

# GOVERNANCE OF NINE ONTARIO FOOD CO-OPERATIVES

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**ABSTRACT:** *Questions on the use of current theories of governance for co-operative businesses are prevalent within the literature. This paper seeks to determine if the theory of cyclical board behavior can provide insight into the evolution of co-operative boards within food co-operatives in Ontario, Canada. To answer these questions managers from food co-operatives participated in a one-hour long, semi-structured interview providing their understanding of the governance within their co-operatives. Managers identified board member engagement, the changing role of the board and succession planning as issues of concern. Engagement level of board members varied from a lack of participation to overbearing participation, which caused tensions within the co-operative. Current governance theories do not appear to adequately explain governance within a co-operative structure. A single, universal governance framework does not address the complexities of a member owned firm. The cyclical board behavior, however, does provide insight into co-operative board evolution.*

**Keywords:** Governance, Co-operatives, Board of Directors

## 1 Introduction

The literature on corporate governance has focused on Principle-Agent Theory, also known as Agency Theory, as the dominant theoretical framework (Keasey et al. 1997). Agency theory focuses on the separation of ownership and management within an organization with the owner (The Principle) ceding management rights to staff (The Agent).

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This separation of ownership and management also separates, according to Agency Theory, the interests of owners and managers. This places the board of directors in a position of supervision over the management to ensure the rights of the owners are secured. This separation of ownership and management, as will be seen in this paper, causes tensions to arise due to the engagement of board members in a co-operative firm. Unlike a standard corporate firm where board members are focused on increased profits as a measure of managerial success, the mission of a co-operative is more complex, which can cause some board members to become overly involved in the day-to-day operations of the co-operative to ensure their interests are met. As Cornforth (2004:15) states, 'Co-operatives are established to serve their members' interests and hence profitability is a means to an end rather than an end in itself.'

Michaud (2013) outlines the need for multiple approaches to understanding the role of the board of directors as co-operative governance maintains multiple measures of success. Michaud believes that a dynamic approach is required to understand the multiple and sometimes contradictory roles required for effective governance. Other authors such as Sundaramurthy and Lewis (2003) and Cornforth (2004) suggest that there is a paradox to the approach to governance, indicating that control and collaboration are both required, at the same time, to effectively govern. This paradoxical approach can cause tensions between management, membership and the board of directors. Cornforth (2002) identifies the tension between the democratic legitimacy of boards and their effectiveness, as lay board members may not be able to effectively supervise managers and ensure the interests of their membership are protected. Cornforth (2002) also indicates that there is a need for a better understanding of the maturation of co-operative boards, and proposes a multiple theoretical perspective approach to avoid unidimensional interpretations that might miss the tensions and complexities of the board's role.

Stephenson (1994) looked at the dichotomy between formal statements of governance and the underlying dynamics. The complex, dynamic nature of governing an organization that caters to a membership base sees the development of dominance of technical experts overlay directors due to the increasing complexity of the business operations. As will be seen in this paper the engagement, or lack thereof, of directors in the governance of the co-operative organization adds to the technical expert dominance within the organization.

As a co-operative's board must act in the role of supervisor of management as well as protector of the democratic rights of their membership, members of the board of directors must maintain multiple roles within the co-operative business. Wood (1992) provides a cycle model to help follow the developmental stages of a non-for-profit board that could be utilized to better understand co-operative board development. Wood's (1992) cyclical model outlines four phases of board development, a Founding phase, which is composed of two intervals, a) The Collective interval where the governing board is the firm and b) The Sustaining interval when an owner-executive is in place to manage the firm. A Supermanaging phase occurs when a board takes on a more active role, including micromanaging the firm to ensure that it moves in the direction outlined by the board. A Corporate phase occurs when the board steps back and allows management to take on more responsibility as a proper manager of the firm. As the board of directors steps back the emergence of the professional manager class steps in to control the organization.

As seen in this study the disengagement of the co-operative board members appears to follow managerial hegemony theory. Managerial hegemony theory as outlined by Berle and Means (1932) states that although shareholders, in this case co-operative members, may legally own and control large corporations they no longer effectively control the firm as their representatives have stepped away from the governance of the organization.

Wood's (1992) last phase is the Ratifying phase where the board falls into a posture of dependence and inertia based on management taking over more of the firm's responsibilities and the board defining a firm's policies. In the co-operative firm this is exceedingly problematic due to the elected nature of the board. The board is elected by the membership to vouchsafe the interests of the members and ensure the multiple outcomes from the co-operative are met. Unlike a corporate firm where shareholders can keep an eye on stock prices to ensure that the organization is successful, a co-operative operates on multiple fronts for the membership making it difficult to measure success.

