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Special Issues of Owner-control and Democracy within Co-operative Context

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SPECIAL ISSUES OF OWNER-CONTROL AND DEMOCRACY WITHIN CO-OPERATIVE CONTEXT

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Abstract:

Reflecting co-operative principles and values, co-operatives are democratic organizations owned and controlled by their members. Activity and awareness of the membership is vital for co-operative's success. However, we do not fully understand how owner-control and democracy operate in practice. This qualitative empirical study of governance and member-control in large co-operatives helps to fill the gaps in our knowledge. The research seeks answers to the following questions: how does the management interpret the state and means of member control in a co-operative context? How do the interpretations reflect the democratic nature of co-ops?

The data was collected from representatives of both operational management and chairs of boards and supervisory councils through 35 thematic interviews. The interviewees represent 7 of the largest co-ops in Finland. The analysis was conducted via qualitative content analysis. Atlas.ti version 22 software was used as a technical aid to code the data.

Based on the findings we argue that the members have a vote, but no voice. Democracy is associated with the members' right to stand for election and become elected to different governance bodies. In decision-making membership is not adequately consulted, and firm efforts to increase their participation are very limited. Members are generally perceived as passive and reluctant to participate. Members of producer co-operatives, however, are perceived as more active and committed compared to consumer co-operatives. The lack of member engagement can arise from a combination of economic prosperity and a belief in the competence of management. Group structures and chain management may hinder member input, leading to a "one size fits all" approach. In the context of owner control, governance is recognized as a crucial aspect. Nevertheless, it appears that operational management plays an outsized role. They not only act as the primary decision-makers and policy-shapers but also represent the co-operative externally.

We conclude that democracy is mainly interpreted through its electoral conception whereas the quality of democracy remains as an open question since especially in consumer co-operative context the operational management seems to hold an excessive power and thus, the governance system neither actualises its potential nor meets the original ideas of co-op movement. Managerialism, organization size, and a lack of solidarity and democracy contribute to the dysfunction of owner governance and owner-control. The study raises questions about the consequences of a lack of visible governance in consumer and service co-operatives and emphasizes the need for increased member involvement and interactive dialogue.

Keywords: *Co-operative, Corporate Governance, Co-operative Governance, Owner-control, Democracy*

Background

There is a vast number and types of co-operatives globally. Their relevance and impact are remarkable both economically and socially. Novkovic (2008, 2169) identifies at least two factors that unite all co-operatives: they are democratic organizations, owned and controlled by their members/users and they all apply co-operative principles and rely on co-operative values (ICA, 1995) in their daily functions. In other words, member-owned co-operatives differ from other organisational forms by their unique purpose and the nature of member engagement (Novkovic 2008; Mazzarol *et al.*, 2011; Puusa *et al.*, 2013; Mokhtaruddin, 2021; Puusa & Saastamoinen 2023; Novkovic *et al.*, 2023).

The international co-operative principles and values guide the co-operative operations. Particularly the principle 4. that states; *Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner*, highlighting the distinctive charter of member-owned control system in co-operatives. However, we do not fully understand how this operates in practice. This empirical research study of governance and owner-control in large co-operatives helps in part to fill the gaps in our knowledge. For example, Kaswan (2014) argues that while co-operatives are being promoted as a form of empowerment due to their inherently democratic nature alongside being a model for community wealth-building, it is relevant to question how democratic they really are?

There is an ongoing debate about the dual nature of co-ops. Co-ops are hybrid organizations, simultaneously they are economic enterprises and associations of members (Draheim, 1952; Novkovic *et al.*, 2022). There is debate about whether the ultimate purpose of co-ops is based on economic or social mission, and how to balance these two roles. This creates conflicting expectations and practices in co-ops' management and governance, as well challenges democracy (Neck, Brush & Allen 2009; Mazzarol *et al.*, 2011; Kaswan 2012; Puusa *et al.*, 2013; 2016; Puusa & Saastamoinen 2021).

Puusa & Saastamoinen (2021) argue that the democratic governance structure is one of the specific features of co-ops, with the members playing a significant role in decision making, raising the members' needs for discussion and ensuring that the co-op's purpose is met. But what if the representatives of different co-operative governing bodies are unaware of their role, lack competence, or identify strongly with operational management instead of the membership they are supposed to represent? (Puusa & Saastamoinen 2023).

In a limited and an investor-owned firm (IOF) the most important input of the owner is making capital available to the enterprise, whereas in a co-operative, the members are expected to be actively engaged in the operations of the organisation in different roles. For this reason, one of the most important tasks of co-operative management is to provide a good basis for engagement and encourage participation. Membership should create a feeling of inclusion and be perceived as meaningful and personal. This will make it easier for individuals to become committed members of their co-operatives. However, according to Basterretxea *et al.* (2022, 366) a variety of studies suggest that participation rates of members tend to decline as co-operatives age and grow. Kaswan (2014) continues that the larger the co-operative, the less connection its members are likely to feel with it, the more alienated it becomes from them, the less it must rely on member involvement and the more it must rely on professional

management. As co-ops grow, even a co-operative that puts participatory mechanisms of governance in place may slowly devolve into a thin, representative model, especially with the rise of a class of professional managers that exercises operational control (Kaswan 2014, 196).

