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THE ROLE OF THE BOARD OF DIRECTORS IN THE CONTEXT OF GOOD GOVERNANCE: A STUDY OF THE FINANCIAL COOPERATIVE SECTOR IN BRAZIL

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ABSTRACT

The main objective of this article is to analyze functioning dynamics of the Board in financial cooperatives in Brazil, considering that organizations in that country are managed by a group of executives coming from the Board, all of them elected during the General Assembly. It has been argued that activities of implementation and administration must be performed independently from the Board, seeking to strength in this body the role of head of strategic orientation and control. The article is based on an institutional research held between 2006 and 2008, involving the population of financial cooperatives, aimed at diagnosing and understanding their governance practices.

Keywords: financial cooperatives; governance; board of directors; executive board; participation.

1. INTRODUCTION

The positive impact of good practices in governance in publicly held companies has drawn the interest of other organizations that, even though they don't primarily rely on investors, also demonstrate the existence of formal structures linking ownership and management and can therefore benefit from the references developed about this theme. The central issues that are dealt with in corporate governance are similar to those faced by most organizations. In a typical publicly held company - in the majority of other organizations, such as pension funds, state-owned companies and non-governmental organizations (NGO's)- the highest administrative body is made up of a group of people who represents the owners or investors, known as the Board of Directors, or the Board. This body is responsible for determining strategies and goals, choosing the executives who will develop these and supervise their implementation, and guiding the expectations and interests of these owners. In this division of roles, the executives are responsible for undertaking the most effort to achieve the results expected by the owners and investors, as defined and supervised by the Board.

So among the various mechanisms used to improve governance, the one that yields the highest level of convergence is the strengthening of the Board of Directors, as its behavior is fundamental in issues related to corporate governance (Daily; Dalton; Cannella, 2003). Chosen at the meetings of owners or agreements with the shareholders, the members of the Board represent the link between the shareholders and the managers, supervising the daily activities of the company. In addition to including the interest of a diverse group of shareholders, it also has the fiduciary duty to maximize the company's performance. However, its role is not always clear, which impacts both in the way it behaves and in the way that the contribution could be evaluated. The legal structure is different for each type of organization, a reflection of the assumption that legislators make about the expected role.

Internationally, the most commonly used practice, both within companies and cooperatives, is the division of the political-strategic representative body of the decisions of the members - the Board- from the executive body – the directors or a similar organ (executive committee, executive management, etc.). For this purpose it's important to note the conclusions of one of the first and most representative works on governance yet conducted. Conducted in the United Kingdom, coordinated by the English Central Bank and with the participation of several professional entities, the Cadbury Committee presented, in 1992, the recommendation that companies should have a more clear division between the functions of executive and non-executive Board members, ascribing to the latter the role of monitoring the former. More than a conclusion specific to the English private sector, this recommendation serves as the basis for governance structures in any organization. The need for a clear separation between these two functions also applies to the Brazilian financial cooperatives, which are the topic of this article.

The legal framework of cooperatives in Brazil allows, and the infra-legal norms even encourage this, that these functions –executive and non-executive – should in fact be fulfilled by the same people. Seen in most of the Brazilian financial cooperatives, this model tends to lead to imbalances – in power, in access to information, in the capacity to exercise control and other areas – between the executive and non-executive members. Furthermore, the main executive ends up with more information about the business of the cooperative than the rest of the Board members, which contributes greatly to reducing the power of influence and the capacity to act of the non-executive members. Additionally, the legal requirement to change Board members at each election, which should encourage a rotation of power, ends up reverting always to the same non-executive members, resulting in the possibility of an increased concentration of power in the hands of the main executive. The result is that the internal distribution of power within the cooperative is strongly associated with the discretionary power of the main executive and not an institutional mechanism that encourages greater participation.

Therefore, the clear separation between strategic functions and executive functions in cooperatives is fundamental to prevent an excessive concentration of power in the role of the main executive, as this person accumulates the greatest amount of knowledge about the business and control over the operational decision-making process, and to allow the administrators who fill an executive function to be fully prepared for the role. Given this context, the goal of this article is to analyze the dynamic of the working of the Boards of Directors of financial cooperatives in Brazil, in the light of the theoretic references that deal with the governance issues and Board participation. Based on the conducted analyses, the argument can be made that, in order to have good governance, the executive activities should be carried out by the professional executive body, independent of the Board of Directors, in order to give the Board back its role of strategic leadership of the organization.

