AN OVERVIEW OF DEMOCRATIC GOVERNANCE

ICA GROUP

DEMOCRATIC GOVERNANCE

Worker cooperatives are built on a framework of democracy, but this does workers little good unless the means to exercise rights and enjoy the protections this framework provides are in place – this is what an effective governance system does. The governance system primarily focuses on how a democratic firm's policy is established, how this information is communicated throughout the firm, and works to protect the personal rights of the members. It provides the means for matters of organizational direction and policy to be dealt with democratically.

This report is meant to offer guidelines for the design of governance systems that help a co-op avoid the twin traps so many democratic firms fall into: either they have so much structure and bureaucratic procedure that members cannot actually use the power they formally have, or they have so little structure that there is no available means to make a difference. We seek alternative structures that empower people.

A properly functioning governance system clearly articulates the roles of the members, the Board of Directors (including a grievance council), and the management. If the governance system is to function well, the responsibilities of these groups must be clear, and the groups must have real decision-making power. While each co-op and its culture is unique, the roles of each of these groups fall into this general form:

1 The Membership

The members or shareholders are responsible for all corporate matters and significant policy matters. Additionally, the by-laws can specify issues that should be addressed by the membership as a whole.

2 The Board of Directors

The Board is responsible for all policy and governance matters not handled by the membership. Specifically, they select key managers, approve the budget, and set the strategic direction of the firm.

3 Management

Management is responsible carrying out the regular business of the firm. Management has influence and will often generate or review policy proposals for the board and membership, but they do not have the authority as managers to set policy.

The Membership

Board of Directors

Management

Of course the devil is in the details and it can be a challenge to determine whether an issue is appropriate for the membership to consider, the board to decide, or management to handle. To address this, we have identified three tests designed to help you work through common issues.

THE EXTENSIVENESS TEST: IS THIS A MATTER FOR MANAGEMENT OR THE BOARD?

Almost every co-op has a formal or an informal management system. It is not necessarily desirable to operate on a collective basis, and even if a firm wishes to, only an extremely well-disciplined group with excellent decision-making skills can succeed at all times. Since these skills are rare and continuous collective decision making can be a strain on most organizations, authority for managing the day-to-day operations typically (and appropriately) are delegated to specific co-op members – the management.

To determine what issues rightfully belong to management, and what issues are policy matters and, therefore, the legitimate concern of the Board, requires guidelines. Otherwise the roles can become blurred. An issue is a policy matter and should not be delegated to operating managers if the answer to any of the following questions is yes:

o   Does it affect a large number of co-op members?

o   Does it commit a substantial portion of the financial (or other) resources of the organization?

o   Does it affect co-op operations, personnel, or resources over a long period of time?

Is this a matter that should be left to Management?

**Board of Directors**   **Management**

Extensiveness Test

Each co-op should determine for itself how many members, how many dollars, and how much time will signal that a decision or policy matter meets this three-part extensiveness test. Each co-op should list the major issues that will be handled routinely by the board, incorporating the extensiveness test so it can be used for issues as they arise.

THE SIGNIFICANCE TEST: IS IT A BOARD OR MEMBERSHIP ISSUE?

Except for the very smallest of co-ops, asking the membership about every policy matter is a time-consuming and costly exercise. Most people don't enjoy attending lots of meetings, especially when they have other work to do, and if policy matters take up too much time, it's likely that pressing business matters will not be adequately addressed. Therefore, we recommend that the Board only bring issues to the membership for consultation or a vote if it meets one of the following criteria. If the answer to any of the following questions is yes, it's likely an issue that the Board should consult with the members on.

o   Does the matter affect the likely survival of the co-op?

o   Does the matter have to do with policies for hiring or terminating co-op members?

o   Does the matter affect the basic character of the cooperative?

Should the Board Consult with the Membership?

