

Governance Renewal in the ICA

**A Report from the ICA's Governance
Working Group**

Governance Report to ICA General Assembly

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1. Summary of Report and Key Recommendations

1.1 Introduction

The *Taskforce Report* approved at the 2003 ICA General Assembly in Oslo, Norway recommended the creation of a governance working group. The Taskforce itself had been set up by the 2001 ICA General Assembly in Seoul, Korea.

The Governance Working Group (GWG) was formally established towards the end of 2004 and has produced this report for consideration at the 2005 General Assembly in Cartagena, Colombia. The brief for the GWG is outlined in detail below, but is in summary to produce a blueprint for governance improvements in the ICA.

Our report sets out a detailed series of recommendations with supporting argument and points for further discussion. These are all designed to achieve governance improvements. The GWG hope that the General Assembly will support our recommendations for immediate action outlined in part 2. Part 3 of the report includes recommendations which can be approved in principle for implementation in the coming year or so. The fourth part of the report articulates the wider set of structural and strategic issues we believed face the ICA and still require resolution. The guiding principle that has underpinned the work of the GWG is that as a global organisation, the ICA must be able to demonstrate to members, governments, donors and others that it works to the highest standards of governance.

We realise that this report, although lengthy, is only the beginning. Corporate governance refers to the way organisations are governed and powers distributed and exercised by different groups. As such governance is an ongoing process, which is constantly evolving as the needs and nature of the organisation changes. However, as the saying goes, a journey starts with a single step. We are aware of the symbolic importance of taking that first step. We hope that you will take that first step with us as we commence this journey.

1.2 Terms of Reference

The GWG has drawn its remit from the Taskforce. It was given the following terms of reference.

The Task Force report identified that the whole area of governance needed careful examination.

“There is a need for very clear governance rules, within a framework of shared values respected by the whole organisation. To meet the need of transparency, ICA will draw up an internal paper, which lays down rules regarding the relations between ICA, globally and regionally, and specialised bodies”

**“The ICA Rules and Standing Orders define the competencies of the different levels of the organisation as well as the tasks of the elected and executive bodies. They should be reviewed in the light of the decentralisation process and a more active members’ participation”*

**“The Board should fully implement its role of governing body”*

Although some of these issues have already been tackled, particularly through the consequential rules changes, further analysis is required. A description of competencies and responsibilities is required for all parts of ICA together with organisation charts and a Code of Best Practice (already underway for financial practice”

Tasks

The main elements therefore of the Groups’ work within the context of the 2003 Report could be to examine:-

- 1. the role of the ICA Board and its relationship with Regional Boards*
- 2. the current structure of the ICA with a view to developing organisational charts in particular the relationship between Head Office and Regional Offices*
- 3. training for elected members*
- 4. the tasks of elected and executive bodies*
- 5. decentralisation as part of a global entity*
- 6. the establishment of a Code of Best Practice*

The terms of reference required the GWG to formally report to the 2005 ICA General Assembly. They also pointed to the possibility that an ongoing governance review and group could become a regular feature of ICA’s work recognising the need to constantly review, update and revitalise its constitution and structures.

1.3 Composition of Governance Working

The following people were appointed to the GWG.

- Gun-Britt-Mårtensson, ICA Board, (Convenor)
- Mervyn Wilson Co-operative College, UK
- Mauro Gori, Legacoop, Rome
- Anne Reynolds, NCBA, USA
- Dante Cracogna, Intercoop, Argentina
- Joseph Mukasa, Ugandan Co-operative Alliance
- Toshifumi Yamashita, JCCU, Japan
- Hans Dahlberg, ICMIF
- Bruno Roelants, CICOPA
- Garry Cronan, ICA (Co-ordinator)

1.4 Assumptions underlying the Taskforce

The Taskforce made explicit the assumptions informing its work. These provided the starting point for the GWG’s work. They included:

- The need for a global co-operative organisation
- Recognition that the process of regionalisation within ICA is still evolving

- The importance of sectoral organisations especially if properly utilised and developed

The Taskforce authors acknowledged some tensions and unresolved issues, particularly in relation to regionalisation, which they noted should lead to:

- Decentralisation from the global to regional level where appropriate
- Increased members involvement
- Integration of activities
- Wider autonomy for regions
- Adoption of policies and programmes to suit needs of grassroots
- A re-definition of fields of competences and subsidiarities
- A redefinition of ICA's global role
- Special attention for Africa

However, the taskforce made quite clear its view that:

- The global character of the ICA must be maintained throughout the regionalisation process
- Decentralisation must be carefully implemented
- There must be one set of rules; one global strategy, with regional business plans and budgets, ultimately approved by the global board consistent with the global strategy
- There needs to be clarity in terms of membership

One implication of these assumptions is that the process of governance renewal involves achieving a balance of possibility competing centralising and decentralising tendencies and processes. This is something which requires, in a longstanding international organisation where various views may be contested, time, goodwill and detailed analysis.

1.5 Meetings of the GWG

The GWG agreed to meet electronically wherever possible. Following an initial teleconference meeting, members of the GWG met in person alongside the ICA Board Meeting in Nairobi, in December 2004 to enable them to observe a board meeting in practice. A further meeting of the group took place alongside the Board Meeting in New Lanark in May 2005 to clarify the issues that would require the group's further consideration, and matters that could be addressed in this report.

