooperative (as customers). The leaders as members perform both roles. Therefore their conceptualization of the world and their role has to be different from the typical leadership roles being studied for other organizations.

7. Cooperative Legislation and Cooperative Governance

In response to long debate about the restrictive nature of the cooperative laws and the overbearing role of RCS, a policy response in the form of 'Parallel Cooperative Acts' has surfaced. As in December 2003, 9 states had already enacted Parallel Cooperative Laws. Andhra Pradesh (AP) was the first state to take lead in this respect by enacting the Andhra Pradesh Mutually Aided Cooperative Societies Act in the 1995. It was achieved after a debate spanning nearly forty years. The Act recognized the need for independence by the cooperatives and provided freedom to the members to take their own decisions. This development raised high hopes in terms of ushering in a new era for healthy and vibrant cooperatives. It has been more than eight years since the new legislation in AP was adopted. It is time that some assessment of the impact of new legislation at ground level is made. Similar assessment

can be undertaken in other states too where the 'Parallel Cooperative' legislation has been adopted subsequently.

8. Cooperatives: Strategies for Restructuring

Lastly, one more issue needs probing in terms of strategies for restructuring cooperatives. With the new emphasis on governance, and the acceptance of market as the best resource allocator, reduction in the size of public sector through divestment has been visible across countries. In India too, a continuous process of divestment in public sector units has been underway. It is a sad fact that some of the large 'cooperatives' in India are nothing but the state owned and controlled enterprises akin to the public sector. These organizations, if left to them will certainly have considerable drag effect on the performance of cooperative sector. At the same time, given their prominence and size, they would be exerting considerable influence on the policy deliberations and policy choices. What policy frame work should be evolved to deal with such 'pseudo' cooperatives needs to be looked into. It must be recognized that the task of restructuring this set of cooperatives is far more complex than the divestment of public sector because of much more deeply entrenched political interests and the lack of linkage to the capital (equity) market enabling divestment. From the research point of view, it would be interesting to study such developments, policy choices made and impact of those strategies in other countries that were faced with similar situations.

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