

# CORPORATE GOVERNANCE IN THE COOPERATIVE MOVEMENT



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# Introduction



Areas to be covered include the following:

- Corporate Governance Definitions
- Principles of good corporate governance
  - Members rights of representation
  - Members rights of participation
  - Role of the board
  - Accountability to members and responsibility to stakeholders
- Pillars of Good Governance
- Tools for better governance
- Good governance in practice for directors
- Impact of Poor Corporate Governance
- Reasons for collapse of cooperatives
- Benefits of good corporate governance

# Corporate governance definitions



- Mostly widely accepted definition:
  - A system by which corporations are directed, controlled and held to account” *Sir Adrian Cadbury*
- A shareholder centric definition:
  - “The means by which shareholders ensure they get a good return on their investment”
- A leadership centric definition:
  - A leadership style focused on effecting revolutionary change in organizations through a commitment to the organization’s vision

# Cooperative centric definition



A set of internal and external mechanisms enabling the members to define and ensure attainment of the objectives and prosperity of their cooperative society (*central bank of brazil*).

## ➡ Internal

- By-laws
- Members
- AGM
- Board
- Management
- Employees

## ➡ External

- Laws-Co-op societies Act/Cooperative societies Act/regulations
- Regulator-Commissioner/SASRA
- Ministry of Cooperatives

# Corporate governance encompasses



- The systems for supervising, monitoring, regulating and controlling institutions; and
- The systems, practices and procedures by which the individual institution regulates itself in order to remain competitive, sustainable, responsive, relevant and legitimate
- *It can therefore be expressed in terms of how an organization 'receives license' to operate from society and how it goes about exercising that mandate. The implication is that if it fails to exercise that mandate to the satisfaction of society, that 'license' can be 'withdrawn'*

# Principles of good corporate governance for cooperatives



- These fall into the following 4 categories:
  - 1) Members rights of representation in key Cooperative organs
  - 2) Member rights of participation in the governance of the Cooperative
  - 3) The Role of the Board and management
  - 4) Accountability to members and responsibility to stakeholders

# 1. Members Right of Representation in the Cooperative Organs



Members of the Cooperative must play their role in ensuring that the Cooperative is well governed. Accordingly members should:

- Attend the AGM and delegates meeting and canvass their legitimate opinions
- Require to be furnished with adequate information on proposed candidates for election to the Board. Are they people that can add value to the business of the Cooperative?
- Offer themselves (if qualified) or nominate qualified candidates to serve on the organs of the Cooperative
- Satisfy themselves that these candidates can work harmoniously as a team and are ready to devote the necessary time to the affairs of the Cooperative.
- Ensure that they clearly understand the objects for which the Cooperative was formed so that they can effectively hold the directors they elect to account.



## 2. Members right to participate in governance of the Cooperative



- Cooperatives are member owned democratic entities that must ensure that members are made aware of their right to participate in the governance of their Cooperative as well as the right to enjoy all the services available to members without discrimination.
- They should also be made aware of their responsibilities and obligations as members and owners of the Cooperative.



### 3. Roles and Functions of the Board



- 1) Providing entrepreneurial leadership
- 2) Guiding corporate strategy
- 3) Ensuring the human and financial resources are available to achieve objectives and are utilized optimally (not misused)
- 4) Monitoring managerial performance and replacing managers (especially the CEO) if necessary
- 5) Ensuring the cooperative adheres to applicable laws, rules & regulations
- 6) Ensuring that obligations to members and other stakeholders are understood and met
- 7) Overseeing systems to achieve an adequate return to members

# 3. Role and Responsibilities of the Chairperson



- To provide overall leadership to the Board
- To actively participate in defining the skills and competencies required of directors
- To ensure that there is a formal succession plan for the Board and management
- To play a key role in setting the agenda for Board Meetings
- To ensure efficient and expeditious conduct of business at Board meetings.
- To ensure that new directors are properly inducted and that there are adequate training programs for directors to keep them abreast of Cooperative sector developments and good corporate governance practices

### 3. Separation of Roles



The Chairman is responsible for running the board of the Cooperative while the CEO has responsibility for running the day-to-day affairs of the Cooperative.