1.6 Our Approach

The GWG set out the basis of its approach in a report to the ICA Board in Nairobi, Kenya in December 2004. Our approach included, a:

- Commitment to inclusiveness and consultation
- Commitment to share the workload
- Respect for confidentiality in our deliberations

We identified our guiding principles:

- As custodian of the statement on co-operative identity the ICA must demonstrate co-operative values and principles in its governance practice
- Governance must be based on our specific member based character – good co-operative governance
- A global organisation the ICA must be able to demonstrate to members, governments and donors that it works to the highest standards of governance
- Transparency and accountability are paramount to maintain the confidence of members, donors and the wider community
- Recommendations should strengthen democracy and participation in the ICA
- Governance processes should be simple and readily understood by members

A series of specific issues were identified, these included:

- The governance structures – global/regional/sectoral and the respective power, authority and financial responsibilities of the ICA component parts
- Governance within a decentralised organisation – what does subsidiarity mean for the ICA
- The skills and competencies needed for effective governance of the ICA
- The role and functions of the Board
- Board induction, training and performance review processes
- Board procedures – how it handles information and makes decisions (often in second languages)
- Board democratic renewal
- Membership – who are/should be the members
- The role and purpose of sub committees
- Board effectiveness survey / meeting evaluation
- Legal responsibilities of elected ICA representatives
- Map existing codes of best practice – especially but not exclusively within the co-operative sector

A background paper on these issues was prepared and further consideration given to these matters at our meeting in Glasgow in May 2005. This meeting identified these issues as broadly falling under three headings:

- Strategic
- Structural
- Procedural

We have structured our report around these three sets of issues and positioned them within a time context. Firstly, what can be immediately implemented. Secondly, what can be agreed in principle now and implemented over the course of 2006 and finally, what requires further discussion and resolution.

1.7 Strategic, structural and procedural categories

As mentioned above to help better understand the governance issues facing the ICA, the GWG identified them as belonging to three broad categories.

Strategic issues include such matters as the role, mission and purpose of the ICA. The question of membership is also intrinsically related to the type and purpose of the ICA. The GWG believe these issues require time to be considered. Although some of these matters are perhaps outside of the immediate remit of the GWG they nevertheless have a direct impact on the type of governance structures the organisation may chose.

Structural aspects include issues related to the regionalisation process, subsidiarity, forms of incorporation for the ICA, plus a range of issues related to the Board, Elections Committee and their relationship to other governing bodies. These are among the key issues referred to the GWG for consideration. Again some of these require further detail discussion and in some cases rule changes. Nevertheless, many can be given serious consideration and in the view of the GWG agreed and implemented over the course of 2006.

Procedural issues includes, matters not normally requiring rules changes and have the character of more administrative improvements, rather than major structural changes. Many are simply “good corporate governance” practice.

1.8 Staged implementation

Given the above framework of issues and timeframes we have recommended a staged approach to implementing our recommendations.

The GWG is proposing that a start be made by implementing those procedural recommendations we have identified as being immediately able to be acted on.

At one level this may appear counter intuitive. It is normally the head set of strategic issues which need to be resolved first and from which many of the structural and procedures issues flow. The ICA is not however, starting with a clear slate – it has over 110 years of history, traditions and corporate culture. This however is not the only reason for making a start on practical and realistic changes to governance processes as soon as possible.

Some governance changes are independent of any particular strategic or structural option – they are just “common sense” improvements and part of almost any good corporate governance model. We believe many of our recommendations fall in this category. Also, if a start is made then the gradual implementation of these improvements will per se make it possible to envisage the strategic and structural issues from a fresh angle. This may well, make their resolution easier. And finally, moving forward on some issues will help create a framework and hopefully, sufficient trust from all concerned to enable and encourage the more problematic, contested and complex issues of strategic direction and structure to be considered. Getting the right environment for change is a key aspect of ensuring that the governance renewal process is supported by all sections of the organisation.

1.9 The European Proposal

The GWG is aware that a number of European representatives have been discussing possible governance process and changes, particularly in regard to issues affecting ICA Europe. We are aware that these discussions address issues under consideration

by the GWG. We welcome the contribution by our European colleagues to these discussions and hope that work with ICA Europe can be seen as a pilot in developing new approaches to complex issues. These issues need to be resolved by continuing dialogue and consultation to ensure that regional priorities are effectively balanced with agreed global priorities – such as the need for solidarity with co-operatives in Africa and the developing world.

1.10 Perspectives on change

The ICA is a longstanding organisation, used to operating a specific mode of international relations. However, international organisations are being increasingly challenged by globalisation. The for profit company model has become even more dominant as the concentration of wealth increases. The ICA needs to adapt to these changed realities

1.11 Important leadership role for ICA Board

The GWG believe that ICA Board has a key role to play in leading governance renewal and in helping to create the right environment to ensure its success.

Many of the recommendations for action relate to the board and require agreement among Board members. By acting quickly, the Board will signal its seriousness about governance renewal

1.12 Inclusive consultation process needed

Many of the issues which we have identified as requiring further consideration and resolution are complex, contested and perhaps for some controversial. That is why the GWG wants time to consult with the sectoral organisations, regional bodies and ICA members as well as the Board, before bringing final recommendations on these matters forward.

1.13 Monitoring implementation

The GWG believes it has an important ongoing role to play in monitoring and reporting to the Board, and members via the Regional and General Assemblies on progress on the implementation of its recommendations.

1.14 Framework recommendations

The GWG made a number of framework recommendations

Framework Recommendations

- **That the GWG be mandated to continue its work along the lines outlined in this report with a requirement that it present its final report to the 2007 General Assembly in Singapore**
- **That the 2005 ICA General Assembly endorses the *programme of action for governance renewal* as detailed in this report and that it supports the**

call of the GWG for the ICA global Board to give immediate priority to commencing the process of implementing the governance renewal action plan during 2006.

- **That the 2005 ICA General Assembly:**
 - **notes the areas identified by the GWG as requiring urgent further examination.**
 - **supports the call by the GWG for an urgent meeting of the ICA's new global Board to agree a set of actions, implementing GWG recommendations**
 - **that the Board meeting detailed above agrees a timetable for resolving the outstanding strategic and structural issues to enable full consultation at the next round of Regional Assemblies and the 2007 General Assembly.**

The next sections of the report outline in detail our series of specific recommendations for governance renewal in the ICA.

2. Recommendations for Immediate Action

The GWG have identified a number of issues and actions which it believes the ICA should immediately commit to addressing.

