

Role of Cooperative Governance Practices: A Study on Financial Cooperatives in Kerala

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Abstract – This article focuses on Co-operative Governance practices of financial co-operatives in Kerala— including co-operative theory, demutualization, leadership, management, community, and social engagement (member or stakeholder voice), and policy. The study creates learning opportunities for students and leaders, by exploring how different factors work together to produce successful co-operative development. The study looks for the best, proven insights from around the world and for ways these can be adapted and applied in Kerala State. Considering the fact that financial co-operatives being financial institutions nearest to the people's needs and wants are mandated to follow standard governance practices, there is a dire need to improve governance mechanism of these co-operatives. There are glimpses of good governance initiatives like standard governance practices of co-operatives (Co-operative Principles and values) issued by ICA that can be applied for better management of co-operatives. The evidences show that some Standard Governance Practices would be a better tool for ensuring effective management practices of financial co-operatives and thereby improving performance. Even though the Government directives stipulate standard in governance mechanisms of financial co-operatives, proper policy framework for tools like Standard Co-operative Governance Practices have not been developed so far. There is a gap in knowledge for the formulation of policy framework and management tools that best fit into the financial co-operatives. Encountering this problem, the present study looks into the issues raised.

Key Words – ICA (International Cooperative Alliance), Governance, Cooperative governance, Cooperative principles, Standard Cooperative Governance Practices, Transparency, Accountability, Predictability, Risk Management, Open Membership, Member Control, Economic Enterprise, Concern for Community, and TQM (Total Quality Management)

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INTRODUCTION

Governance: Governance is the allocation of power within organizations and among stakeholders — governance is a basic question of the purpose of an organization and how it is conceptualized. Allocation of power through governance enables organizations to address three fundamental categories of problems: strategic interdependencies among stakeholders (co-operation and coordination among members, directors, managers, etc.); establishing a shared way of thinking to deal with an uncertain future; and maintaining legitimacy.

Co-operative Governance: Cooperative governance is the act of steering co-operatively owned enterprises toward economic, social, and cultural success. It consists of answering key questions, defining roles and responsibilities, and establishing processes for setting expectations and ensuring accountability. Co-operative governance represents the **legitimate process** by which co-operative members select, in a democratic, participating, informed, and conscious way, the

targets they intend for their organization and the ways to implement such targets, indicating leadership and following their work. It is a **democratic process**, since it pursues the strengthening of mechanisms for the exercise of a plurality of interests, recognizing the importance of divergent proposals, yet encouraging the establishment of convergence processes and support to established objectives with a view to greater efficiency and effectiveness of managerial actions. It is a **participatory process** because it assumes that democracy is built in just this way, being therefore crucial, according to good practices of governance, to facilitate and encourage the participation of cooperative members in the decision making processes, mainly in assemblies, strengthening channels enabling their opinions and interests to be captured by the instruments of collective decision. From this movement of democracy, participation, information, and consciousness, the basis for cooperative governance gains the strength that stems from these foundations.

Co-operative governance is **not a managerial style**, as good practices of governance bring contributions to reduce the challenges of taking collective decisions and monitoring executive action and to ensure co-operative members have the right, and the duty, of selecting the future path of the co-operative. Adoption of such good practices will represent a contribution to further improve security in the financial co-operative system, reducing its financial and operating costs and boosting its competitiveness in the context of the National Financial System. The commitment of the Reserve Bank of India in disseminating and using such practices and their permanent updating, recognizing that good practices of governance in financial co-operatives are a dynamic process, requiring continuous action, that shall incorporate the experience of all agents involved. Guidelines shall be constantly adjusted to new scenarios and demands that may materialize, being important that in this first phase they are subject to debate and, after implemented, their result is known by all.

International Co-operative Alliance (ICA) reports that co-operative governance is fit to build resilience in the face of complexity. Governance is a key component of the cooperative difference. The cooperative values and principles call for an open, voluntary, and democratic process of decision-making, and cooperative governance is an essential tool in applying those values and principles. In an increasingly regulated, complex, and interdependent global economy, where market pressures are high, a current reference on the basic tenets of cooperative governance is required. According to ICA, this exercise aims to help establish the tenets of co-operative governance and tease out its delimitations.

Financial Co-operatives in India: As of the end of March 2016, India's co-operative banking sector comprised of 1574 urban co-operative banks (UCBs) and 93913 rural co-operative credit institutions, including short-term and long term credit institutions.