Accordingly the Board should ensure that:

- There is a clear division of these roles to ensure that a balance of power and authority is maintained, and that no one individual has unfettered powers of decision.
- The Chairman is elected by the Board at the first meeting following each AGM.

# 3. Relationship between the Board and Management



Desirable there be an enabling environment within which good governance and efficient management can thrive. The Board should ensure that an enabling relationship is established by:

- Providing for transparent and clear lines of responsibility and accountability.
- Appointing the right people with the right skills for all jobs.
- Developing transparent and fair recruitment and remuneration procedures.
- Creating and maintaining effective communication channels at all levels.
- Establishing and enforcing appropriate codes of conduct.
- Making available to each employee on appointment or employment a statement of roles and responsibilities and job description appropriate to their role.

# 3. Board meetings



Directors are expected to devote their time and resourcefulness by meeting regularly and participating in all deliberations collectively. Accordingly the Board shall ensure that:

- It meets twelve times each year as required by law,.
- The directors are involved in the development of the agenda of the Board meetings.
- The notice and board papers are received by all directors at least two weeks in advance.
- Directors are sensitized on the need to prepare themselves adequately in advance of Board meetings in order to make the meetings effective.
- The Board prepares a Board Work Plan or Board Calendar so as to guide the activities of the Board.
- The minutes of board and committee meetings are recorded accurately and stored safely.

### 3. Committees of the Board



- Committees of the Board facilitate the work of the board by enabling the board to tackle key areas of the business of the Cooperative more effectively.
- While the number and mandate of the committees should depend on the needs of the Cooperative, the Board should establish those that are appropriate to enable it to deliver its mandate.



# 3. Succession planning



- In order to ensure continuity within the board and management team, it is recommended that there be clearly stipulated succession plans for all directors and key employees.
- Accordingly the Board should ensure that:
- The appointment and retirement of the members of the Board is staggered and the practice of rotation is applied in order to maintain continuity.
- The CEO, in consultation with the Chairman updates the directors on the retirement of directors so that renewals and new appointments can be effected promptly.
- It conducts an annual assessment on the risk to Cooperative of the loss of a key employees and puts procedures in place to minimize and manage that risk.



# 3. Disclosure of interests by Directors



- Every director is under a duty to declare all interests of conflict likely to arise in the course of their service as directors of the Cooperative.
- Accordingly the Board should ensure that:
- On first appointment and on a continuous basis all directors should, in good faith, disclose to the Board for recording, any business or other interest that is likely to create a potential conflict of interest
- This should include business interests, shareholding, or other interests in the cooperative society; and any gifts, monies, commissions, benefits or other favours extended or received from a party in respect of or in relation to any business dealings with the Cooperative.
- A record of the declaration of interests once made should be entered in the minutes of the respective board meeting and in a register of directors interests.

# 3. Communication policy



- In order for the Board members of the Cooperative to exercise informed, intelligent, objective and independent judgments on corporate affairs, they should have access to accurate, relevant and timely information.
- **Accordingly the Board should ensure that:**
- There is a well-defined formal channel of communication in the Cooperative.
- There is a formal procedure to enable directors to take professional advice
- on any matter pertinent to their functions.
- All directors have unlimited access to information that is relevant for the performance of their duties.
- It communicates all relevant matters of the Cooperative effectively to the stakeholders in particular where possible through electronic means.

### 3. Board and director evaluation



- The Board should undertake a formal and rigorous annual evaluation of its own performance; the chairperson, individual directors and the CEO. The results of this evaluation will be used as a basis for identifying the strengths and weaknesses for developing and for putting plans in place to rectify any weaknesses and improve performance.

# 4. Liabilities of the Directors



To avoid liabilities which would ensue for poor execution of duties directors should:

- Act honestly do not improperly use the inside information or their position.
- Exercise the highest degree of care and diligence in the discharge of their duties that a reasonable person in a similar position would exercise in these circumstances.
- Perform their duties with the requisite degree of skill.
- Give necessary attention to the affairs of the Cooperative. This also includes exercising a degree of supervision over officials of the Cooperative.
- Ensure that the Cooperative complies with the requirements of the Law and that it maintains a transparent relationship with the Regulator.
- Maintain a checklist of requirements in complying with its Regulatory and legal requirement and reports regularly to the Board meeting on any changes to the law or regulation and how those changes may be implemented

# 4. Transparency



The Board will maintain a formal and transparent strategy for engaging its key stakeholders in the decisions and development of the Cooperative as a business and a co-operative organization.

