

White Paper Working Title

**Democratically Owned and Controlled Businesses:  
Identifying Common and Unique Expectations of Co-op Board Governance Systems**

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**Abstract**

“An autonomous association of people united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”—  
International Co-operative Alliance Definition of a Co-operative.

As democratically owned and controlled businesses, co-ops differ fundamentally from conventional businesses in that each owner has one vote. Typically, the owners will elect a board to govern on their behalf. Because co-op businesses originate from collective action to meet a common (and often diverse) set of needs, there are likely to be unique owner expectations placed on a board governance system in addition to those commonly held regardless of organizational type. Through examining and linking various literatures, this research seeks to explore and identify unique and common owner expectations and the resulting implications for co-op governance systems and their development.

*NOTE on the White Paper stage of development: This paper is in its conceptual development and continued guidance from the Workshop is highly desired. I am drawing together several literatures to build a framework for understanding expectations of co-op board governance. After this phase of development, I will gather data related to governing behaviors/activities to enhance and modify the framework which will be presented in Austin Texas at the Consumer Cooperative Management Association meeting (proposal submitted). The ultimate desired outcome is to a) provide useful information regarding governance system design and b) establish an understanding of key governance activities and how they ultimately impact the performance of cooperatively owned businesses. This final work will be presented in September at the Symposium on Cooperative Board Governance at St. Mary's University in Halifax Nova Scotia (proposal to be submitted in May) and then submitted for publication in the academic literature.*

**Introduction**

The world has experienced serious economic, social and political crises in the last decade.

The Blueprint for a Co-operative<sup>1</sup> decade states, “in the second half of 2012, following five years of financial turbulence the more developed economies of the world remain in a state of crisis from which

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<sup>1</sup> I will use co-operative (or co-op) in this paper as opposed to cooperative in order to be clear that I am referring to the organization rather than the act.

there is still no apparent exit, and the developing economies are being impeded in their pursuit of the Millennium Development Goals. In many nations, governments are in retreat, cutting their social and public spending, leaving citizens even more vulnerable to economic turmoil. In others, inequality continues to increase as economic power is shifting dramatically with consequential social impacts.”

The authors go on to say, “In the midst of this uncertainty and suffering, co-operatives can provide some hope and clarity of direction for citizens around the world. Uniquely amongst models of enterprise, co-operatives bring economic resources under democratic control. The co-operative model is commercially efficiently and effective way of doing business that takes account of a wider range of human needs, of time horizons and of values in decision making.” (2013, pg. 2)

2012 was declared the Year of Co-operative by the United Nations which resulted in leaders in the co-operative sector to look forward to establishing what they call the “Co-operative Decade”. During this co-operative decade, the stated aim is to bring co-ops to the forefront as the acknowledged leader in economic, social and environmental sustainability, the model preferred by people that is growing faster than other forms of economic enterprise.

But, can democratically owned businesses actually make these differences? Are the elected governors just window dressing on what is really just another conventional business? These questions then beg a third...can democratically owned and controlled businesses really simultaneously deliver on the promise of enterprise performance AND a robust and thriving democracy?

This paper takes a step toward addressing these questions through a focus on the unique and common expectations of the governing boards of democratically owned and controlled co-operative businesses in contrast to conventionally owned business enterprises, specifically corporations. While there has been considerable study of the governance of corporations, less theoretical or empirical research has been done that helps us understand governance of co-operatives. It is worth noting that I use corporations as an example of a conventionally owned business with a board in order to gain understanding of the co-operative, rather than to focus on the corporation itself. This comparison and contrast will allow us to explore co-operative governance with an ultimate focus on how being a democracy brings completely unique expectations of co-op board governors. From a deeper understanding of expectations co-operative leaders will be able to develop and evolve governance systems to aid meeting the expectations owners place upon and perceived by boards.