The Membership   **Board of Directors**

Significance Test
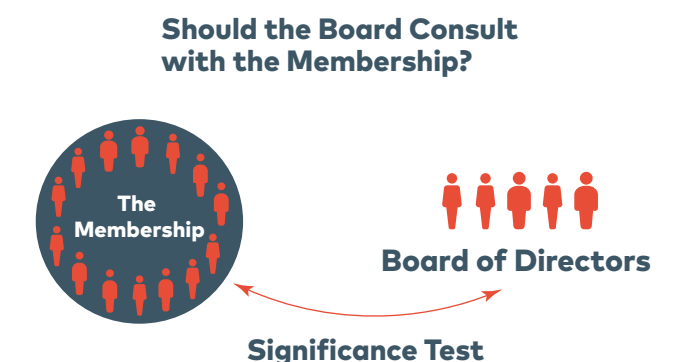
THE GRIEVABILITY TEST:

### IS THIS A MATTER THAT SHOULD BE ADDRESS BY THE GRIEVANCE COMMITTEE?

To protect the rights of members, a process to address grievances is necessary. While most complaints are best dealt with directly between co-workers or with management, if reasonable attempts to resolve the matter directly have failed, it is a matter for the Grievance Council. Furthermore, if an issue meets the following criteria it is likely an issue that should be dealt with on a policy level. If a complaint does not pass this grievability test, it should be handled on a routine basis by co-op management.

> o Does the complaint involve a violation of existing organizational policy?
>
> o Does the complaint deal with an unfair situation for which there is no applicable policy?
>
> o Does the complaint question the fairness of an existing policy?

A MODEL GOVERNANCE SYSTEM

It is essential that the governance system be as simple as possible. Complex systems often turn out to be awkward, inefficient, and harder to operate than simpler systems. A good governance system should specify the basic organizational structures and procedures that will be used for dealing with governance matters but should leave room for members to develop specific procedures that are uniquely appropriate for special problems that come up.

Moreover, a good governance system should not require sophisticated knowledge on the part of the members who operate it, nor should it require constant attention and fine-tuning. The challenge for those who design the system is to construct a system that will get done what needs to be done and to do so as simply, efficiently, and inexpensively as possible.
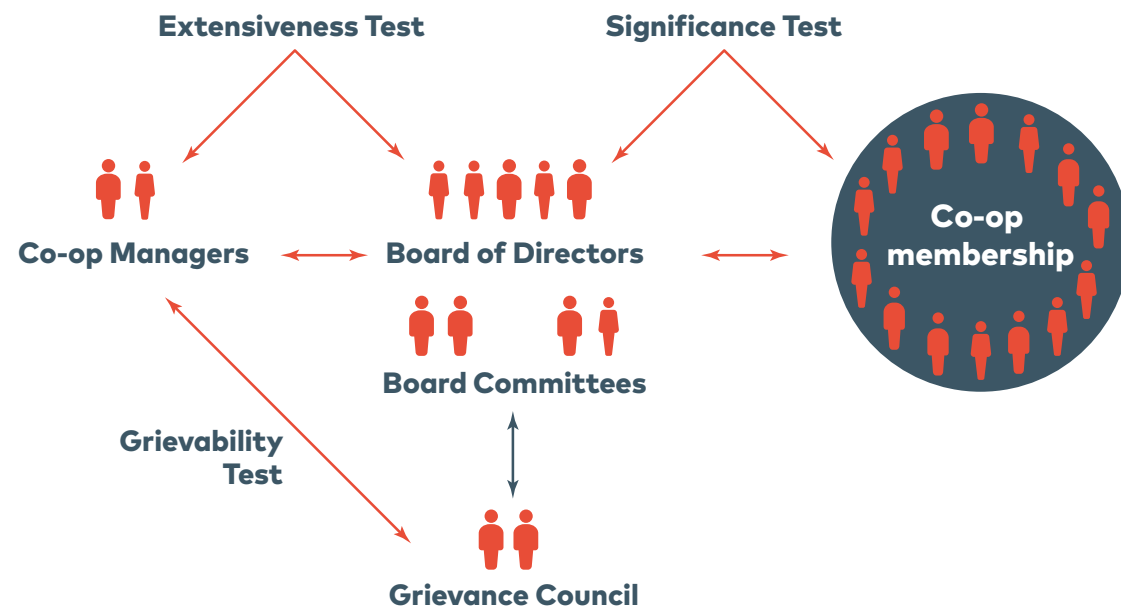
The diagram on the previous page outlines the basic framework for a co-op of between twelve and fifty members. Simply put, most matters are not policy and should be left to co-op management unless they pass the extensiveness test. For policy matters that pass the significance test, consultation with the membership is appropriate. Finally, an effective grievance policy must be in place, but should only address issues that pass the grievability test.

