Society for Co-operative Studies

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Editorial

In recent years, the Journal of Co-operative Studies has become an international, refereed journal, but it still maintains its roots in the UK consumer co-operative sector. This is illustrated by the first and last sections in this issue: the text of two speeches given at a fringe meeting of the 1998 UK Co-operative Congress, and the annual report of the UK Society for Co-operative Studies. In between, we have two more articles on the UK consumer co-operative sector, but these will be of great interest to readers worldwide because they report on the attempted takeover of one of the world's largest co-ops - the CWS - by a 'corporate raider' who was determined to convert it into a shareholder company and then strip the assets. In a sense these articles continue a theme we have been exploring in some depth - the future of mutual institutions, some of which in the UK have also been subjected to takeover bids by banks and insurance companies. Yet in another sense this story marks a completely new development; an attack on a co-operative society which, though it failed, has shocked the managers and directors of large- scale co-operatives all over the world, and led them to review their own situation, asking 'Could it happen here?'. The lessons to be learned are both important and urgent, and Graham Melmoth, Chief Executive of CWS explains what really happened (as opposed to the press speculation which was often highly inaccurate), and what lessons should be drawn. Stepping out of my editorial role for a moment, I have contributed a refereed article that goes into detail about what happened and when, in order to provide a kind of archive on which others can draw in the future. I also provide a detailed account of what the CWS and other UK co-operative societies have been doing to shore up their defences against possible future takeover bids. The rules of refereeing prevent me from thanking my referees by name, but I am most grateful for the detailed comment and criticism received.

Laura Gomez Urquito continues our theme of 'women in co-ops' with a carefully researched article on the policy of the International Co-operative Alliance towards women's participation. This goes beyond the language of rights to show

how important women's participation is to the success of co-ops, how without them co-ops are denying themselves 'essential ... skills, experience and competence'. In the next issue we hope to continue the theme with a refereed article on Margaret Llewellyn Davies, who was such a key figure in the Co-operative Women's Guild movement.

Guy Major provides a challenging article which goes to the heart of the problems faced by worker co-ops - how to avoid under-investment or degeneration away from worker ownership. It is a difficult article, and some readers may wish to skip over the mathematical formulae to follow the essential argument, which is that a new kind of share ownership may be the answer. We hope this will provoke a lively debate; Shann Turnbull (who contributed a noteworthy article in Vol 29.3) has promised us a critical reply for our next issue.

Two more themes are in preparation. As a result of my spending some time as a visiting professor at Meiji University, Tokyo, we will over the next year be publishing a series of short articles written by key informants on different parts of the Japanese Co-operative Movement. It is important that we understand and draw lessons from one of the world's most dynamic and successful co-operative economies. We also hope to begin to explore the idea of 'co-operative working' among conventional businesses. Co-operatives do not have a monopoly over co-operative behaviour; in fact, some conventionally owned small to medium-sized businesses are demonstrating a willingness to join together in co-operative strategies that are bringing them market advantages over more competitive firms. Some are setting up co-operatives of small businesses, raising interesting questions about how we define a co-operative (when does a co-op become a cartel?), and about why co-operators continue to talk of having to compete in markets while their competitors are engaging in 'co-opetition'.

Report on the UK Society for Co-operative Studies Fringe Meeting, UK Co-operative Congress 1998

Why Consumer Co-operative Societies Fail

Alan Middleton

When the Society for Co-operative Studies asked me to speak at their Fringe Meeting on this subject, I made it clear that the talk was based on an analysis of why consumer co-operative societies had failed in the past and was not, in any way, a prediction about the future. I make that clear again in relation to this article.

I think we must first define what we mean by failure. Strictly speaking, only NORCO (Northern Co-operative Society based in Aberdeen) has failed in recent years, but for the purpose of this exercise I have included those who went into 'involuntary' merger, pushed into it as an alternative to liquidation and taking huge borrowings and trading losses or in one case an actual terminal loss into the receiving society often CWS or CRS. I must start in the area of finance. If we are to have any future we must generate sufficient profits to finance our developments, as our competitors do. We cannot borrow our way out of trouble. It is a complete myth that our competitors have access to a cheap and inexhaustible supply of capital. The bulk of their development is funded from retained surpluses, as ours must be. There is no capital problem in the Co-op, the main problem is our poor trading performance. We can only borrow on the scale we do because of our, substantial asset base, but borrowing is no long-term solution. So, I put excessive borrowing down as my number one reason for failure.

Next, and linked, I put over ambitious developments using other people's money. Many failed former societies have built too big for their realistic achievements. If your development s too big, it also costs too much. If you build too small you can make it a bit bigger and you have already made the money to do it. If you build too big – yes, you can make it smaller, but you do not get the money back which you have overspent. Some of these over ambitious scheme's smack of arrogance, some of incompetence but all were unrealistic. If you do that with your own money, you can say, "Oh that was a mistake", if you do it with other people's money, they still want paying back. So, we need a realistic assessment of our development plans based on what we have done, not what we know competitors have done.

There have been some disastrous acquisitions of private food or non-food businesses over the years, and these must have contributed to the demise of some former societies. The first question I would want to ask if a Chief Executive was trying to persuade me to buy a chain of shops from some other group is this, "Why do they want to get rid of them". The answer is unlikely to be, "because they are too profitable". And then remember this; if the competition cannot make them pay, we certainly will not, because for the most part they are better at it than us by almost any measure. The vendors of some of these businesses must have thought it was Christmas when they saw the Co-op coming, a pity we didn't see them coming.

Also, is this a coincidence, many former Co-operative societies have either ceased to have, or have substantially reduced, their trading relationship with CWS, not very long before their demise. Successful consumer Co-operatives were born out of the communities they served. Members identified with their Co-operative. Although membership has taken a bit of a back seat in recent years it has still been an important factor in those societies who have remained or become successful, look at Lincoln, Channel Islands or Oxford, Swindon & Gloucester. So, I believe that there is a link between abandoning membership issues and failed societies. Take that a step further and consider those societies who have bought or developed trading units outside their traditional trading area where they have no membership base. Where is the evidence of success and what is the possible rationale? Is there a link with membership?

One of the features of the more successful societies has been diversification, moving out of businesses whose time has come and gone - like coal and milling - and into new activities like travel and motors. As with so many things in life, timing has been the secret to these changes. Moving out and in at the right time and at the right pace has been vital. Launching into massive developments where the society has no track record of profitable operation has proved disastrous for some. Often these adventures have been in leasehold premises which has added to the problems of failure. The secret to this and any other developments is to reduce the risk. Try it out in a small way, if it works move on, but move on at a sensible pace.

One of the features I have identified as being present in many former societies has been sale and lease-back. That is selling an asset to a property company or a pension fund and then entering into a leasehold agreement to become tenants of the new landlord. It is of course a way of raising some cash in the short term, but it is not, in my view, an appropriate way forward for a Co-operative. It has certainly not proved to be so in the past. Indeed, there are numerous examples of societies having to buy their way, at great expense out of onerous leasehold commitments. It is not a long term solution.

Other features include-banking arrangements being moved away from The Co-operative Bank and in the case of at least one former society, the building of a grandiose office block.

Perhaps the saddest sign of forthcoming failure has been the Directors who did not actually know that the society was making a loss. Directors who were not able, or not willing, or not prepared to strip out the surplus on sale of assets, tax credits etc to get at the real bottom line results. Were they not capable of doing this, or perhaps they dare not for fear of what they would find. I have heard Directors say things like, "Well it was only a paper loss". What does that mean? We know who was feeding them this line but were the Directors really so gullible. Its hard to believe but it may have been so.

What we have done in so many of those cases is to move the lines on the governance game plan, i.e. the Board and management on one side and the members on the other. The good governance of Co-operatives is dependent upon there being two effective teams, the Board on one side representing the members and the management on the other led by the Chief Executive. So many of the problems in former Co-operative societies have occurred where Boards and particularly Presidents, have crossed the line into the Executive Camp.

There is nothing wrong with the Co-operative philosophy and never was, it is the people who have failed the concept. Many early Co-operators would feel betrayed if they could see what has happened to their great Co-operative ideal. Betrayed by both Directors and executives who nevertheless still had time to attend champagne receptions. Directors and executives who enjoyed the trappings of success whilst running their societies into the ground. They would feel betrayed by those executives who were paid premiership salaries for Vauxhall conference performances and betrayed by those Directors who have gloried in the title and the lavish entertaining but were not prepared to do what they were paid for - DIRECTING.

Directors should set objectives, agree policies, appoint a Chief Executive Officer to manage the business and monitor his or her performance.

Where did the Directors fail? Well, they either did not realise the seriousness of the situation identified as a result of that monitoring or if they did, they failed to do anything about it.

I have always said that the success of failure of an organisation is down to the people who are managing the thing. In a Co-operative it is also about the Directors holding them to account and acting if they do not perform.

Alan Middleton is President of the 1998 UK Co-operative Congress

I'd like to shop at the Co-op, but they never have what I want

James Bell

Retail competitors of the Co-operative Movement in the UK have become world leaders in managing the supply chain. Getting the right goods, at the right price, to the right place, at the right time, in the right quantity, at the right quality and at the right cost to the retailer is something that Tesco, Sainsbury's, Asda, and Safeway are very good at.

Consumer co-operatives exist to serve their members. The ultimate service is one of availability. Has the store got what I am looking for? An empty shelf is going to mean a disappointed member. Whilst this principle applies to basic commodities such as milk and canned goods, it also applies to an ever-increasing range of more discretionary items, many of which are highly perishable. This is where the competition's expertise in retail logistics is taking business away from the consumer co-operatives. Members expect a more extensive range of merchandise than their co-op can deliver in a viable manner. Hence the title of this paper and indeed the difficulties that every co-op in the UK is experiencing in trying to operate superstore-size outlets profitably.

Space does not permit a comprehensive review of retail logistics here. To illustrate the gap in performance, stock replenishment systems will serve our purpose. The typical competitor will have stock replenishment driven by the scanning system at the check-out. Orders are generated automatically on the basis of sales. This removes the human error factor inherent in manual systems and reduces the level of stockholding at store level. The member gets an improved service, and the operation becomes more efficient.

Taken one step further, retailers like Tesco are now running so-called "stockless" distribution centres. This means that the orders generated from each store's scanners, are compiled in order that the supplier can arrive at the retailer's depot with a delivery exactly tailored to the immediate requirements of the business. The merchandise can then be "cross-docked" or sorted for delivery into stores, within hours of arrival at the depot. This removes the need for any bulk storage of product at the distribution centre. Again, the customer wins, through better service and a fresher product on shelf. Again, the operation makes efficiency gains, through cutting storage and handling costs.

The Co-operative Movement is seriously behind these developments. Only recently have pilot schemes been launched, to test automated sales-based-ordering. Of course, the movement is fragmented. There are at least two nationwide co-operative supply chains. In efficiency terms this is nonsense.

I was asked by lay members at the fringe meeting, "What can we do about it?" One obvious difficulty is the back-of-house nature of most of the supply chain. It is out of sight. The empty shelf as a measure of performance is crude. Why not ask for a report on supply chain development from your management. How is the business co-operating with other consumer co-operatives and with suppliers to improve retail logistics? These are crucial issues for the survival of consumer co-operatives in the UK. As Professor Bamfield in his presentation to Congress noted, unless the problems besetting co-operative trading are sorted out, then any notion of mutuality will be irrelevant.

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The Lanica Affair - A Perspective From the CWS

G J Melmoth

In contrast to the vision offered by exponents of Co-operative enterprise, modern corporate business is most frequently typified by metaphors of war and the cut and thrust of the battlefield. My experience at the centre of events in early 1997 demonstrated how apposite such images can be as the CWS fought for its survival in a campaign of early skirmishes, enemy spies, fifth columnists and a propaganda war before the ultimate emergence over the horizon of the big battalions in the form of City and international bankers.

