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Governance in Lincolnshire Consumer Cooperative

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7.1 Introduction

Lincoln Cooperative Society was originally registered[1] as an Industrial and Provident Society, when founded in the UK 160 years ago in 1861. By the end of its first quarter of trading there were 74 members. Currently there are about 290,000 members, with 220 outlets, concentrated in Lincoln, but spread over the whole of Lincolnshire, and 2,870 staff (termed "colleagues"), with dividend payments amounting to £3.8 million, on turnover of £355 million. They operate in food, primarily local stores, including a bakery, pharmacies, travel, funerals (including

[1] With the recent UK legislation for cooperatives, Lincolnshire Co-operative Ltd is now a Registered Society under the Co-operative and Community Benefit Societies Act 2014.

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S. Novković et al. (eds.), *Humanistic Governance in Democratic Organizations*, Humanism in Business Series,
https://doi.org/10.1007/978-3-031-17403-2_7

their own crematoria), and post offices. They are regarded as a strong regional society, with a strategic focus on local food stores (urban and rural), so not directly competing with large supermarkets. The keys to Lincoln's success are: firstly, sound financial and business strategies (including strategic investments of profits into property for many years); good management and corporate governance; an emphasis on quality regarding both customers and staff; since the 1990s, a strong emphasis on the value of membership; investing in the local communities and civil society; and, finally, they also benefit from being relatively isolated as a city and county.

Structure of the chapter: The chapter begins with a review of various governance theories, building up to humanistic governance, and leading onto the identification of major challenges facing consumer cooperatives. It goes on to discuss ways in which these challenges can be addressed, including institutional measures of networked/polycentric developments that are particularly relevant to the UK cooperative scene. Next it examines the governance system of Lincoln Cooperative Society, exploring the extent to which networked governance systems played a role. Finally, it reflects on the analysis and draws conclusions.

7.2 Governance, and Strategic Challenges of Consumer Cooperatives

Some previous studies of consumer cooperatives have found management and governance weaknesses, which according to Schediwy and Brazda (1986), in their major study of the recent history of consumer cooperatives, has led to a pattern of failures, including in Austria, Germany, France, and Belgium.

Spear (2004), using a principal-agent[2] approach, argues that there is a tendency towards low levels of membership activity, and maintaining an

[2] The principal (owner) has different interests to the agent (manager), so the emphasis is on supervision and finding ways to align interests, e.g. through the design of the agent's remuneration package.

active membership is particularly challenging; this results in weak governance, where managers may have more power than in similar private sector organizations, particularly as the market for external control is quite weak due to dispersed ownership and the difficulties of forming coalitions of members (collective action problem), lack of institutional investors, and resistance to acquisition and mergers.[3] This theoretical analysis was supported by data on levels of active participation by members in large consumer cooperatives—with only 1–5% of members voting in retail cooperatives in the UK in the 1990s. Spear (2004) also identifies the issue of non-member customers in consumer co-ops—i.e. how to manage the proportion so that: (a) members have priority; (b) the non-members are welcomed and encouraged to join; (c) information about the preferences of both is secured; (d) legitimacy of the board is maintained; and (e) non-members don't outnumber members and the cooperative identity is preserved. This is important to avoid the bias of an unrepresentative minority (or clique), ensure representative voice, and sustain loyalty; it is also essential for maintaining the vitality of boards.

Puusa and Saastamoinen (2021 and Chapter 6 in this volume) also reveal the weaknesses in consumer co-op democracy; they examined views of representatives of various co-op governing bodies of a consumer cooperative (mainly representatives council, and supervisory boards in a single co-op organization, with a sample size of 54 members). The overall structure and the tasks of the various governing bodies were generally not clear (representatives council, supervisory board, and board of directors); governing bodies were seen as operating in hierarchical relationships with real decision-making power concentrated in the board of directors, and exercised by just a few (often the CEO/chair); and the representative council which is supposedly the highest governing body is seen as mainly concerned with communication of member issues. They conclude that "the democratic nature of cooperatives was emphasized rhetorically, while in practice decision making seemed very pseudo-democratic" (Puusa & Saastamoinen, 2021).

[3] Empirical evidence in conventional firms is difficult to transfer, but there does appear to be some evidence in dispersed ownership contexts—see Aguilera et al., (2015, p. 546).

Similarly, Birchall states (2017, p. 17) that: “Consumer cooperatives have been much more prone to governance failure. Because they tend to have many members whose relationship with the cooperative is slight, they are more easily captured by special interest groups or by ambitious managers, sometimes without the members even noticing”. In his study of governance in large cooperatives (2017), he goes on to identify five problems cooperative members have to address: firstly, limited ownership rights, in that the value of member shares does not normally increase with the growth of the business; secondly, the problem of scale and complexity, particularly where there are subsidiaries and where holding structures become quite complex (and, hence, where transparency and member influence are problematic); thirdly, the collective action problem, i.e. difficulties in mobilizing a large group of members to take joint action; fourth, a lack of information, partly to do with lack of market signals from the share price, and partly due to cooperative managers disclosing less information (i.e. information asymmetries); fifth, managerial capture, where in effect managers control the cooperative, in the absence of the market for corporate control; and finally, the problem of multiple goals i.e. the double or triple bottom line (social, economic, environmental).

Cornforth (2004) develops a paradox perspective and identifies three key tensions: between the board as representatives for members vs “experts” driving performance; between the board roles of driving organizational performance vs accountability; and between the board controlling vs supporting management. He examines a number of different theoretical perspectives on governance: principal-agency theory; stewardship theory, which emphasizes partnership and the importance of expertise; a democratic perspective, which emphasizes lay member representation; stakeholder theory, emphasizing stakeholder representation; and resource dependency theory, which emphasizes the influence of key stakeholders and the need for co-optation to manage key resource dependencies. He argues that these different theories shed light on tensions and paradoxes that may exist, and how they can be addressed.