In addition, widespread ownership of large co-operatives can lead to members finding it unnecessary or useless to participate in issues of governance (Spear 2004; Chaves *et al.*, 2008; Tuominen *et al.*, 2009; Puusa *et al.*, 2013; Birchall 2014; Basterretxea *et al.*, 2020; Puusa & Saastamoinen 2023). However, a member passiveness, or as Kaswan (2014) describes it; apathy, is not a sign of a healthy democracy. Alienation or apathy of members suggests that the co-operatives fail to promote the sense of interrelatedness that is essential to establishing a democratic ethos within the co-operative. In order to strengthen the participatory ethos, the co-operative must be organized in such a way that it enables and encourages broad-based participation (Kaswan 2014, 196-197). However, despite the importance of member activity, successful case studies demonstrating its impact are limited (Spear, 2004).

Corporate governance in co-operative firms is an under-researched area, with existing studies primarily focusing on challenges and lacking research on management perspectives (Katz, 1997; Shaw, 2006; Novkovic, 2008; Sumelius and Xiang, 2010; Skurnik, 2018; Basterretxea *et al.*, 2022; Thangaveloo *et al.*, 2022). However, considering both management and governance perspectives is essential to understanding good corporate governance, which is considered crucial for business success in the co-operative context, emphasizing the democracy of co-operatives and the voice of member-owners (Dasuki and Lestari, 2019; McNamara, 2023).

The popularity of corporate governance as a topic grew in the 1980s with the ownership structure changes in large American companies, leading to the separation of ownership and control which contributed significantly to the rise in research and attention surrounding corporate governance (Hirvonen *et al.*, 2003; Khan, 2011). Despite increased academic interest, the governance of co-operatives remains under-researched, with studies highlighting challenges in democratic decision-making, application of traditional governance theories, conflicts of rationality, and agency theory's adaptation (Katz, 1997; Cornfort, 2004; Mähönen and Villa, 2006; Shaw, 2006; Novkovic, 2008; Sumelius and Xiang, 2010; Skurnik, 2018; Franken and Cook, 2019; Teixeira *et al.*, 2020; Basterretxea *et al.*, 2022).

Aim of the article

These aforementioned viewpoints reveal that while co-ops may be inherently democratic, there are certain inherent weaknesses and threats that tend to undermine their democratic potential. Who is eventually in control of a co-operative? Which voices are heard in the decision making processes? As already mentioned, prior literature identifies various challenges related to co-operative ownership structure, ownership control and management (Katz, 1997; Sumelius ja Xiang, 2010), some of which are specifically associated with large, broad member-based co-operatives (Novkovic, 2008; Battilani & Schröter 2012; Puusa & Saastamoinen 2022).

The purpose of this study is to examine the phenomenon of owner- control in a co-operative context from the perspective of the co-operative's management. The data was collected from representatives of both operational management and chairs of boards and supervisory councils. The research seeks to answer the following questions: how does the management interpret the state and means of owner-control in a co-operative context? How do the interpretations reflect the democratic nature of co-ops?

Co-operative Firms: Prioritizing Owner-Control and Corporate Governance

Unlike IOFs that aim to maximize returns for shareholders, co-operatives are user-owned and user-controlled enterprises that distribute benefits equally based on usage (Birchall, 2010; Franken and Cook, 2019). Also, the active involvement of members is crucial for the success and survival of co-operatives (Puusa and Saastamoinen, 2023; Mokhtaruddin, 2021; Jussila *et al.*, 2012). The ownership structure of co-operatives involves members who are not investors but still have ownership rights and unique position within the organization, as they simultaneously function as owners, workers, and customers/producers and have the ability to participate in decision-making processes, monitoring board decisions, and for example voting for directors (Puusa *et al.*, 2013; Munch *et al.*, 2021).

Corporate governance is a widely used concept related to owner/member control (Khan, 2011; Hirvonen *et al.*, 2003). Although a unanimous definition of corporate governance is lacking, it can be understood as a set of rules and processes that regulate relationships between stakeholders, facilitate strategic decision-making, and contribute to the long-term growth and wealth of shareholders (Maricic *et al.*, 2015). Corporate governance also involves balancing ownership and control and considering the interests of external stakeholder groups (Khan, 2011). Additionally, corporate governance can be seen as the guidance or direction provided by the owners of the company (Hirvonen *et al.*, 2003).

Agency theory, a dominant theory in corporate governance, is also applied to co-operatives but faces challenges due to their unique nature (Maricic *et al.*, 2015; Thangaveloo *et al.*, 2022; Jensen and Meckling, 1976; Mähönen and Villa, 2006). Co-operatives may struggle with effectively monitoring management, leading to conflicts of interest and hindering the application of agency theory (Mähönen and Villa, 2006). Furthermore “Shareholder’s confidence is a missing piece within the agency theory; especially in co-operative corporations” (p.9) in spite of that it might have a high effect to co-operatives' effectiveness according to Thangaveloo *et al.* (2022). Furthermore, “A lack of confidence in the ability of the co-operative management, can in turn, could trigger a financial crisis within the corporation” according to Thangaveloo *et al.* (2022, version 2).

In summary, co-operatives are distinct forms of businesses that prioritize the satisfaction of their members' wants, needs, and desires. The ownership and control structure of co-operatives grants members the ability to participate in decision-making processes. Corporate governance plays a crucial role in ensuring effective member control and overall organizational performance.

Challenges in Achieving Democratic Decision-Making in Co-Operatives

Multiple challenges exist in relation to co-operative democracy (see Cornforth 2004; Davis 2013, Kinyuira 2017; Brandao and Breitenbach, 2019; Ragazou *et al.*, 2021). These challenges include for example weak member engagement, low participation, limited interest, and awareness of co-operative activities and can also hinder the realization of democracy within co-operatives (Normak, 1996; Davis, 2013; Kinyuira, 2017; Brandao and Breitenbach, 2019). In addition, multiple different perspectives and a lack of education or knowledge about co-operative principles could cause challenges for co-operative firms' democracy (Birchall,

2012). Additionally, democratic decision-making in co-operatives has been criticized for being inefficient, and resource intensive (Normark, 1996). At the same time, it must be taken into account that in co-operative context members cannot expect to have complete control over all decisions, especially in larger co-operatives where authority is delegated to boards and managers (Birchall, 2012). Moreover, in relation to companies that utilize and value democracy in decision-making, these companies may face difficulties in setting boundaries for negotiations, which in general potentially leading to inefficiencies according to Kerr (2004).

