Can the Co-operative Commission do the trick?

Professor Joshua Bamfield

Reading the Co-operative Commission Report (2001)[1] alongside previous reports from the Co-operative Independent Commission (1958)[2], the Joint Reorganisation Committee (1965)[3], the General Co-operative Survey (1919)[4], the Regional Plan (1968)[5], and other less well-known reports emphasises just show much time the co-operative movement has spent discussing the same issues again and again.

The Co-operative Commission brings a new realism to the discussion, not just in its proposals but the way it directs specific attention to the movement's failure to implement the findings of previous grand committees which had been asked to recommend a way forward for co-operative societies.

The Commission focuses on two clear themes:

(a) the Co-operative Movement needs to recapture its sense of mission, commitment and excitement;
(b) societies have to stop failure and start to expand.

The initial response to the Commission's report has been encouraging. The Special Co-operative Congress[6] endorsed the main findings with acclaim and there are signs that some old hostilities regarding membership of Co-operative Retail Trading Group (CRTG) have been overcome. It is possible that the Co-operative Commission will mark a new stage in the development of co-operatives in Britain. Compared with earlier report, the Commission Report benefits from a mix of co-operative experts and sympathisers such as John Monks and Lord Simon that has produced recommendations which are worthwhile and practical as well as being credible to outsiders.

'To challenge conventional UK enterprise ...'

Central to the Commission's thinking is the need to invigorate the strategic purpose of the movement. The proposed Mission Statement simply reflects the workmanlike proposals that precede it. Regarded as an 'encapsulation' of existing co-operative principles, the statement is:

> To challenge conventional UK enterprise by building a commercially successful family of businesses that offer(s) a clear Co-operative advantage.

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Gone are notions of the Co-operative Commonwealth. What remains instead is the need for commercial success based on a distinctive co-operative approach, which provides people with an alternative to other forms of business. Whilst many will be sad to exchange yesteryear's commitment to a new economy for today's practicalities, the Commission obviously set the role of co-operatives as simply one form of social ownership in an economy which is primarily capitalist.

Can co-operatives work together?

A key part of all discussions about the future directions of Co-operative societies has been the analysis first highlighted by J C Gray[7] - that the Co-operative Movement needed to work together like a single organisation - even if his preferred solution of merging everything into a single national society has received little support. The Commission's Report avoids discussion of organisational changes and re-engineering the structure of co-operatives (which, for all the tireless advocacy, never get implemented fully) but recommends some simple changes.

The two most important proposals are: national branding and making Co-operative Retail Trading Group (CRTG) into the sole purchasing agency for the movement. Making different societies act as one so that the co-operative trading offer meets the highest standards in every part of the country has been a frequent objective. The 1919 General Survey was one of the earliest to suggest that in order to meet the challenge from chain stores societies should adopt a common store identity, brand, and merchandising 'look'. The proposals for CRTG are probably achievable, although the most interesting will be action to force suppliers to deal only through CRTG rather than to make offers to individual retail societies. It is difficult to see how this would avoid an anti-trust challenge, but the main thrust of the proposal seems unexceptional. It is understood that changes to the transparency, governance, and strategy of CRTG have already been approved in principle and the main supporters of alternative means of procurement either intend to join CRTG or have already done so. This is a major change.

The Commission has proposed ways of introducing a quasi-internal market to retail co-operative societies. Societies will be expected to earn at least 10 per cent of their capital employed and their performance will be assessed against Key Performance Indicators (KPI), a regular analysis against other societies and major multiples, and a detailed assessment of every society's performance in the sectors in which it operates. The aim, naturally

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enough, is to improve societies' performance. The KPIs and other figures will assist boards and active members to demand more and to query their society's own figures. The key results are to be presented to the members' meetings. Consistent evaluation of societies' trading performance against their peers may force managers to go beyond managing decline.