Financial Co-operatives in Kerala: Kerala's rural financial co-operatives or credit co-operatives comprising Primary Agricultural Credit Co-operative Society (PACS), District Co-operative Banks (DCBs) and State Co-operative Banks in the short- and medium-term credit structure and Primary Co-operative Agriculture and Rural Development Banks (PCARDB) and State Co-operative Agriculture and Rural Development Banks (SCARDB) in the long-term credit structure assisted and guided by NABARD play a key role in not only purveying credit but also in mopping up local savings. As per the available data, Kerala State Co-operative Bank is the apex bank of the short-term credit co-operatives in the State with 14 District Co-operatives and about 2000 Primary Agriculture Co-operative Societies (PACS). According to the Kerala State Level Bankers' Committee (SLBC) data for 2017, there are a total of 1200 branches working in the cooperative banking sector in Kerala, of which 156 are in rural,

52 in a semi-urban area, and 992 in the urban areas. The financial activities of the District Co-operative Banks (DCBs) and affiliated PACs reveal the significance of co-operative banks in banking activities at the grass-root level. Financial co-operatives differ from commercial banks and this fact is largely ignored by financial regulators, and financial co-operatives still operate with governance structures designed for small, community-based entities.

RATIONALE OF THE STUDY

Good governance calls for *belief in systems*, the systems which ensure continuity and faith. It also calls for the leaders to *change and adapt to times* and circumstances and enable the *organization also to change* to walk along with the needs and requirements of times. Indifference and stubborn attitudes do not produce good governance. It also is necessary to take proper care while taking decisions. Decisions taken should not be subjective and partial. All views, facts, and opinions should be taken into consideration before arriving at decisions.

Good co-operative governance will ensure that board and management pursue objectives that are in the interests of co-operatives and members lead to effective monitoring of activities of societies; ensure efficient and effective use of available resources; reduce conflicts; and increase accountability and transparency in co-operatives

The main pillars of Good Governance are **transparency, accountability, predictability, participation, risk management, and control**. *Accountability* is the capacity to call officials to account for their actions; *Transparency* entails low-cost access to relevant information; *Predictability* results primarily from laws and regulations that are clear, known in advance, and uniformly and effectively enforced; and *Participation* is needed to obtain reliable information and to serve as a reality check and watchdog for government action. Governance intervention should encourage the formation of *social capital* i.e., the stock of trust and information exchange at the base of civil society.

A co-operative has a constitution [called by-laws] which establishes formally several organs of governance. These are: Annual General Meeting of Members [AGM] [also called General Body or Members' General Meeting] which elects a Board of Directors [BOD] [or Managing Committee], a Board of Auditors [BOA] [or Audit and Supervision Committee]. These two organs are independent of each other and directly answerable to the AGM. The BOD appoints a General Manager [GM], the chief executive officer, who is also supported by several business sub-managers. The GM is answerable to the BOD. The existing organisational design of most of the cooperative banks does not

conform to the basic principles of management of a sound financial institution. The cooperative banks are generally headed by a committee of elected members, who are not necessarily professionals. The committee takes crucial business decisions including sanction of loans, investments, interest rate fixation, etc. which require a minimum degree of skill and expertise. It is necessary to evolve scientific staffing norms.

As the business environment and economic climate change, fresh challenges come the movement's way – and the governance of an organization needs to change to match. Directors keep pace in a time of rapid change by keeping up to date. "Organisations change all the time, as does best practice in co-operative governance," says Emma Laycock, Co-operatives UK's advice manager. "A neglect of governance weakens the framework of accountability and carries a risk to the co-operative. That's why regular governance reviews and training are essential for co-operatives – they help ensure the fundamentals of an effective member-owned business run smoothly."

Jim Booth, head of co-op development at the Scottish Agricultural Organisation Society (SAOS) agrees. "As the business environment gets tougher, the quality and strategic capability of its board is critical for a co-op," he says. "Therefore continuous training is essential to ensure all directors have the skills and capabilities to meet the challenges. One of the best ways to improve a co-op's performance is to develop the skills and capabilities of its directors. Training of both new directors and for existing directors, as continuous professional development (CPD), is essential for success." The training offered by co-operatives to those involved in its governance varies depending on the organisation's size, type, and sector; some offer internal training, while others use the skills of external experts.