Additionally, a larger co-operative size can lead to the problem of “managerialism” where powerful officials prioritize their own concerns and interests over those of common members (Kaswan, 2014). Overconfident management has been reported to negatively impact co-operative success (Fulton and Larson, 2009a), as well managers may have different interests compared to members, potentially leading to distractions from pursuing the co-operative’s objectives (Mähönen and Villa, 2006). Additionally, some of the previous studies indicate that managers sometimes withhold information from co-operative owners in complex business decisions, anticipating that owners may vote against their interests (e.g. Basterretxea *et al.*, 2022). Moreover, especially as the co-operatives grow, challenges may arise in decision-making if members lack expertise or experience, thus revealing the knowledge gap between the management and members, consequently leading to an imbalance of power where managers may exert excessive control due to their superior knowledge (Batataille-Chedotel and Huntzinger, 2004; Basterretxea *et al.*, 2022). On the other hand, also the managers may lack the necessary skills or knowledge to support member control, which can create challenges (Cook, 1994). Additionally, because many members lack the interest to participate actively in co-operative operations, managers of co-operative firm may the lack of pressure from members according to Spear (2004). This means that so co-operative managers may not to give their own best in their work and might be less motivated to perform optimally, because they see that members interest is low and no need to show best results for owners may not exist much (Spear, 2004).

Moreover, governance issues in co-operatives can arise due to a lack of professionalism, which needs to be addressed (Cook, 1994). Boards may lack skills, and experience (Birchall, 2014a; Fulton and Larson, 2009a, 2009b; Myners, 2014), but also low member participation may lead to boards that are not representative of the wider membership, exacerbating the problem (Chaves *et al.*, 2008; Spear, 2004). Consequently, insufficient member involvement can lead to governance failures within co-operatives (Birchall, 2012), or lead to a decrease in the number of people participating in governance and thereby to a deterioration in the quality of governance (Kaswan, 2014).

As already noted earlier, previous studies have revealed that member participation is generally low in co-operatives, with only a certain group being actively engaged, especially in larger co-operatives (Normark, 1996; see also Kaswan, 2014; Ragazou *et al.*, 2021). In larger co-operatives, member activity levels can be even lower due to a perceived lack of necessity to participate (Besterretxea *et al.*, 2020; Chaves *et al.*, 2008; Puusa *et al.*, 2013; Spear, 2004). More reasons for member passivity include for example a lack of knowledge regarding opportunities to be active, a limited understanding of co-operatives, and a lack of awareness of their rights and opportunities for involvement (Davis, 2013; Kinyuira, 2017; Brandao and Breitenbach, 2019). In addition, Ragazou *et al.* (2021) found out that co-operative members tend to have high commitment levels but low willingness to actively participate, primarily due to a lack of self-confidence. There may also occur some control issues if a small group of active

members or a specific group holds significant voting power within the co-operative, making management more difficult (Cook, 1994).

Additionally, previous studies have revealed that member activity tends to decline as co-operatives grow older (Lees and Volkers, 1996; Spear, 2004; Chaves *et al.*, 2008; Kaswan 2014). As Kaswan (2014) puts it: “*over time, fewer and fewer members may attend meetings relating to governance, deferring decision-making to an elected board of directors (who may defer to the judgment of the professional managers); eventually, participation in elections may decline to a point where only a few members are involved even at that level*” (p. 196). Low member commitment and awareness of co-operative activities contribute to this decline (Davis, 2013; Kinyuira, 2017; Brandao and Breitenbach, 2019). All this is in contrast to research suggesting that individuals typically desire to have a voice and participate in decision-making processes, even more so than monetary benefits (Freeman and Rogers, 2006). Moreover, the large number of members with insufficient understanding can make strategic decisions challenging in co-operatives (Basterretxea *et al.*, 2022).

Fostering Member Participation, Engagement, and Democracy in Co-Operatives: Strategies for Success

Democratic decision-making and its effectiveness in general depend on various factors beyond participants' activity alone, as argued by Kerr (2004). However, as Ragazou *et al.* (2021, 117) argue in co-operative context; “*increasing the participation of members in the decision-making process best confirms the democratic operation of co-operatives*”. To support co-operative democracy, it is also important for managers and governance to serve as role models and ensure that members possess a solid understanding of co-operative activities, the governance model, and the roles of different governance bodies (Mills, 2008; Puusa and Saastamoinen, 2023). Consequently, one suggested solution especially for large co-operatives is to limit the power of General Assemblies and adopt a stronger form of representative democracy (Basterretxea *et al.*, 2022). Previous studies also indicate that management and governance in co-operatives should strongly emphasize co-operativeness to enhance efficiency and motivate members (Skurnik, 2012). By embracing co-operative principles and values, co-operatives can foster a sense of community and shared responsibility among their members, leading to improved performance and satisfaction (Skurnik, 2012). To address challenges, it is also important that board members collaborate with management to serve the best interests of the co-operative (Cornforth, 2004). When board members only represent specific interests and fail to work towards the overall benefit of the co-operative, problems can arise. Boards should also represent the broader membership (Spear, 2004; Chaves *et al.*, 2008).

