



**SWEDISH CODE FOR THE
GOVERNANCE OF COOPERATIVE
AND MUTUAL ENTERPRISES**

Introduction

The objective of Co-operatives Sweden is to promote the economic interests of its members by increasing knowledge about the co-operative movement, spreading ideas and visions, influencing opinions and representing members in issues that affect the conditions of cooperative and mutual enterprises. Founded in 2017 by the LRF, KF and HSB organisations and the KFO Employer's Association, the association is independent of party politics.

With a turnover of more than SEK 400 billion and 100,000 employees, the 100 largest cooperative and mutual enterprises account for a significant share of the labour market and the social economy in Sweden. Focus on long-term profitability, elevated quality and social responsibility is more relevant today than ever before. Cooperative enterprises that are operated in line with such a value basis therefore have a key role to play in the business community.

In order to promote cooperative and mutual enterprises in Sweden even more strongly, Co-operatives Sweden has prepared a Swedish code for the governance of cooperative and mutual enterprises. The code is innovative from multiple perspectives; it is a code at the cutting edge. It is a shared code that bridges boundaries between industries, and it is designed to be applied by cooperative and mutual enterprises of different sizes, with different forms of organisation, operating in different sectors. The code is built on principles

rather than on rules, taking as its starting point the concept of comply and explain rather than comply or explain – and thus standing proud as a more modern type of code.

Co-operatives Sweden firmly supports the values of the cooperative movement, as summarised by the International Co-operative Alliance (ICA): “Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. Cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.”

The present code sets out guidelines for the governance of co-operative and mutual enterprises based on these ethical principles and values. The objective of the code is to promote member dialogue and the democratic decision-making process in modern cooperative and mutual enterprises, and to improve transparency and the openness of the Board's management work.

Adoption of the code is voluntary, and the decision is to be taken by the individual cooperative and mutual enterprises at their respective general meetings. Our hope is that a great many enterprises will recognise the advantages offered by the code, and choose to adopt it. The intention is for the code to be developed on an ongoing basis, through feedback on reports and updated guidelines.

*The Board of Co-operatives Sweden,
April 2019*

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1. About the code

The code is built on the principle of comply and explain. This means that an enterprise which applies the code must clearly report on and justify the way in which it complies with the principles set out in the code. The enterprise must present an annual governance report explaining how the code is applied.

Cooperative and mutual enterprises are free to choose whether they wish to adopt and comply with the code. The code is binding on those enterprises which adopt it at their general meeting.

Cooperative and mutual businesses can be run in a variety of legal forms. Most are organised as economic associations. There are other forms of organisation that are particularly suitable for cooperative businesses, such as mutual insurance companies, insurance associations, credit market associations, member banks, limited liability associations, co-operative tenancy associations and housing associations.

Numerous different concepts therefore apply within the different enterprises that constitute

the target group for the code. In the code, the concepts of member and cooperative enterprise are used consistently. The concept of member also comprises customer for mutual enterprises, and the concept of cooperative enterprise also encompasses mutual enterprises.

Co-operatives Sweden is the principal for the administration and development of the code and it has appointed a separate committee to deal with these assignments. The committee is tasked with the ongoing administration and development of the Swedish code for the governance of cooperative and mutual enterprises, on commission from the Board of Co-operatives Sweden. The committee is to collect and analyse reports from the various enterprises, as well as experience from the practical application of the code. The committee holds no judiciary or supervisory role with regard to how the individual enterprises choose to apply the code; rather, it devotes its efforts to highlighting and spreading good examples. Changes to the principles of the code are decided by the Board of Co-operatives Sweden.

1.1 The target group

The code is primarily intended for major cooperative enterprises that have large numbers of members and a representative, democratic form of governance built on the influence of the members themselves. Small enterprises should also be able to comply with parts of the code and operate in its spirit.

Cooperative enterprises are enterprises whose purpose is to promote their members' economic interest through a business in which the members themselves participate. "Promoting the members' economic interests" entails these enterprises not having any profit objective themselves, but serving instead as a means to safeguard the interests of their members. Members of cooperative enterprises pay a membership subscription.

Mutual enterprises operate on the same fundamental principles but do not have members. In mutual enterprises, the customers are also the owners. In Sweden, it is primarily insurance companies that are set up as mutual enterprises, where customers become owners when they take out an insurance policy.