The phases proposed by Wood (1992) provide a framework to help explain the evolution of the board of directors in Ontario food co-operatives. The results of this research will show that co-operative managers have experienced tension created by the changes in the role of the board of directors in the form of varying board member engagement and the need for succession planning to incorporate new board members as the role of the board of directors changes.

This research sought to determine if Wood's (1992) cyclical board behaviour model could provide insight into the evolution of co-operative boards within food co-operatives in Ontario, Canada. This article will present the findings from this research with an outline the methods utilized during the study followed by the results of the research. A discussion of the governance status of the food co-operatives along with the issues faced by the managers will then be presented with limitations and concluding remarks completing the paper.

## **2 Research design**

### **2.1 Methods**

The co-operatives for this study were selected from lists compiled from On Co-op's online database of Ontario co-operatives, web searchers and subject referrals. On Co-op is the trade association for Ontario co-operatives that seeks to build capacity through education and advocacy for the 1300 co-operative businesses in Ontario (On Co-op 2014). On Co-op maintains a complete listing of all 1300 co-operatives, which was accessed via their online database, [http://www.ontario.coop/find\\_a\\_coop](http://www.ontario.coop/find_a_coop). To ensure a complete sampling of Ontario food co-operatives a web search was also conducted and upon commencement of key informant interviews, interviewees were asked for additional co-operative contacts. A list was compiled making up of 21 co-operatives within Ontario that identified as food co-operatives.

Invitations were sent via email to each of the 21 food co-operatives as well as follow-up phone messages, at one-week intervals, to the contact numbers found within the On Co-op database. Of the 21 food co-operatives, 10 agreed to participate in the

study. Due to time constraints on the part of the manager of the 10th co-operative they had to withdraw from the study. The 9 food co-operatives that participated in the study thus represent 43% of the total food co-operatives operating in Ontario, Canada based on the On Co-op database information.

Of the nine food co-operatives two were from Southwestern Ontario, two from Central Ontario, one from Northern Ontario, one from Eastern Ontario and three from the Golden Horseshoe sub-region. The distribution of the food co-operatives cover the geographic area of Ontario including the Golden Horseshoe sub-region, which maintains a large population base and the greater concentration of co-operatives. The Golden Horseshoe sub-region covers the western end of Lake Ontario, including population centres such as Toronto and Hamilton, which account for its high population. The sub-region's outer boundaries are marked by Lake Erie to the south and Georgian Bay to the north.

All co-operatives that took part in this study had to maintain a headquarters in Ontario to be considered Ontario co-operatives. The co-operative also had to have a food-focused mission and vision statement as outlined in their corporate documents. The seven co-operative principles as outlined by the International Co-operate Alliance (ICA) in 1995 also had to be included in the business documents or websites maintained by the study participant to ensure that the co-operative operated under the co-operative principles guidelines.

Upon receipt of the acceptance to participate in the study the managers were asked to provide a date and time when an interview could take place. Where possible the interview took place at the manager's place of business or via Skype when distance was an issue. Managers were chosen to present the co-operative views as they represent the intermediaries between the co-operative's board of directors and members. Managers also have intimate knowledge of the day-to-day operations of the co-operative, which they can call upon to respond to the interview questions.

The co-operatives were categorized into large, medium and small co-operatives based on their gross sales revenue to determine if operational size had an effect of co-operative governance. Large co-operatives represented those with gross sales revenue over two million dollars annually. Medium co-operatives are those with sales between fifty thousand and two million dollars annually. Small co-operatives are those with sales less than fifty thousand dollars a year. The determination of the categories of large, medium and small were based on an initial analysis of the financial statements of the participating co-operatives. The majority, six out of nine, co-operatives maintained a narrow range of gross sales revenue between fifty and one hundred thousand dollars. Only two co-operatives maintained gross revenue of over two million, with a single co-operative maintaining gross revenues below fifty thousand dollars.

Each interview was conducted in a one-on-one setting with the manager and a single interviewer conducted all the interviews. A semi-structured approach was taken to allow the manager to provide additional detail on aspects of the co-operative's operations, management, governance or any other aspect of the co-operative that they felt was of importance. The use of the semi-structure interview process allows for a dynamic, multi-level perspective on governance within the Ontario food co-operatives. Co-operative managers are free to communicate on any governance topic from the board level to the organization as a whole. At the end of each interview the interviewee was asked if there

were any additional information that would help build a better understanding of the interviewee's co-operative.

Interviews with the managers of the co-operatives were conducted between April and September 2013. Interviews were conducted at the manager's place of business in a face-to-face interview format. When there was excessive distance involved the interviews were conducted via Skype. All responses from the interviewee were recorded electronically to ensure accurate capture of responses and the ability to review responses to provide rigor for the analysis.

Co-operative managers were initially asked to provide what they considered the most important and the least important co-operative principle in order to develop an understanding of what the managers viewed as governing principles for their co-operatives.