Sungkawati *et al.* (2018) emphasize the importance of effective co-operative administration in facilitating active and dynamic member participation. Sungkawati *et al.* (2018) underline the need for co-operative administration also to prioritize transparency, responsibility, independence, and reasonableness to effectively serve members' wants and needs.

As a solution for co-operative democracy or participation challenges, Normak (1996) argues that to effectively utilize the co-operative form, members' competencies and ideas should be utilized, and communication between members and management should be facilitated or, otherwise, communication becomes burdensome, hindering decision-making processes. Consequently, it has been suggested that leveraging existing social networks between potential members and fostering shared ideas, trust, and mutuality can enhance the cohesion and

engagement of co-operative members (Normak, 1996; see also Ragazou *et al.*, 2021). In addition, McNamara (2023) studied humanism and democracy in worker co-operatives, highlighting the importance of democratic decision-making processes that encourage member engagement. Creating a humanistic work environment and establishing clear policy guidance for staff treatment can increase member activity not only in worker co-operatives but also in consumer or producer co-operatives (McNamara, 2023). Also, Kaswan (2014) suggests that especially large co-operatives with a wide membership base can greatly benefit from efforts to foster member engagement and network-building among members, leading to increased participation rates and diversity.

To achieve efficient outcomes, members' voices should not only be heard but they should also be involved in decision-making processes (Puusa and Saastamoinen, 2023). Furthermore, it is not efficient to just focus on the number of participants who be active, but essential is to focus on the diversity of participants according to Rwekaza and Anania (2020). For example, "The participation of members in decision making process needs to be inclusive of all sex and age" Rwekaza and Anania (2020, 53-54). Additionally, Shaw (2006) suggests that improving members' knowledge about co-operatives and increasing democracy within co-operatives can enhance member participation, activity and engagement. On the other hand, to ensure the effectiveness of co-operative democracy, it is crucial for co-op members to have a clear understanding of the co-operative's purpose, governance model, and the roles of different governance bodies (Puusa and Saastamoinen, 2023). Additionally, Ragazou *et al.* (2021) emphasize the significance of a member's commitment and alignment between the co-operative's organizational culture and the member's own values; these factors are crucial for the success of co-operative democracy and play a vital role in enhancing members' active participation.

The economic success of co-operative firms is linked to well-conducted democracy, but the decision-making strategy must be aligned with co-operative principles, as noted by Casal *et al.* (2019). Mills (2008) argues that co-operative ownership offers advantages by enabling co-operatives to prioritize values beyond purely financial considerations through the democratic voting system, where each member has one vote. This allows co-operatives to gain a competitive advantage by focusing on non-financial aspects, provided they know how to leverage this opportunity.

In conclusion, member participation is crucial for the success and development of co-operatives. Strategies such as leveraging social networks, increasing members' knowledge, and enhancing democratic decision-making processes can help boost member activity and improve the overall performance of co-operatives. Addressing governance issues and fostering a humanistic work environment are also important considerations. By prioritizing member engagement and focusing on their needs, co-operatives can achieve better outcomes. Co-operative firms' successes and failures are closely tied to their ownership and control structure. To make co-operative democracy work effectively, co-op members should understand the purpose of co-operative activities, the governance model, and the roles of different governance bodies. Boosting members' voices and involving them in decision-making processes are crucial for co-operative success. Creating a humanistic work environment, promoting member focus, and ensuring diverse representation in decision-making are key considerations. Co-operative ownership allows co-operatives to prioritize non-financial values, which can provide them with a competitive advantage. Emphasizing co-operativeness in management and governance further supports the efficiency and motivation of co-op members.

Methodology

This is a qualitative empirical study (Denzin & Lincoln, 2008). The approach aims at reaching individuals' subjective experiences, conceptions and interpretations and is well suited for exploring abstract, subjective and interpretive phenomena based on consciousness, human interaction and the language that structures it (Puusa & Juuti 2021).

The data was collected through 35 thematic interviews. The interviewees represent 7 largest co-ops in Finland. The sample includes both top operational managers and chairpersons of the co-ops' board of directors and supervisory boards and the interviewees were selected among consumer-, service- and producer-co-operative sectors. The interviews included the topics of co-operative corporate governance and ownership-control, decision-making system and the role of members in co-ops. These broad topics inspired versatile views to emerge resulting a rich data to explore.

The analysis was conducted via qualitative content analysis, which is widely used in the field of social sciences (Neuendorf, 2017). Atlas.ti (version 22) software was also used as a technical aid to code the data. To increase reliability, researcher triangulation (Puusa & Julkunen 2020) was also used.

Empirical findings

Membership's role in realising owner-control

Member-cooperative relationships

We asked the interviewees to describe the membership and, most importantly, consider the role of a member in their cooperative. We also posed the direct question whether the interviewees thought that ordinary members were heard in decision-making. The topic of the relationship between members and the cooperative arose in the discussions, and the discussions largely centred around the speakers analysing the membership on an axis of active and passive. In addition, the interviewees reflected on how motivated people were to be members of their cooperative. The interviewers did not directly ask the interviewees about these aspects.

Based on the data, it is clear that memberships do influence the realisation of governance by owners and, according to the interviewees, that the activity and willingness of the members to participate in the cooperative's activities is crucial. In mutual companies and consumer and service cooperatives alike, the membership is typically large, but only a small group of members are active beyond using the cooperative's services. The membership is equally divided on the producer side: some are passive, some highly active. The conclusion may be drawn that the producer cooperatives' membership is more cohesive whereas consumer and service cooperatives may have significantly larger and more heterogeneous memberships, the larger memberships having more varied expectations of their cooperative. According to the interviewees, this makes forming a collective body of owners difficult by methods other than representative democracy, meaning administration or government. The interviewees also pointed out that this makes hearing the membership difficult.