2.1 Strategic Framework

Procedural Issues:

2.1.1 Strategic planning process and multi-annual budgets

The GWP believes that there is a clear need for the Board to comply with Article 19 (a) of the *ICA Rules* and undertake, in conjunction with senior ICA staff, a comprehensive strategic planning process to develop a three year strategic plan for the ICA. This can build on the recent work it has been doing in implementing many of the Taskforce's recommendations. In developing the strategic plan the Board will need to take account of the various regional and sectoral strategic planning processes and plans and seek to integrate these into their overall global plan along with their specific global priorities. The global Board has a clear responsibility to lead and coordinate this process.

To help achieve a degree of strategic coordination throughout the ICA it is suggested that over the next three years, a common methodology and strategic planning approach be agreed between the global, regional and participating sectoral parts of the ICA. There has been considerable progress in using consistent approaches, software etc in the multi-annual budgeting and accounting areas between the global and regional offices. This provides a model. It will be important to ensure greater sharing of information in this process leading to far greater coordination of activities and events along with a more unified strategic approach.

The GWP believes that an ICA wide strategic planning, monitoring and reporting system will lead to greater coordination and effectiveness and contribute to controlling and reducing the ICA cost base. It will also lead to greater accountability and transparency and enable better reporting to ICA members.

Recommendation

That the ICA Board fulfil their responsibilities under article 19 (a) and develop a unified strategic planning process for the whole of the ICA to enable it to produce a three year strategic plan. It needs to be acknowledged that this actual planning process needs to take account of the broader strategic issues raised in section 4.1 of this report.

It is also recommended that one of the annual ICA board meetings becomes a strategic planning meeting to ensure that the Board leads on and embeds the planning process.

2.1.2 Reporting to Board against strategic plans

It is the view of the GWP that the quality, materiality, and consistency of information placed before the board needs review. Future board reports need to be linked to the 3 year strategic plan and multi-annual budget and contain reports based on agreed key performance indicators (KPIs). Reports should focus on outcomes, and report on variations against, budget and targets to enable the board to monitor the implementation of their strategy consistent with the requirement of Article 19 (a) of the *ICA Rules*. It is recommended that similar and consistent reporting procedures be adopted in the ICA regions.

Recommendation

That as part of the strategic planning process the Board agrees and publishes key performance indicators, and that reports to the Board be linked to the strategic plan, programmes and budgets. Variations to agreed targets, plans and KPIs should be clearly indicated and explanations provided.

2.2 Improving Board Effectiveness

2.1.1 Board standing orders

The GWP recommend that a set of Standing Orders for meetings of the Board are developed urgently. The standing orders should provide clear procedures for meetings, and cover areas including:

- attendance by non-ICA Board members at ICA Board meetings,
- circulation of papers (to ensure adequate time for translation)
- clarifying and recording decisions
- physical arrangements at Board meetings
- procedures to encourage participation by all Board members

The GWG group have already considered some of these matters and would be in a position to draft a set of Standing Orders for Board consideration by June 2006.

Recommendation

That a set of standing orders designed to improve board effectiveness be prepared as a matter of urgency.

3. Recommendations Agreed in Principle to Commence within 12 months

The GWG felt that there were a number of structural and procedural issues on which it could make in-principle recommendations with the detail developed by the GWP, Board and other relevant constituent parts of the ICA.

3.1 The Regionalisation Process

The Structural Issues:

3.1.1 Decentralisation

The decentralisation process formally commenced at 1992 ICA Congress in Tokyo. Regionalisation was designed to make the ICA more relevant to its members; to be a platform for offering better services for members and to open up the global network by giving greater authority and autonomy to regional governance structures, programmes and priorities within an overall and reinforcing global structure so that “the sum of the parts was greater than the whole”.

The Taskforce statement quoted above, encourages and supports regionalisation while cautioning about the speed of its implementation and restating the importance and need for global control and coordination.

The ICA President has stated that “an efficiently decentralised structure requires a genuine network organisation held together by shared values, unambiguous rules and unifying strategic choices”. The notion of shared values offers one way of helping to operationalise regionalisation and to remove any ambiguity. If a set of guiding principles of regionalisation can be developed, then any action in the context of proposed regionalisation activities can be tested against these principles.

The GWP are offering the following draft guiding principles (or shared values) for the regionalisation process within the ICA for consideration:

- Regionalisation should be focused on delivering a demonstrable increase in member value and services.
- The ICA is one organisation and any change to the regional/global balance must be shown to benefit all parts of the ICA and not to benefit one area at the expense of either another region, sector or global.
- The regionalisation process must move forward in a way consistent with our shared values and principles.
- In deciding upon which activities are best carried out at global, sectoral or regional level, it is assumed that just because something has previously been performed at global, sectoral or regional level does not mean that this will necessarily always be the case. However, the principle of subsidiarity should be followed as much as possible.

Recommendation

That a set of guiding principles for operationalising regionalisation be developed.

3.2 Legal issues

The Structural Issues:

There are several matters of a legal nature about which the GWP would like more information and clarification.

3.2.1 Form of incorporation

The status of the ICA is that of an association organised as a corporate body regulated by the *Swiss Civil Code* in articles 60-79. There are a number of possible governance issues, including the legal obligations of Board members of such an association. There is also the issue of whether the ICA should be incorporated as an association rather than as a co-operative. For example the current legal structure of the ICA means that voting in the ICA is not based on one member one vote, it is based on a weighted voting system, dependent on the amount of membership subscription each member pays.

The GWP is not recommending any change at this stage to the form of incorporation, merely bringing it to the attention of members for possible further consideration.

Issue for further discussion

That the ICA examine whether incorporation under the Swiss Civil Code as an association remains the most appropriate form of incorporation for the ICA.

3.2.2 Legal position of ICA Board members

One concern to GWP members has been the legal position in relation to the duties and responsibilities of ICA Board members. Are they legally liable for their decisions, either individually or severally? As discussed above, the ICA is incorporated as an Association under the *Swiss Civil Code*. The *ICA Rules* note that the Board along with the General Assembly, Regional Assemblies, Regional Elected Bodies, Audit and Control Committee, President, and Vice-Presidents are the “authorities of the ICA”. This suggests that each of these authorities has a legal responsibility. However, it is understood that previous legal advice received by the ICA is not clear on this point and suggests that the only person legally responsible, i.e. who can be sued, is the Director-General.