Co-operative managers were then asked five questions on governance:

Governance Questions:

- (1) What role does the board of directors have in the governance of your co-operative?
- (2) What role does the management have in the governance of your co-operative?
- (3) What role do members play in the governance of your co-operative?
- (4) What role do non-members play in the governance of your co-operative?
- (5) What are the top 3 governance issues facing your co-operative?

The governance questions were meant to solicit a response from managers that would indicate the governance phase their co-operative was operating in according to Wood's (1992) governing phases. Wood's (1992) cyclical model helps to identify the maturation stages of a non-for-profit board, but was utilized in this study to better understand co-operative board development. Each co-operative was categorized into one of Wood's phases based on the manager's response to the governance questions listed above. The responses from managers determined whether the food co-operative could be considered in the Founding phase: Collective interval where the governing board is the firm or in the Founding phase: Sustaining interval when an owner-executive is in place to manage the firm. Food co-operatives could also be in the Supermanaging phase where a board takes on a more active role, including micromanaging the firm or the Corporate phase where the board steps back and allows management to take on more responsibility as a proper manager of the firm. The Ratifying phase where the board falls into a posture of dependence and inertia based on management taking over more of the firm's responsibilities and the board defining a firm's policies was also considered during the analysis of the responses (Wood 1992).

To avoid any personal bias interfering with the analysis of the interviews, one individual was tasked with collecting the interviews and a second with transcription and analysis of the responses. Responses were transcribed and time stamped to allow for the ability to quickly review specific sections of the interview.

Utilizing a cross case comparison analysis two randomly selected interviews were analysed to identify governing categories based on responses by the interviewees. Utilizing Glaser and Strauss' (1967) method, four stages of analysis were completed on the data from the interview:

- (1) Comparison of responses to each category.
- (2) Integrating categories and their associated properties.
- (3) Delimiting the theory.
- (4) Writing the theory.

Based on the initial analysis of the first two interviews tentative governance categories were attributed to two co-operatives, e.g. Founding phase: Collective or Supermanaging phase. In line with Dye et al. (2000) method this initial governance identification of the co-operatives based on the responses undergoes continuous refinement throughout the data analysis process and continually feeds back into identification of the co-operative governance category. Interviewee's responses that were identified with a governance phase were used to code responses from the remaining seven interviewees and further to ensure similar categorization of governance phases between the nine co-operatives. Upon completion of three reviews of all the data to refine the governance identification all nine co-operatives were identified with one of Wood's (1992) four phases. By categorizing responses from each interviewee into governance phases we are able to reduce the complexity of the overall responses by the interviewees and organize the responses based on the conceptual nature of the response as they fit within Wood's (1992) phases of governance (Dey 1993).

The use of inductive analysis in which patterns, themes and categories emerge from the data rather than being imposed on the data was utilized during the cross comparison to code the raw data (Patton 1990). Responses were coded into one of the four governance phases based on common statements or phrases across interviews through inductive analysis. By coding each response into the four categories each statement within a category could be compared for similarities or differences and a governance phase associated to the co-operative (Dye, Schatz, Rosenberg and Colemand 2000).

## 2.2 The co-operatives

Table 1: Co-operative Types outlines the type of co-operative, i.e. consumer, multi-stakeholder, or worker-owner, along with the number of years each co-operative has been in operation. Co-operatives have also been identified as large, medium (med.) or small based on their gross sales revenue. Identification of the co-operative governance utilizing Wood's (1992) phases have also been included in Table 1. Wood's (1992) phases include: 1a) Founding Phase: Collective Phase, 1b) Founding Phase: Sustaining, 2) Supermanaging, 3) Corporate and 4) Ratifying.

## 2.3 Results

When asked about the co-operative principles, in most cases (six out of the nine) co-operative managers required a reminder of what the principles were. Once reminded of the principles five out of the nine co-operatives indicated that the democratic principle of one member, one vote was the most important principle. The least important principle responses provided a variable outcome. In the majority of cases, five out of nine, the manager identified a least important principle due to the fact that the principle was considered to be so ingrained in the daily operations of the co-operative that it was

**Table 1 – Co-operative types**

<b>Consumer</b>	<b>Worker-owner</b>	<b>Multi-stakeholder</b>
Case 7 Consumer Est. 38 yrs Large co-op Corporate Phase	Case 8 Worker-owner Est. 14 yrs Large co-op Founding Phase: Collective	Case 1 Multi-stakeholder Est. 5 yrs Med. co-op Supermanaging Phase
Case 4 Consumer Est. 11 yrs Med. co-op Corporate Phase	Case 2 Worker-owner Est. 6 yrs Med. co-op Founding Phase: Collective	
Case 6 Consumer Est. 6 yrs Med. co-op Founding Phase: Collective	Case 3 Worker-owner Est. 2 yrs Med. co-op Founding Phase: Collective	
Case 5 Consumer Est. <1 yrs Small co-op Founding Phase: Collective		
Case 9 Consumer Est. 41 yrs Med. co-op Corporate Phase		

not considered important or in need of immediate attention. One co-operative manager stated, 'The co-op is inclusive so it, *open membership*, does not need attention' (Manager Case 5).