Co-operatives UK, for example, offers essential and advanced training for co-op directors and secretaries, plus an additional range of in-house training for boards, focusing on specific areas they would like, or doing governance reviews, audits, and health-checks. Co-operative training institutes in Kerala must offer a wide range of training, from interactive full-day workshops and board skill audits, to short high-impact e-Learning courses.

Governance is a topic that is constantly evolving, and it is important that every single person within an organization understands what it means for a co-operative to be well-governed, no matter what their role. It is the only way to ensure that every aspect of the business is working in a truly cooperative way and that all members and employees are working towards the same goal. Everyone needs to understand the importance of governance and crucially what makes cooperative governance different.

Co-operantics Kate Whittle believes that training of some kind is essential for "co-operators to unlearn many of the assumptions that we make about how business works". Co-operative inductions – for both members and those involved in governance – are key, she says. "If a co-op neglects that, new members and directors will bring their unquestioned assumptions about how business works and act on them with a very real danger that the co-operative culture will be undermined."

If the financial co-operatives are not following best governance practices, members will be dissatisfied. Dissatisfied members have a powerful option to discipline management or executive Board members of financial co-operatives in the form of withdrawing funds and business (Groeneveld and Llerwelln, 2012). Withdrawing deposits exerts a more direct threat to managers because when a depositor withdraws funds, the funding capacity of the financial co-operative is immediately reduced. By contrast, the sale of an equity stake in Shareholder Value (SHV) bank does not in itself influence the capacity of the bank, though the share price might fall, which would have the effect of raising the cost of capital and management also create a confidence problem for the bank. Thus, if equity stakeholders in SHV banks sell their ownership stake on the stock market, this does not remove assets from the control of the management of the banks, whereas the withdrawal of members' deposits at Stakeholder Value (STV) banks (viz. financial co-operatives) does.

OBJECTIVES

The present study is concerned with investigating the role of cooperative governance in financial cooperatives in Kerala. In pursuing this aim the following objectives will be investigated:

1. To understand the governance issues of financial co-operatives in Kerala State
2. To assess the level of awareness among the co-operative members on good governance practices and to measure its extent and documentation of existing governance practices
3. To examine the impact of such governance practices on the performance of the co-operatives
4. To identify the factors that hinder good governance practice of financial co-operatives in Kerala
5. To formulate suggestions to the government machinery for issuing standard practices for improving the governance mechanism of financial co-operatives in

Kerala by developing a TQM Model for best co-operative governance practices.

METHODOLOGY

The study is descriptive and exploratory in nature as it attempts to describe the governance issues in the Service Delivery Mechanism of financial co-operatives by appraising its functioning and exploring the possibility of following the TQM Philosophy for evolving a better governance system.

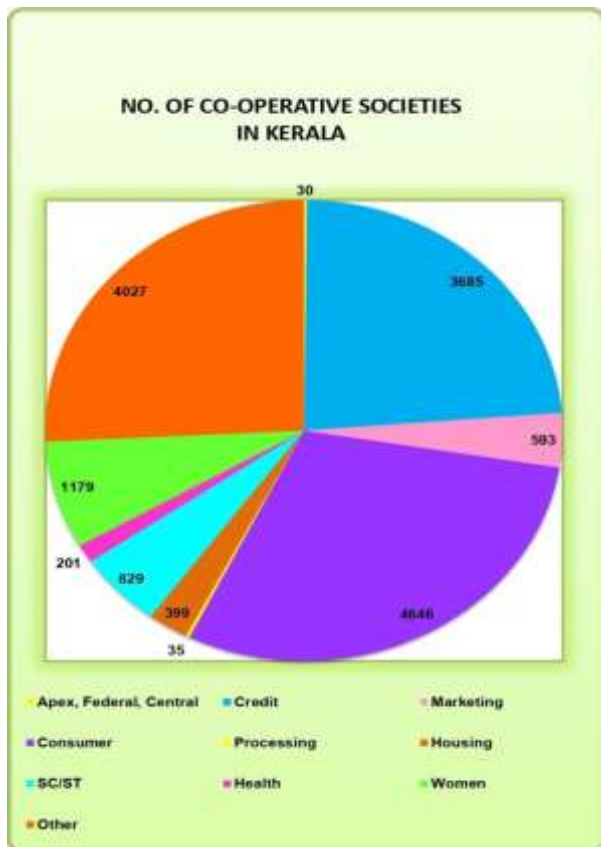
A multi-stage sampling method has been applied in this study.