I first give some background on co-operatives in terms of size and prevalence and how they position themselves as different based on values. I will next move into a discussion of agency theory and the institutional logics perspective in the context of co-operatives vs. corporations. Then I will overview a framework that identifies expectations of governing boards including vigilance behaviors, strategic leadership behaviors for both co-operative and corporate boards and then the unique expectation as democracy advocates for co-operative boards. Following this, I discuss expectations related to board teaming behaviors. In the end I will discuss the implications for building co-operative board governance systems and additional research needs to enhance the framework and ultimately study governing board impact on co-operative performance.

## Background on Co-operatives

Under Construction: Being developed

### Agency theory and the Institutional Logics of Co-operatives vs. Corporations

Boards sit at an interesting place in the set of agency relationships of both co-operatives and corporations. They simultaneously are delegated an enormous amount of authority from owners while at the same time, turning around and delegating nearly all this authority to management, often through a general manager such as a CEO. Making this even more interesting (and challenging) is likely that the number of owners is high resulting in the inability to speak with them all directly, there is a large degree of complexity in the organizational internal and external environments, and that the board directors are largely part time actors.

Agency theory has been broadly employed across disciplines and schools of thought and has evolved along different paths (Eisenhardt, 1989; Shapiro, 2005). Early forms of the theory identified assumptions regarding the agents to include self-interest, bounded rationality and risk aversion (Eisenhardt, 1989). As the theory evolved, scholars began to loosen the assumptions in an attempt to deal with observations that that actors should not be assumed to have negative morals with a focus on human motivations that is too narrow (e.g. self-interest; Donaldson, 1990) and that the base assumptions may vary depending on the situation and of the actors themselves (Wright, Mukherji and Kroll, 2001).

This raises interesting questions about what might be the appropriate base assumptions and what the situations might be that influence or determine them. This is of interest here because in the identification of the expectations owners (principals) have of boards (agents) and in turn how boards relate to management. What might determine the base assumptions in co-operatives vs. corporations and how might this impact the expectations boards perceive themselves having?

One perspective that is useful in exploring these questions is that of Institutional Logics. Thornton, Ocasio and Lounsbury (2012) define the institutional logics perspective as a “metatheoretical framework for analyzing the interrelationships among institutions, individuals, and organizations in social systems” (pg. 2). More specifically, institutional logic is defined as “the socially constructed, historical patterns of cultural symbols and material practices, including assumptions, values, and beliefs, by which individuals and organizations provide meaning to their daily activity, organize time and space, and reproduce their lives and experiences (pg. 2).”

Agency theory assumes bounded rationality. Because agent actors can't know everything, they must rely on *something* to make decisions and act on behalf of their principals. Institutional logics can fulfill at least some of this role, ultimately impacting the perception of expectations placed upon agents through an understanding of key components in the definition: historical patterns, cultural symbols, material

practices, assumptions, values and beliefs of their co-operative or corporation. These expectations, laid upon and perceived by, the governors will ultimately impact the governance systems/models employed by them.

If we assume that institutional logics influences actual and perceived expectations, we can assume that it both constrains and enables the actors in their level of agency, or ability to act. Agency is defined as an actor's ability to have some effect on the social world---altering the rules, relational ties or distribution of resources (Scott, 2008). Here we are talking about the *agency of the agents* and how constrained or enabled they are to act. Institutional logics argues that "agency, and the knowledge that makes agency possible, will vary by institutional order" and that "each institutional order has its own sense of rationality" (Thornton et al., 2012, pg. 4 and pg. 7). Thus, from an institutional logics perspective, we can anticipate that expectations placed upon and perceived by boards of different institutional orders will also vary.

Here we reach the research questions of concern in this paper. Are there different institutional logics that differentiate between co-operatives and corporations? And if so, how are these different logics likely to impact the expectations held of and perceived by boards from the two categories of institutions? I will first argue that what we know of co-operatives and corporations does indeed reflect different institutional logics. Based upon this foundation, I will explore the likely consequences of expectations held between the boards with a primary focus on the co-operative.