These questions go to the heart of the legal powers and responsibilities of the board, indeed also the regional boards and other authorities of the ICA. It goes to the core of any corporate governance model we may chose to recommend. It is also a matter of ensuring transparency and accountability within the ICA. Members and others, third parties, need to know who is legally responsible for the organisation. Also, how far do the powers of the board, (regional boards) extend – is it possible for board members to

act ultra vires? In other words are the Board and the members, (along with the regional boards) merely advisory with no legally enforceable power? Is so, who is or should be legally responsible for the actions of the ICA? This obviously needs to be clearer.

The GWP have assumed that ICA global Board members are fully responsible as directors of the organisation. If Board members have the power to direct the organisation, approve membership, budgets and work plans than it is assumed that they also have commensurate legal responsibility – responsibility goes with authority.

Issue for further consideration

The legal status of the ICA Board members as directors of the organisation should be clarified. If it proves to be the case that ICA Board members (and regional board members) have no legal responsibility then this matter should be addressed by either changes to the by-laws or some other mechanism to ensure a degree of legal responsibility is commensurate with their powers.

3.3 Board – Best Practice Code

The Structural Issues

The GWG have identified a range of issues outlined below, in addition to the items listed in section 2.2, which it believes relate to best practice in terms of the Board, its composition and its way of operating. The GWG believe that a code of best practice should be developed within 12 months by the GWP in consultation with the Board and ICA members.

3.3.1 Possible limits on number of terms or an age limit

One feature of many corporate governance systems is a limit on either the number of terms served by board members or by providing for a maximum age limit for Board members. The GWG feel that this is an issue requiring further consideration.

Issue for further discussion

That an examination of options in relation to encouraging democratic renewal on the Board and other governing bodies in the ICA be undertaken.

3.3.2 Diversity and the representative character of the Board

The GWP has conducted an analysis of the global Board for the period 1992 – 2005. This is the period since the introduction of the regionalisation process.

Over the 12-year period, 45 people have served on the board, 40 men and 5 women from 26 countries. There are around 90 countries represented within the ICA membership. So, a little short of 30% of countries from within ICA membership have been represented on the board at least once during this 12 year period.

However, during this period there have been around 10-11 countries which have been almost continuously represented on the Board. This group includes Canada, USA, UK, France, Italy, China, Japan, Sweden/Norway, India, and Israel. It is perhaps, not surprising that this group, the “G-10”, should have such a high rate of representation on the global ICA. These countries are, with only one exception, among the strongest co-operative movements in the world. Also, the ICA has a weighted voting system which means the more membership subscription you pay the more votes you get, up to a limit of 25. With the exception of Israel and to a lesser extent India, this G-10 group is almost identical with a listing of the largest paying members of the ICA. To further make the point, of the top 16 subscription paying countries 13 are represented on the present Board. In summary it appears difficult for smaller, newer and poorer members to get elected to the Board as most Board members tend to come from a fairly limited range of countries.

The current voting system also seems to disadvantage women and younger people. Although the level of representation for women on the present Board is historically high, 3 of the 15 directly elected by the General Assembly are women with one of the regional Vice-Presidents also being a women, making 4 out of 20 on the Board, it is still well short of the target set by the ICA of 30% of elected positions. The ICA has also never had a women President in its 110 year history. The age profile of the present Board is also strongly skewed towards members over 40 or more particularly over 50.

The GWP is aware that co-operatives are involved in a contest of ideas for the hearts and minds of the general public, government, the media and other opinion leaders. We need to better argue and represent our case to the widest possible audience. Part of this battle is to align our governance structures more fully with not only past, but future supporters of co-operation. It would appear that there is considerable work to be done in terms of ensuring wider representation for new views and new voices on the governance structures of the ICA.

Recommendation

That diversity issues are addressed in the Code of Best Practice and that a serious effort be made to ensure a wider range of people, views and experience are represented in the governance structures of the ICA.

3.3.3 Youth Participation on the Board

A young person representing the ICA Youth network currently attends and participates in ICA global Board meetings. This initiative which followed the ICA General Assembly in Oslo has been warmly received by both younger co-operators, other ICA Board members and more generally throughout the movement.

Recommendation

That the status of the youth network representative on the ICA’s global Board be clarified and that transparent processes and procedures for the appointment be established and appended to the Standing Orders.

3.3.4 Barriers to participation

Participation in ICA governance structures such as the global or regional Boards is normally on a self-funding basis. This can act as a barrier to members from poorer co-operative movements or countries putting themselves forward for election.

It is understood by the GWP that a special fund, the President's Fund exists which has been used on occasions to assist co-operative representatives from poorer countries participate in ICA governance bodies. While welcoming this initiative, the GWP believes that there may be considerable value in formalising this arrangement and making it more widely known, prior to the calling of nominations for elections, so enabling all members to be aware that possible assistance may be available to them.

Recommendation

That a fund be established, similar to the President's Fund to assist poorer countries and co-operative movement participate in the governance of the ICA.

3.3.5 Co-opted Board members

The role of co-opted ICA Board members needs to be addressed. It is understood by the GWP that the decision to co-opt additional members to the global Board was taken in 1997 by the then ICA General Assembly. It was to be for a period of two years and was designed to address the need for much greater gender equality within the ICA - in other words the co-opted members were to be women. It was understood at the time that the co-opted members to the Board were to be full members. Succeeding boards have simply continued the practice.

There are however, a number of issues here. Are co-opted Board members still full Board members? How long should their terms be? Is the process of co-option the best way to address the issue of gender inequality, on the Board and more generally throughout the ICA? How many should be co-opted? Should the concept of co-option be extended to other underrepresented groups within the ICA as a means of addressing wider diversity issues? Should there be a limit on the number of co-options, to avoid changing the overall democratic base of the Board?

It is proposed that the GWP and Board examine and develop guidelines for co-opting members to the Board, including consideration of the rights and responsibility of co-optees.