DATA ANALYSIS

Table 1: Statistics of Co-operative Societies 2017-2018

Number of Societies under the Administrative Control of The Registrar of Co-operative Societies for the year 2017-18	
1. Number of Societies as on 1st April, 2017	15428
2. Number of Societies newly registered	243
3. Number of Societies Liquidated	47
4. Number of Societies as on 31st March, 2018 (1+2-3)	15624
(a) of which Working Societies	11892
(b) of which Dormant Societies	3098
(c) of which Societies Under Liquidation	634

Source: Statistical Abstract 2017-2018, Department of Cooperation, Government of Kerala



Source: Statistical Abstract 2017-2018, Department of Cooperation, Government of Kerala

Table 2: Details of Loans Overdue 2017-2018: Primary Cooperative Agricultural & Rural Development Banks

Sl.No	Name of District	Loans Outstanding				Loans Overdue			
		Total	Agricultural	Non-Agricultural	Rural Housing	Total	Agricultural	Non-Farm	Rural Housing
1	Thiruvananthapuram	35 8565	1779455	106 5653	1427473	495797	119883	177972	102094
2	Kolam	4362367	1277172	826690	2139179	1827907	227971	365337	464525
3	Pathanamthitta	21 95270	389946	25 1090	805348	8 19236	829410	138384	148448
4	Alappuzha	20281 102	363704	834783	784508	200767	63778	122260	87191
5	Kottayam	2596243	1242854	646341	1965648	309600	112054	11884	88587
6	Idiaki	7953880	1481208	6032048	87704	275348	7838	152817	35027
7	Eranthikulam	3758427	625512	731543	2008773	211893	171272	178913	368073
8	Thiruvallur	4588960	70387	865811	3910271	302130	88604	109518	223947
9	Palaakkad	3795271	581488	534038	2688885	238808	38180	60448	144174
10	Malappuram	4795808	1186381	1112529	2340098	192128	36578	89057	89988
11	Kozhikode	4174326	1267432	381587	2585300	188881	85118	27947	87178
12	Wayanad	1743281	128143	248724	764473	329127	143153	39804	128280
13	Kannur	4177148	1784354	182585	1982878	309829	86652	27825	129323
14	Kasaragod	4277144	198264	1129544	1269688	295738	10779	10365	81937
	KERALA	54887489	1489796	14549944	34817785	5436258	1814188	1734878	2488847

Source: Statistical Abstract 2017-2018, Department of Cooperation, Government of Kerala

Table 3: Details of Loans Overdue 2017-2018: Farmers Service Cooperative Societies

Sl. No.	Name of District	Loan advanced of which		Loan Outstanding			Loan Overdue				
		SC	ST	Total	Short Term	Medium Term	Long Term	Total	Short Term	Medium Term	Long Term
1	Thiruvananthapuram	1597	473	807884	144742	1486739	31598	213020	81380	151940	0
2	Kollam	31296	0	1079978	70884	1083220	899	184868	4089	582872	35
3	Pathanamthitta	8311	0	287782	225722	44430	3820	69558	58570	8898	102
4	Alappuzha	38972	0	824158	845837	83143	2281	54282	33725	11771	8748
5	Kottayam	29708	2187	2133368	1700628	372338	482799	389943	212345	77502	100063
6	Idiaki	13885	30388	517988	84488	433198	1394	22508	8423	18083	3
7	Eranthikulam	36478	90	986384	1871428	89959	0	1162781	1121898	788	0
8	Thiruvallur	1894712	232239	7348128	2802807	3713229	731391	1148957	680440	485203	32854
9	Palaakkad	0	0	0	0	0	0	0	0	0	0
10	Malappuram	0	0	0	0	0	0	0	0	0	0
11	Kozhikode	0	0	0	0	0	0	0	0	0	0
12	Wayanad	41228	8189	332060	275880	84663	0	62073	83789	8952	3
13	Kannur	107288	3031	1818141	363304	518177	833890	49888	21881	24501	3788
14	Kasaragod	126178	39887	1688314	869436	543923	113491	354884	179588	68048	58838
	KERALA	2828327	482821	18152987	8529851	8627038	2891386	8032543	2432891	3996621	202971

Source: Statistical Abstract 2017-2018, Department of Cooperation, Government of Kerala