At the outset, there was the unease of a phony war as we sought to gather intelligence. During the first week in February 1997, I learnt of City rumours that Andrew Regan aspired to tilt at the Co-op through an investment vehicle "Lanica Trust". CWS had dealt with Regan previously (although I had personally never met him) when he had purchased the last of the CWS food factories. But his ability to assemble City backing of real substance seemed doubtful. It soon emerged, however, that he had Hambros as advisers and high-level public relations and political lobbying experts to enable him to bend ears in the corridors of power.

On Sunday, 9th February, Regan's plans were leaked to the Sunday Times which made a big splash about the Co-op being the target for a City bid. Regan took the trouble to ring Alan Prescott, now CWS Deputy Chief Executive, to apologise that a version of his proposals had leaked before he had had the chance to discuss them with us. We did not have to wait long. Next day, over the fax came a letter from Regan addressed jointly to me and Harry Moore, Chief Executive of CRS, seeking talks. That was followed up by a conciliatory phone call to me from Regan seeking to know in general terms if CWS wished to realise the value of any of its assets.

Having taken over as Chief Executive only the previous November and being engrossed in the early stages of a major strategy review, I was not at all inclined to contemplate disposals and I wrote to CWS Board members and employees immediately saying as much. Unequivocal statements from CWS counted little, however, with the media whose appetite had been whetted and cranked by the lobbyists. The fourth estate began to stir the pot more vigorously, adding in some spicy morsels on Co-op performance and prospects.

The CWS continued to talk down the stories and at a dinner marking the 150th anniversary of the Leeds Society on 1st March, I emphasised again that nothing was for sale. But privately we were now taking the threat very seriously. The small internal team formed to co-ordinate the resistance discussed strategies with SBC Warburg, which had advised the CWS over many years in its dealings with the City. The tough public stance was reinforced by a firm press statement on 5th March from the CWS Board making it clear that the CWS had had no discussions with Regan and had no intention of entering any. A similar release was made to the Stock Exchange.

Again, to no avail. The following Sunday, 9th March, the Sunday "heavies" talked up the story once more, enlivening the text with the first of a number of cartoons which became a feature of the campaign and usually represented CWS repelling boarders with myself in quaint, naval uniform or adopting a similar combative stance on the playing fields of England! The phony war was over. Given that attack is often the best form of defence, the CWS then mobilised its own specialist mercenaries, formally signing up SBC Warburg, City solicitors Linklaters & Paities and public relations consultants Keith McDowall Associates. With their assistance, the CWS view of life was expressed with some force to opinion formers and the following weekend saw the press turning its attention more critically to the mixed bag of financial interests that were priming the Lanica vehicle. The ownership structure of the Lanica and Galileo group was analysed back to offshore funds from Monaco to the British Virgin Islands. I reinforced this message with an appearance on Radio 4's Today programme.

By the following weekend, 22nd/23rd March, the Regan camp increased its own invective and by now had three public relations outfits working full time - G W Associates, Financial Dynamics, and Lowe Bell & Co, this last being a significant addition to the Regan armoury having fashioned Mrs Thatcher's image! It also emerged more publicly that The Co-operative Bank and the CIS were takeover targets as stories circulated of Regan's associates seeing the Bank of England and the Department of Trade and Industry about changes of ownership.

Added to these internal pressures was an arguably much more worrying threat as the press took up suggestions that a bid would be accompanied by £1,000 windfalls for all Co-op members. Buoyed by recent rich pickings from building societies, carpetbaggers inundated the CWS with member applications. The CWS was not alone. Many societies saw applications increase dramatically as speculators sought to claim their prize of £1,000 for every £1 spent on membership! In turn, the CWS applied more rigorously its right to scrutinise applications and regional committees were asked to take on the major burden of closer evaluation of each applicant. Application forms were revised to state more clearly the Co-operative nature of CWS and the basis of participation on which Co-operative membership rested. Unsurprisingly, innocent application form questions such as which Co-operative shop the applicant currently used, provoked irate correspondence from some applicants! The Co-operative Union gave similar guidance to other retail societies as close co-operation continued between the Union and CWS.

These pressures made for an uncomfortable two or three weeks leading up to the CWS press conference on its 1996 results on 14th April, but that event proved to be a turning point. It became clear that details in CWS accounts had been leaked and dissected well before the conference. This confirmed the impression that had been growing on the CWS team and its advisers that Lanka must have "inside" information. We were faced with the appalling prospect that there was a mole deep within the CWS and - if it is not a contradiction for a mole - it was working at a high level.

Horace Walpole, that great man of letters, who died exactly 200 years before the attempted Lanica bid, once wrote that "*No great country was ever saved by good men, because good men will not go to the lengths that may be necessary*". In this case, it was clear to us both that the CWS was a great country that had to be saved and that it was no time for niceties. Extraordinary steps had to be taken. The result of those steps was that by the evening of the 14th of April, I had in my possession a video of an exchange that had taken place on 13th (unlucky for some) April in a car park in a pub at Beaconsfield. The then Retail Controller of CWS in a scene subsequently replayed on national TV, passed over papers to Regan and his partner, David Lyons, as they sat in the Controller's large Society car.

On the following Thursday, 17th April when I was believed to be at an International Co-operative Alliance Board meeting in Uganda, I gave our team a private showing of the video in the Co-operative Union building in Manchester and forward action was agreed. Concerns about links between Regan and CWS senior management were also by then heightened by scrutiny of prior dealings with Regan over the purchase of the factories and in particular the extension of the supply agreement. These concerns ultimately became the subject of an investigation by the Serious Fraud Office which is still continuing.

With the bid by the Galileo Group now imminent, action had to be swift and that Thursday saw the CWS team move into overdrive. Action was taken to close off any further damage and investigating accountants were called in to examine past dealings with Regan. The 12th floor of New Century House hummed with activity as injunctions and letters (some a little immoderate) to the City were drafted and faxed.

The details of the next day's events as the injunction, which effectively stopped the bid was secured, and the blistering words of Mr Justice Lightman at the subsequent hearing are detailed elsewhere in the Journal and I will not repeat them.

It is of interest, however, that we remained concerned that some sort of unwelcome bid might yet emerge and indeed, a sealed document arrived from Galileo requesting the CWS Chairman to put a proposal (the details of which are still unknown) to the membership. This, of course, ran counter to the firm policy the Board had held throughout the affair that nothing was for sale. It was clear that the offer was based on information illegally obtained and the box containing the alleged bid was, as reported, returned "unopened and unread". That a bid should arrive after the court hearing did, however, suggest a fundamental difference of approach between the normal City takeover and the operation of a Co-operative. There seemed to be some presumption that the CWS Directors should in some way be bound by the practice of pies and the City Code on

Takeovers requiring them to put any bid to the members. The CWS advisers took the firm view that this was not the case. Rather, the CWS view was that the Board had a positive duty to operate the Society as a Co-operative and that pursuing an action that would prejudice that status would be a breach of duty. This position has, I believe, been further reinforced by the subsequent amendments to Rules agreed by CWS members later in October 1997.

It is probably still too early to draw final conclusions from the Lanka affair, but some lessons are clear. First, was the salutary confirmation that the City does not understand Co-operatives - how they work and what their aspirations are. In this case, it was perhaps an advantage in that Lanka - presumably on advice from an insider who himself did not understand the organisation for which he worked - made fundamental errors. But that advantage must be regarded as short-lived. The power of press and public relations campaigns allied to the promise of windfalls might well make it increasingly difficult to maintain arguments on purely constitutional and philosophical grounds as genuine supporters of former mutual building societies have learnt to their cost. The Co-operative Movement has to make its philosophy better understood and more meaningful - to its members and to its employees. It is a process on which the CWS is seriously embarked with employee training in Co-operation and the renewed emphasis on Dividend.

Within that general lack of knowledge, there is also the specific misunderstanding about the nature of Co-operative "shares". It is a principle of Co-operation that shares carry no capital gain. As an individual, a member does not accumulate a rateable proportion of the reserves, which are held collectively by the members for the time being. So far as the CWS is concerned, this applies both to individual and corporate members. Again, this message has been well reinforced by subsequent modifications to CWS Rules. But the point is still not well understood and at the least we need to make it clear to members that Co-operatives do not offer any real prospect of one generation of members cashing in all the benefits built up by previous generations. It is a point also to be emphasised to our regulators following the Labour government's reform of financial institutions.

It will also come as no surprise that I believe that public and City understanding of Co-operatives would be greatly enhanced if the law was clearer and up-to-date. This is not the place at which to go over the familiar arguments in support of a new and relevant Co-operatives Act. But quite clearly reform of the law is long overdue.

Finally, I point to one very positive lesson. At the outset, I drew upon the metaphors of war to describe modern business. An arch-exponent of warfare, Bismarck, once observed of his interests that *"Prussia needs only one ally: the German people"*. I believe that the Lanica experience proved that for the CWS we ultimately relied on one ally - the rest of the Co-operative Movement! In other words, solidarity within the Movement was critical. The abiding feature throughout the campaign was the support the CWS received from its retail society members, employees, and active members on our regional committees.

If the Movement is to survive future predatory attempts - and it would be foolish to think that it will not happen again to the CWS or to another society - the links within the Movement must be welded together more firmly in terms of trade and understanding. No constitutional or legal defences - however carefully crafted - will hold if we do not have solidarity. This must be the case not only when under threat but on a day-to- day commercial basis. With that practical solidarity, I see no reason why we should not put the experience of Lanica firmly behind us and work together for a more secure future.

G.J. Melmoth is Chief Executive of CWS.

The Lanica affair: an attempted takeover of a consumer co-operative society

Johnston Birchall

Early in 1997 a series of events occurred which sent a seismic shock wave through the UK co-operative sector, whose ripples reached throughout the co-operative 'world' and are still being felt today. We had got used to the idea of 'demutualisation' of the UK building society sector (which is now down to around 30 percent of its former size), but the prospect of a hostile attempt to 'deco-operativise' a consumer co-operative had been thought unlikely. It is the sort of event that, when it comes, leaves one wondering why one had been so complacent, and determined never again to take the existence of the co-operative form of business for granted. To paraphrase a well-known saying, there is nothing so concentrates the mind than the prospect of one's own (organisation's) death. In this article, the story is told of how the takeover bid came about, how it was overcome, and where this leaves the UK co-operative sector. The subject is so controversial, and the memory of it so recent, that the article concentrates on providing an accurate account of what happened and when (though towards the end some more personal views are given about the implications of the bid for the co-operative sector as a whole). It is important that we have as accurate and unbiased an account as possible, as an archive on which to build.