Adaptations of this model for smaller co-ops where all the members sit on the board, or larger co-ops with multiple departments and management structures, are necessary and described in more detail in the full report available on the ICA Group website. In a very small organization, some features of the model system turn out to be redundant and unnecessary. And in larger co-ops, additional governance mechanisms may be required to ensure that adequate communication about governance matters takes place, that members have real influence in policy-making, and that grievance processes are readily accessible to members.

COMMUNICATION

For co-op members to perform their governance duties well, they must have timely and clear information about what is going on. This requires continuous communication between groups in the governance system, between governance groups and management, and between governance groups and the membership of the organization. The key to successful communication in a democratic business is to summarize critical information and share it widely, and to make more detailed information available to those who are especially interested in having it. Many co-ops err in one direction or the other, either providing members with too little information or so overwhelming them with details that they tune out of the decision-making process. Both mistakes can result in decision-making by people who are inadequately informed about the issues being considered.

It is, of course, considerably easier to design a good governance system than it is to actually operate one. When designing your co-op's governance system keep the following items in mind.

Specify only the basics up front:

There's always a temptation to try to anticipate everything that might come up once the system is in operation. That is a mistake. Not only will you be unlikely to anticipate what the most pressing issues for your co-op will be, but it's a sign of strength to leave room for a system to evolve over time, and to provide the people who will be using the system some opportunities to influence its structure as they get to know it.

Tune your system to the expertise of the people who will operate it:

Co-op members' experience with governance work varies widely. An ideal system that requires more experience and expertise than co-op members actually have won't meet your needs. As you build your governance system and you develop the culture of your firm, you can add levels of engagement and control.

Recognize individual differences among members, and use them wisely:

Within any organization there will be some members who have a natural talent for governance matters and others who are not so inclined. These differences should be acknowledged when selecting people for various roles. You must walk the tightrope between harnessing the skills already present and developing talent to achieve the objective of widespread participation in the governance.

Get the governance system functioning quickly:

Once a governance structure is put in place, governance should begin. If governance doesn't begin immediately, people will start to wonder if the system is really needed, or if it is just window dressing.

Don't turn away expertise – but be careful about how it is used:

It is often sensible to recruit non-members with expertise as consultants, or to serve on the Board to address technical issues. But great care must be taken to make sure these experts support the overall aspirations of the organization, or at least that they are willing to be educated about those aspirations.

Be careful that the small, intense governance issues do not drive out the big important ones:

When co-op members talk about governance, they often focus on personal or emotionally-charged issues. It's essential to ensure that hot button issues do not drown out longer-term policy questions.

Watch out for a blurring of the boundaries between the governance and management systems:

Groups may find themselves naturally making decisions outside their purview, and that can lead to hurt feelings, and undermine both co-op leaders and the board. While it can be helpful and even advisable to create an opportunity to address issues in an open fashion, the roles of each group should be respected.

Don't abandon the system in times of crisis:

The governance system, which may be most critical to the organization when a life- threatening crisis appears, is often circumvented in challenging times. There is often a tendency for the top managers of the organization to meet and informally hash out what should be done in a time of crisis. This is a big mistake, as it can both cut off important information and perspectives from other co-op members and undermine the credibility of the governance system for making decisions and formulating organizational policy in the future.