Based on the data, the interviewees may be said to think that members mainly demonstrate their commitment by using their cooperative's services, and from this point of view,

memberships are broadly active. Naturally, this is the premise and condition of membership for producer cooperatives: only milk producers may be members of Valio, for example, and if they stop production, there is no option for passive membership. In other respects, the opportunities of cooperatives are utilised by relatively few members. In other words, only a minority are interested in other aspects such as influence through governance. Among other reasons, the interviewees explain this as people primarily seeking membership for financial gain and financial gain being the primary and, according to many of the interviewees, the only reason to participate in a cooperative.

The relationship [...] is probably mostly financial and rational. They benefit from it.

Put bluntly, the role of your basic member is to use our services and keep the operation going. That's the main thing. Going a little further, whether your basic member wants to be visible or participate in the business, that's where the percentage drops considerably.

Then yeah, that brings us back to the basic question. Right now, in my opinion, 90 per cent are customer-owners because of increased benefits, not because they really feel that they belong to and are part of the community, that there's an emotional connection or some such: they're in this system because they benefit more from it.

Other prominent reasons for passivity found in the data set include poor awareness of ownership, poor awareness of cooperative business, and the inability of cooperatives to create an emotional bond with their members, among others. Based on the data, it may be said that many cooperatives have moved closer to other forms of enterprise, resulting in a lack of differentiation between cooperatives and other businesses and hence their characteristics and conditions for commitment.

Because there isn't enough of that feeling. The feeling isn't enough. If they're committed and if they feel that this is my thing, then that's when they care. It could be that it's because of a lack of knowledge. But there's not enough of this feeling if the fact is that people are indifferent. I'd say that there are many who are not indifferent.

The consequence is the easiest, it's that the idea of the cooperative is sort of lost – it is lost, that's clear. It's complicated why this is. Maybe it's because they feel that their influence doesn't matter, that their personal impact is so small.

Very few are so active that they want to help and develop, and maybe part of it is that the customers don't understand the idea behind cooperative business or that they really are owners – that they have all the opportunities and even an obligation to develop the business they own.

Regarding activity, the interviewees presented different views on what should be done to promote activity. The conclusion may be drawn that the thoughts on how to promote commitment and activity vary. Some interviewees said that it is a matter of communication while others approached the matter from a wider perspective of recognising and widely informing the membership of the ideology of cooperative business. Many emphasise concreteness instead, the concrete benefits for members and the importance of always acting in accordance with the idea of a cooperative business.

Hearing the voices of members

The responses to the question of whether members were adequately heard in management and decision-making were heterogeneous. The responses could be categorised as follows: 1) members are not heard enough, 2) members are heard enough, 3) members' needs are heard through administration, and 4) management has a good understanding of members' needs.

Those interviewees who felt that the voices of members are not heard enough both recognise and admit that the owners are simply not heard adequately or, if the cooperative does promote their hearing, the actions could be considered as somewhat superficial, leading to discussion of whether the message may reach the intended audiences or if they genuinely impact operations and decisions. Some interviewees were highly critical of the theme, putting great emphasis on the current form, the separation of cooperative and membership, is not the correct way for cooperatives to operate.

That's right, and we're not, if I'm honest, we only realise a small portion of our business concept, then why would the customers commit to that?

No, never. We don't listen to it enough. But we should improve our way. Naturally, with a lot of members and a fragmenting world, our membership is also becoming fragmented with a whole lot of different aims and needs.

The interviewees point out different customer feedback channels that individual members may use to give feedback about their cooperative's operations and different customer events organised by the cooperatives in various ways. According to the interviewees, the customer feedback channels are completely inadequate for hearing the membership while recognising that the digital tools currently used and available would allow even large memberships to be reached. However, the interviewees had difficulty in conceiving practical ways to further the matter and what could be done differently compared to the current situation. This may be sufficient to conclude that the current method has been prevalent for so long that it has become established, the dominant culture. Even recognised opportunities and widespread use (e.g. digitalisation) are deferred to dates unknown: the comments of the interviewees may be summed up as a wish for "we should take steps in that direction" instead of these governing members decisively promoting the matter.

We should use new technologies, there's no other choice here. I've always seen digitalisation as an opportunity and not a threat, particularly in how we can get closer to our members; we just need to find the right ways to speak with our members. We already approach them through many channels – social media – but has that been genuine, really genuine? And one thing where we could clearly improve is how to collect all the major aims, the greatest ideas for development, for our management who makes the decisions. That's not terribly easy, it's fragmented across different sites and tools. There's no funnel we can open to just have them drop on our desk, to definitely say that these are the most important things. We have a lot of work ahead of us.

We've improved here, but we still don't hear them enough. And we should improve. On the one hand, explain the form of enterprise and activate the membership. So two ways: when they are active, it's easier to have dialogue and, if they realise that we give them useful information, they will be happier to discuss things. You'd think that our modern digital world would have new opportunities for this as well.

In my opinion, they could well be interested, [considering] their values and other surveys; they have a lot of good values that suit cooperative business, these young people. It's more about the incompetence of these companies how these things are presented. Maybe they haven't used the right forums, I don't know.

On the other hand, the members were considered to share responsibility in being active and having their voices heard. The producers especially emphasised the member's personal responsibility to be active and participate by using their voice. Some on the consumer side also voiced their views that members share responsibility for whether they have the time and motivation to use their voice.

We should always aim to do better. It's also a responsibility of the average member to be active in voicing their perspective, and we hold many events where all members are welcome: lunches, barbecues, and other events where all of management is present. We have all these communication methods in use as well.