Table 4: Details of Loans Overdue and Recovered 2017-2018: Scheduled Caste Credit Cooperative Societies

Sl. No.	Name of District	Loans Overdue				Loans Recovered				Demand
		Total	Short Term	Medium Term	Long Term	Total	Short Term	Medium Term	Long Term	
1	Thiruvananthapuram	1888 174	1288 314	634	204	43488 475	34878 475	7998	0	39458 744
2	Kolam	4482 372	3848 788	8382 174	0	88771 624	38242 171	12528 483	0	88821 255
3	Pathanamthitta	4885 37	3028 475	104 885	0	878 858	389 858	372	0	1881 331
4	Alappuzha	1027 7958	2242 9788	288 7985	0	28478 788	1024 328	21448 438	0	28828 488
5	Kottayam	2887 877	887 817	1588 54	0	188 84	1844	188 5	0	2888 818
6	Idiaki	222 27	1848 88	888 42	0	848 8	848 8	0	0	3881 8
7	Eranthikulam	11878 717	10828 217	188	0	30887 782	30887 782	0	0	88477 288
8	Thiruvallur	887 483	688 323	184	0	71 4	71 4	0	0	1088 321
9	Palaakkad	743 378	743 378	0	0	188	178	11	0	3828 818
10	Malappuram	8848 48	8848 48	0	0	8378 4	838 4	28	0	2883 88
11	Kozhikode	188 841	188 841	0	0	478 858	478 858	0	0	2 82
12	Wayanad	4 8	4 8	0	0	0	0	0	0	0
13	Kannur	1012	878	34	0	73	35	0	0	2245
14	Kasaragod	202	202	0	0	0	0	0	0	481
	KERALA	8188 838	7847 4211	22187 7875	204	18287 881	12378 885	4372 422	0	28488 787

Source: Statistical Abstract 2017-2018, Department of Cooperation, Government of Kerala

Table 5: Details of Loans Overdue and Recovered 2017-2018: Scheduled Tribe Credit Cooperative Societies

Sl. No.	Name of District	Loans Overdue				Loans Recovered				Default	Agricultural Producers Societies	
		Total	Short Term	Medium Term	Long Term	Total	Short Term	Medium Term	Long Term		No. of Societies	Value
1	Thiruvananthapuram	314	206	8	20	28	32	28	28	36	31	32
2	Kollam	96	89	0	0	496	496	0	0	0	0	0
3	Pathanamthitta	0	0	0	0	0	0	0	0	0	0	0
4	Alappuzha	312	0	312	0	0	0	0	0	0	312	0
5	Kottayam	332	88	244	0	28	0	28	0	0	28	0
6	Idukki	452	236	216	0	0	0	0	0	0	0	0
7	Eranakulam	0	0	0	0	0	0	0	0	0	0	0
8	Thrissur	0	0	0	0	0	0	0	0	0	0	0
9	Palakkad	0	0	0	0	781	771	10	0	0	811	0
10	Malappuram	0	0	0	0	0	0	0	0	0	0	0
11	Kozhikode	0	0	0	0	0	0	0	0	0	0	0
12	Wayanad	188	188	0	0	0	0	0	0	0	0	0
13	Kannur	364	311	53	0	0	0	0	0	0	467	0
14	Kasaragod	0	0	0	0	0	0	0	0	0	0	0
	KERALA	2074	1827	847	0	1294	1221	73	0	4081	13	1488

Source: Statistical Abstract 2017-2018, Department of Cooperation, Government of Kerala

Table 6: Details of Loans Overdue and Recovered 2017-2018: Primary Non-Agricultural Credit Societies – Agricultural Improvement Societies

