

# The Transformation of the Co-operative Bank

Fiona Young

Fifteen years ago, the Co-operative Bank took the bold step of launching an ethical policy in which it committed itself to a mission of economic, social and ecological responsibility. It challenged the once accepted corporate wisdom that business success can only be compromised by a concern for ethics and that the only social responsibility a business has is to create wealth.

The visionary transformation of the Co-operative Bank is now so well known that it is widely used as a successful example of business re-engineering. What is less well known is how hard and challenging the decisions were that led to this transformation. This article aims to tell the story behind the 'make or break' decisions taken by The Co-operative Bank in the 1980s. Decisions that led to the Bank re-thinking every aspect of the way it does business.

The catalyst for change at The Co-operative Bank has its roots in the changes that were taking place in the co-operative societies between the 1950s and 1980s. The 1950s were a period when the social and business context in which the Co-op operated changed dramatically. In the eyes of the public, social change had undermined the power of the Co-operative way of doing things. During the 1940s and 50s, the state took over more responsibilities; young people could now go off to state universities rather than the Co-operative College and the Welfare State provided health care and protection from unemployment. In addition, unionisation gave individuals another route to mutuality and representation through union membership.

With its social goals losing clarity, behind closed doors the principle of co-operative democracy was generating conflict within the movement, with everyone airing their views.

The decline in co-operative retailing was the forerunner of a similar need for transformation at The Co-operative Bank. Initially, the Bank continued to grow and attained full clearing bank status in 1975, becoming only one of eight clearing banks in the UK. In the early 1980s, The Co-operative Bank was a successful, though relatively small, clearing bank with a reputation for innovation. It introduced free in-credit

banking, interest-bearing cheque accounts and extended hours – all innovations that proved attractive to potential customers.

However, in the 1980s, the de-regulation of the banking sector resulted in greater competition. In the next decade slightly more current account customers left the Bank, than joined. The falling off in public awareness and support for co-operation, with the privatisation of mutuals and co-operatives, was also felt to undermine the Bank's position. Even the innovativeness of the Bank's products was a difficult advantage to sustain as competitors quickly followed their lead.

Terry Thomas, who was Managing Director of The Co-operative Bank at the time, was deeply committed to the values and principles of co-operation and was keen that this moral legacy should remain as a key part of the Bank's strategy. It was felt the Bank must differentiate itself and it became clear that an advertising strategy was required if existing customer loyalty was to be stimulated and new customers were to be attracted.

Direct competition with the 'Big Four' high street banks was out of the question as The Co-operative Bank was too small to be credible and lacked their budgets. Nor could it hope to compete with small regional banks, whose customers liked their local origins and personal service. The Bank could however, raise the profile of its organisational distinctiveness to differentiate itself.

In the early 1990s, market research revealed that the Bank had an 'old-fashioned' image among the general public. But a minor factor emerged from this research, showing that 5% of the survey cited ethical reasons as being their main motive for joining the Bank. This was possibly triggered by the Bank's anti-apartheid stance on investments in South Africa, but it also seems likely that some customers were motivated by a vague awareness of co-operative values. (Although unfortunately, the research also indicated that customers had no clear understanding of what the Bank's ethics actually were.<sup>1</sup>)

This research coincided with a mood of public cynicism about business ethics, particularly in

relation to banking morality. This followed a spate of well-publicised scandals, such as the Barlow Clowes and BCCI affairs.

This concern about the ethical management of funds was especially high amongst the graduate and professional sector of the public. This was a most attractive sector as far as the banks were concerned, since they earned regular and sizeable incomes. The Co-operative Bank decided to market itself to these graduates and professionals, using an approach which has led to it being popularly dubbed 'the ethical bank'.

The Bank developed a mission statement<sup>2</sup> which echoes the Rochdale Pioneers' principles in its values: quality and excellence, participation, freedom of association, education and training, co-operation, quality of life, retention of funds and integrity.<sup>3</sup>

Following a lengthy consultation process with customers, it was revealed that customers were most concerned about:

- Human rights
- Armaments exports to oppressive regimes
- Animal exploitation
- Environmental damage
- Fur trade
- Manufacture of tobacco products

The Bank was now at the crossroads. The Bank wanted to remain true to its ethical and social inheritance, which can be traced in an unbroken line from the co-operative ideals of Robert Owen and the Rochdale Pioneers. It also had to face the practical considerations of retaining its customers. Could an ethical policy reconcile both these requirements? If so, how was it to be done and could the Bank commit to the changes that would be required?