The conceptual references are based on studies of the most important models of corporate governance in Brazil and in the rest of the world, as well as on the results of institutional research, conducted in Brazil, as part of a project that focuses on strengthening governance in the financial cooperative sector, developed based on a survey conducted among the financial cooperatives in Brazil and a representative survey among cooperative members.

This article is divided into five sections, in addition to this introduction. The second section gives an overview of the theoretic references about governance, highlighting the role of the Board of Directors. Then, it presents a summary of the context of financial cooperatives (financial cooperatives) in Brazil and the specific details of the legal framework regarding the administrative bodies. The fourth section provides detail on the institutional project called Cooperative Governance and explains the methodology of the studies that were conducted. The fifth section presents the results of the study, particularly about the dynamics of operations and the roles of the Board in these cooperatives. In the final statements, based on the analyses, the argument is made for the need to strengthen the various roles of the Board.

2. THEORIES OF CORPORATE GOVERNANCE AND THE ROLE OF THE BOARD OF DIRECTORS

The key issue of the current debate on corporate governance has given more emphasis to the shareholder, or the Anglo-Saxon model, focused around the role of the investors and the external controls exercised by the capital markets. According to the basic assumptions of this model, the goal of the company or business is to maximize the wealth of the shareholders and uses, among other aspects, its value on the market as criteria for evaluating its performance (Maher, 1999). The main problems associated with governance are related to the separation between ownership and management, the imbalance in the information and a divergence of the objectives between principal and agent, which result in the so-called agency problems. The destruction of ownership and the problems of free rider are at the basis of most problems faced under this model.

According to a broader vision of the stakeholders model, or the Japanese-German model, companies should harmonize the expectations of the various interested groups, who are considered to be the holders of the legitimate rights and expectations around the operation and the results of the company, such as staff, suppliers, clients and the community, in addition to the owners and investors. In this sense, the socially responsible behavior and concern for public interest have become fundamentally important, as well as being accountable to various other interest groups. Critics of this model argue that the administrators can attribute to this attempt in meeting the expectations of the stakeholders the responsibility for possible negative business results, but recognize its capacity in rallying the efforts of the interested parties around the long-term goals and success of the company (Maher, 1999).

Because the problems associated with corporate governance have their origin in the division between ownership and management, the conceptual framework developed to guide these problems can also be used by a wide group of organizations, not only by corporations. As described by economic historian Alfred Chandler, in the middle of the 19^{th} century commercial organizations began to look for greater efficiency and specialization in management, to be able to handle the increase in scale and complexity of the production process that was a result of the innovations brought about by the Industrial Revolution (McGraw, 1998), which led to the separation between the capitalist-ownership from the management of these companies. In fact this tendency to specialize permeated a large number of organizations, and resulted in the division of the figures of the owners and the managers and the dissemination of problems of agency and governance. Even considering the organizational models based on self-management, the specialization required by the growing complexity of business demanded managers, whether these were owners or not, prepared to deal with issues of an executive nature.

Several instruments are considered in developing an environment of governance to reduce the problems of agency between executives and owners, classified as internal or external control mechanisms. In the first case, the main instruments are the configuration and performance of a Board of directors, the mutual prudence between staff, the participation of administrators in the ownership and the right to vote of the owners in the general meetings. Examples of external control are the market of goods and services – which creates references regarding the efficiency of managers -, the competition on the labor market for administrators, and the performance of the financial and capital markets, either in terms of monitoring or carrying out direct action to take control. Of all these instruments, the activity of the Board of directors has proven to be the most important mechanism of internal control (de Andrés; Azofra; Lopes, 2005).

The Board is composed of a group of individuals, usually elected at the general meetings of the owners, and is responsible for defining the strategic objectives of the organization, according to the best interest of the owners, while paying attention to the other relevant groups of interest, and supervising the execution and monitoring of the activities of the executives. In addition to the cost in monitoring and supervising the performance of the managers, the cost of collective decision-making needs to be added to these costs that are inherent to the ownership function. However, all these costs can be minimized by an effective performance of the Board. By concentrating the interests of diverse groups of owners, the Board can deal with the convergence of technical and political interests, summarized in the strategic objectives, and thus reduce the imbalance of information in monitoring the managers according to the specialization of the Board members.