Recommendation

That the ICA board examine the role and responsibility of co-opted members and develop a set of guidelines to deal with this situation, such guidelines to be an appendix to the Standing Orders.

3.3.6 Direct sectoral representation on the Board

The GWP have received representations to the effect that the ICA sectoral should be directly elected into the global Board. The GWG is of the view that in principle

sectoral should have some representation on the Board; however it is felt that the exact detail and number should be subject to wider discussion.

Issue for further discussion

The GWG believe that ICA sectors should have direct representation on the ICA Board. This issue should have priority in the discussions on governance changes.

3.3.7 Alignment between the Global and regional boards

Are or should the representation on the global and regional Boards be more closely aligned. There is currently differing patterns of aligned between the four regional governing bodies and the global Board. These range from an almost complete overlap of representatives at the Asian level to one in Europe whether there is virtually no overlap.

Recommendation

That the issue of alignment of the global and regional Boards be discussed to see whether any further action is needed.

The Procedural Issues

The GWG have identified issues of a procedural character relating to the Board. The recommendations will need to be considered as part of the Code of Conduct, to be developed within the next 12 months.

3.3.8 Code of Conduct

The Taskforce recommended that a Code of Conduct or best practice for governance be established for the ICA. The GWP believe that the Board needs to commence work on this task, using the GWG's recommendations and points for further discussion as a starting point. Regional Boards should also be involved in this process. The sections set out below 3.3.9 – 3.3.19 plus sections 3.4 and 3.5 would among others mentioned all be part of such a code of conduct. The introduction of the code is one of the key recommendations of the GWG. Given the work the GWG has already done in identifying areas for inclusion in the code, the Board may wish to ask the GWG to undertake the preparation of a draft code.

Recommendation

That a Code of Conduct be developed and introduced by the ICA.

3.3.9 Duty to act in good faith, duty of care

Members of the ICA Board occupy one of the most important elected positions in the global movement. Such a position requires the very highest standards of integrity, ethical behaviour, honesty, diligence and professionalism. Board members are bound by an overriding fiduciary duty to act in good faith in the best interests of the ICA as a

whole. The Board may need to think about possible sanctions or remedies if any of its members fail to carry out their responsibilities and act with the highest possible standards.

Recommendation

That all ICA board members undertake to act in good faith and to display the highest possible ethical behaviour as Board members – this will be part of the Code of Conduct all new Board members would be asked to sign.

3.3.10 Commitment to collective decision making

In an international democratic organisation like the ICA it is important that all Board members have the opportunity to fully participate in the decision making of the Board, However, it is normal governance practice that Board members must then respect the decisions of the board collectively and democratically reached and actively promote all policies that have been adopted, regardless, of their own personal views. They must also speak with a single voice once board decisions have been made.

Recommendation

That all ICA Board members commit to collective decision making and to publicly supporting the decisions of the Board. This commitment to be part of the new Code of Conduct.

3.3.11 Internal control and risk management

The Board should ensure that internal control systems are in place to effectively manage risk within the organisation. The ICA has made real progress in the area of financial controls over the last two years.

Recommendation

That the Board undertake during its 2006 – 2009 term a detailed risk assessment to determine if its existing internal control and risk management strategic are adequate.

3.3.12 Relationship between the Board and Management

One of the key governance issues for any board is its relationship with the CEO and other senior management. The introduction of the recommended strategic planning framework for the ICA offers the opportunity for a restatement of the Board/management split of responsibilities and duties within the ICA.

It offers a chance to revisit delegation by the Board of responsibilities to senior management and hence to formalise any of these arrangements. Each of these parties, the Board and senior management should know their respective boundaries and observe them – a successful organisation is one which balances and manages this relationship ensuring that they are working together rather than becoming a source of conflict and competition.

Recommendation

That as part of the broader strategic framework process the Board develops and approves a written scheme of delegation to clarify the split of responsibilities and duties within the ICA.

3.3.13 Review of Board and individual performance

Good corporate governance requires a board to regularly, perhaps yearly or bi-annually review its performance. Such a review normally includes a review of its own performance, and that of its sub-committees and also importantly the performance of its individual directors.

Recommendation

That the proposed Code of Best Practice includes a requirement that ICA Board undertakes a review of its performance, including individual board member performance at least once every two years. The Board should report on this review in the following year's Annual Report. The first such review should take place before the end of 2008.

3.3.14 Board members attendance at Board meetings

Board members should be willing and able to commit the necessary time to the governance of the ICA

It is proposed that in line with normal corporate governance practice the attendance record of elected board members be reported from time to time in the ICA's Annual Report. The attendance record of board members participating on Board Committees should also be published.

Recommendation

That the attendance record of ICA Board members be published in the ICA's Annual Report.

3.3.15 Skills of Board members

It is important that the Board has a range of skills, experience and knowledge. The Board should identify the skill set/mix it believes necessary to carry out its role.

Recommendation

That as part of the governance renewal process a set of skills needed for the ICA Board (and regional Boards) is developed.

3.3.16 Induction programme for new Board members

At present no formal induction programme exists for newly elected ICA Board members. Given the complexity and diversity of the international movement it is regarded as imperative that such a programme be developed. The GWP believe this should be developed during 2006.

Recommendation

That the Board in association with ICA senior staff introduce an induction programme for all newly elected board members.

3.3.17 Training for ICA Board members

Good corporate governance requires that board members have appropriate skills to carry out their tasks or role. The GWP understands that no specific Board training has been provided to ICA Board members for at least a decade.

To help commence this process the GWG believe that during 2006, that information on director training programmes commonly undertaken by co-operative directors and leaders be provided to enable the Board to commence a discussion on training strategies and needs.

Recommendation

That information on co-operative director training be provided to the Board to enable discussion on possible training needs for the Board and other governing bodies throughout the ICA. This material could be prepared by organisations experienced in co-operative leadership and director programmes.