Eventually, the Co-operative Bank made the decision to adopt a distinctive ethical message, focusing on the responsible sourcing and distribution of funds. In doing so, it committed itself to a process of enormous change.

But before any public announcement could be made, the Bank needed to decide what being 'ethical' really meant to the business. In order to unequivocally demonstrate its commitment to the new policy, the Bank developed an ethical policy governing the organisations and projects in which it would invest.

The Bank recognised that it needed outside help when it came to drafting details and precise

ethical statements. It sought the help of many charities and NGOs, including Amnesty International, the RSPCA, the League Against Cruel Sports, the RSPB and Christian Aid (amongst others). The involvement of these specialist bodies helped the Bank to avoid many potential pitfalls which could have resulted from loose wording. For example, 'blood sports', if left undefined, could have implied taking a stand against fishing, which was not the Bank's intention.

A lot of work was done internally before the Bank could 'go public' and be considered credible. There was a huge re-training programme. Every member of staff had to be trained and a new ethical screening function established. Also, the Bank's existing customer base was reviewed to ensure that there were no clients whose activities breached the policy. A few clients were asked to move their accounts elsewhere.

Finally after more than 30,000 customers were contacted and asked to vote 'line-by-line' on the draft statements, the ethical policy was launched. Throughout the years, this policy has regularly reviewed and expanded. For instance to take account of new developments eg genetic modification.

In order to communicate its ethical stance, the Bank took the decision to advertise. Even this action caused controversy. Critics argued that if the Bank advertised its ethics as a means to pursue its own ends, then it was, at worst, not acting from a pure moral duty, or at best, acting with self interest and with mixed motivation.

Despite this questioning of the purity of its moral intentions, the Bank did, although their brief was a challenging one. The idea of 'responsible sourcing and distribution of funds' needed to be conveyed to the potential customer in a simple and challenging and motivating way. Four simple human storylines with a moral twist in the tail were chosen for use on television and in print. The images were portrayed using black-and-white images.

Despite the controversy, the Bank's new strategy worked. Immediately the Bank's current account customer base strengthened and, the number of organisational accounts, including customers such as charities, student unions and local authorities, also grew. There was positive feedback from staff and customers. It is a testament to the architects of the ethical policy

## Our Ethical Policy

This is the Ethical Policy of The Co-operative Bank and *smile.co.uk*. It is based on extensive consultation with our customers and reflects their ethical concerns about how their money should and should not be invested. It also informs our choice of partners and suppliers.

### Human Rights

Through our investments, we seek to support the principles of the Universal Declaration of Human Rights.

In line with this, we will not invest in:

- any government or business which fails to uphold basic human rights within its sphere of influence
- any business whose links to an oppressive regime are a continuing cause for concern.

### The Arms Trade

We will not invest in any business involved in:

- the manufacture or transfer of armaments to oppressive regimes
- the manufacture of torture equipment or other equipment that is used in the violation of human rights.

### Corporate Responsibility and Global Trade

We advocate support for the Fundamental International Labour Organisation Conventions. In line with these, we will seek to support businesses which take a responsible position with regard to:

- fair trade
- labour rights in their own operations and through their supply chains in developing countries

We will not support:

- irresponsible marketing practices in developing countries
- tobacco product manufacture
- currency speculation.

### Genetic Modification

We will not invest in businesses involved in the development of genetically modified organisms (GMOs), where, in particular, the following issues are evident:

- uncontrolled release of GMOs into the environment
- any negative impacts on developing countries; in particular, the imposition of 'Terminator' technologies
- patenting; in particular, of indigenous knowledge
- cloning; in particular, of animals for non-medical purposes.

### Social Enterprise

We will seek to support charities and the broad range of organisations involved in the Social Enterprise sector, including:

- co-operatives
- credit unions
- community finance initiatives.

### Ecological Impact

In line with the principles of our Ecological Mission Statement, we will not invest in any business whose core activity contributes to:

- global climate change, through the extraction or production of fossil fuels
- the manufacture of chemicals which are persistent in the environment and linked to long term health concerns
- the unsustainable harvest of natural resources, including timber and fish.

Furthermore, we will seek to support businesses involved in:

- recycling and sustainable waste management
- renewable energy and energy efficiency
- sustainable natural products and services, including timber and organic produce
- the pursuit of ecological sustainability.

### Animal Welfare

We will not invest in any business involved in:

- animal testing of cosmetic or household products or ingredients
- intensive farming methods, for example caged egg production
- blood sports, which involve the use of animals or birds to catch, fight or kill each other
- the fur trade.