7.3 Ways of Addressing the Challenges

Governance is not just about boards, nor just managing member participation, but ensuring the whole system of reporting, reward structures, and accountability is aligned and well-functioning. This includes appropriate key performance indicators (KPIs) regularly reported to boards, good reporting systems to members and boards, innovative approaches to member participation, and board democracy. Well-functioning boards may require contested elections, regular board rotation, directors with good expertise, and a balance between values and business. Complementary strategies (for community, or ethical benefits) can also play a role in combating member inertia, embedding the cooperative in the community, etc.

Rixon and Duguid (2021) provide a more positive perspective on reviving member participation, making use of Friedman and Miles's (2006) ladder of stakeholder engagement.[4] In their study of strategic planning in Canadian and international credit unions (23 sampled), and insurance cooperatives (three sampled), they recognize the problem that boards may simply rubberstamp plans prepared by management, and there are no mechanisms for boards to ensure true representation of the views of members. They also find a general tendency towards consultation; however, a deeper level of engagement can be accomplished by the more proactive approach of stakeholder involvement, including invited member involvement in strategic planning.

Spear (2004) noted a number of measures that could be taken to improve the situation. These measures included: improving governance standards through codes of practice; benchmarking performance indicators about customers and members; improving governance practices; professional management development for cooperatives; remuneration packages for managers incorporating member KPIs; better reporting; and stakeholder dialogue. In addition, evidence from US savings and loans agencies indicated that where members were fairly densely populated in relatively stable communities, democratic mutuals were favoured (Rao &

[4] See Arnstein (1969).

Nielsen, 1992). Digital solutions allow the scaling of member participation at Annual General Meetings (AGMs) through online voting and social media; in addition, some cooperatives have been exploring deliberative democracy groups, and facilitating the voice of interest groups.

Birchall (2017) argues for a member governance approach, which focuses on three relationships: between members and the board, the board and the managers, and the managers and the employees. This requires a member-centred business strategy based on ownership and loyalty, good opportunities for participation by members in various structures, and good systems of reporting and rewarding members (patronage refund). In designing governance structures, he argues that it is important to find a way to listen to the voice of members, represent them, and find the necessary expertise. He also argues (2017) that despite the "very thin" relationship with their members, consumer co-ops can improve this relationship through incorporating an ethical dimension (values) in their "offer", and through investment in community relations strategies.

Cornforth (2004) discusses how some of the main tensions in cooperatives can be addressed. Firstly, the tension between representative and expert boards (democratic and stewardship perspectives, respectively); some of the ways of resolving this tension are: search committees to find non-executive directors with the required expertise; improving training for board members; and searching for representative members with appropriate expertise. A different tension arises between agency and stewardship perspectives where partnership can be contrasted with monitoring/scrutiny of management; ways of handling this are through board selection, training of directors, and education of managers towards longer term strategy. In a similar way a tension between controlling and supporting can be seen through the lens of stewardship theory, the democratic perspective, and agency theory; ways of handling this are about achieving a balance, depending on the issues being addressed.

Novkovic and Miner (2015) and Miner and Novkovic (2020) develop a humanistic governance perspective[5] which goes beyond the democratic

[5] Also see Novkovic and McMahon, Chapter 2 in this volume.

or stewardship perspectives. The humanistic perspective is also based on a different view of human needs, motivation, and development; rather than an individualistic framing, it recognizes more complex models of human interests and motivations. This perspective is rooted in the foundational observation that a cooperative is based on purpose, values, and principles, together with three dimensions: people-centredness, joint ownership and distributed control, and democracy. It emphasizes that governance in cooperatives is democratic, and solidaristic (linking with stakeholders), as well as being polycentric,[6] with multiple centres of decision-making. And there is variety: humanistic systems of democratic cooperative governance may be diverse and context-dependent.

They argue that decision-making is aimed at achieving a satisfactory balance between collaboration and control, while living with and continually managing the paradoxes/tensions that Cornforth identifies. Their approach emphasizes the possibility of synergy between collaboration and control; and this may be possible through a polycentric governance system which allows a distributed pattern of power and accountability amongst members and stakeholders. An alternative way of representing this is as a form of network governance. Democratic structures when distributed and decentralized can allow varied forms of interaction with management, rather than through a hierarchical board-level style of control. This is effective when there is a substantial degree of proximity of members to the organization and its polycentric governance system.

The networked or polycentric governance system can be better legitimated if its basis is considered as broadening the concept of membership, and separating ownership from control, rather than taking a strict view of membership as necessitating both ownership and control. In the context of social cooperatives providing welfare services "Sacchetti and Borzaga (2017) utilizes an extended idea of membership rather than ownership,

[6] "'Polycentric' connotes many centers of decision making that are formally independent of each other. Whether they actually function independently, or instead constitute an interdependent system of relations, is an empirical question in particular cases. To the extent that they take each other into account in competitive relationships, enter into various contractual and cooperative undertakings or have recourse to central mechanisms to resolve conflicts, the various political jurisdictions in a metropolitan area may function in a coherent manner with consistent and predictable patterns of interacting behavior. To the extent that this is so, they may be said to function as a 'system'" (Ostrom et al., 1961, as cited in Ostrom, 2010, p. 647).

where membership is broadly understood as stakeholder involvement in the strategic control or governing function of the organization, with or without ownership" (Sacchetti & Birchall, 2018, p. 89).

This humanistic perspective also brings out the possibilities of congruent isomorphic processes (Bager, 1994; also see Novkovic and McMahon, Chapter 2 in this volume) through networks and federations, which also may be supported through alliances with other political/social movements.

Community relation strategies: Cooperative Principle 7—Concern for Community can be strategically enacted in support of member-based cooperation. From a Polanyian perspective, a cooperative can engage in a certain amount of redistribution, but also in a substantial amount of reciprocity; and both can build a more solidaristic relationship with the cooperative, by re-embedding its market dimensions (exchange) within community relations. Norms of reciprocity (a form of exchange based on gifts, strengthening the social bond) can be seen as a form of solidarity, "socializing" or re-embedding (market-based) socio-economic interactions. Conditions favouring the reciprocity strategy include relative stability of the community (Rao & Nielsen, 1992; Roy et al., 2021).