Background to the takeover bid

Co-operative Wholesale Society Ltd (CWS) is the biggest consumer co-operative in Europe. Founded in 1863 as the wholesaler and manufacturing arm of the British retail co-operative movement[1], it is now really a group of businesses, engaged in food and non-food retailing, funerals, milk production, travel agency, optical services, car sales and garage services, agriculture, engineering, and property investment. Amongst its subsidiaries it has two which are themselves big businesses: The Co-operative Bank and the Co-operative

Insurance Society (CIS). Although it sold its food manufacturing arm in 1994, and is no longer a traditional wholesaler, it co-ordinates a buying group of 16 retail co-operative societies called the Co-operative Retail Trading Group (CRTG) and is responsible for negotiating with manufacturers to produce 'Co-op Brand' products. Its activities as a retailer began in 1973, when CWS merged with Scottish Co-op. In 1984, the movement's 'rescue' co-op, the Co-operative Retail Services (CRS) became unable on its own to absorb any more loss-making retail societies, and CWS accepted the transfer of South Suburban Society. Since then, it has absorbed, rationalised, and invested in over 50 societies, many of which were making a loss (the merger, from a position of strength, of the North Eastern Co-operative Society, was an exception). As a result, its ownership structure is a complicated hybrid of corporate and individual members. Its corporate shareholders include 50 retail co-operative societies and 120 other co-operatives, and half a million individual members who join through the Society's stores. Its position in the co-operative sector is crucial. In the words of its current chief executive, Graham Melmoth, 'A strong, broadly-based CWS is the rock on which the consumer co-operative proposition stands.'[2]

The scale of CWS operations is impressive. Taking 1997 as the base line,[3] it has consolidated sales of £3.lbn (plus £1.lbn of inter-group trade on behalf of the CRTG). It has 38,300 employees (including 3,900 in the Banking Group but excluding those working for CIS). Its outlets include 342 grocery-based convenience stores, 302 supermarkets and 30 superstores (of more than 20,000 square feet), plus 36 non-food stores. It farms over 80,000 acres of land throughout Britain (of which it owns nearly 28,000 acres). It has a property investment portfolio worth over £104m (as well as, in 1997, disposing of property for £70m). Co-op Travelcare is the fifth largest UK travel agency, but also the largest chain of independent tour operators, with around 250 branches. CWS Funeral Services has over 10 per cent of the UK market, making it the second largest funeral business (and the largest UK owned). It has 10 distribution centres, supplying 48 societies as well as its own retail outlets. The Co-operative Bank is one of the fastest-growing banks in the UK, and now has over two million customer accounts. It is one of me most innovative banks, being at the forefront of the new technology in developing telephone and now internet banking, and it has an extensive network of outlets, utilising the 'Link' network of cash machines and now the Post Office Counters network as well as its own in-store banking facilities, cashpoints, and branches. It is also very profitable, with an operating profit of £55.3m (up from £44.4m in 1996), that accounts for well over half of the £91.7m operating profit of the entire CWS Group. The CIS has the second largest customer base in the UK, with over 35 million customers, and a premium income of £1.3bn per year. In 1997 it returned £677m in surpluses from life assurance and pensions business directly to the policyholders, along with £27m in premium discounts to house and motor policy holders and as dividend to co-operative societies.

However, when the media spotlight was turned on the CWS early in 1997, as a result of the rumours of an imminent takeover bid, financial journalists were quick to point to the Group's underperformance when compared with conventional investor-owned companies. The figures for 1996 had shown an operating profit of only £85.9m on sales of over £3bn. The Retail Group's performance was particularly disappointing when compared to the dynamic growth of competitors such as Tesco and Sainsbury's (though it was not true that CWS was losing market share: its share of the packaged grocery market was 1.5 per cent in both 1996 and 1997, while that of the next largest co-operative, Co-operative Retail Services (CRS), had slipped from 1.7 to 1.5 per cent).[4] The new CWS Chief Executive, Graham Melmoth, admitted that 'a significant advance in our bottom line' was needed to ensure the long term future.[5]

Media criticism also focused on the failure of attempts to merge CWS and CRS. CRS has a turnover of around half that of CWS (£1.54bn in 1996), it has 25,000 employees, and a similar number of retail outlets - around 700 - operating largely in the same markets: food and non-food, travel, funerals, and the motor trade. CRS is also part of a trading group of five societies known as the Consortium of Independent Co-operatives, which, in the opinion of market analysts, is under-performing. CWS and CRS have the two largest co-operative food businesses, and buying terms could undoubtedly be improved if the Movement's buying and marketing were brought together. However, in May 1995 the latest attempt at merger with CRS was called off, owing to difficulties over matching two quite complex democratic structures. To outsiders, the decision was not easily understandable; until 1993 CWS had been a major shareholder in the CRS and had had representatives on its board of directors. But, encouraged by the Registrar of Friendly Societies, the CRS link with CWS had been severed and the Board had come to be made up entirely of lay members. Partly in consequence, CRS had become engaged in a drive to assert a separate, distinct image of its own, independent of the influence of CWS. The CWS Chairman, Len Fyfe, was quoted as saying merger was not an immediate priority and would not come about as a response to the attempted takeover, though it was thought inevitable in the medium term.[6]

With hindsight, we can see that there is no direct link between the calling off of the merger plans and the takeover bid. In fact, had the merger gone ahead it would not necessarily have prevented the bid, and might have proved distracting to CWS management. It would certainly not have brought about a dramatic improvement in the profitability of CWS in the short-term. Arguments about the benefits of merger are essentially long-term ones, and they are certain to re-emerge as part of the discussion about how both organisations, and the co-operative sector in general, can strengthen their businesses and offer members enough benefits to enable them to fight off takeover bids in the future.

With Graham Melmoth's appointment late in 1996, CWS embarked on a strategic review of its business. The Co-operative Bank had been growing rapidly, partly due to the development of bold ethical and environmental policies which had caught the imagination of existing customers and had encouraged many new ones. It was embarking on yet another venture called 'Inclusive Partnership', which emphasised its honesty and sense of responsibility towards all those affected by its business. The Bank had proved that the co-operative form, if defined concretely in terms of an ethical business and backed by a vigorous advertising campaign, could prove a positive advantage in the competition with conventional investor-owned banks.[7] Other parts of the CWS Group had lacked such a positive image. The Co-op in general is seen as having a strong community presence, and building on these perceived strengths in the 1990s CWS had positioned itself as 'the responsible retailer', launching campaigns for instance on the honest labelling of foods, the customer's 'Right to Know', and healthy eating. On Graham Melmoth's appointment, he identified five important themes: performance, planning, people, communications, and costs. A statement of CWS Aims was issued to all managers and the methods by which these were to be achieved, stressing CWS's co-operative nature and how this could be used to advantage. A dividend card was developed, a new version of the old 'co-op dividend' which would use the Society's computer system to record member discounts every time they bought from a CWS store. In 1997, pilots began in Northern Ireland and then Scotland. However, CWS's search for a new corporate image was interrupted by the need to fight an unexpected battle for its very survival.

Origins of the Lanica bid

It is only in the last two decades that food retailing has come to be increasingly important to CWS. On the other hand, CWS has always been the Co-operative Movement's main supplier, hence CWS developed a large manufacturing base. Food manufacturing has been undergoing significant restructuring and consolidation. At the same time, the utilisation of CWS's food factories had fallen in line with a reduction in Co-op market share. Therefore, CWS had been looking to divest these factories as a matter of Board policy. Negotiations had not been able to draw a satisfactory offer from Hillsdown, and no further progress was made until, in 1994, Andrew Regan, a 28-year-old entrepreneur who had already made his name in the City, bought CWS's food manufacturing arm for £111m. The following year, Regan sold the holding company, Hobson, for a sum thought to net him a profit of £3m.

Nevertheless, Regan was able to find elements in the City prepared to back him with around £1.2bn in a bid to seize and asset strip CWS itself, the value of the holdings being thought to be between £1.Sbn and £2bn.[8] He took over the company called New Guernsey Securities for £4m, and turned it into an investment company, Lanica Trust Ltd (of which Regan was a director), whose shares then rocketed with the prospect of a deal. By early February 1997, news of his intended bid was prematurely leaked to the Sunday Times. Regan then approached CWS and CRS offering to buy some of their non-food businesses for £500m. He had set up a subsidiary of Lanica called Galileo to take the opticians, travel, garages, agriculture, and funeral businesses. Immediately following the leak, Regan informed the Stock Exchange and shares in the quoted Lanica were suspended. This time Regan met with no interest at all. Graham Melmoth was quoted as saying 'The day we get rid of the farming and funeral businesses is the day we turn off the lights', and 'Should CWS wish to divest of non-core businesses then it could maximise the value for shareholders by negotiating on its terms without the help, and cut taken, by a third party.[9] Regan's public relations machine then put it about in the press that Lanica might have been preparing a hostile bid and· was given coverage in the Sunday Telegraph.[10] An offer to members of around £1bn was rumoured. Regan's strategy was reported as being to make an offer for the CWS to its Board, which could only be accepted if the organisation were converted to a company. The Board would then call a general meeting of members to vote on the proposal, then if they backed it a formal bid would be made.

Press speculation had it that Regan planned to appoint a Retail Controller at a salary of around £6m, and that he had agreed to sell The Co-operative Bank (reputedly to the Allied Irish Bank for a figure speculated to have been between £250m and £400m). Furthermore, he planned to do likewise with CIS. Advice had been sought from the Bank of England and the central government Department of Trade and Industry.

However, neither Regan nor his advisers understood how the CWS representative process functions. As a co operative, the rules and governance of CWS differ from private limited companies and building societies. (Graham Melmoth was to comment later that Regan had made a fundamental error in recruiting a 'mole' within CWS who did not understand the Co-operative Movement). CWS has corporate as well as individual members. In accordance with co-operative principles, voting is weighted according to the value of purchases made and not on the value of members' shareholdings. In order to balance participation, individual members are organised into branches which have elected branch committees. (For the ease of administration, branches and corporate members are organized into geographically based sections). The important point is that branch committees and corporate members exercise their votes in general meetings on behalf of their individual members. Unlike building societies, individual members do not vote themselves in CWS federal general meetings, only in their Branch and Regional meetings.

This leads to another important distinction, in that where building societies have failed to foster an active democratic base, their ability to defend their mutual status has been compromised. Where a call for conversion has been made as a prelude to a hostile acquisition by default, they have had to put their case through media channels often not unsympathetic to the arguments of the aggressors. This may explain Regan's motivation in trying to lever pressure through the media. Regan came to recognise, even if he did not understand, the importance of the corporate members as evidenced by his choosing to make telephone calls to co-operative retail societies putting his case. Indeed, his plans were longstanding. A small agricultural co-operative society, named County Produce, was apparently set up by Regan's partner, David Lyons, and registered by the Registrar of Friendly Societies on 19th December 1995, and an application for CWS membership was formally accepted by the Board on 3rd April 1996. It is not clear what use Regan intended to make of County Produce, and indeed should he have wanted to force the CWS Board to call a general meeting he would have needed to muster the support of other corporate members.

The Board of CWS comprises 30 non-executive directors elected according to a formula whereby the majority are representatives of corporate members, and Regan sought to influence those directors by writing to them directly. On 5th March 1997, in the absence of a concrete proposal, the CWS Board decided there was little to be gained by replying positively to Regan's original invitation to meet to discuss the acquisition of any businesses. A press statement by the Board was released in order to make the position absolutely clear. The Grocer on 26th April 1998 quoted the Chairman, Len Fyfe, as saying

> We are quite prepared to defend our co-operative status. Regan gravely underestimated the strength of our resolve -

> as did the City - to fight this kind of nonsense. They seemed to totally misinterpret the standing of the co-operative movement in this country.[11]

However, at the time, in consequence of the heightened City interest, Graham Melmoth, following consultation with the Chairman, had set up an internal team to co-ordinate the response to any hostile bid.

CWS fights back

The CWS was advised by Warburgs, who considered that the threat was real, and allocated Brian Keelan, a senior corporate financier, to the project. Briefed by Keelan, Melmoth hired heavyweight City lawyers Linklaters. The Warburg campaign sought to undermine Regan's ability to fund the bid, since he was relying on support from banks. Melmoth wrote to fund managers and banks, with the result that Lloyds failed to give their backing to Lanica, while others became defensive. Fifty members of Parliament signed an early day motion condemning Regan's approach.

The CWS team and Warburgs were becoming increasingly concerned at the leaking of information to the press. Much of the information was known only to CWS advisors and a handful of senior management and pointed to a leak at senior level. Accordingly, the Society's security staff were asked to monitor telephone calls. They found that one particular telephone extension had been used to telephone Regan twice in November 1996 on his private phone and at his office. This led to a review of expense claims, with a claim in February 1997 for a stay at a London hotel bearing the address of Regan's head office. The evidence pointed in particular to Allan Green (Controller Retailing). This evidence was important, but not conclusive. It was considered to be even more important when coupled with the concerns in the minds of CWS officials over an extension to a supply agreement between CWS and Hobsons. The terms of that agreement were considered to be particularly favourable to Hobsons. Accordingly, on the advice of Warburgs, CWS sought to hire Kroll Associates, an investigating agency, to investigate Regan but, ironically, it had already undertaken work in connection with the outside interest in The Co-operative Bank. The CWS contract was delayed, and ultimately went to another firm of private investigators, 'Control Risks', who started work on the 9th of April.