Those interviewees who consider the current state of affairs adequate and think members are currently heard enough in their cooperative's decision-making (even though things could always be better) emphasise representative democracy and think that the place for members' influence is in elections for representatives, for example.

It could be, and this is my opinion here, it could be that the most reasonable way is their way, but if you purely look at the representation of the membership in administration, then we should have representatives in these because they're not attending the cooperative's meetings, are they. But when you look at national or regional cooperatives or Metsäliitto, banks, whoever with large memberships, then I can't imagine a better system than elected representatives, if representatives are to be the ultimate deciding body. I think it's a really good system.

Regarding governance and consumer and service cooperatives, a majority of the interviewees think that the role of the representatives in particular is to adequately represent the views of the members. Even among the majority, the interviewees' further questions about the adequacy of owner-control made many interviewees doubtful and uncertain: more should be done.

Of course, democracy is set in the rules and, of course, the elections are where members can have their say. Or, in my opinion, it's something of a shame that the cooperatives' elections are – for any cooperative – their turnout is, let's say, they're lucky to reach 40 per cent.

Yeah, I think it's a shame, and I don't know how we should get the message out to achieve [a better] turnout. Because we can make these technical arrangements that no one needs to be anywhere, they can vote by post or online, it's really easy to do compared to national elections, then why aren't people voting? So this is, in a way, something I think the whole cooperative sector should figure out how to do. Likewise, if there's a meeting of the cooperative, some still have them, then if there's no big item on the agenda, then it's just the board who are present. So how do we activate people so the cooperative's membership use their votes?

Probably the user, benefiting from using the services. If we think about this in another way, if we consider how you can have your say through member democracy, then the elections for representatives every four years are where everyone can vote, but the rest is representative democracy: the representatives choosing the administrative board, the administrative board choosing the board of directors, and so on. What happens there is so far removed from

members that they may not know, but at its most concrete, the services exist and can be used, and members can of course give feedback when doing business and have their say about the selection, for example – give feedback – but that's it?

The fourth category comprises responses in which individual directors considered the topic from the perspective of how approachable they saw themselves to be. These interviewees described in great length how many direct contacts they received from members. This overlooks the larger dilemma with corporate governance and owner-control: how to hear from the larger membership and include people in developing the cooperative's operations and planning its future. They also suggested that professional and competent leaders should be trusted when, according to some interviewees, the members would not have sufficient competence to answer questions even if their opinion were polled. Based on the analysis, management may be avoiding dialogue with the membership because the membership is sizable and surveys could be disappointing because everyone's wishes could not be met. Therefore, it is thought to be better to make decisions without wider inclusion of the membership.

In conclusion, it may be said that hearing the membership is perceived to be difficult for multiple reasons, some of which are related to competence and functionality while others are about attitudes and the perceived need. The membership's lack of competence and awareness about cooperatives results in the members not knowing or understanding their influence. On the other hand, the cooperatives have failed to motivate their members who then become passive and resigned, seeing no further purpose for the cooperative than the use of its services. Regarding activity, the data shows that management has surprisingly minimal concerns regarding widespread passivity among their memberships. It is acknowledged and known, but many do not see it as especially problematic, so long as the members are willing to use the cooperative's services. As a result, measures to increase members' activity or awareness of cooperatives are not included as focus areas on the to-do lists of operational or administrative management.

The roles of cooperative governance and operational management in realising owner-control

Because so many interviewees highlighted the realisation of the management's role and the realisation of control by owners through representative democracy instead of direct democracy, we asked the interviewees to describe the management and its tasks in their own words. Although only some of the cooperatives represented by the interviewees include a representative council of members (consumer and service cooperatives), every cooperative had supervisory board and a board of directors.

The interviewees appeared to relate owner-control strongly to governance (not the membership), and especially its main task and a way to exercise power was related to choosing people for key tasks. Furthermore, some interviewees described various examples and individual situations where some problem had become so egregious that the governance body had to take control exceptionally and forcefully. These examples typically led to situations where key personnel were replaced, rare as this is in cooperatives, as explained by the interviewees themselves when describing the stories. In other words, cooperatives are typically associated with long careers in leadership without a significant risk of replacement.

The value of democracy, widely linked to cooperatives by the interviewees, was mostly related to the matters discussed above – elections and choosing governance body members – whereas it was rarely referred to as a method of making decisions, especially in customer and service cooperatives. Therefore, the interpretation may be made that the interviewees are not referring to democracy, even though they widely emphasise that it is more a rule than an exception that governance body decisions are unanimous, for example. Based on the data, this may be considered the default expectation for governance, which was seen to increase its predictability, among other things. A certain kind of consensus thinking is traditionally associated with cooperatives. The seeking of a consensus may be seen as positive if it translates into an open culture of discussion where everyone is heard, including opposing views, and where genuine agreement is reached after multiple perspectives have been considered.

The most critical interviewees pointed to this as a consequence of concentrated power and the disproportionate role of the managing director. The problem here is that consensus thinking rather refers to approving the management's proposals without question and therefore a culture where others dare not and usually do not challenge the presenter's opinion. The latter perspective was associated more with consumer and service cooperatives whereas producer cooperatives' representatives associated democracy with a governance body and the board's culture of communication: whether members of management had the opportunity and habit of presenting their views somewhat freely. As a result, a strong focus on leaders was not as prevalent in the responses of the producers. On the whole, the governance body's level of activity and their power in relation to operational management has a stronger presence in the responses of the producer cooperatives' representatives, leading to the impression that on the producer side, democracy reaches much further than the choosing of the governance body's members. Based on the data, it may be said that the producers somewhat tie democracy to the way decisions are made and how power is wielded.