3.3.18 Board member obligations in relation to member subscriptions

Article 18 (d) of the *ICA Rules* states that “no person shall be entitled to serve on the Board whose organisation is no longer in membership of ICA or is in arrears with its membership fee without a valid reason approved by the Board, or who has ceased to be an accredited representative of the nominating Member or, in the case of Vice-Presidents, of the respective Regional Assembly”. This rule has implications for both prospective and possibly new board members however; it does not specifically cover the situation of non-compliance with the subscription formula.

The GWP is aware that the issue of all board members own organisations paying according to the democratically determined formula are of real concern to a number of existing ICA Board members. Article 2 (c) of the *ICA Policies, Procedures and Standing Orders* contained in the *ICA Rules* spells out the agreed formula for determining the annual subscription fees payable as a member. There is discussion within the ICA at present about this formula and possible changes to it, but while existing rules remain in place they need to be complied with.

The governance issues of concern here relate to integrity, honesty, transparency and accountability. Board members not only need to do the right thing in terms of complying with agreed rules, but must also be seem to be doing the right thing. While this matter is initially focused on the global board it is strongly recommended that it also commence at regional board level as well.

There is a related issue. What is the most appropriate way for a Board member, or indeed any member organisation in the ICA to proceed when one feels that some members are deliberately not complying with the rules. Tolerating non-compliance disadvantages those organisations doing the right thing. For a membership organisation whose only real source of revenue is from membership duties, maintaining the integrity of this system is of paramount concern.

Recommendation

That all ICA board members and prospective Board members ensure that they comply with both the spirit and the letter of all *ICA Rules*, including the membership subscription formula. All ICA members should have the right to information concerning whether existing or prospective Board members are from organisations in full compliance with all *ICA Rules*.

3.3.19 Dealing with conflicts of interest

Conflict of interest situations sometimes occur on boards. The important thing is to acknowledge this, and have governance processes for dealing with it. There are well established ways of dealing with such occurrences. Firstly, it is important that the board member indicates to fellow board members and the chair that a real or possible conflict of interest is about to occur. The normal procedure is that the Board member normally then takes no part in the subsequent discussion on the matter concerned – in some cases the director will leave the room while the matter is being discussed.

Recommendation

That the Code of Best Practice includes guidelines and procedures for dealing with conflicts of interest. Once adopted these guidelines should be applied to each of the regional elected bodies.

3.3.20 Succession plans

Good corporate governance requires that the Board ensures succession plans for both directors and management are in place.

Recommendation

The Board examines the issue of succession planning.

3.3.21 A Board member only web site

It is proposed that the practicality of providing a restricted segment of the ICA's new website for ICA Board members be explored. Such an area would be able to house all the relevant documents for the ICA Board including minutes of all relevant meetings, ICA policy statements and the like, strategic plans, global and regional budgets, General and Regional Assembly resolutions and regional board decisions and other information.

Recommendation

That the feasibility of providing a restricted area of the ICA new website for ICA Board member information be explored and reported back to the ICA board.

3.3.22 Electronic versus physical meetings – cost benefit analysis

As noted above the ICA Board has been meeting on average three times a year over recent years. The issues associated with barriers to participation discussed elsewhere in this report suggest that the Board should urgently consider alternatives to costly physical meetings. While it is acknowledged that there is no substitute for physical meetings in creating bonds between members and in helping establish a strong corporate governance culture, we believe that electronic meetings can be effective once such bonds are established and development training provided.

The cost effectiveness of existing practices needs examination and greater use of technology offers one possible route towards greater cost savings. The GWP understands that the European region is increasingly using online meeting technology and this may provide a possible model with wider application throughout the ICA.

Recommendation

That the ICA investigates the relative cost of using online technologies for some of its governance activities with a view to the early introduction of online meetings.

3.4 The President's Committee

The Structural Issues

3.4.1 The role of the President's Committee

The President's Committee is a committee of the Board. Given that its membership comprises the ICA President, directly elected by the General Assembly and the four Vice-Presidents, directly elected by their respective Regional Assemblies, this committee uniquely provides a forum for better coordinating and integrating regional and global priorities and programmes. The GWP believe strategies should be found to better enable this committee to uniquely fulfil its potential as a central coordinating committee for global and regional activities.

Issue for further discussion

That the role and function of the President's Committee be reviewed with a view to developing a set of guidelines for its operation.

Procedural Issues

3.4.2 Appointment and review of ICA Director-General by ICA Board

Article 19 (g) of the *ICA Rules* says the ICA Board has the power to be “responsible for the appointment or removal and the remuneration of the Director-General of the ICA”. Article 15 (d) of the *ICA Rules* says that the General Assembly has the power to “ratify the appointment or removal of the Director-General on the recommendation of the Board”. One of the key tasks of almost any board is the appointment of the CEO of the organisation. It is understood that at present no formal recruitment procedure exists for this appointment. It is recommended that an agreed and formal recruitment procedure and policy should be developed and agreed by the Board. At present no annual review process exists for the Director-General. The GWP believes that such a process is essential. The President’s Committee would seem be vehicle to formally conduct this annual review, with a report back to the Board as a whole.

Recommendation

That the President’s Committee be formally assigned the task of annually reviewing the performance of the ICA Director-General.

3.5 The Elections Committee

The Structural Issues

3.5.1 Composition of Elections Committee

The *ICA Rules* provide for an Elections Committee. Standing Order V (3) of the *ICA Rules* states that the ICA board shall appoint a committee which shall be comprised of eight persons, including the Vice Presidents and be gender-balanced. The GWP understands that the four non Vice President’s positions on the Elections Committee for 2005 have been filled by the four retiring Board members – so in effect the 2005 Elections Committee is fully comprised of currently serving ICA Board members, at the time of its deliberations in terms of the forthcoming 2005 election for the new Board positions. Also, only one of the eight positions on the Election Committee in 2005 is filled by a woman.

The issue of independence is important. It is suggested that there is a need for an independent elections committee to avoid any possibility of a self-perpetuating aspect to Board representation. The GWP believe that a genuinely independent and gendered balanced Elections Committee should be established. It recommended that the Elections be directly elected by the General Assembly and that candidates for the Elections Committee should be fully independent. These new arrangements will require a rule change which it is proposed be presented to the 2007 General assembly for endorsement. In the meantime the ICA board take cognizance of this recommendation in any appointment of an Elections Committee prior to the 2007 General Assembly.