There is a great deal of literature about the compositions and standards of Board performance, discussing issues such as the number of members, participation of independent members, cross participation of directors between companies (interlock directorates) and the roles fulfilled, such as in the example by Cornforth (2003) and Hung (1998). Hung's (1998) study focused on the explicative capacity of a collection of theories to understand the dynamics of the workings of the Board of market organizations and produced a typology to classify their behavior. Going against the predominant opinion, based on the theory of agency (Daily; Dalton; Cannella, 2003; Shleifer and Vishny, 1997) in which the essential role of the Board is to exercise control over management, Cornforth (2003) and Hung (1998) state that its operation represents a much more complex phenomenon, and that a single theoretic perspective wouldn’t be enough to capture the entire breadth of the process. For Hung (1998), the various theories in question, developed for other contexts and problems have been used by researchers to try and express specific issues of governance and, especially, the role played by the Board, offering only a partial view of the problem. Contrary to this approach, Hung defends the use of a multi-theoretical approach and the development of appropriate theories capable of integrating the various aspects of governance.

So, based on the theories used to analyze the role of Boards and the description of the codes of governance, Hung (1998) evaluates that the Board should fulfill six distinct roles: connection, coordination, control, strategy, conformity and support. According to this suggested classification, attention is focused on the work of the Board in the decision-making process, which may take place according to an extrinsic or intrinsic influence. In the first case, the role of the Board is determined by the contingent factors of the external and internal environments. In the intrinsic perspective, the role is focused on the adjustment of the institutional expectations. Each one of these six roles, which will be detailed next, have been proposed or discussed with an associated theory.

The first role described by Hung (1998) is the role of connection, which considers the mutual dependencies between organizations to access resources and the necessary conditions to operate, create interdependent relationships that need to be managed; this situation is particularly covered by the theory of resource dependence.

In the role of coordination, the organizations, and especially the Board, have the role of handling the demands of the participation of interest groups in the Board, in the understanding, as is referenced by the theory of stakeholders, that these are legitimate manifestations and exercise a significant level of influence. However, there is a social space where the various interest groups (stakeholders) operate, defending the various expectations and positions of power, the solution of which forms the base of organizational sustainability (Martins e Fontes Filho, 1999).

The third role highlighted for the Board is certainly the one best known as being intrinsic to its mission in an environment of a division between ownership and management, expressed in the role of control. It highlights the importance of this role, given the possibilities of the differences in expectations, the propensity for risk and the imbalance in information between owners and managers, as discussed in the theory of agency, and the responsibility for its management usually lies with the Board.

However, in addition to fulfilling a monitoring role, the Board needs to be capable of presenting or discussing proposals of objectives for the organization that reflect the interests of the owners, defined by Hung (1998) as the strategic role. Board members are expected to take an active position, or even volunteer, in the sense that they need to present proposals aimed at maximizing the capacity of the organization to produce the expected results, as discussed in the stewardship theory.

Hung (1998) also recognizes the influence of the external environment in shaping internal practices and often the objectives. Especially for organizations that operate without any explicit references to profit or market value as their main guiding forces, the pressure for legitimacy takes on the role of significant pressure, as discussed in the stream of institutional theory. The CA fulfills a role of conformity, adjusting the internal practices to the isomorphic mechanisms of the environment, within this search for legitimacy, defined by Meyer and Rowan (1977) as the degree of cultural support of an organization.

And finally, there is the role of support, when the Board adopts a position that is less strategic and more confirming of the organizational strategies defined by the managers (rubber stamping). This role may occur in situations when managers hold extreme power or when there is an excessive level of passiveness in the performance of the Board and its Board members only limit themselves to supporting the decisions of the executives, either because of embarrassment or because they possess little independence.

In an attempt to establish an analytical model appropriate for non-profit organizations, and taking as the basis the classification proposed by Hung (1998), Cornforth (2003) focuses on the roles that the Board fulfills, relating its significance to the theories associated with each role in the search for a multi-theoretical approach that would better explain the different roles of the Board.

The same author uses a model to analyze the paradoxes in terms of the Board specifically in cooperatives and associations based on mutual assistance, focusing on the tensions of the Board (CORNFORTH, 2004). According to him, there is the predominance of a democratic perspective in the role and the practices of the Boards of cooperatives and associations, as the Board representatives are elected by the membership. This perspective suggests that the task of the Board members is to represent the interests of the members of the organization, deciding or choosing among the interests of different groups and defining the overall policy of the organization, which can be implemented by the staff. There isn't the requirement that the Board members are specialists in this area, although it is certainly desirable.