Co-operatives vs. Corporations. Both co-operatives and corporations must be profitable businesses in order to sustain themselves. They both have owners that invest equity, boards that act as agents of the owners and an enterprise. Thus, each has business and owners as part of their logic.

At this point we can start to detect the departure of the two business models. Ownership in corporations may be divided unevenly, with one shareholder able to hold multiple shares. The amount of shares determines the portion of the profit each owner may receive in dividends and the number of votes they have in electing the board of directors. This in turn leads to a widely held understanding that the primary value upon which the corporation should focus is maximization of shareholder wealth. Corporations are monetary *wealth building mechanisms* and this is central to their institutional logic.

In contrast, ownership in co-operatives is evenly distributed with each owner having a single share. Each owner has one vote in the election of the board of directors. Rather than profits being distributed based on how many shares an owner has, it is distributed based upon patronage, or the amount the owner engages in using the goods or services of the co-operative (in an economic transaction, i.e. in exchange for money). This difference arose as a consequence of co-peratives being formed to meet the needs of their owners (the scope of these needs may very well be wealth related but can start or evolve be quite broad and diversified) and on the basis of democratic control by owners of the business. The widely held understanding is that co-operative's place primary value on maximizing meeting the needs of shareholders. Co-operatives are *needs meeting mechanisms* and this is central to their institutional logic.

Maximizing shareholder wealth vs. maximizing owner need satisfaction as primary values likely impacts the institutional logics of corporations vs. co-operatives and in turn, the expectations held of boards for each rests on set of values that is quite different. Particularly interesting is the broader scope that co-operatives have in owner needs beyond creating monetary wealth for owners.

Co-operatives around the world have embraced a universal set of “Co-operative Principles”. In addition, they have built a set of broadly held values. These principles and values are identified in Table 1. It should be noted that the order is not reflective of priority.

Seven Co-operative Principles	Co-operative Values
<ol style="list-style-type: none"> <li>1. Voluntary and Open Membership*</li> <li>2. Democratic Member Control</li> <li>3. Member Economic Participation</li> <li>4. Autonomy and Independence</li> <li>5. Education, Training and Information</li> <li>6. Cooperation among Co-operatives</li> <li>7. Concern for Community</li> </ol>	<ul style="list-style-type: none"> <li>• Self Help</li> <li>• Self-responsibility</li> <li>• Democracy</li> <li>• Equality</li> <li>• Equity</li> <li>• Solidarity</li> <li>• Honesty</li> <li>• Openness</li> <li>• Social Responsibility</li> <li>• Caring for others</li> </ul>
<p>*Membership is synonymous with Ownership in co-operatives</p>	

**Table 1:** Co-operative Principles and Values

It is interesting to note that only one of these addresses economic participation, and that the only one specifically articulated in both principles and values is that of democracy. The principles and values that sit aside economics should broaden the scope of the logic of this institutional type well beyond that of the corporation.

From this point forward, I assume that there are certain overlapping and distinguishing aspects of institutional logics that will lead to overlapping differentiated expectations held of and perceived by boards

**Overview of Board Governance Expectations**

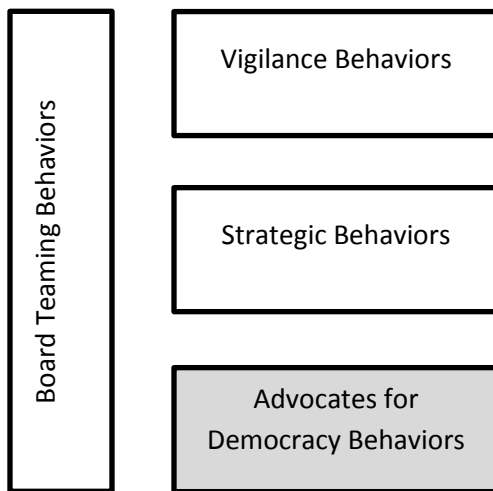
Finkelstein, Hambrick and Cannella (2009) identify multiple theories on what business boards do and how they operate including resource dependency theorists who argues boards reduce environmental uncertainty (Pfeffer 1972; Burt, 1983), social class theorists focusing on board interlocks and managerial elites (Useem, 1979; Mizruchi 1996; Mizruchi and Stearns, 1988) and agency theorists who emphasized the role boards took in monitoring and disciplining top management (Farma and Jensen, 1983). As previously discussed, this latter agency perspective relates to board governing responsibilities as they act as agents of the principals, which in both cases, are the owners of the business.