A few days later, on 14th April, Green was videotaped meeting Regan and his associate David Lyons (an ex-financial adviser to CWS) in a hotel car park in Beaconsfield. Green handed over what appeared to be CWS Board papers, and Regan and Lyons were seen reading them. On Thursday 17th April, Green was interviewed by Melmoth at CWS headquarters (and simultaneously Green's number two, David Chambers, by other CWS managers). He was not told about the video. He protested his innocence and was then suspended. More evidence emerged. Green had asked for a computer disc with the CWS membership listed on it. One source said, 'the minute that people became aware of what had been going on with Green, it opened a flood of inquiry in their minds'.

The CWS team moved quickly. On the morning of the following day (Friday 18th April), with the Lanica bid about to be launched at midday, CWS applied for, and was granted, a High Court injunction preventing use of the information provided by Green, and requiring affidavits saying what information had been obtained and agreeing to return it. (Indeed, Allan Green's affidavit confirmed he had been supplying Regan, and Regan returned seven boxes of confidential documents to the CWS). The video evidence was conclusive; the injunction was granted minutes before the bid was to be announced. The judge said the bid was 'clearly dishonest' and 'a serious, gross and wilful breach of confidence'. Lanica's financial advisers, Hambros, had information on the bid ready to give out, and Lloyds Bank registrars were ready to communicate the offer.[12]

CWS had begun to investigate further the extension to the Hobson supply contract. In May 1994, when Hobson Holdings had bought the CWS food manufacturing business, a three-year commitment had been given to continue to supply Co-op Brand goods, and this was quickly extended in January 1995 by a further three years, with a payment of £2.85m to CWS. The deal was negotiated by Green and Chambers on behalf of CWS. It came to light that a further £2.4m had been paid to a company called Trellis International (whose principal was Ronald Zimet) into a

Cayman Islands account. Regan denied that there was anything underhand about the payment, declaring that it was a performance fee paid to a middle man. The suspended CWS manager said he had not heard of Zimet, yet Regan insisted that Green had met Zimet in January 1995, with the fee going to Zimet for his work in brokering the deal. Graham Melmoth, CWS Chief Executive, asked 'What did Mr Zimet do to earn £2.4m in three days? Why did Green lie about Zimet's involvement?'

CWS attacked merchant Bank Hambros for its continued support of Regan after Regan, Green and Lyons had admitted that documents circulating on Regan's behalf by Hambros had been stolen. In fact, a number of organisations had received the stolen documents.[13] CWS advisers, Linklaters, suggested to Lanica's backers, Hambros Bank, that they close the bid down. Melmoth then wrote to the organisations that had been sent the information regarding the nature of its acquisition and asking for the documents' return. The withdrawal of Nomura's backing (a reputed £1.2bns) put an end to further speculation. At this point, Regan had to give up, but not before Lyons had written to CWS Chairman Len Fyfe. That letter said that Galileo could not, because of the High Court ruling, put the intended bid to CWS members. It invited the Board to do so. Fyfe's reply was short and to the point. The bid was not capable of being put to members because it was based on stolen information. The bid was returned 'unopened and unread'. CWS launched private criminal prosecutions against Regan, Lyons, and Green. It was reported that Melmoth had said at a press conference on 25th April 1997:

> It was mammon that enticed people down a very dangerous road. Some people in the City clearly decided that these people from Manchester were just a bunch of hicks. We proved them wrong. And now some City institutions have ended up with a lavatory seat hanging around their necks.[14]

In an interview for the BBC on the same day, he said 'We have justice. Justice has been done.' A week later, at an inter-party hearing the injunction was made permanent, with Hambros giving an undertaking not to use information or documents obtained. The High Court judge, Mr Justice Lightman, said the conduct of Regan and Lyons, and of Allan Green who fed them the information, was 'the clearest case of a gross, wilful and disgraceful breach of confidence.'[15] Green admitted handing over huge amounts of information on six or seven occasions: management accounts, drafts of group accounts for 1997, a list of CWS stores and their market values, membership details, minutes of board and branch committee meetings, the 1996 voting rights of corporate members. Green was quoted as saying he did it in what he believed to be the CWS's best commercial interests. Price Waterhouse returned the disc of members to CWS.[16] CWS was awarded costs.

Green faced a theft charge. A CWS spokesperson said, 'We have been the victims of a carefully planned and executed conspiracy'. The Serious Fraud Office had commenced an investigation into a number of matters. Lanica's SE listing remained frozen with no prospect of shareholders getting their money out.[17] CWS called for an investigation into insider share dealing at Lanica, asking if any of its backers knew of the takeover plan in advance. Hambros and Travers Smith both made an 'abject apology', with compensation given to cover CWS costs in defending against the bid. The Crown Prosecution Service took over the prosecution for alleged theft of documents. Following an internal inquiry at Hambros Bank, three directors resigned, and a number of other staff were disciplined. The lawyer who had advised Regan resigned from Travers Smith Braithwaite, who also paid compensation. By August, the police probe into Lanica was reported as going much deeper and taking far longer, than envisaged, and the Crown Prosecution Service dropped the prosecutions, allowing the three men to be further questioned by police. A heavy price was paid by those associated with the takeover bid. The financial performance of Hambros having been exposed; it has since gone into foreign ownership.

After the Lanica crisis

Before the takeover bid, CWS managers and directors had been reviewing all their operations, and were now even more determined to improve profitability and restore some direction to the business. As Len Fyfe, CWS Chairman, put it, they had a 'single minded determination to renew (their) credentials in the eyes of consumers.'[18] Graham Melmoth declared: 'If 1997 was about seeing off Lanica, next year will create the foundations of a Co-operative solidarity and performance rendering impossible anyone else trying anything like it again.'[19]

By the end of 1997 they had largely completed the strategic review which had commenced on Graham Melmoth's appointment. It set out to achieve sustainable growth through investment rather than retrenchment, investing in the Group's strengths. The strategy for the 'family of businesses' that make up CWS was underpinned by a 'Co-operative Approach' defined as: effective, responsible, and rewarding:

- all businesses had to be effective within their own trading environment, meeting the needs and expectations of target customers

- businesses should be responsible, operating in a way which was open, honest, and demonstrated social responsibility

- they should, increasingly, reward customers for their loyalty, with the new dividend scheme having an important role to play.

The Review produced a fundamental restructuring of the business, a new retail trading strategy and a new focus on the CWS as a family of businesses, emphasising the potential synergies between them. The restructuring of the business included the creation of a new Commercial Division, bringing together CWS businesses in funerals, farming, travel, optical, property, and engineering. The milk, distribution and manufacturing businesses were also brought together in one Division, called 'ACC and Supply Chain'. Other, smaller reorganisations also helped to tighten the organisational structure and cut costs. The motor business was brought under one heading, managed from the North Eastern Region. The retail finance function, and the management of non-food retailing, were brought from Glasgow and Handforth respectively, and relocated in Manchester. Responsibility for the retail development function was transferred to the Property and Development Group.

The new retail trading strategy began with the segmenting of stores into three types: grocery-based convenience stores, medium-sized supermarkets based mainly in market towns, and superstores of over 20,000 square feet. Previously, there had been a recognition within the co-operative sector that the last category, very large superstores, were needed in order to compete with the Movement's main competitors, but there had also been a reluctant recognition that the Co-op was not as good at running them. Now, CWS made the bold decision to focus in future on the first two categories of convenience stores and supermarkets, and to give up trying to be excellent at all store formats. This meant concentrating investment on refurbishments and acquisitions of the smaller stores, while reviewing the future of superstores on a site-by-site basis, and not expecting to develop any new ones.[20] The roll-out of the Dividend Card to all stores in the UK was achieved early in 1998, and this was seen as a major marketing advantage, being at least 50 percent more generous than competitors' loyalty cards.

The emphasis on CWS as a family of businesses entailed working on a corporate marketing strategy to make better use of synergies within the CWS Group, and bringing closer together the decision-makers from each Group: the Deputy Chief Executive of CWS became Chairman of The Co-operative Bank; the Chief Executive of the Bank became the first head of the Bank to join the CWS Executive with a responsibility for financial services; the chairmen and chief executives of the Bank and CIS joined each others' boards.[21]

There was also an ongoing commitment to changing the organisational culture. On his appointment, Graham Melmoth had instigated a process of educating managers in the 'Co-operative Values, Principles and Future' (Allan Green had attended one of the first courses at the Co-operative College, Stanford Hall). Gradually, all 35,000 staff are being given such inductions, as part of a staff training programme called a 'People Plan' which aims to achieve 'Investors in People' accreditation for the whole of the CWS (some groups have it already). There is a determination to change the management style from one of command and control to one of empowerment, releasing the latent potential of the staff.

In October 1997, the CWS Board introduced some rule changes which would make it more difficult for a hostile takeover to succeed. The aims were:

- To make more apparent the co-operative status of the society and of its active corporate members.

- To require, expressly by rule, card votes to be used for changes of rules and transfers

- To allow for a more active registered corporate and individual membership base, with the facility for removing members who no longer trade with the Society

- To prevent the admittance into CWS of bogus co-ops set up to influence voting among other corporate members.

- To tighten general meeting procedures so as to require higher thresholds for the numbers required to call a special meeting or constitute a quorum.

- To introduce a rule on solvent dissolution in line with the Co-operative Union's Corporate Governance Code of Best Practice recommendation.

At the CWS half yearly meeting of October 1997 these rule changes were agreed. It was accepted that an active membership was the best defence, and a commitment was made to keep the membership list up to date.

The ethical stance was re-emphasised, when in November CWS launched a campaign on food labelling.[22] After working closely with the Consumers' Association, the Society published a report calling on the Food Standards Agency to create a new code of practice aimed at protecting the interests of consumers against inadequate or misleading information.[23] A consumer jury was set up to adjudicate if there were complaints from shoppers about misleading labels on Co-op Brand goods. The effect was somewhat marred, though, by some negative publicity about another CWS business. Unlike The Co-operative Bank, the CIS had never claimed to have an ethical investment policy, but when it was revealed that it had a one per cent share in one of the UK's largest animal testing companies, it gained some unwanted media publicity. The need to pull the disparate CWS businesses together was underlined by the reasonable criticism of animal rights protestors that people did not know how to distinguish between different parts of the same co-op; Animal Aid was reported to be considering whether it would continue to have a Co-operative Bank account, and CIS was forced to review its stake in the company.[24]

Critics have suggested that the new Dividend Card follows too long after the launch of loyalty cards by the Society's main competitors. They also worry that it may be too generous and depress the profits further. They point to the launch of in-store banking services by the multiple retailers, and to the lack of synergy between the banking and insurance arms and between them and CWS food stores. Some critics argue that CWS Retail should become an independent co-operative, like CRS a shareholder in CWS but with its own democratic structure. The CWS would then become the central purchasing and marketing organisation for the whole sector.[25] Others go even further, arguing that every one of the CWS divisions should become a consumer co-op in its own right. They remain to be convinced that the Society has learned the lessons from the Lanica bid and will be in a fit state to fend off another bid if it comes. On the other hand, one of the strengths of the CWS in the face of the takeover bid was that its various businesses could not be picked off one by one.

Impact of the bid on the wider co-operative sector

The CWS defence succeeded because of a resolute Board and management, effective corporate financial advisers and lawyers, and a complex ownership structure. Any hopes Regan had of launching a bid ended with the discovery that information for the bid had been obtained illegally. In comparison, other consumer co-operative societies looked even more vulnerable. The initial reaction was to change the rules. At a special general meeting, CRS members increased the number of regional committees required to requisition a special meeting for the purposes of considering a transfer or conversion. Another change ensured any surpluses or assets made available on winding up would remain within the co-operative movement. When looking at new member applications, they decided they would take into account likely participation in the business, and adherence to co-operative principles. Frank Dent, the then CRS Member Relations Manager, said 'These rule changes will maintain a balance between protecting the society's future as a mutual organisation and protecting the rights of members.'[26] Other societies made similar rule changes, restricted membership to people who lived in their trading area, and made them sign a declaration of support for co-operative principles or prove their loyalty to a particular store before allowing them to join. Some co-operators began to investigate the possibility of becoming a common ownership co-operative if the Co-operatives Bill being prepared by the UK Co-operative Council were to be adopted by the current Labour Government and enacted.