3. FINANCIAL COOPERATIVES IN BRAZIL AND THE LEGAL FRAMEWORK OF ADMINISTRATIVE BODIES

Based on the basic principle of mutual assistance, cooperativism can be defined as an association of people that unite their efforts to meet common economic, social and cultural needs. In the case of financial cooperatives, they play an important role in society by encouraging the investment of private resources and assuming the corresponding risks to benefit the community in which they operate. Because these represent initiatives that are directly carried out by citizens, they are important for the local sustainable development, especially by encouraging savings and financing entrepreneurial initiatives that bring visible benefits, such as job creation and income distribution (Soares; Melo Sobrinho, 2007).

Brazilian financial cooperatives are legally regulated under Law 5764/71, which defines this type of organization as a society of people, with its own legal identity, of a civil nature, not subject to bankruptcy, constituted to provide credit, capture deposits and offer services to its members. As the financial cooperatives are considered a financial institution under Law 4.595/64 and therefore a member of the National Financial System, their functioning and regulation are defined by the National Monetary Council (CMN or Conselho Monetario Nacional) and they are controlled by the Central Bank of Brazil.

In December of 2007, there were 1.423 singular cooperatives (first level), 37 central cooperatives, considered second level because they are composed of singular cooperatives, and four confederations, composed of central cooperatives (third level) and 2 banks controlled by co-ops (cooperative banks), used to improve the relationship with the market and lower the costs for the systems, such as cashing checks and dealing with other documents (BACEN, 2008).

Financial cooperatives can be classified by their type, according to the goal or nature of the activities undertaken or by its members. In December 2007, the financial cooperative system consisted of 573 cooperatives with public and private sector employees, 394 rural financial cooperatives, 258 professional cooperatives, 26 micro-business cooperatives, 34 entrepreneurial cooperatives and 131 cooperatives that had an open membership [1] (BACEN, 2008).

In addition to organizing the financial cooperatives by levels or type, they can also be organized according to the connection they have with the cooperative system to which they belong. These systems bring together cooperatives that share internal norms, information technology tools, procedures, technologies, products, services and the brand in order to improve the efficiency in the relationship with the members and the organizational and systemic controls. In December of 2007, 44% of the customer service locations were connected to the Sicoob system, 25% to Sicredi, 10% to Unicred, 8% to Ancosol and 3% to the other systems, although 11% of these locations, among these 294 cooperatives, were not connected to any system and are classified as independent cooperatives (BACEN, 2008).

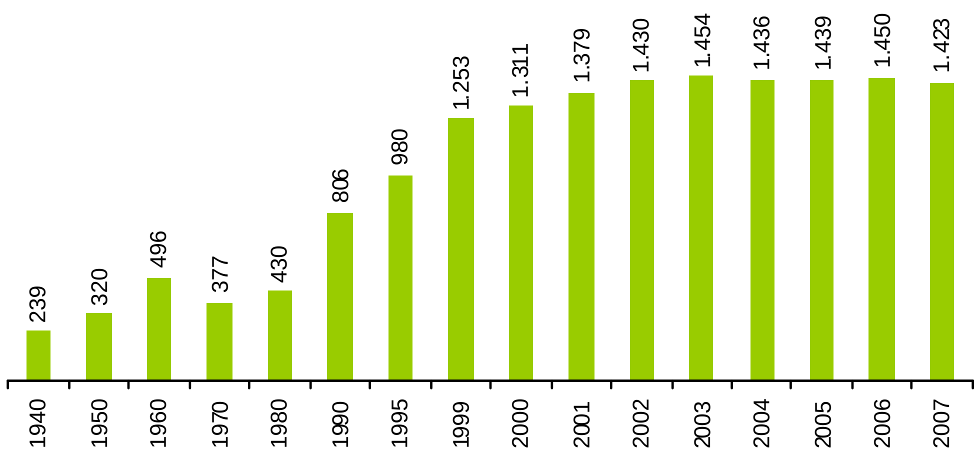

Chart 1 – Number of Cooperatives

Source: Bacen (2008).