Recommendation

That a fully independent Elections Committee elected by the General Assembly be created with a rule change presented to the 2007 General Assembly for

endorsement. That a set of guidelines be developed for the Elections Committee be developed as an appendix for the Code of Best Practice. That an induction and training programme also be developed for this committee.

3.6 Disclosure and member involvement

Public reporting of activities is normally one of the key checks and balances in any governance system. Letting the “light of day” fall on the internal workings of an organisation generally results in a higher level of compliance with acceptable governance standards. The following recommendations are focused on communication, disclosure and increasing member participation in governance activities.

Procedural Issues

3.6.1 Annual report and financial statements

It is the responsibility of the board to ensure that the annual report presents a balanced and understandable assessment of an organisations position. The report and accompanying financial statements should include a coherent explanation of the organisations performance and prospects. Areas of poor performance should be shown with the same prominence as success areas.

The ICA Identity Statement sets out the ICA core values, which include a belief in the ethical values of honesty, openness, social responsibility and caring for others. Communications and disclosure is obvious an area where the ICA can demonstrate its commitment to honesty and openness with its members, its partners and the wider community.

The GWP feels that the ICA should make a commitment to regular communication with members and others on decisions and activities of the representative bodies of the ICA to enable members to understand how the governance structures of the organisation work. The GWP feels that there should be much greater coordination of public governance reporting systems. Annual reports are the public face of the organisation; they should reflect a consistent approach to governance, a set of shared values and a unified strategic framework for the activities which are being reported on.

Recommendation

That there be greater coordination and consistency of public reporting by the various parts of the ICA in line with our ethical values.

3.6.2 Member involvement in governance

Member involvement in governance matters generates greater member loyalty and helps generate from within its ranks willing future leaders.

The GWP has observed that the level of participation by members in the ICA ranges from passive, merely paying their membership subscription to very high levels of representation on a wide range of the constituent bodies. The ICA should strive for a fully active and engaged membership - one which is prepared to actively and publicly promote and support the ICA, particularly to their own members. The ICA governance system sits on the top of our member's own governance systems creating a world wide web of democratic governance. The ICA should use these wider governance networks to report back and receive information and encourage greater participation and identification with the ICA.

Recommendation

That the ICA regularly monitors the level of member involvement in ICA activities, including governance activities and develops strategies to increase the participation level of members in governance related activities.

3.7 Audit and Control

The following recommendations acknowledge and build on the work to date of the Audit and Control Committee.

The Procedural Issues:

3.7.1 Training and induction for Audit and Control Committee

The GWP would like to place on record its congratulations to the Accounting Working Group for the work it has undertaken, particularly the production of the ICA Financial Control Handbook. Along with the Taskforce Report, this handbook heralds the start of the governance renewal process in the ICA.

However the need for induction and training programmes for newly elected members of the A&CC was strongly made by members of the A&CC.

Recommendation

That the recommended induction and director training programmes also include provision for existing and prospective members of the A&CC.

3.7.2 Access of A&CC members and/or auditor to the Board

The GWP is aware that there have been previous problems in relation to financial governance within the ICA. In particular, there has appeared to be problems associated with timely, material financial information passing from and between auditors, members of the A&CC, senior management and the global Board. The GWP is satisfied that any previous deficiencies which may have existed several years ago have been addressed over the last 3 years. Nevertheless, the GWP would like to draw attention to the need to constantly ensure that financial information can flow, if necessary, from outside independent auditors and members of the A&CC through management to the Board. Auditors and A&CC members should be able to bring any issue they deem significant to the attention of the Board in a timely manner. The

Board needs to be satisfied that they have all the relevant financial information they need to make decisions about the financial position of the overall ICA. This process is a key component of the risk management system.

Recommendation

That members of the A&CC and/or the independent external auditor have a right of access to the Board to raise any significant matter of concern.

3.7.3 Periodical change of auditors

External auditors play a key role governance role. One of the lessons learnt from the recent governance failures in the corporate world is that auditors need to remain independent and uncompromised in their relationship with their clients. It is suggested that no audit partner should remain in charge of the audit for a period exceeding five years. It is further suggested that the Board should have an agreed policy for re-tendering the provision of the external audit at least every ten years.

Recommendation

That a regular review is carried out of the ICA auditors and that the audit is put out to competitive tender, at least every ten years, and that no audit partner should remain in charge of the audit for more than five years.

3.8 Staff

Procedural Issues:

3.8.1 The role of staff in corporate governance

The GWP is aware that previous corporate governance failings in the ICA have resulted in tensions between the senior staff and the global board. A written scheme of delegation is an essential component of good governance to mitigate against such tensions in the future.

Staff have a key role in helping to set this direction, bedding down changes and driving the ICA to a new level of relevance and service. Respect for their role and contribution is an important part of any governance changes in the organisation. Providing adequate resources and training is also important. This will help create improved morale, and match staff against the strategic direction set by the Board. Most modern organisational theories place people at the centre of the organisation as their most important resource.

Recommendation

That the key role of ICA staff in corporate governance renewal is acknowledged and that adequate resources are provided to enable them to play their role in carrying forward the recommended changes.

3.8.2 Staff code of conduct

The GWP believe that a Code of Conduct for ICA staff, similar to the Code of Conduct for Board members should be developed over the next 2 years.

Recommendation

That a Code of Conduct be developed as part of the governance renewal process within the ICA.

3.9 Commitment to make it Happen

3.9.1 Building support for governance reform

Good governance starts with good leadership. The current elected leadership of the broader ICA network includes the 20 ICA global Board members, the approximately 40-50 regional ICA Board members and the board and executive members of the nine sectoral and four thematic global and associated regional organisations – perhaps 200 elected people. Add to this the approximate 20 senior ICA staff, making 220. These are the people who will need to drive the process of improved governance in the ICA. They are the key constituency for change. They can either be supporters of this process or opponents of it. All change is uncomfortable, but the challenge for the current leadership is to take the opportunity presented and help drive governance reform within the ICA. This process needs to particularly involve this group of people. It is recommended that a governance renewal email list be created which includes this group and that regular information and discussion be encouraged among this group as the governance process unfolds.