Furthermore, we will seek to support businesses involved in:

- the development of alternatives to animal experimentation
- farming methods which promote animal welfare, for example free range farming.

### Customer Consultation

- We will regularly reappraise customers' views on these and other issues and develop our Ethical Policy accordingly.
- From time to time, we will seek to represent our customers' views on the issues contained within our Ethical Policy and other ethical issues, through, for example, our campaigning activities.
- On occasion, we will make decisions on specific business, involving ethical issues not included in our Ethical Policy.

that it continues to go from strength to strength by following the same basic strategy.

Ironically, the Bank's success, coupled with its link to what is now the Co-operative Group, was to prove a potentially dangerous one for UK co-operation. In 1997, the then CWS was subject to an aggressive, but ultimately, unsuccessful takeover bid by Lanica Trust Ltd.<sup>4</sup>

The introduction of The Co-operative Bank's ethical policy in 1992 kicked off a process which has led to rapid and far-reaching changes in the way the Bank operates. Recognising that customers' ethical priorities change over time, the Bank aims to update the ethical policy every three years. But, in practice this has developed into a rolling dialogue between customers and the Bank's Ethical Policy Unit. For example, the Bank's website invites visitors to email their comments and a more formal research is mailed to every customer during the triennial reviews.<sup>5</sup> In 1996, the Bank established an Ecological Mission Statement in response to an upsurge in customer concern for the environment.<sup>6</sup>

The Co-operative Bank sets great store on accountability and transparency in its dealings. In-house training and management systems, as well as external auditing by a number of ethically-concerned organisations shows their openness to examination and willingness to be held accountable.

This can lead to some interesting results. For example, a loan application to establish an ostrich farm was turned down with the argument that ostriches are wild (as opposed to domesticated) animals, so it would be cruel to subject them to farm conditions.

The Bank has also rolled out of its ethical and co-operative perspective to other stakeholder groups. The Bank adopted the Partnership Approach to strategy, in 1997 and that has now evolved into it publishing an annual Sustainability Report. This approach is founded on a commitment to serve the interests of the seven partners, or stakeholder groups, involved in the Bank's activities ie shareholders, customers, staff and their families, suppliers, local communities, national and international communities, and past and future generations of co-operators.

Under the leadership of Mervyn Pedelty, appointed as Chief Executive in 1997, a Partnership Development Team has been established, with the first Partnership Report being published in 1998.<sup>7</sup>

The introduction of the partnership approach

appears to have had a strengthening effect on the Bank's business, with the number of customer accounts increasing by 30% and profitability nearly doubling over the next three years. In addition, technology has also had a profound impact on the business success of the Bank. The establishment of 'smile', the first full service Internet bank, indicates the ability of the Bank to identify new markets and emphasise business efficiency.

Since it was launched in October 1999, **smile** has attracted more than 500,000 account holders. This purpose-built, Internet bank offers its customers a competitive current account, credit card, personal loan and cash mini ISA. It was also the first online bank to have been awarded the British Standard Kite mark for Internet security.

The Bank also took the decision to move away from the traditional high street branches and create high-tech Service Centres that enable customers to carry out their transactions without leaving their homes or offices. The centralised resource, which enables telephone and online banking, has been shown to have a positive impact on levels of service and customer satisfaction.

The partnership approach to workplace issues has done much to address the negative effects of call centre working on employees. However, the Service Centres are an illustration of how balancing partners' interests is by no means easy or uncontentious.

Through the years, dialogues with external organisations seeking to promote their individual perspectives on ethical practice have influenced the Bank's own ethical development. Although the Bank's shareholding arrangements are different than those of a plc, they still carry with them a commitment to succeed in business terms. To this end, the Bank had fruitfully worked with the Centre for Tomorrow's Company, which challenges businesses to broaden their idea of value to include the views of all stakeholders. The Bank has also developed a Community Involvement Policy, as a result of its activities with Business in the Community, which aims to promote socially responsible business in terms of the impact on society.

However, the most stringent test of The Co-operative Bank's pledge to openness, accountability and change takes the form of the yearly social and environmental audit. External auditors examine each of the Bank's major stakeholder groups, or partners, and evaluate



This is the daughter



The Hills sent to law school



Using savings they kept  
in their bank



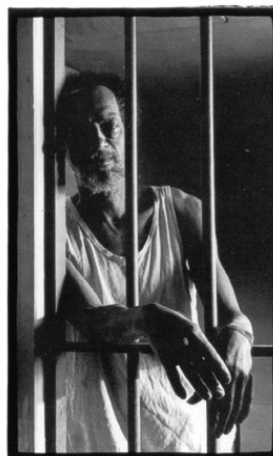
Which their bank  
had invested



Abroad in a country



That denies  
most of its people



Legal rights.