A question arises as to what an agent is to do for the owners of the business and the impact they can ultimately have on the organization. Finkelstein et al (2007) indicate the key question to be “How do boards affect organizational choices, strategies and performance?” (229). This larger question is out of the scope of this paper, but sets the scene for the longer term inquiry into the role governing boards play in co-operatives and whether or not they can make a difference in these democratically owned businesses.

McGinnis defines governance as “the process by which the repertoire of rules, norms, and strategies that guide behavior within a given realm of policy interactions are formed, applied, interpreted and reformed.” (2012, pg. 6). While there may be multiple levels of governance including that of operations in an institution, our focus here is that of the board and their role in the process defined by McGinnis.

Co-operatives and corporations have elected boards with certain common expectations of their governance duties as they act out their agency role. But as discussed in the previous section, who has the elector power varies and the institutional logic each starts with varies, which then begins to separate and distinguish co-operatives from corporations.

Figure 1 below presents the three core components of framework this paper will focus on regarding the proposed common and unique expectations of these boards. In addition, Board Teaming Behaviors runs spans each of the core and facilitates the ability for the board to function effectively as a unit in the core behaviors. Each of the component expectations are labeled as behaviors. Because board governance is an act of agency, there are expectations that boards “do” something on behalf of those electing them to their positions.



**Figure 1:** Components of Board Governance Expectations

The core expectation components of the framework are vigilance, strategic and democracy behaviors. Democracy behaviors are in grey as these are considered to be the unique set of expectations of co-operatives as opposed to corporations. Additionally, there are expectations of effective work as a team of directors to carry out the core behaviors.

It is likely that as the components are studied further, relationships between each may need to be reflected. For example, it is possible that the democracy behaviors related to engaging the co-operative owners in reflection based on diverse value sets will result in further informing the expectations strategic behaviors. For now, the focus will be upon describing the expectation components and the potential behaviors to be included.

The next three sections define and describe each expectation component.

### **Expectations of Vigilance Behaviors**

Of the different core behaviors, that of vigilance appears to have the most universal support as an expectation and the greatest overlap in expectations between co-operative and other forms of business. The dictionary definition of vigilant is “alertly watchful especially to avoid danger” (Merriam-Webster, online). Thus, vigilance behaviors can be considered act of intentionally paying close and continuous attention to avoid danger.

Vigilance behaviors are seen as boards play their internally focused “role in administration and internal control, putatively (and legally) responsible for setting policy and monitoring management” ( Finkelstein et al., 2009: p228). Agency theorists Fama and Jensen (1983) point out that boards play the role of ratifying and monitoring top management decisions and that they are central in ensuring that shareholder best interests are served by management actions. The authors point out that this is the case for various types of organizations from corporations to financial mutual to not-for profits. This is akin to fiduciary responsibility described by Joyal and Swansen (2011) as they described legal responsibilities of co-operative boards and how they originate in legal statutes similar to other types of for- and not-for- profit organizations.

The key insight from the above is that board vigilance behaviors are expected from all types of board governed organizations. Not only are they expected, they are legally mandated. Of course, which behaviors and how well these are carried out will vary from organization to organization resulting more or less effectiveness and more or less impact on an organization ultimate performance as it relates to meeting shareholder/stakeholder/owner interests.

Authors have identified various board vigilance behaviors. These are captured in Table 1.