Although not directly relevant to consumer cooperatives' systems of unitary board governance, a polycentric system allows more possibilities for drawing on the experience of many multistakeholder cooperatives (MSCs), which often make a place in their governance structure for supportive community members to participate. They do not play a specific role in the day-to-day life of the cooperative the way that employees, consumers, or producers do; but they are often willing and able to provide finance, or volunteer time and/or specific expertise to help the cooperative succeed. Supporter-members, as the name implies, are involved in the cooperative in order to support the cooperative's purpose (they ownership and control rights in MSCs). The inclusion of supporter-members may originate from various reasons: to offer an honorary and advisory role to a retired member of the cooperative; to attract additional resources; to strengthen the political capital of the cooperative by including a well-regarded person who will widen the network and the community relationship; or even to bring expertise to cooperatives which have little governance or business experience (Bouchard et al., 2017, p. 48).

7.3.1 Institutional Measures of Polycentric Governance (at the Co-op Sectoral Level)

Changing Ecosystem: Since the data quoted by Spear (2004) about low member participation, there has been a sea change in attitudes towards cooperative governance in the UK. This can be dated to the 1980s and 1990s, as a wave of demutualizations hit the UK building society sector, after deregulation in 1986. New "members" opportunistically joined in order to vote for conversion from a mutual to a limited company to claim the assets built up over generations by previous members. Eventually bylaws were changed so that demutualization required 75% of votes, by at least 50% of members, and many remaining mutuals adopted a "poison pill" strategy of requiring charitable assignation of proceeds by such "members". Just after this, some agricultural cooperatives demutualized; and, in 1997, there was an (unsuccessful) attempted hostile takeover bid to demutualize the UK's largest consumer co-op, the Co-operative Wholesale Society (CWS). This was followed by the merger of the two largest consumer co-ops (CWS and Co-op Retail Society); and the leaders of the co-op movement wrote to Prime Minister Tony Blair asking him to create a Co-operative Commission to develop and modernize the movement for the next millennium—this call echoed one made in 1956 when the co-op movement faced major challenges as rationing ended and self-service began. The Commission was duly set up and reported in January 2001: *The Co-operative advantage: Creating a successful family of Co-operative businesses.*[7]

[7] See summary: https://archive.ph/20071025171847/http://www.co-opcommission.org.uk/summary/summary_fr.html.

As a contribution to this Cooperative Commission, the UK Society for Cooperative Studies raised funds from several retail societies to carry out a research programme entitled *"Reasserting the Co-operative Advantage"*—this involved a collaboration between Leicester University Management School, the Co-operative Research Unit at the Open University and the Co-operative College, Loughborough; the results from a survey (Davis and Donaldson), case studies (Spear), There followed further mergers, and rationalizations of CWS, and attempts to emphasize the cooperative difference. This was aided by the innovative ethical policy of the Cooperative Bank (wholly owned by CWS), and a nationwide rebranding of "The Co-operative". There were also changes at the federal level, when, in 2001, the Cooperative Union, which had been the federal body representing consumer co-ops, merged in 2001 with the Industrial Common Ownership Movement (ICOM) representing the dynamic worker coop sector, and became Co-operatives UK. It subsequently came to represent all types of cooperatives, as well as the credit unions (Association of British Credit Unions Limited). During this period, it enjoyed strong leadership from a leading figure in Labour politics, Dame Pauline Green, who had been leader of the European Parliamentary Labour Party (EPLP) in the EU. (She later went on to become president of Cooperatives Europe, and then the International Cooperative Alliance (ICA).) During this period, the Co-op College became more and more active in promoting cooperation in the UK, and the rest of the world.

All this created a new impetus for promoting cooperatives and their advantage, both within the movement itself, and more widely amongst the British public. And almost certainly there were similar responses to demutualizations in other parts of Europe, North America, and beyond; for example, the International Cooperative and Mutual Insurance Federation (ICMIF) based in Cheshire, England, for many years had a training programme on reasserting the mutual advantage, and still regards it as a strategic theme.[8]

But this rejuvenated spirit of cooperation and mutuality almost evaporated, at least in Manchester, when its Cooperative Bank, which had been so influential in re-energizing cooperation with its ethical policy, got into major financial difficulties after its merger in 2009 with the Britannia Building Society, which had a huge amount of property-related bad debt. Its ethical reputation took a further dent with the mis-selling of

and Bickle and Wilkins' report on a Co-op College training course about cooperatives for managers; in 2000, findings were published in a special issue of the *Journal of Cooperative Studies*, Reasserting the Co-operative Advantage Research Project (2000), *Journal of Co- operative Studies*, *33* (2).

8 https://www.icmif.org/the-mutual-difference/

payment protection insurance (along with many other financial services companies). The massive debt incurred—£2.5 billion in 2013—almost brought down The Co-operative Group and led to a major review of governance. This resulted in a governance structure emphasizing expertise on the Board over member voice, with only four member-nominated directors on a board of 12 directors.

However, these changes in the ecosystem have resulted in major institutional impact in support of improving governance, particularly by Co-operatives UK, which provides extensive advice on governance, as well as a governance code (Co-operatives UK, 2020a[9]), including contested elections for example—while the code doesn't advocate contested elections, it suggests that uncontested ones be reported. Lincoln did not report this, but The Group reported that one of its four member-nominated directors was in a contested election in its 2020 report. Another aspect of governance is also supported: goals-targets-measurement systems—although the code doesn't actually mention key performance indicators (KPIs), nor UN Sustainable Development Goals (SDGs). But elsewhere on its website, there is a report on KPIs (Co-operatives UK, 2019). This fits with how some scholars concerned with governance at public and societal levels (e.g. Newman, 2006) go beyond the classic governance typology of markets, networks, and hierarchies, to recognize the importance of systems of measurement, targets, and reporting, as a powerful part of governance. In this way it can be argued that accountability—to members, other stakeholders, the environment, etc.—can also be governed by this system.

7.4 The Governance System at Lincoln Cooperative Society

This section describes some of the main features of the Lincoln Cooperative Society, reviews some of the key challenges that consumer co-ops face, then examines how these challenges have been addressed.

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[9] https://www.uk.coop/resources?s=governance.