Sl. No.	Name of District	Loans Advanced		Loans Recovered		Loans Outstanding		Loans Overdue		No. of Societies in Outstandings
		Short Term	Medium Term	Short Term	Medium Term	Short Term	Medium Term	Short Term	Medium Term	
1	Thiruvananthapuram	447.79	163.77	037.11	436.88	166.788	543.98	460.75	452.99	46.13
2	Kollam	3386	832.25	18306	12658	6733	61802	11033	4332	32.20
3	Pathanamthitta	5488	986	0	0	16572	325	28	0	6.12
4	Alappuzha	162543	3006	888	3048	87580	14132	4129	18516	22.26
5	Kottayam	58335	3928	14144	23	87620	8948	8221	0	8.82
6	Idukki	10885	1407	8931	844	12585	1023	3941	58	31.81
7	Eranakulam	262731	2053688	212729	363088	195128	324367	27446	22985	7.11
8	Thrissur	72197	22027	73647	12564	10082	49606	8155	8875	23.48
9	Palakkad	694973	188687	543218	189028	347651	219944	18659	27704	20.28
10	Malappuram	80789	0	62773	0	80148	0	2052	0	2.28
11	Kozhikode	832211	282663	464375	275678	2886198	426209	71182	36776	0.48
12	Wayanad	518201	13360	372881	0	402683	4935	678	0	0.17
13	Kannur	388338	13667	267584	33642	290742	54747	34429	21727	18.78
14	Kasaragod	22848	33601	120477	28753	90967	34324	23030	15621	26.88
	KERALA	3373842	2793315	2216854	878852	2288852	1488318	37586	26886	2.37

Source: Statistical Abstract 2017-2018, Department of Cooperation, Government of Kerala

Table 7: Details of Loss Sustained 2017-2018: Primary Non-Agricultural Credit Societies – Others (Non-BR Act)

Sl. No.	Name of District	Investments	Land & Buildings	Cost of Management		Profit		Loss		No. of Societies without profit or loss
				Salaries	Other Expenses	No. of Societies	Amount	No. of Societies	Amount	
1	Thiruvananthapuram	4541	585	98385	17992	2	856	4	9892	18
2	Kollam	4317	0	1233	1181	2	841	3	63673	1
3	Pathanamthitta	2272	4625	0	394603	2	428	1	3718	5
4	Alappuzha	10930	158412	11722	30494	4	25259	6	4426	2
5	Kottayam	7816	5410	12136	78378	15	279263	12	41882	10
6	Idukki	3402	14251	8145	19348	1	867	0	0	0
7	Eranakulam	124333	88377	58685	89430	11	21306	8	7753	9
8	Thrissur	51755	21862	4886	14296	2	1286	6	19023	8
9	Palakkad	138260	8875	12255	39770	5	3288	30	10861	5
10	Malappuram	129177	0	2300	7180	8	9275	1	534	1
11	Kozhikode	8048	3556	18348	28802	7	23911	7	5574	1
12	Wayanad	10495	853	4138	4874	1	450	2	1888	2
13	Kannur	159	0	306	1778	3	758	0	0	0
14	Kasaragod	72	0	0	0	1	3048	0	0	0
	KERALA	488175	388811	188304	786641	63	373635	86	213885	48

Source: Statistical Abstract 2017-2018, Department of Cooperation, Government of Kerala

While measuring the impact of cooperative governance in the financial performance of financial cooperatives and after collecting data from 171 financial cooperatives in Kerala and analyzed by Cross-sectional design, Confirmatory factor analysis, and structural equation modeling, the findings revealed a significant and positive relationship between cooperative governance practices and financial performance. Besides, there was also a significant and positive relationship between innovation and financial performance. However, the relationship between the ratification of management decisions and financial performance, and policy compliance and financial performance was not statistically significant. Overall, cooperative governance was a good predictor of financial performance.

COOPERATIVE GOVERNANCE ISSUES:

- The alleged “fraud” and “irregularities” in the Delhi Nagrik Sehkari Bank Ltd reported by media on 28th July 2018; Uttarakhand Coop Bank’s Rs 165 crore NPAs in loans for liquor contracts – kin of board members, reported by media on 23rd March 2018; the alleged Rs 100 crore scam in Yavatmal Urban Cooperative Bank reported in media on 6th March 2018; and the allegations of multi-crore fraud in Muslim Co-op Bank, Pune in 2017 are a few instances of inefficiency in the governance practices of co-operative banks and the other two co-operative bank scams in India viz. The Co-operative Bank Scam of Secunderabad occurred in 2002 and the Ketan Parekh — Madhavpura Mercantile Co-operative Bank (MMCB) scam that occurred in 2001 are a few instances of diversion of funds from the banking sector to the stock market, like that of the Harshad Mehta’s securities scam in 1992. How the RBI allowed any bank without a Treasury division to operate in a debt market is a question that can be raised. In the case of co-operative banks, all the decisions of investment in securities are taken by the boards of directors which are elected rather than a full-fledged Treasury that would otherwise be run by professionals. In Kerala, the Social Workers’ Cooperative Welfare Society at Karivellur (Payyanur taluk, Kannur), a cooperative credit society, was defrauded of nearly Rs. 3 crore by pledging imitation gold ornaments with the help of a society’s own staff in 2017. The Thrissur-based Adat Farmers Service Co-operative Bank’s multiple crore scam in 2017 is also an instance of inefficiency in the governance of co-operative credit societies. According to an estimate, irregular transactions of this bank have cost the bank a loss of Rs 31.75 crore. In the Thazhakara Branch of

executive club. Knowles (1985) cooperative education targets members of the public as follows:

- To enable them to know how to form and join cooperative
- To enable them to know how to manage cooperative society.
- To help them to know how to run the affairs of cooperative organizations.
- To help them understand the cooperative laws, bye-laws, principles, and practice.
- To give them a better understanding of cooperative principles and practices.

EXISTING PUBLIC KNOWLEDGE ON COOPERATIVE GOVERNANCE PRINCIPLES OF ICA:

The International Cooperative Alliance is the global steward of the Statement on the Cooperative Identity – the Values and Principles of the cooperative movement.

In 1995, the ICA adopted the revised Statement on the Cooperative Identity which contains the definition of a cooperative, the values of cooperatives, and the seven cooperative principles as described below. You can also consult the Guidance Notes on the Cooperative Principles and Values which give detailed guidance and advice on the practical application of the Principles to the cooperative enterprises.

COOPERATIVE PRINCIPLES

The cooperative principles are guidelines by which cooperatives put their values into practice.

Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Democratic Member Control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.

Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

Autonomy and Independence

Cooperatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

Education, Training, and Information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.

Concern for Community

Cooperatives works for the sustainable development of their communities through policies approved by their members.

COOPERATIVE GOVERNANCE & COOPERATIVE PERFORMANCE

Good governance is at the heart of successful cooperatives (Harvey, 2017). Governance is a key determinant for growth, development, and poverty reduction (Dayanandan, 2013). Governance can also be seen as the instrument of the effectiveness of a society's institutions. If the institutions are appropriate and effective, the outcome should be good governance (Duncan, 2003).

Social performance has, at its core, the idea that organizations should involve themselves in more than just an economic role in society and should not only take responsibility for their economic

actions, but also accept a wider ethical responsibility for the impacts it has on society and on the environment in which it functions (Kyazze, Nkote & Wakaisuka-Isingoma, 2017)

Good governance principles such as legitimacy, participation, professionalization, accountability, transparency, honesty, integrity, and fairness that is normally associated with investor-owned organizations are also applicable in cooperatives. Because cooperatives have separate legal existence and are governed by the board of directors elected by share members in a general assembly. The participation of cooperative unions in economic activities is affected by their management capacity, experience, and access to credit. This is due to a lack of good governance practices (Dayanandan, 2013).

Kyazze, Nkote, and Isingoma (2017) examined the relationship between cooperative governance and the non-financial performance of cooperative societies in Uganda. The findings revealed a significant and positive relationship between monitoring rights and social performance. Besides, there is also a significant and positive relationship between innovation and social performance.

Dayanandan (2013) examined the impact of governance practice on the performance of cooperatives in Halaba special district, Southern Ethiopia. The study concluded that four predictor variables such as participation, accountability, transparency, and rule of law are found to be significant on the impact of cooperative performance.

Three Assistant Lecturers of Moshi Cooperative University, Tanzania namely- Patrick, Obeid, and Njau (2014) - studied the topic "Corporate Governance Practices and Performance of Cooperative Financial Institutions." The study was conducted in the Kilimanjaro region. Specifically, it examined whether the cooperative financial institutions conform to corporate governance practices and establish a relationship between the corporate governance practices and the performance of cooperative financial institutions. It was found that there is a perfect positive relationship between the best cooperative governance practices and cooperative performance whether social, economic, or non-economic. From this theoretical analysis, it can be concluded that good governance practices have much impact on the performance of the cooperatives

FACTORS HINDERING GOOD COOPERATIVE GOVERNANCE PRACTICES

Factors that influence cooperatives to fail or succeed are explained differently according to different authors. However, people have not yet agreed on the conditions that clearly determine the success and failure of a cooperative (Hammond & Luiz, 2016).