The Co-operative Union is given a central role in acting as the movement's gadfly and improving performance. The Co-operative Union has been reinvented. Its work with the UKCC and the merger with ICOM already put it near the centre of the wider co-operative movement in the UK. The Commission gives the Union a key role in implementing the Report and in driving efficiency in Co-operative societies - roles that were lost with the transfer of Trade Advisory Services to the CWS in the late 1960s. Mechanisms to stimulate improvement in under-performing societies include appointing Co-operative Union advisors to the board and, possibly, withdrawal of the Co-operative brand.

How to discipline errant societies has been as much as a problem for the co-operative family of businesses as it has been to the modern family. If a society and its active members wish to disregard or excuse its poor performance there is little than can be done. The Millom affair[8] itself resulted from an early CWS attempt to promote change within weak societies by withdrawing the 'safety blanket' which allowed them to join CWS or CRS to avoid becoming insolvent. Given the widespread ignorance in the media about the structure and funding of co-operative societies and their love of crisis, there is obviously a danger to the whole movement involved in explaining too carefully to the members of a poorly performing society that their society is going bust.

Membership and control

The two main themes to the Commission's findings relate to the quality of board directors and the need to reinvigorate the link with the membership. The changes proposed for boards look similar to the recommendations developed by the Co-operative Union's *Corporate Government: Code of Best Practice.*[9] Amongst many worthwhile recommendations, co-operative employees are given a stakeholder role, but one which is limited. The main problem. however, as implied by Chapter 4.1.2, is that many board members tend to be worthy rather than dynamic whilst potential candidates may be dissuaded from standing for election by the limited financial rewards provided combined with the sense of pessimism expressed about the Movement's future.

The Commission points out that the market for good management is competitive, hence salaries need to be paid at the appropriate level. However the pay of senior managers should reflect not turnover alone, but performance (those KPIs again!) and social achievements. Once again, the Commission uses private-sector markers to encourage managers to pay attention to the needs of co-operative business.

The Commission draws attention to the fact that with a few exceptions societies have done little to reinvigorate the membership. Davis & Donaldson[10] reported that the average members' meeting in three-quarters of societies was less than 1 per cent and there is little doubt that most members see themselves as 'sympathetic and committed critics' of their society than people who have a sense of ownership. The Commission puts forward several ideas to make membership more meaningful. It recommends wider social involvement which would not only reflect the wider aspirations of co-operatives but may also bring in parts of the local community to greater involvement in co-operative affairs.

It was the need to encourage joining by as wide a section of the community as possible that led the Commission to recommend that the minimum shareholding figure of £1 should be retained. However, it is difficult to see the merit in this proposal, in a world where you cannot get a pint of beer, an Underground ticket, or a return bus ticket for £1. A £5 minimum would represent a more worthwhile sum, would cover the administrative costs of issuing membership, and might overcome some of the problems caused to societies by inactive members (or those who move away) not bothering to withdraw their capital.

Membership and democratic control means nothing, of course, if the society is vulnerable to takeover by an outside predator or to *de-mutualisation* in order to distribute the assets of the business to members, particularly new members who have joined primarily to benefit from such distributions. The Commission recommends societies to set high turnover thresholds as a defence against takeover or de-mutualisation or to vest the Society's assets in a separate organisation. In addition it recommends that the Government legislates to secure co-operative assets against de-mutualisation: this may occur through the Industrial & Provident Societies Bill introduced by Gareth Thomas in 2002.

'Wider still and wider ...'

The Commission's view is that co-operative societies as socially-owned organisations need to promote the development of a

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socially-owned sector. Hence there should be a Social Economy and Community Task Force, a Co-operative Foundation and a community dividend to help fund new types of enterprise and local needs. The basic structures for these have been put in place. The need for these cannot be disputed, but it is possible to question their effectiveness. There is obviously value in bringing together other elements in the wider labour movement, Government agencies, and local community groups to agree a strategy for developing a more extensive co-operative, social economy and mutual enterprise sector in the economy. Both the Social Economy and Community Task Force and the Co-operative Foundation look too much like the Co-operative Development Agency which laboured for several years and generated little enthusiasm. Perhaps this time, the ICOM involvement at the centre of the Co-operative Union will create a more challenging and robust response to the needs of the less established co-operative and mutual sectors.