Governance Structure: "The Board's responsibilities are wide ranging. It is responsible for setting the society's objectives and strategy, monitoring delivery of that strategy by management, and identifying and managing risk.... the Board must ensure the Society remains true to its purpose and adheres to the cooperative values and principles set out by the ICA" (Lincolnshire Co-op 2021, p. 15). The Board comprises nine elected and two nominated directors. It is now possible within their rules for Board committees to co-opt non-Board members on to its committees for specific skills and experience. Lincoln Coop specifies ICA values and principles in its rules, registered under the 2014 Act; the rules specify an asset lock on dissolution, but not on transfer of engagement.[10] (Cliff Mills—UK legal expert of ICA-EU Partnership #coops4dev 2021—is critical of the UK cooperative legislation in supporting cooperative values and identity—instead placing the onus on constitutional rules to incorporate this cooperative identity.)

There are *several committees* which provide specialist support for the Board: the Audit Committee, Remuneration Committee, and Search Committee (to ensure effective democracy and competency of candidates); as well as a Governance Committee concerned with monitoring and improving the governance processes.

The Remuneration Committee has a very transparent system for setting remuneration levels and approving them. The Committee ensures that the remuneration of the chief executive and secretary is consistent with the Co-op's remuneration principles and policy. The pay levels of the senior management team are determined by the chief executive, who discusses her approach and conclusions with the remuneration committee. The levels of remuneration of senior management are

[10] "In the case of a society amalgamating with or transferring its engagements to a company, the special resolution proposing this change must secure a three-quarters majority in favour, with a least half of all eligible members participating in the vote. The special resolution must make provision for the society's members' share capital and voting rights in the company that emerges from this process. The special resolution must be confirmed by a simple majority vote at a second general meeting held between 14 days and one month after the first meeting. The society will cease to exist when the amalgamation or transfer is completed" (Co-operatives UK, 2020b).

reported in the financial statement, not with specific reference to senior staff, but by specifying how many staff are in different pay categories ranging from £110,000-£720,000. The remuneration policy is published in the annual report.

Lincoln's executives' remuneration policy emphasizes developing people and ensuring colleagues (staff) share in the success of the Society, as well as emphasizing the long-term alignment with the Society's strategic goals: it should also be in line with performance criteria which combine financial and non-financial criteria supporting the Society's strategic purpose and values (KPIs are not specified). Total remuneration for each director on the Board is reported on, and subject to approval by the members, to ensure it is in line with the Cooperative Retail Employees National Agreement of £8,500 per annum for directors and £14,000 for the chair. There are additional sums paid for each committee attended, as well as for transport allowances.

The Audit Committee reviews the financial statement and oversees the Society's system of internal controls to ensure it is adequate for risk management, disclosure, and financial reporting. It takes responsibility for appointing audits (subject to members' confirmation), and during the year it meets external and internal auditors without the presence of management.

The Search Committee manages the systems and processes to ensure that candidates for election meet the Board's competency requirements; and it recommends candidates for election and appointment to the Board. This includes succession planning, and reviewing the directors' register of interests.[11]

The Governance Committee is concerned with continually improving the governance processes. This includes reviewing and updating the competency framework, and diversity policy. It also reviews the approach

[11] The Co-op Governance Code states: "A conflict of interest policy should be in place and should be provided to all directors, executive leadership and senior employees. All conflicts of interest should be dealt with appropriately and.

recorded in a register that is available for inspection by members" (Co-operatives UK, 2020a, p. 7).

to member engagement, and considers other matters such as data protection, cybersecurity, and training. Their responsibilities include information events for potential board candidates, providing opportunities for potential candidates the chance to meet current board members and executives; potential candidates can also attend AGMs and Half Yearly Meetings.

This exemplifies a classic cooperative board, well-functioning with a very high level of attendance by directors at board and committee meetings, and with good processes to ensure harmonious relations between the board and senior management. The chief executive and secretary are required to attend every board meeting, and senior managers may also be invited to attend, with some checks in place on too close a relationship, since there should be one meeting a year where no senior managers are present. But what about the governance challenges of managerial capture, and too cosy a relation between boards and management i.e. a managed democracy? Contested elections and board renewal provide some ways of avoiding this.

In Lincoln, although not all board elections are contested (they have reported this in the past, but not recently), they do try to encourage new board candidates, and run information events for potential board candidates—one with a general introduction/update on Lincolnshire Co-op and another more about the role and structure of the Board. This gives potential candidates the chance to meet current board members and executives, ask questions and get to know more about the Society. Board renewal has to be balanced against continuity of leadership. Prior to 2021, the chair (President) changed each year, but then there was a rule change which provided for a maximum term of the chair of six years, subject to annual re-election by the Board. This change was made to improve board performance by increasing the continuity of leadership. But continuity and renewal doesn't just apply to the chair—in the same year, one board member stepped down after 26 years and another after 13 years' service.[12]

[12] The Co-op Governance code advises: "No director should serve more than three consecutive. three-year terms and should step down for a period of at least one year before becoming eligible for.

Other checks and balances are provided by the Search Committee and Governance Committee. In particular, these committees address tensions around balancing competency requirements against democratic ones. In 2021, according to the annual report, the Governance Committee was concerned with the Board's competency framework and diversity policies, and member engagement. An independent consultant was engaged to carry out board evaluation. In terms of the board composition and effectiveness, unsurprisingly, they emphasize skills and competencies, and gaps therein, as well as skills audits of directors, and horizon planning for strategy with the chair. Lincoln seems to have considerable expertise to draw on from within the Board; during the last year the Society had to deal with "some specialist and onerous issues of a commercially complex and confidential nature", and the directors who provided this specialist advice (commercially complex and legal) received substantially more remuneration (£50 k to £60 k), as approved by the Remuneration Committee.[13]

While competency is clearly central, member participation for consumer co-ops remains very challenging, and Lincoln is no exception. Lincoln has low levels of participation of members in elections (unreported in 2020, but 2.27% in 2013/4); however, considerable effort was made to improve member participation—seven local AGMs were held around Lincolnshire in 2021; these were also accessible online, and considerable care was taken to inform and engage members both in person and online. But attendance was still extremely low, with only 387 members participating, out of a total membership of 296,264. Due to Covid, elections were cancelled in 2020 and postponed until November 2021. Again, extensive attempts were made to ensure member

election for a further term" (Co-operatives UK, 2020a, p. 10). Lincoln, specifies in its Rule Book (FCA, 2021) that newly appointed directors should comply with this, and the society is transitioning to this requirement, since existing directors appointed before 2015 have to re-apply as newly appointed directors at the end of their current term of office.