A tentative interpretation of certain individual responses may be that the role of governance bodies in producer cooperatives is different from that of consumer cooperatives in the sense that their supervisory role is taken more seriously and recognised more widely. This is probably explained by the fact that producers have a closer relationship with their cooperative because it is about their livelihood and they have more money at stake compared to consumer and service cooperatives. Therefore, producers have something of a deeper dependency on their cooperative, and the members have a stronger interest in supervising the cooperative's operations and direction. This gave rise to the impression that the voice of the membership was heard in producer cooperatives through a broader governance body with a face. Furthermore, the thinking was that the members were more active than those of service cooperatives, for example (in terms of contacting the governance body). The interviews gave the impression that the governance body had a greater, more visible role overall in producer cooperatives in comparison to other cooperatives. For example, the cooperative's "face" aspect is largely realised through their administration, whereas the operational management is the face on the consumer side, which the administration considers to be far removed from ordinary members.

You know, I think that the more you have invested in your cooperative, and producer cooperatives are like that, then you are actually interested, and people are different, of course: some want actively influence things and others trust that someone else is doing things, and they just hang around as part of the community. Of course, if your capital, what you have invested in that business, is not significant – limited, in a way – then your commitment is somewhat lighter, and it's always the people who want to influence things and find it rewarding, and most of us probably trust that the system works and I will get my benefits without needing to invest

my time. But, you know, I don't feel that cooperatives that mean tens of thousands or even hundreds of thousands [euros] for their members, then they, because it's a large sum of money, they will participate.

I will say that meat producer cooperatives have, let's say, for ordinary members to contact administrators, the barrier is much lower than in some bank or the S Group.

The administrative board is broadly associated with the choice of personnel and its supervisory role. The question still remains: is it able to and how well does it serve in this role? For example, does the administrative board receive sufficient information to appropriately handle its supervisory duties?

Even though the interviewees emphasise the role of the governance body and representative democracy as the key tool of governance by owners, the data includes critical views of the current management model of cooperatives: first, because by its nature and also because of largely passive memberships, power is concentrated in relatively small groups. Second, because power is concentrated within the administrative system (to the board) and, in the context of administrative and operational management, especially the role of the managing director, to operational management and one person in particular: the managing director. These comments were particularly associated with consumer cooperatives in which it is typical for the managing director to act as both the managing director and the chairperson of the board. Based on the data, it may be said that one factor leading to the concentration of power and the pronounced role of operational management is that meetings are prepared by operational management where the managing director holds this dual role.

The interviewees collectively indicated that administrative board chairpersons have a special role. This is especially obvious in cooperatives where the chairpersons are present in board meetings. At the same time, it could be asked how well the voice of the chairpersons is connected to and in line with the rest of the administrative board if it only meets a few times a year? The interpretation may be made that this is also a concentration of power, as the administrative board's chairpersons have no formal power to decide the board's matters, but they do have the right to be present and speak in the board's meetings, which inevitably influences the discussions and therefore the decisions.

The representatives of the producer cooperatives emphasised the central role of administrative board chairpersons because the chairperson is the superior of the managing director. This is of course the case for consumer and service cooperatives as well, but their representatives did not similarly emphasise the importance of the role. For them, the role of operational management and especially the managing director is the most central of all. The dynamic and cooperation between the managing director and the chairperson of the board was also brought up by the representatives of producer cooperatives in the context of their decision-making culture and methods. This perspective is absent from the responses of the consumer cooperatives' representatives, probably because of the dual role of their chairperson of the board.

How ownership strategy supports corporate governance and owner-control

Whereas consumer cooperatives lacked a clear ownership strategy or it was not mentioned to a similar extent as in producer cooperatives (forest, dairy, and meat), the responses of the latter's representatives regarding the hearing of members and governance by owners is partially

explained by their sector's cooperatives having a clear ownership strategy. This was not one of the questions asked of the interviewees but something they mentioned spontaneously. The ownership strategy process involves hearing the administration about its aims for the future and defining and specifying the administration's role as a whole and in relation to operational management. From the perspective of the membership, it is also used to define the grounds for distributing profits. The interviewees representing producer cooperatives' management clearly feel that the ownership strategy makes their work easier. It sets clear guidelines and targets for the work to steer all operational management activities. Furthermore, it was suggested that it is especially important for both the operational management and the administrative management to know the will of the owners in these sectors because the industry's investments are typically massive and the interdependence between the members and the cooperative make it imperative for management to be fully aware of the owners' plans and views of the future prior to making investment decisions. It was also suggested that having a clear ownership strategy is not a given: many companies have prepared a specific and comprehensive ownership strategy after certain problems have surfaced. While this is a good thing, an ownership strategy for considering and hearing the needs of the members should be the starting point, according to the basic mission of the cooperative model, and not a consequence problems having been identified.

It's my assumption that the larger the company, the less transparent their corporate governance is compared to us everyday companies who are closer to the customer...

It would be good to have an ownership strategy, you know, that they have some sort of ownership strategy, but maybe some things could be considered more prominently still."

Communications wise, starting from the ownership strategy, business strategy, and proceeding to the operating plans of different functions, the chain must be intact and the communications must be present throughout the organisation.