Vigilance Behavior	Author/s
Choosing Organizational Leadership <ul style="list-style-type: none"> <li>• Hiring and firing top managers/CEOs</li> </ul>	<ul style="list-style-type: none"> <li>• Fama and Jensen, 1983; Finkelstein et al., 2009</li> </ul>
Reward/Disciplining Systems <ul style="list-style-type: none"> <li>• Implementing performance-contingent compensation plans</li> <li>• Establishing evaluation systems based on compliance with outcome and means based policy</li> </ul>	<ul style="list-style-type: none"> <li>• Fama and Jensen, 1983; Mizruchi 1983; Finkelstein et al., 2009</li> <li>• Carver 2006</li> </ul>
Decision Control <ul style="list-style-type: none"> <li>• Decision Control including ratification and monitoring</li> <li>• (Establishing?) and monitoring policy related to organizational means and outcomes</li> <li>• Clearly delegating authority and holding top management accountable for its use</li> <li>• Clearly delegating authority and holding top management accountable for its use in a way that provides 'linkage' to owner values</li> </ul>	<ul style="list-style-type: none"> <li>• Fama and Jensen, 1983;</li> <li>• Carver, 2006</li> <li>• Fairbairn, 2003</li> </ul>

**Table 2:** Potential Board Vigilance Behaviors

Perhaps the words of Fama and Jensen (1983) summarize this well, “Such boards always have the power to hire, fire, and compensate the top-level decision managers and to ratify and monitor important decisions.” (P 311)

Under Construction: DEVELOP The influence of institutional logics on the expectations of board vigilance as I go through each behavior

**Expectations of Strategic Leadership Behaviors**

Strategic behaviors are those acts that are part of the strategic process of the organization. While I separate this from vigilance, it is likely that they overlap to some degree in that some of the behaviors (e.g. challenge, dissent, testing) may take the form of monitoring or could take the form of strategic conversations/discussions.

While considerable support appears to be present for vigilance behaviors as an expectation of boards, the degree to which boards are expected to be involved in strategic leadership behaviors as a core role



appears less clear. Thus far, agency theorists have focused most of their attention on the monitoring role of boards and less on strategy and its formulation (Finkelstein et al., 2007). While this may be the case, there has been growing pressure over time toward a higher level of board involvement expectations from the implementation of Sarbanes-Oxley to director liability issues (Galen, 1989) to directors wanting to play a primary role in advising and evaluating (Lorsch, 1989). Yet, the literature also indicates that there are powerful norms not to question management and penalties for boards and directors that do so (Westphal and Khanna, 2003).

It is possible that the expectations are highly situational or contingent in nature. For example, if a co-operative or corporation is small in size, this may increase the expectation for boards to engage in a broad range of strategic behaviors. On the other hand, in a large, complex organization it is possible that the board will be expected to play a more unique and specialized role such as envisioning the long term future. Finkelstein et al. (2009) propose various critical contingencies that may impact board level of involvement including environmental uncertainty (higher leads to higher), age of the organization (older leads to lower), size (larger leads to lower), transitions such as acquisitions, divestiture, and joint ventures (more leads to higher), appointment of a new CEO (leads to higher) and CEO tenure (longer leads to lower).

Additionally, the degree to which boards are made up of inside (part by the organization) or outside (not part the organization) directors may make a difference as well. In general, outside directors may have higher expectations place upon them to question strategic decisions yet rarely initiate strategy, while inside directors may be more involved in the formulation of strategy (McNulty and Pettigrew, 1999). This may depend on the level of experience of the insiders in relation to that of the outsiders with the strategic issue at hand.

This last issue may be what ultimately separates expectations regarding the governing boards of co-operatives and conventionally owned businesses. Co-operative boards tend to be dominated by democratically elected board members and appear to have less prevalence of the CEO holding an actual position on the board of directors (although this deserves empirical attention to confirm). Corporations on the other hand, have a high frequency of CEOs holding dual roles to include board chair/president. It is possible that co-operatives will have a board that is more predictably made up of owners rather than of fluctuating composition of inside and outside directors.