In 1971, when the Cooperative Law (5.764) took effect, the number of cooperatives began to grow and has maintained this pattern over time, independently of the

[1] This classification was created in 2003, when a longstanding wish of the sector was met by opening up the membership, allowing for economies of scale, the mitigation of risk and, especially in rural areas, officially regulated a situation that already existed in small rural communities devoid of any financial services, where the rural financial cooperatives served the needs of citizens who had no link to the rural sector but lived in the catchment area of the co-op.

various changes in the political, social and economic sphere that have occurred in the country, as indicated in Graph 1. But over the course of its evolutionary process, the legal framework has introduced a vertical model for financial cooperatives, a model that seeks economies of scale, through mergers and incorporations and by increasing the operational base through the number of Cooperative Customer Service Locations, increasing the efficiency in managing the resources, as the costs of setting up a Customer Service Location are much lower than setting up a cooperative. Proof of this phenomenon is the fact that in December of 2007, of the 3.930 customer service locations, 1.423 were financial cooperatives and 2.507 were Customer Service Kiosks – or PACs in Portuguese (Soares e Melo Sobrinho, 2007).

In terms of the administrative bodies, the Cooperative Law states in article 47 that the society will be administered by a Directorate or Board of Directors, composed entirely of members elected at the Annual General Meeting, with a mandate of no more than 4 (four) years, and with a mandatory renewal of a minimum of 1/3 (one third) of the Board of the Directors. Also, the first paragraph of article 47 gives the cooperative the authority in its statutes to "create other bodies required for administration" and article 48 foresees the possibility that the administrative bodies contract managers with technical or commercial expertise who are not a member (Brazil, 1971).

Despite this creating room to interpret that it is possible for a cooperative to be administered by more than one administrative body and that its members shouldn't necessarily be members elected at a General Meeting, the Brazilian model of financial cooperative is based on the principle that the co-op chooses a Board of Directors or a Directorate, which is always composed of members elected at a General Meeting. However, there is no consensus about the understanding that executives can be hired from outside of the membership, a practice very common in other countries[2] and recommended for good governance.

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[2] According to Meinen (2008), there are two main models for the administration of financial cooperatives in Latin America: under the first model, the strategic administration is the responsibility of the Board of directors – elected from the organization's membership – and the executive administration, the responsibility of a so-called general manager, who is the main administrator, a kind of director, a professional with expertise in finance or banking and the legal representative of the co-op. This is the case, for example, in Bolivia, Ecuador, Colombia and Costa Rica. In the second model, the Board of directors itself (or a part of it – non-professionals, elected from the membership at the General Meeting – is the main or executive administrator. Even so, in this configuration there is a manager who carries out the less important tasks. This is often the case in Chile, Paraguay and Uruguay. In both cases, the general manager is appointed and fired by the Board of directors – this was the adopted practice in 11 of 12 countries studied by the German Confederation of Cooperatives (DGRV). Only in Mexico did the General Meeting choose the executive. In Germany there is no Board of Directors, only a professional Executive Directorate; the members of the collegiate (a minimum of 2 and a maximum of 5), all with professional experience, are chosen by the members of the fiscal council of each cooperative bank. In Australia, most of the directors – almost always with professional experience – are still elected by the membership, but the Board of directors appoints or chooses the executive president. Some financial cooperatives are allowed to choose the directors among the Board, a practice supported by their regulatory organ.

In practice, however, 1974 Resolution 12, of the National Confederation of Cooperativism (Confederação Nacional do Cooperativismo or CNC, Conselho) prevails. Although this Council no longer exists, its guidelines are still applied to financial cooperatives when these don't conflict with the resolutions of the Monetary Council, stating that all members of the Board of Directors may exercise the function of director, or there can be a Board of Directors composed of an Executive Directorate (ED) and voting members, which is currently the most commonly used alternative in financial cooperatives in Brazil.

4. RESEARCH METHODOLOGY: COOPERATIVE GOVERNANCE PROJECT

This study is part of a project by the Central Bank of Brazil to strengthen governance in the financial cooperative sector in Brazil by proposing policies and disseminating practices of good governance. To develop these policies, the project set out to identify the main issues and problems associated with governance in financial cooperatives and verify how the implementation of good practices of governance could solve these, without simply transposing practices from other countries or other types of organizations.

To conduct the study several stages were carried out, preceded by a comprehensive bibliographical and documentary study conducted between August and November of 2006, to systematize the information about the main models and codes of governance in Brazil and the rest of the world, the governance models adopted by financial cooperatives in Brazil and governance models used in cooperatives in other countries. At the same time, in October of 2006, a workshop was held with the representatives of the main systems of financial cooperatives in Brazil to present and discuss their model of governance, which as important for developing the analytical framework.