- Accordingly the Board should ensure that:
- Each year it produces an Annual Report on the business and financial performance and position of the Cooperative and distribute the report to as wide an audience as is possible.
- It is rigorous and transparent in ensuring that decisions taken on behalf of the Cooperative are informed, objective and in the best interest of the members.
- Whilst the minutes of the Board shall remain confidential the Cooperative will comply with all reasonable outside requests for information
- It will review the openness of the Cooperatives arrangements on a regular basis.
- It will conduct a regular review of who the key stakeholders in the Cooperative are and how their needs should be met.

# 4. Internal and External Control



- The Cooperative will maintain a sound system of internal control arrangements and external verification that should be proportionate to the size, complexity and risk profile of the Cooperative. The members of the Supervisory Committee should have no other role within the Cooperative other than that of verifying the effectiveness of the internal control and risk management system.
- **Accordingly the Board should ensure that:**
- It acts expeditiously on the reports of the Supervisory Committee on any internal control issues that need to be dealt with
- On receipt of the Auditor's report each year it discusses the content of the report and implements any actions necessary.
- It conducts a review of the provision of external audit services at least every four years.
- It has a risk assessment policy and business continuity plan in place which outlines the way in which the Cooperative could continue to operate and meet its regulatory requirements in the event of an unforeseen interruption that may otherwise prevent the Cooperative from operating normally.
- The policy will be thoroughly reviewed on an annual basis.



# 4. Integrity and Accountability



- The Cooperative will strive to maintain the integrity of directors, management and staff as a financial provider and an ethical co-operative business and in doing so aim to maintain accountability to all of its stakeholders.
- The Board and senior management should act at all times in the best interest of the Cooperative by complying with legal duties and behavioral standards, avoiding conflicts of interest and acting honestly and in good faith and will not seek personal gain from their involvement in the Cooperative.
- **Accordingly the Board should ensure that:**
  - It develops a standard code of conduct for all directors, management and staff; outlining what is proper and improper behaviour.
  - There are policies and practices in place to ensure that all those involved in positions of influence within the Cooperative are fit and proper persons as defined by the Cooperative Societies Act and its regulations
  - All directors, management and employees of the Cooperative have signed a bond of confidentiality.



# 4. Financial and Operations Reporting



It is the statutory duty of directors, jointly, and severally to cause to be kept proper and accurate books of accounts in respect of money received and expended by the Cooperative .

- **Accordingly the Board should ensure that:**
- Financial information presented to the Board is prepared using International Accounting Standards.
- Reports to the Board are sufficient to communicate the required information effectively to all the relevant people.
- Management provides the Board with monthly reports and are available to clarify issues that may arise.
- The reports include implementation status reports to monitor progress of all significant Board approved initiatives and compliance with legislative requirements.

## 4. Corporate Governance Reporting



- Boards of cooperative societies should indicate in their annual reports the extent to which they have adhered to good corporate governance principles and practices as stipulated in the applicable code.
- **Accordingly the Board will ensure that:**
- It entrusts one of the board committees with the task of overseeing the Cooperatives implementation of this Code of Corporate Governance and that it produces an annual statement outlining its implementation of each of the recommendations in an applicable Code and makes this statement available to members within its Annual Report
- Attendance figures for Board meetings, details of committee membership,
- a summary of training progress and achievements will be included in this report.

## 4. Corporate Social responsibility



The Cooperative should endeavour to meet its corporate social responsibilities through a structured policy and allocation of resources through the budget process.

- **Accordingly the Board should ensure that these policies include:**
- Fair, just and equitable employment policies.
- Identification of the causes that the Cooperative will support and promote, preferably one or more of those outlined in the MDGs
- Preservation and protection of the natural environment.
- Balancing gender interests and concerns.
- Protecting and promoting the interests and rights of children and other vulnerable groups.
- Promoting the interests and rights of the host communities.
- The Board should regularly monitor the extent to which the Cooperative is meeting its social responsibilities.