When the interviewees were asked the questions on governance seven of the nine co-operative managers saw the role of the board of directors as one of policy setting. As one co-operative manager stated: 'The board of directors basically sets the agenda . . . These are our goals, this is our vision, this is where we want to be' (Manager Case 4). Another manager provided no details as to what occurs at these meetings or what outcomes are expected, assuming that basic governance practices are commonly understood: 'The board of directors meets monthly and holds quarterly members' meetings' (Manager Case 8). When asked about the role of management in the co-operative a similar brief and business like statement was provided by the same manager: 'Management reports to the board' (Manager Case 8).

When asked about the role of the board of directors two co-operatives provided a description of their board of directors as a governance structure with a broader scope than just policy setting. In one case the co-operative manager outlined broad roles for the board: 'The board of directors, right now, is making all of the decisions on behalf of its members' (Manager Case 5). This co-operative has less than a year of operational experience and a limited member base to call upon for governance issues. As a result

the management and the board of directors operates more as a single management body on all aspects of the co-operative including, but not limited to, hiring and firing, financial safety, capital investment, and policy. In essence the board of directors is the co-operative. The second co-operative to describe the board of directors as having a larger role in the co-operative also indicated that the board of directors had taken on a more direct role in operations and stated:

‘Right now we have a working board of directors. So, that means because we are still in an early stage in our organization . . . a lot of things still need to be done. So, we are still working out our governance’ (Manager Case 1).

Based on this manager’s response this co-operative would be classified as operating in Wood’s (1992) Supermanaging phase. Case 1, the multi-stakeholder co-operative, has been in operations for over five years and has a broader membership base than the newer co-operative with less than a year in operation, but both managers indicated that the governance of these co-operatives is still in an early phase requiring more direct influence by the board of directors on co-operative operations. The multi-stakeholder manager did state that: ‘Management runs the day-to-day operations of the co-op’ (Manager Case 1). This indicates that there is a greater separation between the board of directors and management within this co-operative than the younger co-operative, but there is still a need for direct intervention by the board of directors to maintain co-operative operations for the firm’s survival which clearly places the governance of this co-operative in the Supermanaging phase.

Both managers that identified a broader scope to the board of directors’ influence within the co-operative also stated that this increased scope is a transient condition. In fact, three out of the nine co-operatives indicated that during the initial development stages of their co-operative, the board of directors changed from a founding board to a policy or corporate board. One manager outlined the development of their board by stating:

‘The board of directors in the beginning, ten years ago, sort of did everything from buying the food, to making the food, to writing up the bylaws. Now they are less involved. They are sort of transitioning to a policy board’ (Manager Case 7).

In some instances a change in the board of directors was required due to the need to transition from a non-elected board to an elected board. In one co-operative’s experience the lack of participation of the members required a non-elected board to be formed, which caused difficulties in developing the vision for the co-operative.

‘The commitment level and the reason for being on the board just wasn’t, I guess, it wasn’t what they wanted to do. They agreed, after a lot of arm twisting, because we needed a certain amount of people on the board. They agreed that they would be there to participate, but at the same time, like I was mentioning, the dedication and the willingness to participate sometimes wasn’t there and the views of a particular person or persons may not have been the right fit for the co-op, but those people also got us to where we got before the board was elected by its members’ (Manager Case 6).

While lack of participation was shown as a detriment to further development, this co-operative manager also dealt with an issue of excessive participation by single members of the previous initiating board of directors:

‘The previous board had an issue with one or two very strong opinionated people taking on too much responsibility without any outcome’ (Manager Case 6).

While respecting the work these individuals did to form the cooperative, a different format to the board of directors was required to ensure inclusion of all the members’ views of what the co-operative stood for. The inclusion of the broader membership within the decision making process was considered by management to be necessary for the co-operative: ‘There should be a collective community view within the co-op’ (Manager Case 6).

Once the managers answered the initial question on the role of the board of directors, a second question was asked about the role of management in the governance of the co-operative. In all interview responses the managers indicated that they run the day-to-day business of the co-operative and, as one manager indicated:

‘Management reports to the board’ (Manager Case 7).

When asked about the role members play in the governance of the co-operative all of the managers provided similar succinct responses. With managers of co-operatives with elected boards indicated that:

‘Members are represented by the board members’ (Manager Case 4).

Managers that represented worker co-operatives indicated that:

‘The members are the board’ (Manager Case 2).