In the second stage of the research, between November 2006 and March 2007, in-depth interviews were held place with representatives of 34 singular financial cooperatives and 11 central cooperatives, in order to learn not only about the documentation but also about their governance practices. The selected cooperatives included several types of cooperatives and different systems (including independent cooperatives), in an effort to respect the proportionality of the regions of the country and the size of the cooperatives, as their governance could vary.

After the interviews, in planning the next stage of the project, a second workshop was held in June of 2007, this time with the participation of approximately 30 administrators of singular cooperatives from various regions in Brazil. The purpose of this workshop was to check the information obtained during the interview stage and to encourage a discussion about the main issues among a group of administrators representing a variety of cooperatives, ranging in type, system and size.

After this first assessment, based on the studies, interviews and workshops, a survey was developed with approximately a hundred questions, divided into three groups of different aspects of governance: representativeness and participation; strategic direction and management and supervision. The survey, conducted via the internet during September and October of 2007, was geared to all singular financial cooperatives and 1199 surveys were returned, representing a response rate of 86% of all active cooperatives at that time. In addition to the main goal of expanding the assessment about the practices and models used in governance, the use of the survey also intended to promote discussion about the topic among the cooperatives, making these a priority issue for administrators, Board members and executives.

5. THE DYNAMICS OF THE WORKING OF THE BOARD OF DIRECTORS IN FINANCIAL COOPERATIVES IN BRAZIL

In most of the financial cooperatives that answered the survey (71.8%), the Board of Directors is the body responsible for the administration, and not the Executive Directorate (ED) - the two forms permitted by the legislation.

Of these cooperatives, 83% designate from within the Board of Directors the members who make up the ED –which represents almost 60% of all cooperatives in the survey sample; this means that in the majority of financial cooperatives in Brazil there is an overlap in strategic functions and executive functions. In 70.14% of the cooperatives in the study, the daily administrative tasks of the cooperative are carried out primarily by an "elected Board member, with executive functions" and only in 29.52% of the cases are these tasks carried out primarily by a contracted executive.

This overlap of functions, a classic governance problem, becomes even more obvious when the president of the Directorate and the president of the Board of Directors are the same person, which, according to the study, occurs in 94.4% of the cooperatives that have a Board of directors, proof that there is no concern to separate the strategic functions from the executive functions. Adding to this situation is the fact that, in most cases, the director-president is already appointed at the election, as his or her name is designated on the voting slate. Strengthening the role of the director-president contributes greatly to the reduction of the importance of the rest of the Board.

In fact, the person who administers the cooperative is the director-president, not always assisted by the other executive Board members. He or she takes all the tactical and day-to-day decisions about conducting business. As this person is also a member and votes on Board decisions, the members of the Directorate play a fundamental role in defining the strategies of the cooperative and in putting together the slate of officers that will compete for the statutory bodies of the cooperative. So the majority of interviewees, both members of the Board and of the directorate, stated that the Board exercises more a role of voting on the proposals of the Directorate, than being pro-active in developing proposals or supervising the activities undertaken by the Directorate.

Therefore, the degree of independence of the Board with regard to the directors is compromised as a result of the concentration of power and information in the Directorate. On the other hand, as the Directorate, sometimes, only partially dedicates itself to the activities of the cooperative – to the degree that it is still involved with the external group that founded the cooperative, by working as a rural producer, entrepreneur, professional or public sector or private sector employee- , it often ends up delegating a great part of its authority to the manager or supervisor, which may also compromise the cooperative's autonomy in decision-making.

This is one of the issues in the governance of financial cooperatives that requires the most urgent changes, because in this current configuration the decision-making process is controlled by those who hold executive functions without the necessary supervision by the Board of Directors (collegiate). Furthermore, this overlap of strategic and executive functions, in the same organ, presents the risk of maintaining a position, regardless of performance, and the risk of a lack of preparation of successors, required for the perpetuity of the cooperative society.