Rather than attempt to determine the impact of all the situational variables here, I will first focus on identifying the strategic behaviors that are potential expectations for governing boards. These potential expectations apply for both co-operatives and conventionally owned businesses. Ultimately, the boards will be make their decisions about how much they should be engaged in strategic leadership behaviors in the context of their institutional logics and the situation of their specific business.

I present these related to the decision point by management regarding the organizational strategy to include strategic process initiation, strategy formulation, shaping strategic decisions and taking strategic decisions (these three categories are adapted from McNulty and Pettigrew, 1999).

Strategic process initiation deals with providing a starting point from which the remaining strategy is created. This forward looking act is described by Carver (2009) as decisions about ‘Ends’. Essentially, Carver advocates that boards are responsible for setting policy that “sets forth the fundamental reason for an organization’s existence in terms of the expected results for specified populations at some stated efficiency, cost or priority among other results”(p.374). These board decisions then serve as a foundation for subsequent strategic decisions.

Strategic Leadership Behavior Expectation	Author/s
Strategic Process Initiation <ul style="list-style-type: none"> <li>• Generative Thinking</li> <li>• Establishing Expected Outcomes to benefit Specific Stakeholders on the basis of forward thinking</li> </ul>	<ul style="list-style-type: none"> <li>• Chait, 2005</li> <li>• Carver, 2009</li> </ul>
Strategy Formulation: Shaping Content, context and conduct (reaching the decision point) <ul style="list-style-type: none"> <li>• Strategic Analysis/Understanding External Complexities</li> <li>• Prompting and Questioning-Deliberate vs. Emergent</li> </ul>	<ul style="list-style-type: none"> <li>• Rindova, 1999</li> <li>• McNulty and Pettigrew, 1999</li> </ul>
Shaping Strategic Decisions (at the decision point) <ul style="list-style-type: none"> <li>• Direct: Consultation</li> <li>• Direct: Challenge, dissent, testing</li> </ul>	<ul style="list-style-type: none"> <li>• McNulty and Pettigrew, 1999</li> </ul>
Taking Strategic Decisions (after the decision point)	<ul style="list-style-type: none"> <li>• McNulty and Pettigrew, 1999</li> </ul>

**Table 3:** Strategic Leadership Behavior Expectation

**Under Construction: DEVELOP** The impact of institutional logics on strategic leadership behaviors as I go through each behavior.

**Expectations for Advocates for Democracy Behaviors**

Where expected vigilance behaviors had a great degree of overlap and strategic leadership behaviors found some path departure, expectations of being democracy advocates is the point of complete distinction. The reasoning for this is quite simple...corporations are not designed to be democracies and co-operatives hold democracy as core to their institutional logic and design.

But what does it mean to be a democracy and how would this impact expectations owners have of the board? Isn't it basically hold an election with each owner getting a vote and check, democracy work complete?

In addressing the reasons crises have flooded democracies around the world, Vincent Ostrom (1997), renowned democracy scholar, considers, “Perhaps the answer is to be found in the superficial way we

think about citizenship in our democratic societies. How people conduct themselves as they directly relate to one another in the ordinary exigencies of life is much more fundamental to a democratic way of life than the principle of ‘one person, one vote, majority rule. Person-to-person, citizen-to-citizen relationships are what life in democratic societies is all about. Democratic ways of life turn on self-organizing and self-governing capabilities rather than presuming that something called ‘the Government’ governs (pg. 3).”<sup>2</sup>

This is worth considering for the society of the co-operative as well. If being a democracy means more than “just one person, one vote, majority rules”, then what are the implications of this to the institutional logic of the co-operative and the subsequent perceived expectations ownership should have of elected boards?

Starting with the words of Ostrom, we can draw some parallels to co-operatives. The owners make up the citizens of the co-operative democracy. They elect the board of directors. The board of directors are the elected part of the governing structure and the management is the appointed part of the governing structure. But from Ostrom’s perspective, this is not what makes a democracy go beyond superficiality. The citizens retain governing power through this election and appointment approach having self-organized and developing, maintaining and utilizing self-governing capabilities. The citizen owners *delegate* authority and power, but do not *abdicate* authority and power to their agents.