The legal barriers to conversion do have their limitations. The Co-operatives Bill has been delayed by the lack of Parliamentary time. Even when it is passed, it is unlikely that even a Labour Government sympathetic to the co-operative sector will allow it to shelter behind an absolute legal prohibition on conversion, because this would interfere with the rights of members.[27] The most that can be hoped for is that the Co-operatives Act will promote the special identity of co-ops, give them a 'level playing field' on which to compete, and provide some protection by requiring a clear majority of members to vote in favour of conversion.[28]

In the future, the continued existence of co-operatives will depend on their ability to compete effectively in the markets in which they operate and to provide benefits to members which they cannot get from conventional companies. These will include both material rewards and the satisfaction that comes from ethical trading. Co-operatives have to have to have faith in the loyalty and commitment of their members. This is, of course, how it should be.

Johnston Birchall is Editor of the Journal of Co-operative Studies.

Notes

1. See Birchall J (1994) *'Co-op: the People's Business',* Manchester: Manchester University Press

2. *CWS Annual Report* (1996) p7

3. *CWS Annual Report* (1997) 'Delivering Co-operative Values'

4. Information supplied by CWS, 23 April 1998

5. Quoted in *Wolverhampton Express and Star,* 14 April 1997

6. Quoted in *Supermarketing,* 25 April 1997

7. See Birchall, J (1998) 'A *history of the UK Co-operative Bank'* unpublished paper

8. Neil Bennett and Patrick Weever writing in the *Sunday Telegraph,* 27 April 1997

9. Ibid

10. *Wolverhampton Express and Star,* 14 April 1997

11. *The Grocer,* 26 April 1997

12. *Observer* 27 April 1997

13. *Observer* 27 April 1997

14. *Observer,* 27 April 1997, 'Business section' p8

15. *Daily Telegraph,* 26 April 1997

16. *Daily Telegraph,* 26 April 1997

17. 25 April 1997

18. *Co-operative News,* 7 October 1997

[19] *Co-operative News* 28 October 1997

[20] CWS (1998) *Turning Strategy into Action*

[21] CWS (1998) *News Release,* 27 April 1998

[22] *Co-operative News* 11 November 1997

[23] CWS Report (1997) *The Lie of the Label,* Manchester

[24] *Co-operative News* 16 December 1997

[25] Brian Rees, writing in *Co-operative News* 16 December 1997

[26] *Co-operative News,* 15 July 1997

[27] See Love, A. (1998) 'Building Societies in the UK' *Journal of Co-operative Studies* Vol.31.1 pp3-ll

[28] Graham, Lord of Edmonton (1998) 'The survival of the mutual and co-operative sectors: forewarned is forearmed' *Journal of Co-operative Studies* Vol.30.3 ppll-16

Women in Co-operatives: The policy of the International Co-operative Alliance

Laura Gomez Urquijo

The role of women in the Co-operative Movement has deserved special attention and has led to the development of specific policies by the International Co-operative Alliance (ICA). Attempting not only to represent and extend Co-operation worldwide but also to work towards a fairer society, the ICA has gone beyond the defence of women's rights in co-operatives to include other aspects of economic and social life. Yet, in spite of the important contribution it has made, we can still find some unresolved questions on the subject.

The improvement of women's situation through Co-operation

The starting point from which to analyse women's presence in co-operatives can be the role that Co-operation has played in their social and economic situation; a role generally considered as extremely positive.[1] However, we have to remember that the situation of women in co-operatives is very different depending on the country. While in some areas there are still many obstacles to the formation of co-operatives, in the more developed ones the problems are more often regarding participation in decision making1. Nevertheless, and referring to the Movement as a whole, the contribution made by the Co-operative Movement to improving women's rights and welfare is frequently recognised. An outstanding statement in this sense is the declaration made by the United Nations on the occasion of the International Day of Co-operation in 1995.[2] Recognising the achievements of the Co-operative Movement, it stresses that women have found adequate means to improve their economic situation in this kind of enterprise. It also points out that the Co-operatives have not only allowed women to overcome a 'poverty trap' (by offering favourable conditions of employment and credit in many cases), but furthermore they have made considerable contributions to achieving equality with men by improving education and training opportunities, access to health care and so on.

These achievements (manifested on this and other occasions by the United Nations).[3] had been previously highlighted by the International Co-operative Alliance, the firmest defender of the contribution of Co-operation to the welfare of women. For this reason, the ICA reiterates the important role played by women in society, with special reference to certain aspects such as consumption, nutrition, child-care and education, and intervention in rural and agricultural communities[4]. The knowledge that Co-operatives are an excellent way to increase women's access to credit facilities, employment, education, and health care[5] has formed the basis of the development of concrete policies.

Nevertheless, while it is certain that co-operatives have contributed to an improvement of the social and economic situation of women, especially in developing countries[6], it has been a long process, and we can not generalise all of the excellent achievements proclaimed by the above-mentioned declarations. Women in co-operatives, mainly in non-developed countries, still find serious obstacles imposed by the legal regime, access to education, traditions, and so on.[7] It is the inequality evident in such wider conditions that frequently keeps women from entering co-operatives[8]. This situation is especially serious in developing countries, where in spite of the numerical superiority of women in the total population and their more needful situation, they are the most affected by unemployment and poverty.

Furthermore, and regardless of the development level of the country, co-operatives are mainly managed by men, and women frequently have inferior wages or fewer possibilities of promotion compared to men. As pointed out by Katarina Apelqvist (President of the Committee that represented women in the Alliance until September 1997), this situation implies an evident discrimination against women and raises doubts about the credibility of the Co-operative Movement before the wider society.[9] In spite of this, consideration should be given to the fact that, in the same way that there exists diversity among co-operatives according to the country, the situation in each single co-operative also represents important differences. So, although these considerations can be useful to illustrate specific situations, the criticisms can not be generalised.

The ICA itself it admits that, in many aspects, co-operatives cannot proclaim that female participation has been greater here than in other areas of the community where women are integrated. The ICA holds that an outstanding effort in certain other fields especially relevant to female problems (such as consumption, housing, or childhood care)[10] can be illustrated just as effectively. Likewise, upon analysing sustainable development by region, it recognises the major implications of 'women in co-operatives and their contributions in areas such as health or education. The ICA also confirms (especially in respect to the African Regions) that problems still exist and obliges co-operatives to direct their efforts towards certain key aspects such as the support of female participation at all levels, especially in decision making and management positions.[11]

Certainly, one of the most important remaining aims concerning female participation in co-operatives is the presence of women at decision making levels. One possible solution would be the establishment of co-operatives exclusively for women, so that their access to higher ranks of control would be guaranteed. Nevertheless, their integration in normal co-operatives is seen as a much more positive aspect, avoiding the isolation of women. Concerning this subject the United Nations suggests that even though an increased presence in management positions has not been reached, the fact is that Co-operation promotes full and equal participation of women in this area. Alongside the efforts made to achieve internal promotion, their presence in the co-operatives also provides a means of accessing other positions in the wider political life outside the co-operative movement, as co-operatives permit women's access to education and training, health care, and so on. The United Nations acknowledges other contributions of co-operatives, such as that they "eliminate violence against women", "promote women's economic self- reliance", and "integrate gender-equality dimensions into policy and programme planning".[12]

In this sense it can be said that, due to its social basis, the Co-operative Movement has largely improved the situation of women. At the same time, the participation of women in the movement is not merely confined to concerns of equality and women's rights, as it has also highlighted many other important issues such as peace, development, and education. This allows further discussion on their important contributions to achieving the Co-operative Movement's objective of the transformation of society. The strong role played by women across co-operatives has led the Alliance to defend their greater participation as a way of reinforcing all co-operative development activities.[13] The United Nations goes further, beyond the confines of co-operative development, and highlights women's contributions to sustainable human development.[14] Women's traditional concern about social aspects, characterised by self-help, equality, and equity, has led the UN to consider that there is a special link between women and the co-operative principles[15]. In this way, the incorporation of women into the Movement seems absolutely necessary for the achievement of its objectives and those of the Alliance itself.

The organisation of the female Co-operative Movement and its links with the ICA

Women have been part of the Co-operative Movement from the outset, having had an outstanding role in the development of British co-operatives. Some authors even cite a woman - Ann Tweedale, as having been among the Rochdale Pioneers.[16] Furthermore, the co-operative women, especially the British, played a leading role in the phase preceding the creation of the Alliance, and documentation of their participation can be found in the discussion of the De Boyve project in 1887 as well as in the Committee in charge of the Constitution Congress of 1895.[17] On becoming part of the Co-operative Movement, women struggled for a major role; Applying the principle of democratic process - "one person, one vote", the women fiercely defended their right to share all responsibilities with men in the administration of the co-operatives. Thus, in the first Congress of the International Co-operative Alliance, a representative of the co-operative women's movement of the United Kingdom asked that women's views be voiced throughout the Movement, reminding the representatives that if they wanted to succeed in their efforts they had to take female contributions into account.[18] Only two years later, during the Delft Congress, a group of women from different countries made a proposition that was adopted by common consent, in which co-operatives were required to include fair and equal treatment towards women, especially concerning their admissibility as members.[19]

It was soon realised that the representation of women's interests was best achieved with an organised presence within the Movement itself. This presence was demonstrated with the birth of the Women's Co-operative Guilds. Among them, the first was the British Guild; created in 1883, it developed very rapidly, concentrating mainly on preparing women for participation on an equal basis with men in the Movement.[20] The results accomplished by these associations in Great Britain and other countries attracted the attention and support of the ICA, as was demonstrated at the Cremona Congress.[21] There, the Leagues were highlighted as valuable instruments to the achievement of the aims of Co-operation and a practical and peaceful means to alter the situation of women.

The international organisation of the women's movement

While the Guilds were gaining more importance, the definitive step for women's participation in the International Co-operative Movement came with federation of the national Guilds into an international organisation. This idea was strongly advocated towards 1914 and endorsed by important personalities of the women's movement such as the Austrian Emmy Freundlich and Catherine Webb from Britain; both distinguished collaborators with the Alliance.[22] At the same time, the creation of the federation was widely supported by the European Guilds - in particular the British one, with the leadership of Secretary General, Margaret Llewelyn Davies. With the prospect of this international organisation, the need, to develop major publicity between the members and other co-operatives became a priority.[23] There was some debate as to whether the new organisation should be created through the ICA or not.[24] Finally, the question was decided in the International Conference of Co-operative Women celebrated in Basle in 1921. At this meeting, Emmy Freundlich suggested guidelines for the best ways in which women could contribute to the goals of the Alliance and presented a firm proposal for the creation of an international organisation of women with representatives from different countries. Women's aspiration of participating actively in the Co-operative Movement was tied to their desire for closer co-ordination with the Alliance and its objectives:

> ... In order that the work and enthusiasm of women shall be used for the promotion of the work for which the International Co-operative Alliance stands[25].