[13] The Remuneration Committee approved this additional remuneration after discussion and receipt of legal advice. There is a policy of flat-fees for directors (£8,500 p.a.), with higher compensation for the chair, president, and vice-president; so this represents a substantial deviation, which is exceptional at Lincoln Co-op; nonetheless it reveals potential tensions between a democratic perspective of equality, and a stewardship perspective which might accept that expertise should be rewarded.

participation by writing to every member with a personal ballot paper. Participation in elections is one of the areas of member engagement which is also the concern of the Governance Committee, but this committee has to address all areas of the member nexus.

7.4.1 The Member Nexus

Member engagement has many dimensions: firstly, the total level of membership, from amongst all the customers to ensure predominancy of members; how the membership is communicated with; economic engagement (through patronage linked to a dividend) to strengthen loyalty; it also includes reporting practices and their transparency, including use of performance indicators to ensure good governance.

Membership is almost 300,000, and Lincoln Co-op has a junior membership scheme which is mainly about giving young people a positive experience of interacting with the Society through fun activities, competitions, and offers. The Membership team organizes all of the activities, and the Board oversees the strategy for all membership-related activities. However, online communication appears rather limited with only 40,000 members logging on during the past year.

Member Economic Engagement: "To agree that the basic rate of issue of dividend continue at the rate of 1% (of member transactions), as recommended by the board, and to authorize it to determine the rate of any additional dividend paid" (Lincolnshire Co-op 2021). There appears to be a good level of loyalty amongst members in terms of regular weekly shopping; 49% of sales in food are with members (this compares with 30% in 2020 for the national Co-operative Group[14]).

Reporting and Performance Indicators: Generally, the Lincoln website and the annual reports are very informative about performance.[15] Understandably, there tends to be a positive narrative celebrating successes,

[14] Birchall (2017, p. 34) informs that: "In the Co-operative Group, 4.5 million members account for only 25% of sales, but the aim is to take this to 50% within five years".

[15] Some regional societies go further, e.g. Central England Co-op produced a Social Impact Report in 2017, noting 61 Member Groups. https://www.centralengland.coop/assets/site/documents/Social_Impact_report.pdf.

and store openings, rather than closures. A similar approach is found on discussions about major strategic issues: relatively little on the Co-op's withdrawal from non-food a few years ago, with the closure of their home stores in Lincoln and Gainsborough by department store group Oldrids, and on the leasing of space in the Moorland Centre to Aldi (potentially a major competitor); but strategic local investments in the joint venture with Lincoln University for a Science Park receive well-deserved coverage.

Performance indicators are also an important part of ensuring governance is on track; and the UK Co-op Governance Code[16] (Co-operatives UK, 2020a) recommends that co-ops monitor a number of indicators. The Code (Item 5) specifies a set of indicators that it thinks boards should monitor in order to maximize member democratic and economic participation, including the:

– Number of members attending members meetings
– Turnout at elections (to see if it's representative of membership)
– Extent of member economic involvement with the co-op
– Number of employees becoming members of the co-op

The first two are crucial to sustain democracy; member economic involvement is undermined if only a minority of sales is to members, otherwise for whose benefit is the coop trading. And the number of employees is important both regarding the extent to which the coop addresses the interests of multiple stakeholders in governance, and to ensure there are not too many since members should be consumers, and the "predominancy principle" (consumer members should be the dominant proportion) is not undermined. The UK Governance Code does not recommend specific criteria—this may be contrasted with cooperative law in several countries which specifies a "predominancy principle",

[16] *Corporate Governance Standards*: Lincoln is not subject to the provisions of the UK Corporate Governance Code 2018, but the Lincoln Co-op Board is required to explain how it has complied with the principles of The Co-operative Corporate Governance Code set up by Co-operatives UK (the representative body for cooperatives in the UK), or explain any instances of non-compliance. https://www.uk.coop/resources/co-operative-corporate-governance-code.

and the limits on non-member users (this also applies to financial members, etc.). See below for further discussion of this difficult balance.

For comparison purposes the performance of the Co-op Group is of note. It has four membership and community KPIs: active members (number of members who traded in the last 12 months—4.34 m) (Co-operative Group, 2021); member sales in food (percent of sales—30% in 2020); rewards (£) earned by members (member discounts on own brand products: 2%); and reward earned (£) for communities (arising from member offer on own brand products: 2%). Thus, the Co-op Group does not report on democratic participation, but emphasizes economic involvement (trading members, dividends, percentage of sales to members) (Co-operative Group, 2021).

Lincoln reported better results for the number of active members, and member percentage of sales in foods:

– The number of members trading this year (64%)
– 49% of sales in food stores with members (indicator of non-member trading)

However, they no longer report on a broad range of KPIs; historically, in their 2014 report, Lincoln had conformed with Co-operatives UK's ten environmental and social performance indicators, including: voting at the AGM (2.27% of members); trade conducted with members (52.3% of total sales); as well as the annual proportion of investment in community/cooperative initiatives as a % of pre-tax profits (6.1%). But although they do substantially better than Co-op Group, regarding trade with members, their reporting on KPIs has reduced.

7.4.2 Broader Systems of Governance—Networked & Polycentric

Drawing on a humanistic governance perspective has allowed a broadening of focus on patterns of networked and polycentric governance, which fits with this case very well. In other words, focusing on governance at the enterprise level misses the full picture of how governance is shaped and conducted at Lincoln Co-op through connections with other organizations, namely Co-operatives UK, the Co-operative Governance Expert Reference Panel, the Co-operative Group, and the Federal Retail and Trading Services organization. The approach to Principle 7—Concern for Community is particularly interesting, and represents a form of polycentric governance in this case. Lincoln has instituted a decentralized democratic process for local community participation to determine and allocate community benefits congruent with membership strategy (Spear, 2000).