In a robust and resilient co-operative democracy, owners have the capabilities for and are engaged in self-governance through participating in the processes of reflection and choice. Certainly they use agents to act on their behalf, but again the use of agents is an act of delegation to help the system work. And in order to make good decisions on behalf of the owners, having owners participate in the process of reflection that leads to choices appears critical.

Ostrom states that, “democratic societies are necessarily placed at risk when people conceive of their relationships as being grounded on principles of command and control rather than on principles of self-responsibility in self-governing communities of relationships” (pg. . 4).

If indeed the co-operative values and principles are taken seriously by co-operative boards, one can begin to see how fundamental this is to the institutional logic of co-operatives: democratic member control, self-help, self-responsibility, democracy. And to support a vibrant democracy: education, training and information, autonomy and independence, concern for community, caring for others, social responsibility, openness. The majority of the values and principles appear to be directly or indirectly about supporting a robust, self-governing democracy.

To have a robust and resilient democracy, Ostrom argues that it must be about *power with*, rather than *power over*. But this does not just naturally occur nor is it free from being vulnerable. Multiple types of vulnerabilities have been identified including being played for suckers, tyranny of the majority, democratic despotism and pragmatism. As democracies, co-operatives are vulnerable to each.

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<sup>2</sup> It is worth noting that he mentions crises that pre-date all of the economic and social turmoil of the last decade. His comments have even more weight given all that has happened since the turn of the millennium.

Being Played for Suckers. Misaligned interests between principals (owners) and agents (boards) is a core issue of concern in agency theory (Eisenhardt, 1989). This vulnerability is when after an election, whatever voiced alignment with the public evaporates in favor of hidden agendas and actions of winning coalitions (Ostrom, 1997). A co-operative is vulnerable if those on the board work to be elected based on one premise, with a hidden agenda upon which they base their actions. Owners can also be played for suckers if the elected board communicates one thing with the intention of acting in another. This manipulation and lack of candor breaks down trust, alienates the owners and disillusiones them about the co-operative and how it connects to their values.

Tyranny of the Majority. Tocqueville (1835-40-get this citation) and Madison (Hamilton, Jay and Madison, 1788) both identified this as a vulnerability because of the use of majority vote. Ostrom (1997) refers to this vulnerability “as a sickness of government” where the majority decisions benefit the majority but leave the minority needs and interests behind.<sup>3</sup>

Democratic Despotism. Tocqueville (1835-40) identified this vulnerability to be when things are good, and the people are kept happy. This leads to a sort of benevolent autocracy where, “power is absolute, minute, regular, provident and mild. It would be like the authority of a parent if, like that authority, its object was to prepare men for manhood; but it seeks, on the contrary, to keep them in perpetual childhood: it is well content that the people should rejoice, provided they think of nothing but rejoicing. For their happiness such a government willingly labors, but it chooses to be the sole agent and the sole arbiter of that happiness; it provides for their security, foresees and supplies their necessities, facilitates their pleasure, manages their principal concerns, directs their industry, regulates the descent of property, and subdivides their inheritances: what remains, but to spare them all the care of thinking and all the trouble of living? (Taken from Ostrom, 1997: p 16).”

Ostrom (1997) identifies this as a “sickness of the people” and states, “Democracies are in serious difficulties when a sickness of the people creates a dependency, a form of servitude, in which the people no longer possess the autonomous capabilities to modify their constitutional arrangement and reform their system of government in appropriate ways (pg. 17).”

But can this possibly apply to co-operatives? Co-operative businesses are actually especially vulnerable as there is considerable attention paid to customer service and owner needs. If needs are not met, complaining and working to change the system are expected. But what if people are satisfied for a significant period of time? Why bother to know how to actively participate in the democracy? It is not hard to imagine owners saying to themselves the board will do it and even more so, the excellent management will take care of us. Perhaps an owner does have a concern but things are generally just fine, right?