Thus, the International Committee of Co-operative Women was born, with the responsibility of promoting the women's movement where it had not yet emerged and developing the spirit of solidarity and a co-operative common purpose. When it was created, this first committee was by nature a temporary one and it was soon replaced by the International Women's Guild, (ICWG), a permanent organisation. At that time, the co-operative women showed they were convinced of the important contribution they could make, with more freedom and financial support, to the most important objectives of the Alliance's efforts - Co-operation and Peace.[26] They also consistently claimed that they deserved a place in the ICA, hoping to achieve female participation in the Executive Committee.[27]

After the First International Conference of Women, their activity notably increased.[28] The members also participated actively in ICA tasks and meetings, starting with their presence in the following Ghent Congress in 1924, where they unveiled their activities. Shortly after, in 1927, Emmy Freundlich was elected as a member of the ICA Executive, whereas, the international guild, with its own offices, had a separate representation before other international organisations. The stability and importance gained by the women's guilds is demonstrated by their willingness to participate in several areas of public life, their influence in their respective countries, and their interest in subjects of international concern.[29]

To achieve their objectives, co-operative women soon realised that it was absolutely necessary to reinforce their unity and extend their ideas.[30] Publicity and unification were assumed to be the main functions of the ICWG.[31] In order to reach these goals no attempt to exclude the Alliance was made; on the contrary, it was reaffirmed as the true representative of the "global" Movement. [32] This concern was increased with the start of the Second World War, which brought with it significant hindrances to International Guild activities. In 1946, the co-operative women reinitiated their meetings together with the Congresses of the Alliance. Nevertheless, financial problems, which had already been present before the conflict, had by now increased. For this reason, in 1952, the Women's Guild requested the ICA's help, and as a consequence, a link committee between them (the Liaison Committee) was created.

The coincidence of objectives and interests between both organisations was evident and the International League reiterated the identification of their ideals with those of the Alliance and their gratitude for its support.[33] As remarked by Cecily Cook,[34] one of the most active Presidents of the Guild, the International Women's Guild and the ICA were two separate organisations that pursued a common objective. But although they followed parallel paths, this meant there were two separate bodies for the representation of the International Co-operative Movement, when it was argued the Movement was unique and could not be divided into men and women. The need to offer a common and united image of the Co-operative Movement as a whole led to an increased collaboration and rapprochement.

During this time, the economic problems continued, and the Lausanne meeting in 1960 only took place thanks to the Alliance's support. Finally, in 1963 the suspension of the Guild's activities was decided on, not only because of economic problems but also on the increasing opinion that the Committee defending their interests should be integrated into the ICA's structure. Thus, the institution that represented the whole Movement came to embrace in its own structures the defence of the particular interests of women.

The representation of women's interests through specialised bodies

After 46 years, the International Women's Guild ceased its activity. The organisation and its funds were transferred to the Alliance, on the condition that the funds would go towards helping women in non-developed countries.[35] Later, at the Bournemouth Congress in 1963, the Women Co-operators Department in the ICA and the Women Co-operators Advisory Council (WCAC) were set up[36]. The function of this body was to advise the Alliance on the promotion of female participation in co-operative activities, especially in reference to specific areas such as youth work, education, consumer information, publications and in international co-operative activity, alongside a concern about development.

Despite the anticipated advantages of the inclusion of this body in the ICA's infrastructure, there were some doubts and criticisms expressed in the Congress of Vienna in 1966[37] and in Hamburg[38] three years later. The Alliance was accused of having allocated merely formal functions to the Advisory Council, considering that other organs and committees already included among their tasks the problems related to women and their respective areas of work. Besides, the WCAC realised from the first moment the lack of women's presence on the Central Committee and petitioned the ICA authorities for a more significant role. Its initiatives, three years later, led to the transformation of the WCAC into the Women's Committee of the ICA.[39] This was defined as an integral part of the Alliance that would promote the goals and purposes of the organisation, while its efforts and actions were directed by women and for their benefit. The Secretary of the Committee was to be filled by a member of the Alliance personnel, guaranteeing the union between the Committee and the rest of the Alliance structure. Likewise, it is necessary to highlight the financial dependence, though partial, of the Committee on the ICA which was in charge of its administrative expenses.[40]

As was pointed out in the Congress of Moscow,[41] the Women's Committee is the only Auxiliary Committee that works "towards its own destruction". It considers that its goal will be reached when the Central and Executive Committees of the ICA have a sufficient and truly representative number of women, the member organisations name more female delegates for Congresses, and in the Auxiliary Committees there is a fair proportion of women. Until that moment, the organisation can be considered to be in a "transitory period", during which, it must continue its struggle in matters of representation. Recently, the Women's Committee realised its aim of transformation into a Global Committee of Women, an aim determined in the meeting held at the last Manchester Congress. In its Constitutional rules[42] the Committee expressed its ultimate objective (defined as its "vision"), which consists of a Co-operative Movement led by men and women and based on the principles of democracy, development, and welfare. This new body, self defined as a 'Forum for the interchange of experiences and ideas on subjects concerning female co-operators', established the same aims and means proposed by the previous Committee. Nevertheless, it endeavoured to adapt to the transformation undergone by the Alliance and to its new regional structure. To this end it inspired the establishment of regional Women's Committees, (covering different geographical areas in accordance with the new ICA divisions) and desired the maximum co-ordination between them to attain a global world-wide focus.

Actions In favour of women's participation: the gender perspective

Among the different actions carried out by the ICA in favour of women, the increase of their participation in all fields of the Movement is without doubt the main objective. The Manchester Congress brought to light the resolution on gender adopted by the European Region, according to which a collective influence between men and women is the key to co-operative excellence. Thus, it is considered that a major equilibrium between men and women is the force that will give a new impulse to co-operatives and improve their current image as democratic enterprises.[43] The Alliance had also expressed its opinion in this sense during its Forum on gender disputes, held jointly with the International Labour Office (ILO) in 1995. In this context, it firmly pointed out that it is not possible to, talk about a true fulfilment of the co-operative principles and values, and true democracy, if women do not have equal access to the decision making powers in co-operatives or are not sufficiently represented.[44] Although this objective features clearly in the field of institutional declarations, the problem of how to put it into practice remains.[45]

In its memorandums and recommendations to co-operatives on the subject, the ICA historically has promoted the elimination of all obstacles to equality, and the establishing of the closest possible relation with women's organisations. On the other hand, women co-operators have also been petitioning for a greater collaboration with the Alliance and further, that the integration of women into the governing board of the co-operatives be made compulsory.[46]

The claim for a more meaningful presence implies that this be taken into account in the formulation of co-operative principles and values. However, the embodiment of the "not discriminating by reason of gender"[47] requirement has been a relatively recent achievement (procured at the Manchester Congress in 1995), and therefore represents a belated success for women co-operators. The question was posed by the Women's Committee long before, and, in particular, at the Tokyo Congress, where it was also asked- that the second principle should include the equal representation of men and women in the management of co-operatives[48]. In contrast, this claim was not realised in the review of principles at the Manchester Congress.

In respect to Co-operative values, the report presented in the Tokyo Congress,[49] and the resolution adopted in consequence, recognised equality as among the basic values of Co-operation. However, the Women's Committee needed a more significant reference to women and was in need of a focus on the co-operative values from the gender standpoint. The Committee President added that this report did not adequately demonstrate:

> ... the discrepancy between the basic co-operative values of equality and democracy, and the lack of equality between men and women inside the Co-operative Movement: a discrepancy that is ruinous for the credibility and security of the Co-operative Movement's existence.[50]

The same thing occurred regarding the principle of "democracy". Apelqvist observes that there only exists an "illusion of democracy" in the Co-operative Movement, as long as there lacks an authentic equality between men and women.[51] In contrast, concerning the values of self-help and economic and social emancipation, the critics refer to Co-operation's reference to its responsibility to the poor. Taking into account world data on the "feminisation" of poverty, it is essential to emphasise the fact that the poorest sectors of the population are women.

In spite of the claims made by women that have been outlined above, it is true that there has been increasing concern surrounding this subject on the part of the ICA. The Alliance's traditional ideas referring to women have followed a process of evolution inspired by female co-operators, who have requested a revision of its policies, encompassing a focus from the gender perspective[52]. On this point, W. Herath points out that while sex is a biological difference, gender is determined by the social and economic conditions. When speaking about "gender integration", the intention, according to this author, is to solve the problems caused by the existence of specific and stereotypical roles for men and women, that prohibit the participation of the latter under equal conditions.[53]

In this respect, the end of the traditional categorisation of women is sought. As indicated by Apelqvist54, women as a group have been included among pensioners, children, youth etc (cf the Report presented by Sven Åke Böök at the Tokyo Congress in 1992)[55] when in fact the only valid distinction is the one made on gender between men and women. Both groups include the employed, pensioners, children, and youth. While both of them perform very diverse roles in society, women, historically, have always had a subordinate role.

The ICA did incorporate this focus in its efforts, though gradually, as is demonstrated in the report presented by the European Region to the Congress of Manchester. In this report, the Alliance points out that revision of matters concerning the gender question will be a continuous responsibility and task of the Movement[56]. Nowadays, the Alliance insists on the importance of including the question of gender equality into co-operative programmes, in order to integrate women into its strategies and plans: consulting and implicating women in decision making, creating specific programmes, revising the plans periodically to ensure they are adapted to women's needs, and so on.[57] From the perspective of women co-operators, however, the results obtained with this policy are very limited. The lack of concrete results is mainly due to the lack of available means within the ICA, or at least, a deficiency in those that are destined for the needs of the Women's Committee. Along with the lack of financial resources, the development of these activities is also hindered by the lack of human resources. This was expressed by some of the representatives at the Assembly of the Women's Committee in 1995, who considered that the ICA and its member organisations' structures were still too rigid to embrace the new concept of 'gender'. In this sense, the Alliance's ideas in this area are still far from becoming reality in the co-operatives.

The integration of women In the Alliance: positive discrimination

The deficient female presence in the decision-making bodies of the co-operatives, led, in parallel to a scarce participation in the structure of the Alliance and their lack of decisive power in its meetings and specialised departments. Despite the earlier requests of women, the ICA was for a long time an organisation in which all the directive positions were occupied by men. There were, however, some exceptions such as the above-mentioned Emmy Freundlich, (a member of the Executive Committee between 1927 and 1934, who stayed at the organisation for 50 years), and Gertrude F. Polley, (in charge of the Secretariat, who, in 1932, became the acting head of the Alliance upon the death of the General Secretary Henry May[58]). Since then, there was not to be another woman on the Executive Committee of the Alliance until Raija Itkonen in 1984, who shortly afterwards became the first female Vice-President in the history of the ICA.

The concern about the presence of women at the decision-making levels of the Alliance led to it becoming not only one of the women's principal aims but also an objective of the organisation itself, perhaps with a special emphasis following the Congress of Moscow in 1980. The Central Committee, in its subsequent meeting in Prague, highlighted its concern about the scarcity of female representatives and, following the Helsinki meeting in 1981, presented a resolution which urges member organisations that do not have any female delegates in the Central Committee to opt voluntarily to fill the first vacancies arising in the delegation with a qualified woman[59]. Nevertheless, during the 1980s, women petitioned for greater responsibilities and representation in the ICA to reflect their actual strength in the Movement, at a time when almost half of the co-operators globally were women[60]. The same ideas were to be reiterated shortly after, during the Hamburg Congress in 1984. In one of the resolutions, co-operatives were urged to increase the number of women playing leading roles and consequently, their presence at the Central Committee and specialised organisations at the ICA[61].

When the Åke Böök report was presented to the Tokyo Congress, the Women's Committee vigorously criticised the references made to women,[62] as they are treated as "hidden resources" that must be free from hindrance,[63] while the Co-operative Movement is being asked to act positively to resolve the inequalities. Therefore, the Committee criticised what it saw as "words without content" from the Alliance that continued to treat women as a separate group and not as equals.