The largest cooperative enterprises have thousands of members. It is not realistic to assume that all these members can participate in decisions concerning the ongoing business, even though the members do, in principle, hold the right of decision in these enterprises. In order to allow functioning decision-making assemblies, most co-operative enterprises have chosen a representative democratic system involving elected representatives. These people are generally elected by the members at special branch or district meetings. They represent the members at the general meeting

With a view to strengthening the democratic influence of the members, there are often additional levels of consultant and decision-making bodies. These may take the form of what are known as "administrative councils" or "representative councils". These councils normally function as consultant bodies where the Board can discuss and deploy decisions in a broader circle of elected representatives.

1.2 The objective of the code

The objective of the code is to promote member dialogue and the democratic decision-making process in cooperative enterprises, and to improve transparency and the openness of the Board's management work.

That said, a shared code makes high demands on ensuring that the code is general and guiding. It should also be suitable for application by enterprises of different sizes, that are organised differently and operate different businesses. This code is therefore based on particular principles that are covered by the cooperative identity.

Most of the enterprises in the target group already comply with a number of different codes, including

a proportion of internal governance codes. This code for cooperative governance supplements legislation and other regulations by setting out norms and standards for good association governance and a high level of ambition.

The principles of the code, especially principles 1–3, highlight the peculiarity, benefits and competitive power enjoyed by cooperative enterprises. Enterprises that comply with the code and submit reports in accordance with it will receive support in their work to develop and communicate the economic, environmental and social benefit that the businesses generate, not only for members, but also for other stakeholders in society.

1.3 The structure of the code

The code for the governance of cooperative and mutual enterprises is based on eight principles, rather than rules. Brief guidance notes have also been prepared for these principles. These notes are not rules or regulations, they are simply in-

tended to elucidate the principles and to express the perspective taken as the basis for the principle in question. Enterprises that adopt the code are to comply with and report on their work with the eight principles.

2. Principles of the code

2.1 Objective and benefits for members

The Board is to ensure that the objective, value basis and strategies of the enterprise are based on the opinions of the members, and that the enterprise can deliver benefits for its members in the long term.

The Board is to ensure that the enterprise maintains open communication with its members, employees and other stakeholders, set out guidelines for the behaviour of the enterprise in society, and state the regulations and principles the enterprise follows.

Guidance note

The Board can become aware of the opinions of the members by engaging them in a dialogue about the long-term strategies of the enterprise, its objectives and its value base.

Statement of which regulations and principles the enterprise follows refers, for example, to Agenda 2030/the UN Sustainable Development Goals and other codes positioned outside the applicable legislation.

2.2 Democratic processes

Cooperative enterprises feature democratic processes whereby members' opinions have a clear impact. These processes are, in an open and transparent manner, to promote the involvement of members in different fora, and to provide opportunities for influence on and insight into the business. Members also appoint representatives to the ultimate deciding bodies.

The Board is continuously to assess the democratic organisation of the enterprise, and to initiate changes as and when necessary.

Guidance note

The formal structure is hierarchical, as required by law. The General Meeting is superior to the Board of Directors, and may issue assignments to the Board on issues concerning administration. The Board may likewise issue instructions to the CEO and thus to the company management

In practice, the influence of the members is applied in different ways within the framework of the democratic organisation of the enterprise, often through the medium of elected representatives. In order to ensure that the elected representatives actually constitute a resource and that they can act independently with integrity, they must be provided with relevant information about the business, as well as access to training and education.

2.3 Participation of the members in the enterprise's value creation

The cooperative business model is based on the members participating in the enterprise's value creation through two roles: a business relationship and an owner relationship.

The Board is to ensure that these relationships are designed so as to promote the members' economic position, commitment and loyalty.

Guidance note

The business relationship has to do with the members' participation in the business. The owner relationship is expressed through the members' contributed capital, the right to elect members to the Board at the General Meeting, and to participate in decisions about the objective, strategies and long-term development of the enterprise.

Successful enterprises deliver member benefit and have satisfied members. Member benefit is a function of how well the enterprise promotes its members' economic situation, and how relevant the enterprise's value basis is to members.

2.4 General Meeting

The General Meeting is to be organised and held in such a way as to ensure the creation of good conditions to allow members to exercise their membership rights.

At the General Meeting, one or more persons are to be selected to handle the task of reviewing the business from the perspective of members and presenting a report on this review to the General Meeting.