The ownership strategy of service cooperatives, if any, was seen to come from second-degree cooperatives, meaning the central organisations owned by the regional companies. In this case, the interviewees' responses did not give the impression that the owners had been heard when preparing the strategy, never mind the broader membership: it was felt to be very management-driven. The representatives of the banking and insurance sector in particular emphasised how the decision-making in these sectors is informed by not only the needs of the members and the management's idea of what strategic measures are justified, but also by very robust and constantly increasing regulations and legislation, as experienced by the interviewees. Furthermore, they suggested that cooperatives with a central organisation and regional operators, meaning a group structure, also adhered to the operational instructions of the central organisation in many cases. The above include many aspects where the opinion of the membership is not and cannot be heard. Naturally, this was felt to limit the power of the administration and its opportunities to steer owner-control in a given direction.

Summary

Based on the data, the conclusion may be drawn that members are not consulted in cooperatives, and no potent effort is made to hear members directly. Although some interviewees considered different means for increasing the participation of members and methods for hearing them, the interviews as a whole left the impression that the interviewees

are content with the current state of affairs on the whole or brush it aside. Few interviewees considered the lack of owner-control and unheard memberships to be detrimental and an actual risk for cooperatives in the long term.

Instead, the interviewees thought that owner-control is realised through administration. The interviewees' views differed on which administrative body is the central channel or has the central role for matters of owner-control. In general, it was suggested that the administration represents the voice of the members and that this is adequate in principle. The representativity of the administration's members was commonly considered to be good, and few critical thoughts were expressed regarding the interviewees representing cooperatives with extremely large memberships, even surpassing 100,000 members.

Based on the data set, the role of the end user, meaning customer-owners and members, from the perspective of making decisions and wielding power, is seen as using the services of their cooperative and narrowed down to the member's right to vote and run as a representative for the cooperative's governing bodies (representatives). Even so, the members were considered to be mostly passive and reluctant to participate in this regard as well. The examples given included typically low voter turnouts in representative elections and low participation in the cooperative's meetings.

Based on the responses of the consumer and producer cooperatives' representatives, the conclusion may be drawn that the producers feel that their members make their voices heard more and, on the whole, the impression is that the role of governance on the producer side carries more weight in relation to operational management when compared to the consumer side. Then again, the matter is influenced by the size and heterogeneity of the memberships. In other words, the consumer and service cooperatives have more members, and their memberships may reach tens of thousands or even hundreds of thousands. Furthermore, the producer members are connected by their means of livelihood being linked to the cooperative's operations whereas no such connecting factor exists between members on the consumer and service side.

The administration's notion of adequately realised owner-control or passivity in seeking to correct related shortcomings may be the result of the interviewees' cooperatives thriving economically and enjoying long-term financial success. This may make not just the members but the administration more passive and lead the administrators to believe their competence to be unparalleled, hence making them question the need to hear their members. As previously stated, the data set indicates how the competence and status of management was emphasised.

The interviewees represent large cooperatives, and the scale of their operations has only grown over time. Many of these cooperatives follow a group structure, and consumer cooperatives work under chain management. Hearing the members could introduce discontinuity and uncertainty to the structure that has been built for it is clear that the members' expectations and wishes are varied. On the group level, utilising economies of scale may lead to "one size fits all" thinking, and some interviewees did point to chain management as the reason why members are not heard enough or at all with the exception of governance and individual customer feedback.

Many interviewees considered the basic mission of the cooperative, which includes a clear understanding that the operations exist for the members, and that decisions are always based on the interest to benefit the membership. At the same time, the question remains: how well

can the above be realised if no members are heard directly aside from individual customer feedback?

Conclusion and discussion

Our conclusion is that the state and dysfunction of corporate governance and owner-control in the analysed cooperatives is explained by managerialism, the size of the organisation, and the lack of ethos in terms of solidarity and democracy (e.g. Kaswan, 2014). The membership's interest in governance and participation in governance is low (Spear, 2004; Chaves et al., 2008; Tuominen et al., 2009; Puusa et al., 2013; Birchall, 2014; Basterretxea et al., 2020; and Puusa & Saastamoinen, 2023), and the ethos of participation may not have been correctly reinforced or directed through channels that would appeal to the people of today. Small groups hold power in cooperatives, and their management seems reluctant or incapable of promoting true owner-control and restoring the role of members to what was originally intended by the idea of a cooperative. Management also questions the motivation, willingness, and abilities of its membership to actively participate in questions of governance in ways other than by using the cooperative's services. Active membership is only demanded when lamenting the low turnout of elections and meetings of the cooperative.

Conversely, it is clear that the management's attitude, strong role, and actions (especially regarding questions of owner-control) may greatly contribute to the engagement or disengagement of the members – and create a conflicting image of the membership's actual commitment and participation in governance compared to the ideological default assumption of cooperative businesses (ICA, 1995; Novkovic, 2008; Mazzarol et al., 2011; Puusa et al., 2013; Puusa & Saastamoinen, 2023; and Novkovic et al., 2023).

The research findings, when viewed from the perspective of the administrative organisation of cooperatives, call into question whether the current structures are democratic or even support democracy. For a large number of members, they do not motivate people to use their voice and vote. Furthermore, the current feedback channels intended for listening to the membership are often one-way, forgoing interactive dialogue between the owners and management. In addition, events for members appear to be sporadic and rarely reach all of the membership.

Operational management also appears to have a disproportionate role in corporate governance. They appear to be the actual decision- and policy-makers as well as the face of the cooperative. The role of governance is marginal, never mind ordinary individual members. This begs the question for consumer and service cooperatives: what is the consequence if governance has no visible role or face?

Research has shown that general awareness of cooperative business is low. Furthermore, it is recognised that the majority of cooperative members are either passive or that their only method of participation is to use services and make governance choices (vote in elections). The addition of passive and/or faceless governance further increases the passivity of the membership and harms the state of corporate governance, owner-control and the ultimate purpose of cooperative business.

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