It happens.  
But not at the Co-operative Bank.  
Our customers know there are some things  
we will never invest in.

Such as countries with oppressive regimes.

Our policy is to invest only in things we  
believe to be as sound ethically as they are  
financially.

Of course, we still provide all the normal  
services you'd expect from a clearing bank with  
assets of £2.8 billion, over 5,000 'Link' cash  
machines and a full telephone banking service.

The difference is that along with financial  
peace of mind our customers receive one other  
important benefit.

More peace of mind.

**The COOPERATIVE BANK**

FOR AN INFORMATION PACK ABOUT WHAT WE DO AND DON'T DO WITH OUR CUSTOMERS' MONEY, CALL 0500 100 555, OR WRITE TO THE CO-OPERATIVE BANK PLC., DEPARTMENT 1.G.C., FREEPOST 4335, BRISTOL BS1 3YX.

**The Co-operative Bank's first ethical advertisement**

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the extent to which ethical policy and the partnership approach is being implemented.

Since 1992, The Co-operative Bank has developed a well-grounded reputation for conducting its business with moral integrity. It has challenged the once accepted corporate wisdom, that business success can only be compromised by a concern for ethics and that the only social responsibility a business has is to create wealth.

Since launching its ethical policy, the Bank has established a process through which continuing change and development occur as a result of willingness to publicly engage with interested parties in open dialogue, to undertake the intellectual effort of rigorous ethical decision making and accept the challenge of turning ideas into realities.

But the story does not stop here. Alert to the need to be continually vigilant in a dynamic market place, another bold decision was taken. Traditionally, the Co-operative Insurance Society (CIS), and The Co-operative Bank, followed their own successful, yet distinctively different paths, whilst both sharing identical underlying co-operative values and principals.

In 2002, the decision was taken to ensure that both companies began to work more closely together, under the umbrella of the Co-operative

Financial Services (CFS). The CFS brings together 7 million customers and over 12,000 employees. One of the most significant benefits of this move is the more varied distribution channels through which products can be sold. In addition to the historic home service channel, both CIS and Bank products can be purchased through a CIS financial adviser, bank branches or direct either by phone or via the web.

To help deliver this vision, CFS now consists of six very distinctive areas that now have responsibility for activity across CFS as a whole – Finance and Capital; Business Management; Change Management; Distribution & Servicing; Compliance and ICT.

Embracing its ethical business to the core, the CFS is on course to achieve its ten-year vision to become the 'UK's most admired Financial Services provider'.

Ethical business is a 'work in progress' - an on-going and dynamic human concern, rather than a static, achievable goal. The CFS is a practical example of ethics in action and shows that moral integrity in a sustainable business is possible. The Co-operative Bank has succeeded in transforming itself, whilst also remaining true to the co-operative ideals of Robert Owen and the Rochdale Pioneers.

**Fiona Young is a freelance writer. This article is a Co-operative Financial Services commissioned synopsis of a recent extensive Lincoln University Management Case Study. (<http://www.co-operativebankcasestudy.org.uk/>). The original case study was the result of a joint venture between The Co-operative Bank, the University of Lincoln, and an independent Business Ethicist. This synopsis was commissioned by CFS for the Journal of Co-operative Studies.**

## Notes

- 1 Institute of Practitioners in Advertising (1994) *Papers from the IPA Advertising Effectiveness Awards* Ed Chris Baker, 'The Co-operative Bank "Profit with Principles"' pp329-352
- 2 [http://www.co-operativebank.co.uk/ethics/ethical\\_ethics\\_our\\_mission.html](http://www.co-operativebank.co.uk/ethics/ethical_ethics_our_mission.html).
- 3 Kitson, A & Campbell, R (1996) *The Ethical Organisation: Ethical Theory and Corporate Behaviour* pp71 London:Macmillan.
- 4 Melmoth, G J (1998) 'The Lanica Affair – A Perspective from the CWS' in *The Journal of Co-operative Studies* Vol 31 No 93 pp9-14.
- 5 The most recent statement of the Bank's ethical policy is available at [www.co-operativebank.co.uk/ethics](http://www.co-operativebank.co.uk/ethics)
- 6 [http://www.co-operativebank.co.uk/ethics/ethical\\_ethics\\_mission.html](http://www.co-operativebank.co.uk/ethics/ethical_ethics_mission.html).
- 7 To view the latest Partnership Report visit: <http://www.co-operativebank.co.uk/ethics/>