Stewardship Has Deep Roots in Cooperatives

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Cooperatives CEOs and board members are both agents pursuing profits to distribute to members and stewards safeguarding the assets of the cooperative. Agency theory and stewardship theory are two alternative views of management. While both have insights, stewardship theory may be a more appropriate view for the cooperative firm. The concept of stewardship is also at the core of cooperative accounting. The bylaws of Rochdale Equitable Pioneers Society, formed in 1844, specified that members would receive quarterly audited financial reports on the condition of the cooperative. That was in stark contrast to the typical investor owned firm of that time period which were reluctant to disclose information for fear of losing a competitive advantage.

The rationale of the Rochdale Pioneers was that accounting allowed the members to understand the amount of equity and dividends which were held in their name. A dissatisfied member could withdraw their holdings and be replaced by another new member who was required to make an equity investment. Unallocated surpluses were also clearly defined and explicitly held for the benefit of future generations. That system designed eliminated any incentive for a member to dissolve the cooperative. Because the members could expect to withdraw their equity if they ceased patronizing the cooperative, information on the assets and liabilities of the cooperative was essential. Stewardship, the responsible management of the assets entrusted, is fundamentally ingrained in both cooperative theory and cooperative accounting. You might note that the audit report at the cooperative's annual meeting always begin with the presentation of the balance sheet.

In contrast, the original focus of financial reporting in investor owned firms was on the income statement. In a closely held firm an owner cannot withdraw their equity without an offer from the partners. Any realized return will relate to a profit distribution. In a publicly traded company, stock price is usually much more related to profitability than to the net worth on the balance sheet. It's easy to see why owners of those firms would be highly interested in profitability. Cooperative members are interested in profitability because of its effect on cash patronage. They are also concerned about whether the cooperative is maintaining a strong balance sheet to support equity redemption. The steward's of the cooperative, i.e. the CEO and board must use a balanced approach to reporting on the condition of the cooperative which describes both profitability and the financial condition.

When you present your cooperative's audit at your next annual meeting don't forget that you are standing on the shoulders of the Rochdale Pioneers!

Alan Robb of Saint Mary;s University NS Canada, recently published a great article on this topic in the Journal of Cooperative Accounting and Reporting.

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