Co-operatives UK could be seen as a dimension of a broader polycentric governance system for all cooperatives in the UK. Its board comprises representatives from many other consumer cooperatives in the UK, as well as other types of cooperatives such as worker cooperatives and cooperative development bodies. As such it represents a collective body that influences standards and good practices in cooperatives run across the UK. Members from the respective sectors/co-op types are directly involved in drafting best practice codes and performance indicators (a member of the Lincoln Co-op Board is on the Co-operative Governance Expert Reference Panel).

Another form of polycentric governance that also contributed to congruent isomorphism (i.e. aligning with cooperative values) can be seen in how a major cooperative financial crisis played out. After a series of mergers and acquisitions in the first part of the twenty-first century, the UK's largest consumer cooperative, The Co-operative Group, was hit by a financial crisis, initially arising from commercial debt defaults in its wholly owned subsidiary, the Co-operative Bank (arising from its merger with the savings and loans business: Britannia Building Society). There followed considerable financial restructuring, as well as a highly critical governance report by Lord Myners (2001).

In the aftermath of that financial crisis, which hit the Co-operative Group in 2013/14, the Lincoln CEO Ursula Lidbetter was also at that time the chair of the Co-operative Group and took responsibility for guiding the group through its new governance system as recommended by Lord Myners in his review (2014). The Co-op Group had evolved into a hybrid structure as a retail society and as a wholesaler or federal body supplying services to independent co-op retail societies. It was originally founded in 1863 as the Co-operative Wholesale Society (CWS), by independent co-op retail societies to manage their supply chains. These independent retail societies went through wave after wave of mergers (Spear, 2005), from just under 1,000 in 1960 to about 50 in 2000, and the governance structure of CWS represented their corporate interests.

After 2000, when CWS merged with the Co-operative Retail Services (established in 1933 to set up new cooperatives, and later becoming the "ambulance service" of the cooperative sector, taking over failing independent societies), it had to develop a hybrid governance structure representing members as well as independent societies with the large regional societies dominant (Birchall, 2014). This governance reconfiguration towards retail members continued with its subsequent merger, in 2007, with another major retail society. By 2013, its Board had 15 directors elected by members via regional structures, one professional Non-Executive Director, and five directors from independent co-op retail societies (all chief executives); thus, its Board reflected how much the business had changed from its origin as a federal body supplying independent societies to one dominated by its own retail business. This hybrid structure was not discussed from a multistakeholder perspective, but more as a unitary body with historically derived aberrations; thus, the directors elected from the independent societies were "not regarded as independent", due to potential competition issues (e.g. geographical). To address potential conflicts of interest, they had established a policy[17] in their code of conduct for directors, and in their rules.

However, this brief consideration of the Co-operative Group does illustrate how governance issues of a secondary cooperative with federal relationships of setting up new co-ops, ambulance service for failing co-ops, and providing supply chain services, do network across independent retail societies. In particular, it provides an example of how cooperative governance practices can be established and shared across the

[17] "The Policy outlines how conflicts of interest will be dealt with and the process for directors to follow when notifying the Group of an actual or potential conflict. When deciding whether to authorise a conflict or a potential conflict of interest, only those that have no interest in the matter under consideration are able to take part in the decision, vote on the matter, or be counted towards the quorum for that part of the meeting" (Co-op Group, 2013, p. 37).

sector; and how overlapping board memberships can enhance the legitimacy, networking, and capabilities of the board—building communities of practice, and social capital (Sacchetti & Tortia, 2016). This thereby represents another form of polycentric governance through sharing experiences and knowhow in different cooperative governance settings; and, similarly, the recruitment of directors indicates this experience is valued. For example, in the case of the Co-operative Group, the largest consumer cooperative in the UK, many of its non-executive directors (NEDs) and its member-nominated directors have previous board-level experience in other cooperatives. One could argue that this networking has created a *community of co-op governance practice* amongst board directors. Indeed, this is further elaborated in the self-regulating system supporting good governance standards throughout the UK, set up by Co-operatives UK (federal body); it does this through its training and development materials, much available on its website. And it established a Co-operative Governance Expert Reference Panel (which includes a director from Lincoln Co-op) responsible for establishing the Cooperative Corporate Governance Code, which it has maintained for many years. This Expert Reference Panel comprises members from all sectors of cooperatives in the UK, and currently includes a member of the Board of Lincoln Cooperative.

Supply chain governance: Federal Retail and Trading Services (FRTS—majority owned by the Co-op Group) is a joint buyer and supplier of foodstuffs and other goods to most consumer retail societies in the UK. It was founded in 2015 to help manage resource dependencies by giving bulk and quality buying advantages; it evolved from the Co-operative Retail Trading Group (founded in 1993). It is collectively governed by each member society, each with an equal vote. Lincoln is one of the retail societies with a voice in this supply chain operation, and 95% of its sales from its food stores is supplied by the buying services agreement managed by Federal Retail & Trading Services Ltd. FRTS is 76% owned by the Co-op Group, and 24% owned by the independent retail consumer co-ops using its services; these Independent Society Members (ISMs) are represented on the Co-op Group Members' Council, and their votes are based on patronage. FRTS operates on a nonprofit, cost-recovery basis. This may be regarded as part of a polycentric pattern of governance within the UK consumer co-ops sector, both at the enterprise, and at the retail sectoral level.

7.4.3 Lincoln Stakeholder Strategies

This section draws on the stakeholder model of governance to examine how the governance system of a cooperative may inclusively address the interests of a wider range of stakeholders than the owner-member. Although there may not be formal representation of this wider range of stakeholders, stakeholder strategies may be guided by the board to serve their interests (see Novkovic and McMahon, Chapter 2 in this volume; Pirson & Turnbull, 2011). This represents a broadening of the concept of membership and a separation of control from ownership in this reconceptualization, as argued above (Sacchetti & Borzaga, 2017). Thus, while member strategies are of primary concern for governance of a cooperative, Lincoln Cooperative has a comprehensive and inclusive approach to integrating owner-membership issues with that of other stakeholders, particularly linking membership and community. The chief executive's report in 2021 emphasized collaboration, working together with a range of stakeholders: members, colleagues (staff), community groups, charities, suppliers, and partners in the private/public sector.