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<sup>3</sup> Interestingly, in a co-operative that holds a diversity of values that at times appear to be in conflict, it may be possible for the democracy to suffer from a *Tyranny of the Minority*. This occurs when a small group force their ideology to the forefront, attempting to bypass the democratic process and the agents in place. This is done using the priority the co-operative places on a related value and then leveraging this to make their squeaky wheel gain attention. This is worth further exploration as if they indeed are able to circumvent the processes used, the resilience of the democracy may be questionable.

This long term customer satisfaction may in fact lead to democratic muscle atrophy. And when a need to engage does arise, the capabilities skills no longer exist within the ownership and even within the board and management.

This atrophy can lead to a vicious cycle of a *fear of democracy*, with actors working to stifle participation of voice, representation and information sharing through indirect action of ignoring owners to active stifling through manipulating process.

Pragmatism. As the world globalizes and competition intensifies, the issue of pragmatism makes democracies vulnerable. In the US democracy, the pragmatic paradigm arose with Woodrow Wilson (Ostrom, 1997). This is a particularly dangerous vulnerability in that it obscures participation in reflection and choice by the public (owners) and even discourages it as it may interfere with the pragmatic business at hand and create distractions by introducing the challenges the co-operative principles and values bring.

Ostrom (1997) states of Wilson's pragmatic thinking, "Governments could presumably govern in democratic societies without regard for the processes of crafting and recrafting the common knowledge, shared communities of understanding, patterns of social accountability, and mutual trust necessary for self-governing society (pg. 20)". Wilson essentially argued that the original intentions and future desired states were not of importance, rather, the pragmatic situation of today is what matters most. The government had grown up and those original values were nice, but not practical.

Clearly, this is an argument that professional management of co-operatives may be tempted to make. They might argue democracy is hard and it is messy and dealing with all those owners reduces our speed in the marketplace and our ability to respond to competitive pressures. And these things all likely true and this is why this is such a dangerous vulnerability of co-operative democracies. Practical business needs as identified by professional management can potentially trump all else.

Each of these vulnerabilities is real, and unfortunately, they are likely little understood by members of co-operative democracies. Avoiding becoming victim to these vulnerabilities implies both defensive and proactive behaviors. Thus boards must become the champions of democracy, and have the consequent expectation to be *advocates for democracy*. As indicated in Table 4, being an advocate for democracy involves at least four categories of expected behaviors including practice, protection, promotion and perpetuation.

Advocates for Democracy Behaviors	Authors
Practice <ul style="list-style-type: none"> <li>• Do Democracy: engagement with reflection and change processes</li> <li>• Do Democracy: act as effective agents of the ownership</li> </ul>	
Protection <ul style="list-style-type: none"> <li>• Assess the health of the democracy</li> <li>• Be watchful for vulnerabilities and take action to avoid pitfalls</li> <li>• Protect the democratic processes</li> </ul>	
Promotion <ul style="list-style-type: none"> <li>• Ensuring Transparency (rather than opaqueness)</li> <li>• Education and information to build capabilities</li> <li>• Evolve Democratic Processes</li> </ul>	<ul style="list-style-type: none"> <li>• Fairbairn, 2003</li> <li>• Ostrom, 1997</li> </ul>
Perpetuation <ul style="list-style-type: none"> <li>• Bring fresh owners into the democratic electoral process</li> <li>• Orientation to be democratic leadership</li> <li>• Ongoing training on democratic leadership</li> </ul>	

**Table 4:** Advocates for Democracy Expected Behaviors.

Under Construction: Develop institutional logics impacts on advocates for Democracy behaviors as I discuss each.

(Essay) Board Teaming Behaviors

Under Construction: Section to Be Developed

Team Behavior	Author/s
Internal Task Relationship	
External CEO Ownership	

**(Essay) Implications for governance systems**

Under Construction: Section to be developed

**(Essay) Future Research Needs**

Under Construction: Section to be developed

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