When questioned about the role non-members play in the governance of the co-operative all interviewees indicated that they do not play a role. The managers indicated that non-members represent customers of the co-operative, but, ‘... are not part of the governing structure of the co-operative’ (Manager Case 9).

The final question asked of the co-operative managers was to indicate the top three governance issues facing their co-operative. The identified governance issues are outlined in Table 2: Governance Issues. Only two of the nine co-operatives did not identify specific governance issues within their co-operative. One of the co-operative managers that did not identify a specific governance issue simply stated: ‘There are always governance issues that face a co-operative’ (Manager Case 8). The second co-operative that did not indicate a specific issue clearly outlined the role of the board in setting co-operative policy. This particular case represents the most established co-operative, Case 9, so it is possible that the co-operative manager’s long-standing relationship with the board means that issues are quickly resolved or too minor to mention. The manager provided a very strong outline of the roles and responsibilities of the board of directors, management and members, which indicated that the governance of the co-operative is well in hand.

**Table 2 – Governance issues**

<b>Co-operative type /Age/Size</b>	<b>Governance issue 1</b>	<b>Governance issue 2</b>	<b>Governance issue 3</b>
Case 1 Multi-stakeholder Est. 5 yrs Med. co-op	<b>Roles and Responsibilities:</b> Membership Definition	<b>Roles and Responsibilities:</b> By-law details	Retail Policy: Member only retail
Case 2 Worker-owner Est. 6 yrs Med. co-op	<b>Succession Planning:</b> Human resources: training	<b>Succession Planning:</b> Human resources: capacity	
Case 3 Worker-owner Est. 2 yrs Med. co-op	Incorporation process	<b>Succession Planning:</b> Human resources issues: remuneration	Resources for governance: Time and income
Case 4 Consumer Est. 11 yrs Med. co-op	<b>Succession Planning:</b> Human resource issues: turn over	External rules of operation	
Case 5 Consumer Est. <1 yrs Small co-op	<b>Roles and Responsibilities:</b> Board member Interactions	External rules of operation	
Case 6 Consumer Est. 6 yrs Med. co-op	<b>Roles and Responsibilities:</b> Board member duties	<b>Succession Planning:</b> Human resources issues: Policies	
Case 7 Consumer Est. 38 yrs Large co-op	<b>Succession Planning:</b> Human resources issues: training	<b>Succession Planning:</b> Human resources issues: capacity	<b>Succession Planning:</b> Human resources issues: recruiting
Case 8 Worker-owner Est. 8 yrs Large co-op	No specific issue identified		
Case 9 Consumer Est. 41 yrs Med. co-op	No specific issue identified		

A similarly well-established co-operative, with over thirty eight years of governance experience, sees human resourcing issues as its major governance issue. These human resource issues revolve around the development of skilled members to take on governance roles within the board of directors. The identification of these human resource issues represents the concerns management have for succession planning within the organization, as members are required to complete a number of years of co-operative membership before they are eligible to participate on the board of directors. This succession planning governance issue was identified by a total of five of the nine co-operatives (see Table 2: Governance Issues).

Other co-operative managers within this study identified various governance issues faced by their co-operative rather than a single, overarching co-operative governance issue. For example, the two year old co-operative views the current incorporation process as a governance issue with a lack of resources to allocate to governance issues. The manager indicated that the co-operative did not have the time or funding to develop a fully functioning board of directors as:

‘All the members are on the management team and are the board of directors’ (Manager Case 3).

This contrasts with the newly formed co-operative, which considers the personality interactions of their board members as a primary issue due to the previous manager’s excessive control over the co-operative causing the board to react by interacting more directly within the co-operative:

‘Last store manager took too much of a personal view and not a community view which caused problems. The manager should be one of many votes. There should be a collective community view within the co-op. In a co-op the board should be in control and the manager reports to the board. The board has reversed this due to their previous experience with the last manager’ (Manager Case 1).

The situation described by this manager of the dominance of the previous manager over the co-operative would be considered the crisis that initiated a renewed cycle moving the co-operative into the Supermanaging phase where the board came together to control the co-operative’s operations. Based on Wood’s (1992, page 144) this dominance by the manager could be considered the, ‘... turning point in a board’s history occurs when members perceive some event as requiring reassessment of the board’s role’.

In a similar case, Case 5, the co-operative manager outlined excessive participation by board members:

With the previous board we had an issue with one or two very strong opinionated people taking on too much responsibility without any outcomes (Manager Case 5).

The excessive participation in Case 1 and Case 5 was seen as representing a similar crisis as outlined by Wood (1992), which restarts the evolutionary cycle. With Case 5, however, the co-operative board has yet to develop past the Founding phase: Collective due to the loss of a number of board members caused by the excessive participation forcing the limited number of remaining board members to become the co-operative.