Societies are also to adopt social auditing and to adopt 'challenging' Co-operative Union Social Performance Indicators designed to monitor the attempts of co-operative societies to increase member involvement, establish stronger links with their communities, and develop other forms of co-operative activity. However civil society is fragmenting, only the unemployed have sufficient time, and fewer people are involved in their local community. The more important question for societies is *how* they can generate member interest and play a full and rich part in their local community, rather than the precise role of social audit in measuring it. Even *Making Membership Meaningful*[11] does not provide much support to inform new well-intentioned initiatives in member democracy. Readers will be familiar with case studies concerning the promotion of membership and the Co-operative message drawing on the Co-operative Bank and on the experience of Oxford, Swindon and Gloucester Society. Frequent reference to the successes of these two societies suggest that not much is happening elsewhere in the movement.

The idea of the 'social dividend' presumably comes from the non-co-operative members of the Commission. It represents a challenging target of 10 per cent of profit and should represent 30 per cent of the total dividend payments. There is the proviso that the society should be trading profitably before it is expected to pay any social dividend. The social dividend is an obviously worthy recommendation but it difficult to know what it is for. In the current trading situation, societies need to preserve as much of their funds as possible if they are to survive into the future. Certainly no private organisation in my experience facing similar commercial problems to the co-operative movement would spend much time developing new methods of handing over its profits to non-members. It may well be true that the social dividend may tie in local organisations and community representatives to their co-operative society. The Co-operative Bank has showed how charitable donations can be used as yet more ways of involving members/customers and of making them feel part of that process of giving. The social dividend could be used in that way, but people's attitude towards their co-operative society will depend far more upon their experience as shoppers than upon its charitable giving.

Improved commercial performance

As we have seen, not all the Commission's recommendations are equally compelling. The New Venture Working Group set up to identify new or fledging areas for expansion on behalf of the Movement as a whole (recommendation 20) looks unconvincing. Such proposals have been made before, notably in the Co-operative Independent Commission, but amount to very little unless the Working Group is closely linked to a co-operative organisation which is prepared to own the project and to drive it forward.

Recommendation 19 concerns 'e-commerce and new technologies'. It states that societies need to ensure that they do not lose out to more technologically sophisticated retailers. The CWS might consider setting up a business technology/advice centre for societies to keep societies up to date and in touch with new technology. Whilst acknowledging the importance of technology to all co-operative societies, the recommendation has a minimalist 'feel', the perceived need to advocate 'something' about new technologies. An advice centre is not the answer, and even for the CWS/Co-operative Group one must question whether the best way to use highly qualified expert staff is to put them in an advice centre.

Conclusions

The Co-operative Commission's Report may well achieve more than previous reports because the continued weakness of most parts of the movement and the fall in the number of independent societies means that the dialogue about strategies and organisation now involves comparatively few significant actors. Only a small number of societies can report a robust trading performance. Moreover the attack upon the CWS by Lanica[12] and the interest in Co-operative membership shown by so-called *carpet-baggers* wishing to de-mutualise societies[13] have shown co-operative societies that survival will not simply be based on avoiding commercial failure but in creating a sense of purpose in the Movement and an active and committed membership.

The Commission Report seems to have achieved so much - particularly recognition and acceptance from so many disparate interests - because it is practical and concentrates on what is achievable and possible in a Movement as well known for its strongly un-co-operative individuals and organisations as for its democratic processes. The proposals for improved co-operative trading should mostly work well, but the proposals for a social dividend and for new organisations to generate co-operative endeavours and enterprises seem awkward. Although many of the ideas can be traced to 1958 or 1919, it is a very modern report. As well as advocating a revived Co-operative Union, national branding, CRTG to become the movements single buying centre and a new relationship with members, its faith is placed in a new mission statement, auditing procedures, social audits, key performance indicators, reporting structures, better corporate governance, new legislation, cross selling between CIS and the Bank, and new organisations to develop other co-operative kinds of business. The approach is more Business School than Fabian Society, but the evisceration of the building society movement provides an awful warning of what may happen if the issues highlighted by the Commission Report are ignored.

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Notes

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