Staff-Colleagues: Around 1% of members are colleagues—Lincoln Co-op has around 300,000 members and around 3,000 colleagues. There is no limit to how many colleague-members can attend and vote in the AGMs, and usually about 20% of AGM attendees are colleagues. In this respect, Lincoln may be regarded as containing elements of an informal multistakeholder cooperative, with representation of staff (although since many of them would also be consumers, it's an open question whose interests they would prioritize).

This is a potentially tricky issue, since it would be optimistic to assume that the employee member would always advocate for consumer interests (despite their membership being as consumers); this tension is recognized in the UK Co-op Governance Code which restricts employee members (and retired employees) if they become directors from being on the audit or remuneration committees; The Lincoln Co-op Rule Book (FCA, 2021) specifies there should be no more than five board members who are employees, or have been employees within the previous five years. In principle pensions and pay are covered by these restrictions; however, some, such as the well-known Danish researcher Torben Bager, who, when analysing the transformation of Scandinavian consumer co-ops, see considerable risks in the high and increasing influence of employees (and their professional organizations) who are more highly educated conventionally, and not imbued with the norms of cooperation from early recruitment to the co-op. These "insiders" are regarded as the main source of normative isomorphism (DiMaggio & Powell, 1983), and Bager (1994) argues are an important influence on non-congruent isomorphism which homogenizes cooperatives with conventional business. There are different categories of employees, such as managers, technical-professional staff, and ordinary workers, and although he doesn't address the issue of employee members directly, that would increase their influence, and it could be added that they are unlikely to be independent of the senior management team.

It is probably important not to overstate this tendency, since we are in different times to the period that Bager was analysing (1980s), and there has been a strong dynamic to regenerate the cooperative advantage, post the carpet-bagging demutualizations of mutual building societies in the UK. And this may be employee driven—one UK retail society, which is dominated by directors who are also employees, has very strong and progressive cooperative values. Nonetheless, the near demise of the "ethical" Co-operative Bank, now owned by an international hedge fund after its less than ethical selling of personal protection insurance, indicates a mimetic tendency with conventional financial organizations. But the general theoretical argument suggests the need for firmer constraints on employee members in informal multistakeholder governance systems, and/or firm constraints on their representation in any formal multistakeholder governance system.

Lincoln Co-op's annual report celebrates colleagues' achievements, reports bonuses paid during the year (equivalent to two weeks' wages), and pays tribute to those who have died. Regarding staff development, in 2020 they have achieved recognition in the government's Investors in

People programme, gaining Platinum status, which signifies that they are one of the country's top employers, however less is reported on structures for giving voice for employees. This also means they recognize and aim to address inclusion and diversity issues. They recognize the challenges of mental health issues and provide free counselling for staff as well as having more than a hundred mental health first-aiders. There are also confidential whistleblowing channels for colleagues to report fraud, and issues relevant to modern slavery.

Community relations: Member engagement is extensive and appears closely linked to community relations. Lincoln serves over 100 communities through more than 200 different outlets. They have contributed to the community in collaboration with members to address local problems, by helping to run libraries, tackle loneliness, redistribute surplus food, organize health walks, etc. And with the National Health Service (NHS) they are refurbishing and extending a doctor's surgery, and creating an aseptic facility for the NHS to help manufacture specialist drugs.

Their approach to building good community relations is to use a team of nine community coordinators to identify the needs of their local community and work with groups and projects. They help with funding and/or volunteering, to build collaboration and connections between groups and organizations, and link with the Co-ops branches. And they use locally embedded community ambassadors in workplaces and retail outlets to help with fundraising and events. They target local charities and groups by inviting applications every quarter, then members and staff elect a Community Champion linked to each outlet. There's a different theme each quarter—community groups, local social causes, and health causes (physical/mental)—then at the end of each quarter the chosen charity or community group will receive funding (typically around £500 each); funding comes from staff/colleague fundraising, collection boxes in each outlet, proceeds from the sale of carrier bags, and donations from Lincoln Co-op based on members' use of their dividend cards. In the last year, they raised £648,684 for 586 local charities and community groups through this Community Champions Scheme. And for the health and local social causes, fundraising resulted in the provision of community defibrillators, support for local emergency groups, and projects addressing food poverty.

This important part of strategy—community investment and development—could have been centrally controlled and run, but it is co-governed in a decentralized way at the local level, by community ambassadors linked to retail stores, through the votes of local people, and managed centrally by the nine community coordinators. This represents another layer to the networked and polycentric governance system discussed above. Lincoln also works closely with 40 local food banks, and has created through partnership (with the charity Fairshare Midlands, Lincolnshire Community Foundation, and the Lincolnshire Food Partnership) a food redistribution hub for managing surplus food and its distribution to local organizations.

Local Community - Employment: Regarding employment, Lincoln collaborated with the Prince's Trust to support an employability project. The Co-op has created a chartered management degree apprenticeship with the University of Lincoln, and also supported 61 local suppliers in 2020.[18]

Board Networking for Community Engagement: The annual report also reports on other externally appointed positions held by directors; these include: director of Lincolnshire Cooperative Development Agency; director of a credit union; member of the Co-operative Group Members Council; director of a local school trust; member of an audit committee for Lincolnshire Police; and member of Bishops Council of Trustees. Reports on committee attendance by directors generally show a very high level of participation. The directors' report also covers the senior leadership team and their outside directorships, such as: member of the Council of the University of Hull; chairing Lincoln City Partnership; trustee of Lincoln Diocesan Trust; trustee of school trust; director of a housing community interest company; governor of a local college; director of a local theatre company, etc.

Local Economic Development: Lincolnshire Co-op has played a major role in local economic development, led by their CEO who was awarded an OBE for her services to the local economy (Order of the British Empire, a national award for public service). Ursula Lidbetter became chief executive in 2004, and from 2010 when she became the first chair

[18] https://www.lincolnshire.coop/news-and-blogs/working-together-with-local-suppliers.

of the Greater Lincolnshire Local Economic Partnership (LEP) until 2019, she led this public–private sector partnership, which has aimed to drive and invest in local economic development.