Two co-operatives identified external rules of operation as a governance issue, but these refer to government regulation of food products, not cooperative business governance, with one manager stating:

‘The dairy board and the chicken board and all of those governmental bodies that control what we can bring into the store and how it is brought in and from who. We can’t, for example, bring in local chicken because the particular suppliers have to meet all kinds of regulations from the government; they have to buy quota and all this kind of stuff’ (Manager Case 5).

While the co-operative manager was not commenting on internal governance issues it is important to note that external factors such as government policies greatly affect the operations of a co-operative. Should the co-operative board of directors or managers identify a community need that includes regulated services such as the supply chain managed poultry, diary or egg farming, within the community it is not possible for the co-operative to provide these services due to external regulations.

The next most common governance issue was identified as the difficulty of defining the roles and responsibilities of board members. One co-operative is currently in the process of forming a new board of directors, Case 5, so this issue was top of mind for the manager as they indicated that board interaction was of pressing concern.

Two other co-operatives are currently defining the roles and responsibilities of members within the co-operative, Case 1 and 6. As a result, defining membership and the by-laws that will affect member roles was identified as a governance issue. The inclusion of strict membership criteria including time served, dues paid, and acting in accordance with the co-operative principles saw a decrease in the pool of potential candidates to sit on the board of directors. Seven of the nine co-operatives that took part in this study maintained board membership criteria within their by-laws that restricted the number of eligible directors for the co-operative board, which caused human resourcing issues in terms of capacity and turn-over of board members. Human resourcing of the board, in terms of turn over and training, were the main governance concerns outlined by three out of the nine interviewees.

Once the managers had identified the three issues of governance that were of concern the analysis of the governance phase was completed for each co-operative. It was found that the majority of co-operatives interviewed were in the Founding Phase: Collective as the board members were essentially the firm. One co-operative, Case 1, which is a multi-stakeholder co-operative was found to be in the Supermanaging phase with a manager in place, but with board members directly interacting in the day-to-day operations of the co-operative. The final three co-operatives were seen to be in the Corporate Phase with policy setting boards that leave the day-to-day operations to the management (agent). The breakdown of the co-operatives into their phases can be seen in Table 1 - Co-operative Types. It should be noted that all the worker co-operatives are categorized as in the Founding Phase: Collective as the agent is the principle in this case. The use of Wood's (1992) governing phases was found to be problematic for worker co-operatives due to this fact.

### 3 Discussion

The initial question about the co-operative principles was meant to elicit a response from manager that would elucidate the role of the principles in the governance of the co-operative. The majority of the co-operative managers were not able to recite the co-operative principles from memory. As agents of the co-operative the managers were aware of the principles, but could not outline them in detail. Managers of the co-operatives were focused on the operations and sustainability of the co-operative more so than the details of the co-operative principles. This, however, is a concern when the

co-operative principles are the comparative advantage of the co-operative itself. The co-operative principles differentiate the co-operative from an investor owned firm.

Once reminded of the principles the managers were asked for their concept of most important and least important principle. What is of interest is manager's belief that the least important principle is so ingrained in the operations of the co-operative that they do not need to be emphasized. The managers saw their co-operative as the living embodiment of the principle. Given the fact that the managers were unclear of the details of the co-operative principles it could be argued that more education on the advantage and relevance of the principles is required to ensure the Agent can effectively enact the principles of the Principle. The promotion of the co-operative principles within a co-operative could be considered the responsibility of the governing board of the co-operative (the Principle), however, the board of directors of co-operatives appear to be focused, not only on the governance of their co-operatives, but the operations of them as well leaving little time for educational activities on co-operative principles and values. Is this diverted focus of the board of directors affecting the competitive nature of co-operatives as they leave behind the comparative advantage of what it is to be a co-operative? It is argued here that the board of directors of food co-operatives need to better understand and communicate their role within the co-operative as educators of the co-operative advantage, i.e. the co-operative principles and values, to their agents.

Focusing on the role of governance within the co-operatives, managers of food co-operatives in Ontario indicate that the majority of their boards are in a Founding Phase: Collective according to Wood's (1992) cyclical theory of governance. This finding, however, is somewhat artificial as all the worker co-operatives were found to be within the Founding Phase: Collective due to the nature of the ownership model of worker co-operatives. Worker co-operatives do not separate the principle and agent, as the workers are the owners of the co-operative. This lack of separation between principle and agent extends to the board of directors where the member/workers are also the board. This presents a biased view of worker co-operatives within Wood's cyclical governance model.

When examining the consumer and multi-stakeholder co-operatives, however, the categorization of these co-operatives into the Founding Phase: Collective appears to fit Wood's model with a board of directors that essentially is the co-operative. Unlike the worker co-operative model, however, as the consumer and multi-stakeholder co-operatives evolve the board of directors moves from Wood's Founding Phase to the Supermanaging Phase as seen in the multi-stakeholder case in this study, to the Corporate Phase evidenced by the more established consumer co-operatives.