Every time, the support given by the ICA, its attitude as catalyst and co-ordinator of actions in favour of women, are seen as more and more insufficient. Therefore, the Alliance is required to go a step further, stimulating complete and egalitarian women's participation at the decision-making level and within its structure. Nevertheless, when it comes to putting these positive actions into practice, we encounter one of the most controversial questions concerning the ICA and women: Is positive discrimination necessary in order to guarantee a respect for women's rights? This question has only been seriously debated by the Movement and the ICA in recent years. Thus, when the future of the Co-operative Movement was discussed through the Laidlaw report on 'Co-operatives and the year 2000', the special reference to women did not take any affirmative action into consideration. It was believed that co-operatives in which the talents and capacities of women are encouraged would have larger advantages in the future, but a special and separate role for women would only be maintained where it is required by respective cultural and religious traditions.[64]

In reference to this question, Dr Kaplan de Drimer[65] believes that a distinction between the different roles for men and women in co-operatives should not be permitted. She bases this affirmation on the words of Laidlaw, for whom women do not occupy important positions by virtue of being female but rather, in a broad sense, by being members."[66] She suggests that non discrimination also implies a rejection of a positive discrimination that leads to more favourable conditions for women wanting to reach certain positions, and further to the establishment of a certain proportion of women as a compulsory presence. Similarly, in the 1980s, many female co-operators with a significant role in the Women's Committee rejected claims for the proportional representation of women inside the different organs of the ICA.

A request for special treatment as women came second to their desire to claim a similar level of competence as their male counterparts.

However, this focus has suffered a significant alteration in recent years. Perhaps becoming conscious of the lack of results obtained with these attempts, the Women's Committee began to defend positive discrimination without which they would not be able to overcome the obstacles to their egalitarian participation, above all at the decision-making level. This request for specific policies for women, was further intensified at the recent Manchester Congress, where the Alliance rejected the establishment of "affirmative action" in favour of women. This was illustrated in the 21st Agenda on Sustainable Development presented at that time. In this Agenda a declaration is made to the effect that

> ....no specific section on the role of women is included as women co-operators participate in all type of co-operatives. They are key actors in influencing the policies of co-operatives, especially with regard to sustainable development.[67]

The ICA's statement was positive in so far as it acknowledged the complete equality of women, their participation, and their important role. These ideas were, however, in conflict with the reality of the situation. As the then President of the Women's Committee said in her speech to the General Assembly of the above-mentioned Congress, women should play key roles in the determination of the policies of the Co-operative Movement. Nevertheless, this does not occur in reference to sustainable development nor in other areas of co-operative activity. While the situation remains unchanged, she believes special attention to women is necessary.

The question of positive discrimination is highlighted in a specific way concerning women's participation at the decision-making levels of co-operatives and consequently, in the structure of the Alliance itself. Apelqvist replies to those who consider that the obligation to maintain certain quotas of female presence is a non democratic practice; she points out that it is the lack of participation of women in the decision making that is non democratic when, in many countries, women represent more than 50 percent" of the population.[68] The Alliance's approach concerning female participation is evident within its own structure. On the one hand, it wants the co-operatives themselves to expand this presence, voluntarily and progressively, so that women become party to ICA committees and delegations. On the other hand, it still contemp1ates the adoption of measures that force co-operatives to ascribe to a greater female presence. In spite of this, the current women co-operators' aim to reach a 30 percent proportion of female delegates is being met with significant obstacles yet to be overcome.

It must be realised that while the ICA attempts to achieve these goals, it is a practical organisation that will pursue its own objectives first. For this reason, it is limited in its actions as it must compare its interest in an increased female presence with the need to elect the most adequate representatives for the meetings and activities of the Alliance, regardless of gender. Thus, in the Manchester Congress in 1995 it was decided to try and 'convince' rather than oblige ICA members to increase female participation in the regional bodies. Meanwhile, the Board was preparing a programme to debate the possibility of establishing a compulsory female presence in the delegations. To this end, it was proposed that the organisations that obtain the required percentages could receive a reduction in the subscription paid to the ICA.[69]

These measures, despite having been fiercely debated, did not come to light in the last Assembly of the Alliance held in Geneva, in September 1997. However, the first important advance can already be seen in the first stage to the introduction of "affirmative action", at least in reference to one of its bodies. As was illustrated in the review of article 17:

> the Board may as a provisional measure co-opt to a maximum of four women on the Board if, following elections at the General Assembly, the Board deems that the representation of women is inadequate. Any such co-options must be submitted for ratification to the subsequent General Assembly.

Conclusion

Through this analysis we have seen some of the numerous examples in which the ICA contributes to the integration of women. In spite of the above-mentioned deficiencies and the unsatisfied claims of women co-operators, the important consequences of this work should not go unnoticed. These achievements can be seen, particularly, in the support for women co-operators and the extended representation of their interests. But beyond the strictly co-operative field we have to stress the ICA's important contributions to women's access to work and education, particularly through programmes carried out in developing countries. The revision of the Alliance's rules in September of 1997 illustrates its historic concern. Among the "objectives" of the organisation, Article 2 includes - "the promotion of equality between men and women in all decisions and activities within the co-operative movement".

This statement signifies an essential advance: thus, it is assumed that the full integration of women is not a subsidiary goal of its activities but an aim, equally important as that of the promotion of the Co-operative Movement. For this reason, it may be expected that the relevance of this aspect will increase and be put into practice in the near future. The introduction of positive discrimination to the Board of the Alliance provides an opening for other bodies and, perhaps, to the member organisations themselves to do the same. In this area, the intense activity of the Global Women's Committee should be mentioned. The words directed by its President to the Manchester Congress were effective in reminding the Alliance of the claims made by the group that they should not be relegated to the margins of the Institution.

The ICA Global Women's Committee has taken this opportunity to remind you, once again, of how essential women's skills, experience and competence are to the well being of the co-operative movement and to the whole world. Without women's influence there is no future[70].

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The need for NOVARS (NOn-voting Value Added Sharing Renewable Shares)

Guy Major

Democratic worker-controlled firms suffer from underinvestment and 'degeneration'. To avoid both problems, workers must be able to recoup the full value of any projects resulting from their 'sweat equity' and risk-taking. This may require selling equity to outsiders. External equity can also help optimise the ratio of workers to physical capital. Existing types of share undermine work-place democracy without adequately protecting investors.

NOVAR shares (non-voting) separate ownership from control to avoid these problems. Investors are protected by:

- splitting firm's value added in a pre-defined way between themselves and workers,
- information, voice, consultation, resolution-proposing, and emergency voting rights.

Democratic Firms

The purpose of this article is to describe the rationale behind a new form of share intended to promote the development of democratic worker-controlled firms.

Numerous academic studies (reviewed in refs. 1, 2) show that a firm's performance can be improved substantially by the combination of:

- profit-sharing
- meaningful employee involvement in decision-making
- a significant degree of employee ownership
- accountability to external investors.

I define a 'democratic firm' as one controlled by its workers, with directors being elected by one worker one vote (perhaps pro rata for part-timers). Why are such firms so rare?

There are many theories for this (reviewed in refs. 2, 3):

- intrinsic inefficiency
- self-extinction tendencies
- poor support structures
- institutional bias and cultural inertia
- risk aversion of unwealthy workers
- bad management
- underinvestment
- 'degeneration' to capitalist control.

The latter two explanations are recurrent themes in the academic literature.

Underinvestment

There is a certain amount of theoretical and anecdotal evidence that one breed of democratic firm, the common ownership workers' co-operative, is particularly prone to this problem (refs. 3, 4). 'Common ownership' in this context means there are no equity shares; a worker leaving such a co-op ceases to earn any money from his or her past efforts within that firm and cannot extract the principal or the future earnings of any 'sweat equity' (foregone wages ploughed back into the company). Conversely, a new worker can free ride on older workers' sweat equity. The value to a worker of a dollar invested is higher

- the longer the worker expects to stay in the firm (which may lead to 'horizon clashes'),

but

- lower than in a firm with individual ownership shares (predisposing to underinvestment).

This can be illustrated mathematically as follows. Standard asset pricing theory (e.g. ref. 5) states that \$1 today is worth \$(1 + i) in a year's time, where i is the annual interest rate incorporating an appropriate risk premium.

Dividing by (1 + i), this is equivalent to \$1 in a year's time being worth \$1/ (1 + i) today. In other words, the future dollar should be discounted for the risk that it may never be received, the discount rate i increasing with that risk.

Similarly, \$1 in 2 years' time is worth $\$1/(1+i)^{2}$ today (discounting twice), and \$1 in 3 years' time is worth $\$1/(1+i)^{3}$ today (discounting 3 times), and so on. In general, \$1 to be received in n years' time is worth $\$1/(1+i)^{n}$ today, assuming i remains constant.

Extending this idea, the 'present discounted value' of an investment project expected to yield an annual income of d for n consecutive years, with an annual discount rate of i, is

$$\frac{d}{(1+i)} + \frac{d}{(1+i)^{2}} + \ldots + \frac{d}{(1+i)^{n}} = \frac{d[1-1/(1+1)^{n}]}{i}$$

[Eq. 1], applying a standard series summation.

This tends to d/i as n tends to infinity (the limiting case of perpetual earnings from the investment). The expected discount rate i may vary from year to year, and this can be incorporated into more complicated versions of the above formulae. For illustrative purposes, I shall assume the discount rate stays constant.

As an example, suppose an investment project yielded \$1,000 per year per worker (after allowing for depreciation, i.e. after subtracting enough from the firm's earnings to replace worn-out equipment, etc), and the firm's risk-adjusted discount rate was 10 per cent. If the firm was a common ownership co-op, the project would be worth the following amounts to five different workers who expected to stay in the firm for the following periods (plugging the numbers into Eq. 1):

A (1 year)	\$909
B (5 years)	\$3,791
C (10 years)	\$6,145
D (20 years)	\$8,514
E (for ever)	\$10,000

This example clearly shows how a potentially serious horizon clash may result from common ownership: the project is only worth $909 to a worker expecting to stay for 1 year but is worth more than four times as much to a worker expecting to stay for 5 years.

Suppose further that the investment project cost $4,000 each in foregone wages. It would not be in A or B's interests, but would be in C, D and E's. If the average worker, like B, expected to stay only 5 years, then the project would not go ahead if workers voted in a self-interested way, although it would probably proceed in an equivalent capitalist firm. The common ownership firm underinvests compared to its capitalist counterpart.

Generally speaking, it would be both illegal and tax inefficient for an incorporated firm to not subtract depreciation allowances from its earnings. Nevertheless, if we assume that no depreciation allowances are in fact subtracted and that all the equipment used in the project will wear out after n years, the problems outlined above become less extreme but do not go away. There are still horizon clashes if n is greater than some of the workers' expected time remaining in the firm. The firm still underinvests relative to its capitalist counterpart if n is greater than the average worker's expected time remaining (5 years in the example).

Returning to the original example, if the earnings from the project were paid as dividends on non-voting shares representing the sweat equity, and if those shares were easily marketable and could be held indefinitely after leaving the co-op, then the project would be worth $10,000 to all workers, irrespective of how long they expected to remain in the co-op. The horizon clash between short- and long-term workers would not occur. Also, the project would probably be funded - underinvestment would be avoided.

However, if.

(a) there were any restrictions on share transfers (such as a requirement for at least 51 per cent to be held by the workers), or

(b) the secondary (second-hand) market for the shares was inadequate, so that they could not be sold for their full present discounted value,

then underinvestment might still occur.

Restricted transfers could be particularly troublesome if most workers were too poor to buy out those wishing to sell their shares.

Secondary markets can be ineffective when trading is infrequent ("thin"), when there are insufficient buyers or sellers or when the present discounted value of single shares is too high (as often occurs with marketable membership shares such as those used in US plywood co-ops: ref. 6).

A further problem for democratic firms is that they often seem too risky to attract external (non-worker) investment. External investment is vital to achieve an optimal mix between capital and labour where workers are poor, to allow democratic firms to operate in capital-intensive sectors of the economy, and to allow workers to diversify their assets outside their firm, reducing their risk exposure.

Existing financial instruments are inadequate:

a) Equity collateral is generally required to secure debt financing (see below); a firm suffering from inadequate reinvestment (internally generated capital) may find it hard to borrow.

b) Fixed dividend preference shares are probably even less attractive to investors than debt financing (what is the security?). Nor do they share in the firm's income risk, making them less attractive to the workers.

c) Equity in the form of ordinary voting shares would undermine work-place democracy.

d) Non-voting profit-sharing preference shares are not attractive to would-be investors: what is to stop the workers exploiting them by raising pay to reduce profits?