The Co-op has emphasized support for local suppliers and has a supplier payment policy, limiting trade creditor days to 18 days. Most of its supplies come from the national Co-operative Group and its Federal Retail and Trading Services Company. Lincoln Co-op also has policies relating to modern slavery,[19] which are designed to combat trafficking and other forms of modern slavery, and which require transparency in supply chains.

Local Investments: Lincoln Co-op's local investment is clearly a strategic activity, delivering a good financial return as well as contributing to local economic development and the protection and growth of the Co-op's own businesses. The Co-op owns a property portfolio of about 600 commercial properties, including the development and redevelopment of district and local retail centres, as well as small industrial and business units, across the county, which help facilitate new and growing businesses in local communities. It has made a major investment into Lincoln Science and Innovation Park for high-tech spin-off businesses (a joint venture with the University of Lincoln established in 2012); the Park also houses the School of Pharmacy from which the Society hires graduates, providing synergistic links with its ownership of pharmacies. This complements Lincoln Co-op's community development healthcare theme—the development of new health centre buildings, which are let to doctors' practices (GPs), and the housing of Co-op Pharmacies, some on a joint venture basis until the GPs retire or sell their share of the property.

Lincoln Cooperative has led a long-term redevelopment of Lincoln City Centre, including the Society's historic properties and the market and other sites acquired from different landowners. The Cornhill Quarter development created 40 retail outlets, and involved a major heritage development project in Lincoln's city centre, with a £70 m restoration scheme to regenerate the historic Corn Exchange building.

[19] Modern Slavery Act 2015, https://www.gov.uk/government/collections/modern-slavery-bill.

Other developments appear more controversial, and include the building of two drive-throughs: for Costa Coffee and for Starbucks. The Co-op is also investing in a development for a new Aldi (a major competitor, which seems to indicate purely financial criteria)! On the one hand, part of the investment property portfolio could be seen as a "treasury activity"—to keep pension trustees happy and to diversify risk within the Society. Strategically, this involves improving the portfolio by selling poor quality, difficult-to-let, and low-value properties and buying a smaller number of better properties let to better tenants. On the other hand, experience from another Society, 20 years ago, provides evidence of positive impact after a similar property development for Aldi, because Co-op sales went up and shifted from low margin packaged groceries to higher margin fresh food as consumers cherry picked their different items from both the Co-op and Aldi. However, this entails risks: recently discounters' fresh food offers have improved, and complementarity with a local co-op store has been eroded. The case for mutually beneficial synergy is probably clearer with Costas and Starbucks coffee drive-throughs.

Environmental strategy: Lincoln does not have an extensive environmental strategy. The Co-op's electricity is green—a mix of wind and water power, plus some eco measures in the refrigeration systems of their food stores; and an interesting innovation in one store which has an environmentally friendly sedum roof covered with vegetation. It has also developed schemes to strengthen the organization's environmental friendliness, including plastics recycling, and compostable bags—specifically this includes the introduction of 100% compostable carrier bags, replacing the 10 pence (sterling) plastic "bags for life". The Co-op has also introduced soft plastic recycling bills in many of its food stores, and has extended the dividend to the use of reusable coffee cups at take-out coffee venues. Lincoln now has 10 electric car charging points at the Co-op's stores.

7.5 Discussion and Conclusions

This chapter began by recognizing that many scholars of cooperative governance regard the issues of governance in consumer cooperatives as particularly challenging, with clear evidence of failures. The chapter reviewed the explanations for these governance challenges and discussed some of the approaches which offered useful ways of addressing them. The humanistic governance approach has proven particularly useful in broadening the understanding of cooperative governance to networked and polycentric systems, both within individual co-ops and by linking institutions and organizations in the cooperative ecosystem.

At the sectoral level of cooperatives in the UK, there is a considerable degree of networking between some of the larger retail consumer cooperatives, and the federal body Co-operatives UK; Lincoln is well linked to this network, which has been attempting to rejuvenate the spirit of cooperation and mutuality since a wave of demutualizations at the end of the last century. Part of this institutional support for governance by Co-operatives UK has resulted in a governance code, and key performance indicators, as well as other resources, to improve governance nationally. There is also, through this networking, an argument to be made that a community of practice is apparent in cooperative governance, through the way in which directors and no-nexecutive directors in particular have built their expertise and experience.

Another important way in which networked governance operates in the ecosystem is through the supply chain, where the Federal Retail and Trading Services joint buying group provides supplies for most retail societies in the UK, including 95% of Lincoln's supplies.

Lincoln has well-developed governance processes for engaging with and facilitating participation of members, but it still suffers from the classic problems of large consumer cooperatives: low membership activity in annual general meetings. And despite member democratic participation remaining disappointingly low, its economic participation is notable with almost 50% of trade in food stores being with members.

A humanistic governance perspective emphasizes a people-centred approach, inclusively engaging with stakeholders, as well as members.

Lincoln has adopted a strong portfolio of stakeholder strategies[20] to contribute to its community, the local economy, and the environment in important ways. Of particular note is its community development strategy which involves substantial investment in communities linked to local stores, but which is administered through a polycentric governance system. They also have demonstrated remarkable performance in relation to other stakeholders such as staff/colleagues and through environmental strategies. Some of their local economic development is particularly impressive, again through polycentric governance of the partnership with Lincoln University for an Innovation Park, their heritage development of the Cornhill Quarter, and healthcare initiatives, which link with their portfolio of pharmacies. Their potential to intervene so effectively in the local economy is substantially due to their strategic priority of building a property portfolio over many years from profits/surplus.

The Lincoln case reveals continuing governance challenges regarding membership participation in annual meetings, but provides an interesting example of how broader patterns of cooperation within Lincoln and within the cooperative sector have good outcomes for its range of stakeholders as well as for the cooperative ecosystem.

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[20] Cf. in recent years, the World Economic Forum has been supporting moves towards stakeholder capitalism, rather than shareholder capitalism (Schwab, 2021). A similar trend can be seen in the growth of ESG criteria in investment to ensure corporations consider environmental, social, and governance issues.

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