It is also obvious that a budgeted amount of money will need to be set aside to for the implementation of the recommended governance renewal activities outlined in this report.

Recommendation

That communications strategy around the governance renewal process be developed and implemented.

Recommendations for Further Consideration

The GWG believe that there are a series of important issues which require much further consideration, discussion and agreement. The GWG is not proposing that no action occur immediately on these issues, rather it is not recommending any specific action at this point, outside of identifying these issues need resolution. This is why we have call for more time to have a proper and informed debate within the whole ICA on these matters concurrent with the implementation of our other practical recommendations.

4.1 Strategic Issues: mission, vision and membership

The Issues:

4.1.1 ICA's mission statement

The ICA Rules spells out the mission of the ICA. It states that the ICA is “an independent, non-government association which unites, represents, and serves co-operatives worldwide”.

Issue for further discussion

Is the current mission statement of the ICA still the most appropriate one reflecting the current and future purpose of the organisation?

4.1.2 What is the role of the ICA?

Article 3 of the *ICA Rules* spells out the methods the ICA will use to achieve its mission and objects. The combination of Article 2 and Article 3 really represented the statement of the ICA's role – “what it does” and “how it does it”. There also needs to be agreement about which of these activities and roles are carried out at what level of the overall ICA structure

The GWP believe there are a number of strategic priorities, these include:

- The need for much better intelligence and analysis of information, also better statistics
- The ICA should have an overall “helicopter” view of the international co-operative movement be able to better inform its members about likely future trends
- The ICA could have a greater role in promoting greater business co-operation, as well as promoting horizontal peer groups. There is a need to recognise that “ICA” expertise often lies in its member organisations.

There can obviously be a variety of possible roles the ICA can carry out. These include promoting and defending the co-operative identity, advocacy and representation to a wide range of international, regional and national organisations, knowledge management and exchange, communications, development and other services to members. Nevertheless, regardless of what the finally agreed set of

priorities or roles is, it is important that they link to the operational programmes and governance structures described elsewhere in this report. There should be an internal logic connecting the mission, objects, strategic plans, programmes and reporting procedures. When these are aligned then there can be no confusion, no ambiguity, each part of this governance system reinforcing the other.

Issue for further discussion

Are the current set of ICA objects and methods still the most appropriate ones reflecting the current and future purpose of the organisation?

4.1.3 Types of membership

The above questions about the mission and role of the ICA are intrinsically related to the question of membership. Members decide the role and priorities of the ICA. If the underlying nature of the membership changes, then there may well be a change in the character, role and direction of the organisation. It is not only a question of the existing members and what sort of organisation they want, but what sort of members the organisation will have in the future.

The sustainability of the ICA over the next ten to twenty years depends on the sustainability of our membership base. Are global and other competitive forces challenging the role of national apex organisations? Are these same forces also consolidating more co-operative resources into fewer and large commercial organisations? Are these trends similar across regions/sectors? How are our members responding to these challenges? Can we learn from this experience?

The ICA has traditionally been made up of national apex organisations. If such organisations are in relative historical decline, than this has implications for an organisational predominantly based on this type of membership.

The issue of possible new membership categories was discussed in the ICA commissioned Organisational Review prepared by Edgar Parnell in 1998. That report suggested extending membership to a class of members, known as business members. The GWP is not making any specific recommendations on this matter, but believes this issue is of paramount importance and requires further discussion throughout the ICA. . The debate needs to be informed by the need for the ICA to have the resources to fulfil the role its members assign it. There is a large amount of financial resources amongst the largest co-operative businesses in the world. These resources are not directly sourced by the ICA, for example the top 300 co-operative (and mutual) businesses in the world have been estimated to have a conservative combined annual turnover of approximately \$700 Billion USD.

Issue for further consideration

Is the current mix of membership types the most appropriate for the ICA?

4.2 Structural Issues:

The Issues

4.2.1 The Size of the Board

What is the best size for a board of an organisation like the ICA? Although the ICA Board is large by comparison with commercial co-operative organisations, it is not particularly large in comparison to similar national co-operative organisations or other international NGO's. The GWP is not recommending at this stage any change to the overall number of members on the board, rather the focus of its attention is on the balance of representation on the Board and the opportunities the ICA offers for democratic renewal on the Board.

Issue for further consideration

That this matter be examined against best practice models.

4.3 Procedural Issues

4.3.1 Commitment to act according to co-operative principles

The ICA is the custodian, promoter and defender of the international co-operative principles. It is not unreasonable to expect that the ICA should follow its own principles in the governance of its own organisation. A number of the ICA's members include the ICA principles in their own governance frameworks and ask their members to align their governance structures with the ICA principles. The GWP party believe that there is a special obligation on the part of the ICA Board to seriously examine the overall operation of the ICA, including the global Board and other constituent parts to ensure that they are all complying with the principles.

One specific area of responsibility spelt out in the current ICA Rules relates to the approval or otherwise of new members. The ICA Rules are quite explicit - it is the global Board that decides whether an organisation can be a member of the ICA. (There is an appeal process to the General Assembly.) One of the tests of membership is whether the prospective organisation "conforms to the ICA Statement on the Co-operative Identity, as approved by the General Assembly of ICA". The GWP believes there would be of considerable value, particularly from a transparency viewpoint if a set of evaluation guidelines were developed to enable an organisation to understand the process of evaluation and compliance. Likewise, this information could be of use to the ICA Board as it ensures that the ICA itself is operating fully in compliance with its own principles.

Issue for further consideration

That the ICA develops a set of guidelines on how it evaluates prospective members in terms of compliance with co-operative principles. Also, that the ICA board periodically review its own procedures to ensure that it is operating consistently with its own principles from a governance viewpoint.