Guidance note

A well-prepared and -executed General Meeting plays a key role in the democratic process. The following aspects should be taken into account in order to ensure optimal execution:

1. The enterprise uses its website to publish information about the time and location of the General Meeting, as well as information about when matters proposed by members must have been received (final deadline) to be included on the invitation to the General Meeting.
2. The election committee submits suggestions regarding election of the president of the meeting, which should feature on the invitation to the General Meeting.
3. The CEO, the Chairman of the Board and a competent Board, as well as the auditors and those persons elected to review the business from the perspective of members, are present at the General Meeting
4. The Board justifies its proposals, comments on and responds to all motions received, and puts forward proposals for decision.
5. The General Meeting should be accessible to members through the use of appropriate technological solutions, for example.

2.5 Election committee

All elections – to the Board, to the post of auditor, and for other elected representatives positions – must be transparent, and must be prepared through a structured election preparation process. The election committee is also to submit suggestions for remuneration for elected representatives.

Election committees may exist at multiple levels in the organisation, and each committee should be given guidelines for its assignment(s). No matter how they may be appointed, the members of the election committees must always work to safeguard the interests of the enterprise and the members.

Guidance note

The enterprise should, in good time, supply information about who makes up the election committee and how members can submit suggestions to the election committee.

An election committee must naturally take diversity and equality into account with regard to the composition of the Board.

With a view to introducing new categories of elected representatives not covered by the election committee, the enterprise may apply the principle of free nomination.

Free nomination entails allowing members, in a process organised by the business, to put forward persons for election to representative positions. The role of the election committee is to check that the nominees fulfil the requirements, and that they accept the nomination. The election committee can put forward additional nominations in order to ensure broad representation. All candidates nominated are to be presented to the members and are electable. The election committee states which of the nominees it recommends.

2.6 The Board of Directors

The competence of the Board of Directors is to match the scope and complexity of the business. In addition to members of the association, the Board may, where necessary, feature external members who bring in additional skills and competence.

The Chairman of the Board leads the work of the Board and is responsible for ensuring that the Board is efficient in its work. The Chairman of the Board is objectively to promote open debate and constructive decisions within the Board. Each and every member of the Board is to act independently and with integrity.

Guidance note

Fundamentally, the members of the Board of Directors are to devote the time and care necessary to the assignment, and they are to acquire the knowledge required to safeguard the interests of the enterprise and the members.

The Chairman of the Board is expected to initiate an annual assessment of the work of the Board. This assessment is naturally to be reviewed by the Board and in the election committee as a basis for their work.

2.7 Remuneration for senior executives

The business is to have overarching guidelines for remuneration, terms and conditions for senior executives (CEO and the Management team).

These guidelines are clearly to state how remuneration, terms and conditions for the CEO and senior executives are determined.

The Board is to set up a remuneration committee or handle the assignment itself.

The principles for remuneration for senior executives are to be decided by the General Meeting. The enterprise's auditors are to examine how the principles have been applied, and to submit a written statement to the General Meeting.

Guidance note

If variable remuneration is paid to senior executives, such remuneration must be clear, traceable and linked to pre-defined and measurable criteria that contribute to the development of the enterprise.

2.8 Audit, risk and internal control

The Board of Directors is to establish a framework and processes for risk management and internal control. This is to be adapted to suit the scope and complexity of the business, and must be the object of an annual assessment.

The Board is to set up an audit committee or handle the assignment itself.

The Board is to make sure that persons selected to examine the business from the perspective of the members have access to relevant information about the business, and to a regulated working relationship with the external auditors.

Guidance note

The members of the audit committee should have relevant experience and skills in the fields of finance and financial reporting¹. Every effort is to be made to ensure an open dialogue with the enterprise's auditors and those persons elected to examine the business from the perspective of the members.

The audit committee and the Board should meet the company auditors and those persons selected to examine the business from the perspective of the members at least once a year, without the company management being present. The reason for this is to ensure an authentic exchange of information between the Board, the auditors and those persons elected to examine the business from the perspective of members.

¹In companies where an audit committee is required by law, at least one member must also have audit or accounting skills.

3. Reporting

Enterprises which, through a decision taken by the General Meeting, have chosen to ratify the code, are to comply with the principles and to submit a report from the Board explaining how they have been applied.

The report is to focus on how the Code principles have been applied. The report is to be included in the annual report or presented in a separate arrangement; it is to be a qualitative description

of each individual principle. In order to facilitate understanding, explanations are to be provided along with references to those sections of other reports from the enterprise in which the principles have an impact. The reporting must be business-specific and informative, and it must describe which measures the enterprise is planning, and what is to be achieved in future with regard to the code.