# Pillars of good corporate governance



## ➤ Ethical conduct

- There should be honesty, openness, integrity, trustworthiness and fairness in all transactions
- There should be a commitment to the spirit as well as the letter of laws, rules, regulations, norms and traditions

## ➤ Accountability

- Management should be accountable to the Board
- Board should be accountable to shareholders

## ➤ Independence

- Procedures & structures are in place to minimize or avoid completely conflicts of interest
- There are independent directors & advisers; free from the influence of others

## ➤ Transparency

- There is timely and accurate disclosure of all material matters, including the financial situation, performance, ownership and corporate governance

# Pillars of Good Corporate Governance



## ➤ Efficiency

- Resources are managed for optimal benefits
- Natural resources are conserved

## ➤ Predictability

- There are clear policies, rules and regulations delineating how things should be done
- Projected results are realistic

## ➤ Fairness

- Shareholders (members) rights are protected
- All shareholders (members) including minorities are treated equitably

## ➤ Participation

- Stakeholders (employees, general public, others) are given the opportunity to participate in solving the problems of the organization by giving opinions or voting.

# Tools for better governance



1. Annual board work plan
  - Meetings and budget cycle, annual reporting
2. Board Charter setting out procedural rules
  - Clarifies leadership roles and core responsibilities
  - Contains matters specifically reserved for the board
  - Sets management delegations and reporting arrangements
3. Committee Charters setting out terms of reference of the Committees

# Tools for better governance



## 4. Code of ethics and conduct

- Defines corporate values and conduct of staff and directors
- Ethics is the basis of conduct which is perceived through individual morality – what is right or wrong
- A code of ethics establishes whether an activity is right or wrong
- A code of conduct is a statement of the standards to which an individual or enterprise adheres to



# Tools for better governance



## 5. Strategic Plan

- Defines the vision, mission and objectives of the organization

## 6. Risk Management framework

- Defines the key risks that can impact on the cooperative
- Defines mitigation measures

## 7. Board induction material

- Legal and regulatory obligations
- Financial structure of business, budgets and KPIs
- Understanding of strategic priorities and current status
- Familiarize with business operations, e.g. site visits

# Tools for better governance



## 8. Board skills matrix

- Helps boards assess the level of experience each director has in various skill areas, as well as the overall composition of the board as it relates to diversity.

## 9. Board evaluation toolkit

- A toolkit to evaluate the board as a whole, the Chairman, the CEO & individual board members and Committees

# Good governance in practice for directors



## ➡ A board that practices good governance:

- is aware of its legal duties
- knows the organization's purposes
- has a strategic focus
- acts transparently
- is accountable
- acts fairly
- is responsive to the members
- is effective in getting results
- evaluates its own performance
- plans for its succession.

# Impact of poor corporate governance



Poor governance causes failure in organizations. Major cooperative failures noted in the past include:

- KPCU
- KCC
- KFA
- KGGCU
- KNFCU
- Any others?

# Impact of poor corporate governance



## Poor corporate governance causes failure of organizations

### ➡ Private Sector

- Trust Bank
- United Insurance
- Eurobank
- CMC

### ➡ Public Sector

- Goldenberg
- Anglo leasing
- Triton
- IDP Funds
- Free primary education
- Kazi kwa vijana
- CDF

# Reasons for collapse of cooperatives



- ➡ Poor governance
- ➡ Poor leadership
- ➡ Unqualified managers
- ➡ Nepotism
- ➡ Corruption
- ➡ Mismanagement
- ➡ Financial indiscipline
- ➡ Political interference

# Benefits of good corporate governance



- Increases the value of the firm
- Nurtures a spirit of enterprise
- Gives confidence to the market
- Enhances the reputation of the organization
- Enhances the empowerment of all stakeholders
- Improves efficiency & enhances competitive advantage
- Encourages innovation – value addition
- Helps meeting financial, legal and statutory obligations
- Improves redistribution of resources and reduces poverty



*The end*

**Q & A**