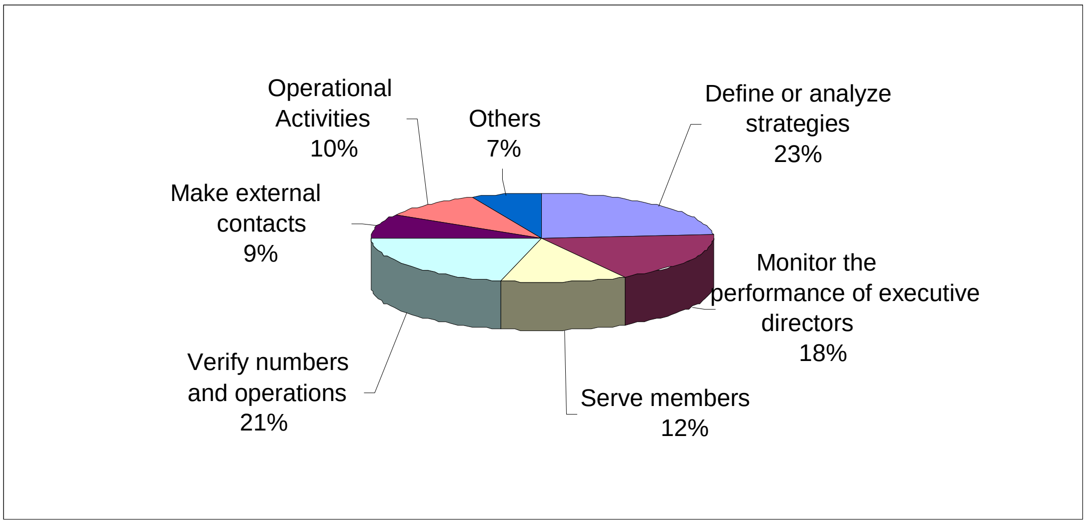
In most of the interviewed cooperatives, the Board of Directors is composed of seven to nine members, and in all of them the Executive Directorate is chosen from among the members of the Board. The number of executive positions within the Board ranges from 2 to 4, with 3 being the most common number of executive functions. The results of the survey administered among the cooperatives confirm these numbers, because the value of the mode of the effective members of the Board is six (22.41%; followed by 7 (21.11%); 3 (18.28%) and 9 (13.09%). In terms of the number of Board members that work at the cooperative on a daily basis, 36.41% answered that there are 3 statutory members, 24.57% has 2, and 25,98% only has one member who works at the cooperative on a daily basis. So we note that in most of the financial cooperatives there is a large concentration of power.

In terms of the percentage of time required of Board members or directors without an executive function, graph 2 shows that the activity "to define or analyze strategy" (the strategic and supportive role) takes the most time (23%). Paradoxically, the verification of numbers and operations (the role of supervision) takes up percentagewise a lot of time (21%, indicating an overlap with the functions of the fiscal council[3] or even a deviation of the role of the Board. The role of serving the co-op members (role of connection) also takes up a significant amount of time, percentagewise, of the Board members without an executive function.

In terms of guiding the performance of the executive directors, which takes up 17% of the time of the Board members, 22.19% of the answers indicated that these directors are not officially accountable for their activities to the non-executive directors or Board members. Also, several factors prove that, even when there is accountability, it may occur in a limited form. The extensive power of the director-president compared to the other executives and to the Board itself, the imbalance in information about the activities of the cooperative and the frequent re-election of members contribute to an environment that may restrict effective accountability. This certainly doesn't mean that there is no accountability, but its effectiveness can be considered limited.

[3] According to the Co-op Law (BRAZIL, 1971), the fiscal council is a statutory body independent from the Board, composed of 3 effective members and 3 proxy members, all members, elected every year at the General Meeting. It has a permanent role and its main responsibility is to control the administrative management and analyze the financial statements, reporting its findings to the members at the general meetings.

Graph 2.
Percentage of time that activities require of Board members or directors without an executive function



Source: data from the research.

There are a large number of cooperatives where there is no remuneration for the role of Board member (40.95%). Although it may be understood as a voluntary contribution to the cooperative, the required dedication and time and responsibility inherent to the job recommend that this function should be remunerated.

The numbers of the study also show that there is a reasonable amount of renewal in the administrators of the cooperatives – 44.17% of the administrators of cooperatives who answered the study said that this was their first mandate; but on the other extreme end, 6.09% said that this was their fifth or more consecutive mandate. These numbers, however, are not conclusive in terms of the level of renewal of administrators, as the renewal of the Board is mandatory, but not of the individual members. This way, an administrator could remain in a function indefinitely, being re-elected at each election, as long as the other Board members are substituted. In 505 cooperatives, or in 42% of the respondents, there were administrators in their fifth or higher consecutively elected mandate. Only 18.02% of the cooperatives formally restrict the number of mandates of the same member in a statutory body. From the perspective of good practices of governance, it is recommended that the number of terms is restricted by statute, in order to prevent the concentration of political power and information.