Therefore, the internal and external factors that can make cooperatives succeed or fail:

FACTORS THAT ARE INTERNAL

Cooperative Initiator and Leadership

Cooperative initiator and leadership are of paramount importance as to causing the cooperative to succeed or fail. To this end, a visionary, innovative, communicative, hardworking, business, and open-minded cooperative initiator or leader plays a very important part to make the cooperative succeed (Garnevska, Liu, & Shadbolt 2011).

Membership participation

Cooperative members play a big part in the success or failure of cooperatives. Against this backdrop, cooperative members who actively take part in decisions affecting the lives of their cooperative are very instrumental in making their cooperative a success (Garnevska et al., 2011).

Cooperative Governance

is instrumental in the success or failure of cooperatives. From this perspective, the well-informed cooperative governance structure plays a pivotal part in making it succeed or fail (Chaddad & Cook, 2004). This has something to do with how cooperative members, leaders, and managers collaborate (Mardiasmo, Barnes, & Sakurai, 2001). In this regard, the functioning of cooperatives as business organizations exacts a democratic governance system. This entails that cooperative members actively take part in decisions affecting their cooperative lives (Nkhoma, 2011).

Cooperative Management

Cooperative management is an essential ingredient to the success or failure of cooperatives. According to Chloupková (2002), for cooperatives to be a success they should be organized on interests that are really homogenous. Literature disclosed that the management of cooperatives is instrumental in making them succeed or fail. Indicators, such as strong finance, good revenues, capacity in marketing, business planning and management lead to the well-being of cooperative (Garnevska et al., 2011).

Communication

Communication is an important tool as to the success or failure of cooperative. Communication between cooperative management and members is an important factor in running a successful cooperative (Makri, Skandalou, Manthou & Vlachopoulou, 2011). Inappropriate communication among members, the board of directors, management, and community as the primary

reason for the cooperative to go bankrupt (Ortmann & King, 2007). Members become distant and inactive within the organization if they do not receive the information to clearly understand the cooperative value package (ARNALL, 2016).

Trust

Trust is crucial for any organization to succeed. For a cooperative to be successful, the trust-building process should always be strengthened (Simmons & Birchall, 2008).

Knowledge sharing

The cooperatives demand among other things marketing skills in order to be able to function well (Hammond & Luiz, 2016). To this end, cooperatives may fail, because of members who are disengaged for the mere fact that they are not educated rather than motivated. Therefore, educated people are very instrumental in making cooperatives successful (Birchall, 2011).

FACTORS THAT ARE EXTERNAL

Involvement of government is a crucial determinant that leads to the success or failure of cooperatives (Hammond & Luiz, 2016). In the western world, cooperatives are independent of government and they govern themselves according to the needs of their members (Johnson 15 & Shaw, 2014). Across less developed countries, it is the other way round, because cooperatives were mainly developed by States which do not prioritize cooperative members needs but rather put states interests first (Hammond & Luiz, 2016). This way of doing things by states in the third world has caused the failure of cooperatives in these countries (Johnson & Shaw, 2014). Governments' part should be to ensure that political, legal, and administrative platforms are in place to help cooperatives develop (Hammond & Luiz, 2016). Government entities should also help cooperatives to be awarded tenders and other business opportunities (Vladimirov, Simeonova-Ganeva, & Ganev, 2013). Therefore, cooperation with different partners can be crucial just in case there is no interference in cooperative businesses (Hammond & Luiz, 2016).

SUGGESTIONS TO THE GOVERNMENT MACHINERY – A TQM APPROACH

The cooperative sector in Kerala has been marred by large-scale financial irregularities, corruption, and loss. At the end of the 2017-2018 accounting year, 47 cooperatives were liquidated Out of 15,642 societies as of 31/03/2018, 3098 are dormant, 634 are under liquidation and more than 90% of Kerala cooperatives are running at loss. The Department of Cooperation, Government of Kerala must take steps to curtail these financial irregularities and losses. Accordingly, the following steps are recommended:

1. The tenure of a director board member of a cooperative society or a bank can be restricted to a maximum of two terms;
2. One-third representation in the director board can be given to women.
3. The cooperative legislation in the State should be amended to bring about wholesome changes
4. An adequate, low budget and high representativeness model of participation is essential for the success of financial cooperatives in Kerala State.
5. Strategic functions of cooperatives must be segregated from executive functions
6. Demutualization of ownership, management and administration
7. Members deliberations in General Assembly should be made mandatory
8. The minutes of the General Assembly shall be transparent – reporting all facts occurred and deliberations of members, including dissenting ones – and fully disclosed

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