As co-operatives evolve governance changes and there is a need for succession planning for replacement of co-operative board members to reflect the changing membership needs. Wood's (1992) cyclical governance model can act as a guide for consumer and multi-stakeholder co-operative organizations to understand the changing nature of their operations as it evolves. By understanding the differing characteristics of the phases of evolution of the co-operative's board, a succession plan for the board can be developed to ensure the effective governance of the co-operative. By pro-actively addressing the changes in the role of the board as it moves through the phases of governance managers can plan for inclusion of board members with different skill sets and participatory expectations.

Co-operative boards must be prepared for the human resourcing issues caused by board evolution as the required skill sets can decrease the pool of board members that can act as effective principles for the co-operative. As capacity for board membership becomes a problem due to the decreasing pool of eligible applicants the manager may be required to act as the professional manager as outlined in Berle and Means' (1932) Managerial hegemony theory ceding control of the co-operative to an individual rather than the community the co-operative is meant to serve.

The decreasing pool of potential board members is seen as a major issue by a number of the food co-operative managers as they indicated human resourcing issues as major governance issues including capacity, turn over and training. The small pool of board members available to the co-operatives is partially due to the complexities of co-operative businesses and the limiting criteria to be eligible to be a board member for the co-operative outlined in the by-laws of a number of the co-operatives.

It is, however, not only the lack of potential board members that is problematic for co-operatives, in some cases excessive participation by individual board members or managers that can affect the co-operative's governance. The excessive participation presented by one or two individuals can skew the outcomes of the co-operative business toward a vision that is not representative of the membership as outlined by the board (the Principle). In addition, excessive participation by individual board members can have an effect on human resourcing for the board as other board members will begin to question their reason for being on the board and begin to decrease their participation. These overly participatory issues represent the crisis that Wood's (1992) outlines that can push the co-operative to re-assess the board's role pushing the board back to a Founding or Supermanaging phase of governance.

It then becomes a question of how to engage directors while keeping up with the evolving nature of the board within a co-operative. As the role of the board evolves during the life cycle of the co-operative, the demands on board members change, and the qualities that make a good board member may also need to change. Organization life cycle theory outlined by Chandler's (1962) early work tells us how firms progressed through distinct stages and the firm's strategies and structures changed accordingly. Jawahar and McLaughlin (2001) outline details of the changes firms face as they move through their organizational life cycle which include changing resource needs, increased sophistication and complexity of the firm's systems and structures as well as an increased managerial complexity. Lynall et al. (2003) indicate that it is important to understand the life cycle stage of an organization, adolescent or mature, to understand the member composition of the board as the needs of the firm differ according to the life cycle stage. The need to understand the life cycle stage, or in Wood's (1992) terms the phase, of a co-operative assists the Principle in understanding their role in the co-operative. The governance needs of the co-operative can be defined by the phase of maturation it is in. Defining the phase is the first step in determining the needs of the co-operative, but the board of directors must be adaptive to the co-operative's needs as it moves through the maturation phases. The qualities and strengths required of a hands-on, operational board member that is needed at the Founding Phase are incompatible with the qualities required as the co-operative transitions to a Corporate phase. A stabilizing and guiding force in the form of a co-operative manager who is aware of the phases of evolution of a board could provide continuity in enacting the co-operative's mission and vision as the board transitions through the evolutionary phases.

Kreutzer (2009: 118) states, ‘the stage of organizational life cycle [...] influences the roles of boards and executives’. In this study the years of operational experience held by the co-operative did not directly relate to the role the board of directors undertook within the co-operative. In one example a co-operative with six years operational experience had a Founding phase board of directors, similar to the co-operative with less than one year operational experience. While the co-operative’s age or operational experience may not relate to the phase a board is in, there was a similarity to the role that boards undertook based on the operational status of the co-operatives. Boards began by facilitating the development of the co-operative and then developed into what was called, by co-operative managers, a policy board or in Wood’s terms a Corporate Phase. This change in board role takes place as a result of the organization’s life cycle development not necessarily the length of time in operation.

Within the study only three co-operatives appear to be in Wood’s Corporate phase of development with their boards taking on an oversight role rather than direct intervention. The managers of these three co-operatives indicated that the boards provide guidance to the co-operative in the form of policy development. The co-operatives with Corporate boards are the two larger, consumer co-operatives and the older, 11 years in operation, medium consumer co-operative. The homogeneity of the membership within the consumer co-operatives aids in the evolution of the board. The co-operative has the ability to select board members from a large pool of candidates that have the same expectations of the co-operative. Since the board maintains a vision for the co-operative that is in line with the expectations of the membership there is no need for the board to intervene in the co-operative’s day-to-day operations. The board must merely communicate the vision to the agent of the co-operative to ensure that the co-operative provides for the needs of the membership.