According to the interviews, the operation of the Board of Directors in general follows a more or less standard procedure. At least one regular meeting is held each month. If necessary, extraordinary meetings are held. Before the meeting, the Executive Directorate of the cooperative prepares the required documents for Board deliberation and delivers these usually a week prior. Although the meetings occur monthly, most of the Board members go to the cooperative several times a month to stay informed about the activities. There are cooperatives where the Board members meet on a specific day of the week to deal with business and make decisions regarding the credit committee.

Generally, the meetings of the Board are on a different date from the meetings of the Fiscal Council so that both councils can learn about the deliberations of the other. At the meetings the minutes from the previous meeting are read, the minutes of the Fiscal Council are read and the agenda items are discussed. In general, the coordinator of the Fiscal Council is invited to participate in the role of listener, and in some cooperatives the audit coordinator participates to clarify any issues.

6. FINAL CONSIDERATION

The objective of this article is to analyze the dynamic of the working of the Board of Directors of financial cooperatives in Brazil, as a relevant issue for the study of good governance practices. Even though the cooperative is defined as a society of people, and therefore has governance characteristics that distinguish it from traditional companies, the roles and functions of its Board should not be that different from those attributed to capital societies. On the contrary, because these are institutions with a diverse ownership, without the figure of a majority shareholder or control, the strengthening of the role of the Board becomes even more important as a way to preserve the values inherent to the membership process and mitigate the risk of opportunistic or individual behavior of the administrators, who are agents and principals at the same time.

The results of the conducted study, based on the typology proposed by Hung (1998), indicate governance problems when members of the Executive Directorate also belong to the Board of Directors, especially because these members of the ED end up assuming a dominant role in leading the strategies, transforming the performance of the other Board members into a figurative role. This phenomenon occurs as a result of the strong imbalance in information between the executives and the other Board members, the longevity in office of a particular group of Board members, in general the executive ones, and the more direct or hierarchical access to the internal communication channels with members.

The overlap of Board Members with the executive directorate is a practice of governance that strips the Board Members of its main functions, often relegating it to a secondary role in leading the cooperative. As a result, not only the strategic role but also the roles of connection, coordination of demands, supervision and conformity suffer. What remains is the role of support, with the Board playing the role of confirming the strategies proposed by the managers, characterizing a concentration of power.

The Board of Directors should be an organ with an increased political capacity to understand the expectations of the cooperative members and transform these into appropriate priorities and strategic objectives. The ED, on the other hand, should mostly act in a technical capacity, as its existence is based on achieving specialization and efficiency. Even in organizations based on the model of self-management, such as in the case of the financial cooperatives in Brazil, the members who hold an executive position need to understand clearly that under these circumstances the nature of their role presumes the expectations of the other members that they know the business well and will act efficiently and impartially. The political and technical pressures should converge and be regulated by the Board of directors.

The applicable legal framework contributes to this situation by not clearly allowing the hiring of non-member, non-elected statutory executive directors, and doesn't provide for the existence of two independent administration organs, one with strategic functions (Board) and the other with executive functions (ED). However, even in cooperatives that have tried to separate these functions, those who conduct the daily management of the business of the cooperative (executives) are encouraged to still maintain the role of the member of the Board.

In this context, when the executive activities are carried out by a specific body, the main executive is responsible for coordinating the activities of the other executives and for the operational performance of the cooperative and is accountable to the other non-executive administrators and the Fiscal Council. Still, the functions of the executive directorate require exclusive dedication, a recommendation not seldom disrespected by the Brazilian cooperative system, which concentrates in its main statutory executives, elected from among the Board of directors, a lot more functions of political representation than of actual executive tasks that, in reality, are left in the hands of the managers and staff. It is not just about simply preventing Board members from assuming the role of manager, either because of their calling, training or leadership skills, but to make it clear that there needs to be segregation between the role of Board member and that of executive administrator.

So in the Brazilian financial cooperative sector the separation between strategic and executive functions becomes a requirement, and includes the goal of hiring executive directors who are not necessarily a member of the social body - which is not explicitly allowed under the current legal and regulatory framework.

Finally, to achieve good governance it is import to redirect and strengthen the performance of the Board members who do not exercise an executive function, in order for them to effectively fulfill their role around strategy and connection, which translates the expectations of the cooperative members in ideas and strategies to be developed by the executives, emphasizing their control in the supervision of this undertaking.

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