Out of nine cases within this research, five of the co-operative managers seek to transition the board’s role into what they called a policy board or what could be considered Wood’s Corporate phase. With three co-operatives with boards already in a Corporate phase of development only one co-operative, the small co-operative, was not considering board transition at this point in time strictly due to the need to first establish a fully functioning board. As the small co-operative has just established itself and has yet to have a full year of operations completed it is not surprising that the manager did not identify board transition as a major issue at this time. There is a greater need within this small co-operative to build capacity within the co-operative and thus develop a larger pool of potential board members to avoid the human resourcing issues that larger co-operatives face.

What this research presents is the complex nature of co-operative governances, which is in line with Cornforth’s (2004) point of view that a single overarching theoretical framework does not exist for co-operative governance. The need for a multiple, theoretical approach to address the challenges faced by co-operative managers is required due to the multiple tensions and measures of success that make up the co-operative organization. In addition, the variety of co-operative operational structures such as worker, consumer, and multi-stakeholder add to the complexity of governing a co-operative. Worker co-operatives maintain a limited pool of potential directors where multi-stakeholder co-operatives must provide a voice for the multiple interests within their co-operative. To suggest that a single, universal governance framework is possible for the complexities of co-operative governance does not take into account the

very complex nature of co-operatives. Wood's (1992) cyclical governance model provides some insight into the evolution of co-operative governance, but does not wholly address co-operatives as worker co-operatives find themselves relegated to Wood's Founding Phase of development. What is beneficial is that Wood's model can offer insight into the evolution of consumer and multi-stakeholder co-operatives that could aid co-operative managers in identifying the needs of their board as the co-operative evolves.

#### **4 Conclusion**

Food co-operatives in Ontario, Canada face many governance challenges with the most pressing being board member engagement, succession planning and defining roles and responsibilities of board members. As the role of the board changes, during the life cycle of the co-operative, the composition of the board must also change. Managers from the food co-operatives indicated the need for outlining the roles and responsibilities of board members, and training to address the tensions caused by the changing role of the board of directors within the co-operative. As food co-operatives transition their boards into Policy or Corporate boards, the skills required by board members will need to change, but the question remains as to who will be responsible for implementing such a change. A greater focus on oversight of the co-operative board rather than interactions in the day-to-day operations of the co-operative, which a Founding board maybe involved in, will be required to ease the tensions between managers and co-operative boards. Co-operative boards might consider implementation of board oversight committees to examine the changing nature of the co-operative and its relationship to the board of directors. By placing the responsibility of board oversight with a board committee it would be possible to decrease the pressure on co-operative managers to act as professional managers in the hegemonic sense of the term.

An additional committee, however, would require a board of directors that is engaged in the co-operative business. As mentioned previously there is a scale of board engagement that the manager must contend with from disengaged to overbearing board members. When the co-operative is in the initial Founding phase of development an overbearing board member could be considered a godsend as they take up the work of the co-operative that needs to be done. The manager, however, must be aware of the requirements of the co-operative as it matures and ensure a succession plan is in place for board members that includes participation characteristics that fit the needs of the co-operative. Wood's (1992) cyclical board behavior does provide some insight into the characteristics of co-operative boards that can be utilized by management to assist in the evolution of the board from the Founding phase to a Corporate phase of development. Co-operative managers must, however, ensure that they take into account the structure of the co-operative, i.e. worker, consumer, multi-stakeholder, when utilizing Wood's phases of development. The structure of the co-operative has a profound affect on the board's evolution, which needs to be accounted for.

#### **5 Future research**

Only nine co-operatives across the entire province were part of this research, making the results difficult to extrapolate to all co-operatives. The focus on food

co-operatives does allow for some generalization of results, but due to the differing types of food co-operatives, i.e. worker, consumer, multi-stakeholder, it is difficult to generalize the results even to food co-operatives.

Future studies should focus on a single type of co-operative within the food system and include a larger number of co-operatives to help generalize the results. The future research should include an examination of the triggers that cause the transition from a Founding board to a Corporate (Policy) board.

There is a great deal of research yet to be done on the intersection between membership, management and governance within the co-operative enterprise. The current governance theories do not reflect the complex and multidimensional nature of co-operatives and thus fall short of explaining the complexities of co-operative governance. While the current theories offer some insight into co-operative governance the role of the co-operative structure and its affects on board evolution needs to be researched further.

## 6 Limitations

Due to time and funding constraints this research study was only able to focus on co-operative managers. As mentioned above the need to understand the complex relationship between management, membership, and governance was beyond the scope of this study.

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