Degeneration

I define 'degeneration' as the cessation of democratic (one worker one vote, pro rata for part-timers) control of a firm by its workers. Degeneration is a problem that has plagued the workers co-op movement (e.g. ref. 2). Why?

A firm's market value is not in general equal to either its book value or its net asset value at market prices (see discussion in ref. 2). The 'q-ratio' (ref. 7) between the market value of a firm's financial capital (debt+ equity) and the replacement cost of its physical capital (assets) is generally between 0.4 and 9; the average q-ratio in the UK is around 1.3.

Why is the whole firm not worth the same as the sum of its parts? Because of intangible assets, for example: internal organisation, human capital, 'goodwill', brands, patents, copyrights, growth potential, monopoly power, etc.

A·firm's market value is the markets' view of the present discounted value of its likely future distributions (dividends, sale, or liquidation proceeds). This includes 'entrepreneurial income' resulting from past decisions and risk-taking (e.g. ref. 8).

If a democratic firm is 'too' successful, and the older members are unable to extract the full market value of their past efforts, investments, risk- and decision-taking, for any of the reasons outlined above, then pressure may grow:

- to hire non-voting labour - 'founder-itis' (Julia Pellow, personal communication), or
- to sell out to capitalist control.

For examples, see discussions and citations in refs. 2 (pp551-555) and 9.

Both types of degeneration can be prohibited by the firm's rules, but this may have the unintended side-effect of reducing innovation and imaginative risk-taking, because workers must bear the risks of failure, but cannot gain the full fruits of success. Banning degeneration may place the firm at a long-term entrepreneurial disadvantage to capitalist companies.

Many publicly traded US employee-owned or controlled firms face the problem of how to buy back leaving or retiring workers' shares in order to keep control of the firm by current rather than ex-workers. US private employee-owned companies whose stock is not publicly traded must be prepared to buy back shares of departing workers - some have huge potential share repurchase liabilities they cannot honour without selling out to outsiders. In many cases the value of the company's shares is reduced by the future buy-back liability, which may reduce the incentive to reinvest, since the workers cannot gain the full upside benefits of success. In both scenarios, many "nearly democratic" firms may well become victims of their own success and lose their democratic character. One example is Marland Mold in Pittsfield, Massachusetts, which has an aging workforce (Mark Miller, Berkshire Worker Ownership Centre, personal communication).

Even the Mondragon co-ops in the Basque Country are showing signs of degeneration (ref. 10). The co-ops have been reorganised into the 'Mondragon Co-operative Corporation' (MCC, ref. 11), decision making has been centralised, and a large number of non-member employees have been taken on (up to 30 per cent of workforce, ref. 10). Supposedly these changes have been made to help the group survive increased competition from multinationals (the co-ops originally developed in protected markets), and increased market volatility. It is not clear why more non-voting workers are required in order to be able to absorb economic shocks. In the past flexible working hours and redeployment of members within the group have allowed the group to weather several recessions.

The cause of the Mondragon group's incipient degeneration may actually lie in its capital structure. In a Mondragon co-op, reinvested surpluses are credited partly to a common reserve, and partly to individual capital accounts, on which interest is paid. A worker-member may only withdraw money from his or her account upon leaving the co-op. The accounts are revalued only in line with a measure of inflation, not in line with the future expected earnings of the co-op (i.e. present discounted value). In other words, the accounts represent a form of debt, not equity (see below), although there is a degree of risk-sharing, as interest payments vary to some extent with the performance of the co-op.

What may have happened is that the very success of the Mondragon group is becoming its undoing. The risk-taking and hard work of the older members has built up an organisation that is probably worth far in excess of the total book value of its members' accounts (it would be interesting to check this). One way older members can improve their rewards under the existing capital structure is by taking on more hired labour to raise profits, and then to increase interest and capital payments on the accounts.

The internal accounts also represent a huge buy-back liability. As older members with big accounts retire and seek to withdraw their money, the co-ops must find the funds from somewhere without 'eating their capital'. Hence their recent attempts (on hold) to float some $96 million of stock. In addition, new members entering a Mondragon co-op must invest around $10,000. According to the MCC's press secretary (Jesus Ginto, personal communication), this does not represent a disincentive to join, since most of this sum can be borrowed interest-free from the Caja Laboral Popular, the bank at the heart of the group - indeed there is a waiting list of aspiring members (but why then the increase in hired labour?).

All democratic firms, including the Mondragon co-ops, could benefit from new financial instruments designed to overcome the dual dangers of underinvestment and degeneration.

Debt vs Equity

Debt and equity are extremes along a spectrum of finance.

Debt has one advantage for democratic firms: it is non-voting (although usually not without influence). It has numerous disadvantages: its value is fixed (doesn't vary with the firm's success), the principal must be repaid, and interest payments do not depend on the firm's performance; aside from the risk of default, debt does not share in the risks of the business.

Equity in the form of ordinary shares has numerous advantages: its dividends and market value are variable, going up and down with the success of the firm, and it never has to be repaid (it is 'locked in'). There is one big disadvantage for democratic firms - ordinary shares usually carry voting rights, which undermine work-place democracy. Various ways around this have been suggested, for example, maintaining at least 51 per cent of the voting rights in the hands of the workers collectively, and implementing one worker-one vote control over this block of shares. This scheme has two drawbacks:

a) What protects the non-worker shareholders against concerted action by the workers, for example, to raise pay at the expense of profits and dividends?
b) The workers' shares may suffer from restricted marketability if the company does 'too well', as explained above: the workers may be too poor to afford the 'true' price.

Employee trusts have been suggested as a cunning way around the latter problem: the idea is that a trust borrows money from a bank to fund the repurchase of shares at their 'true' value from employees. The company itself or its assets can act as the bank's collateral. The trouble with this arrangement is that banks are inherently conservative. A bank's valuation of a company (and hence the amount it is willing to lend) may be much lower than the company's true value (given the uncertainties involved in valuation, which boil down to an inability to forecast the future). The trust would not therefore be able to offer the workers as good a price for their shares as a venture capitalist might, and the workers might vote to sell the company. In other words, debt cannot compete with equity in the case of a risky investment.

To avoid underinvestment and degeneration, democratic firms need fully tradable investment which like debt is non-voting, but like equity is locked in and shares both income and capital value risk.

In a capitalist or investor-controlled firm, most ordinary shareholders don't vote, but their interests are protected by:

- an activist minority with similar goals
- the possibility of voting
- the ability to sell shares, reducing the price and leaving management vulnerable to a take-over
- shareholder agreements.

How can equity investors be protected in a worker-run firm? Pay ceilings and dividend floors may stop workers from reducing investors' returns on capital but cannot cover all long-term contingencies.

The dilemmas I have outlined can be side-stepped by a new way of separating ownership from control. Equity investors can be protected effectively by means other than normal voting rights, as I shall describe in the next sections.

Value added sharing

Value Added is sales minus all non-labour costs and is also equal to pre-tax profits + wages + perks.

Splitting a firm's value added in a pre-defined way between workers and shareholders can prevent the workers exploiting the investors. A simple scheme for doing this is as follows:

There are many versions of value added; to avoid confusion, I shall define 'value added residual' as

sales
+ other income
- cost of bought-in materials and services
- rents and rates
- depreciation
- interest (fixed or externally determined) [Eq. 2].

Suppose each worker in a firm has a minimum wage (capital doesn't starve, but people do). Define the firm's 'surplus' as its

value added residual minus total minimum wages bill [Eq. 3].

Let a fraction (the 'bonus fraction') of the surplus be allocated to pay bonuses for workers, and the rest (the 'profit fraction') be pre-tax profit (so that bonus fraction + profit fraction = 1). If a firm had a surplus of $1 million, and a bonus fraction of 0.7, the total pay bonus would be 0.7 x $1 million= $700,000. The pre-tax profit would be 0.3 x $1 million = $300,000.

Renewal

Circumstances change with time: the number of workers or the amount of capital in the firm, its value added, wage rates in other companies, interest rates, technology, etc. The bonus and profit fractions could be complex formulae attempting to account for all conceivable circumstances, but this is unlikely to be flexible enough. A simpler alternative is to 'renew' each share yearly, as follows:

- renegotiate bonus and profit fractions
- if no agreement, reset both by comparing the firm's rate of return on capital to benchmarks pre-agreed at the time of the original share issue.

In this way, if the firm does well, the workers can force the bonus fraction up (and so capture a larger share of future surpluses). If, however, the firm does badly, the investors can force the profit fraction up instead, to protect their anticipated future returns (by recouping a larger part of the smaller pool). Workers thus have a double incentive to maximise value added - firstly, to maximise their bonuses in the current year, and secondly to maximise their share of future surpluses.

NOVARS.

NOVARS combine these ideas into one financial instrument separating ownership and control in a novel way.

NOn-voting:	except limited consultation rights and emergency voting rights if firm 'underperforms seriously'
Value Added sharing:	surplus = value added residual - minimum wages pre-tax profit = profit fraction x surplus [Eq. 4] total dividend = 'dividend fraction' x pre-tax profit (if sufficient funds in profit/loss account) [Eq. 5]
Renewable:	specified renewal period [1 year] after which renegotiate or forcibly reset profit fraction to push returns on capital towards target (see below)
Shares:	last claim on residual assets tradable - price can rise or fall voice (speaking at meetings) and information rights holder may propose resolutions or be elected director

Emergency voting rights mean that each NOVAR share acquires one vote if the firm underperforms in any of the following ways for a pre-specified period (e.g. three consecutive years):

- makes a loss

• negative balance in profit and loss account (cumulative losses)
• net asset value less than 10 per cent of issued share capital.

Emergency votes are not permanent: they cease after a specified period (e.g. two consecutive years) during which the firm has not underperformed in any of these ways.

Shareholders and workers have to agree depreciation allowances, perks, expenses, advances on bonuses, appointments of independent experts, the share price for newly issued NOVARS and changes in the dividend fraction, rules, or minimum wages.

The voice and information rights, and the right to propose resolutions or to stand for election as a director would allow investors with business experience to persuade workers to make strategic changes and to strengthen the firm's management, if required. Management could also be buffered from day-to-day whims of the workers by a system of revolving elections (for example one third of directors could be re-elected every year, terms to run for three years unless a large majority of workers vote for removal of a particular director). These features, together with emergency voting rights, would provide an internal system of checks and balances in the running of the firm.

Pay bonuses are shared as follows: each worker has a pay rating, which is multiplied by his or her hours to give a 'relative contribution', which is then divided by the total of all the workers' relative contributions to give a 'fractional contribution'. This is multiplied by the total pay bonus to give that individual's annual pay bonus. Some of a worker's predicted annual bonus may be advanced to him or her every month to supplement the minimum wage.

A previous (less workable) version of NOVARS is described in ref. 2, together with related ideas.

Forced profit and bonus fraction resets

Each NOVARS firm has a fixed target rate of return on equity, which is higher for riskier enterprises and lower for 'green' or 'social' businesses (more complex versions of this are possible, e.g. a target which varies with the business cycle by being linked to returns on capital of a benchmark set of non-worker-controlled firms).

Whenever negotiations on a new profit fraction fail, the profit fraction is multiplied by a 'reset factor' equal to target/ actual rate of return but constrained to between 0.9 and 1.25 (say), to keep changes gradual while allowing the profit fraction to rise faster than it can fall. This asymmetry compensates equity investors for the fact that they are bearing more income risk than the workers (because of the minimum wage). The new bonus fraction is 1 minus new profit fraction.

Firms plough back profits; equity consists of both reserves and issued share capital. Losses or debts can result in negative reserves, so traditional measures of return on equity such as Return On Shareholders' Funds (ROSF) can be misleading when those shareholders' funds are small or negative.

A useful new measure of return on equity is 'ROOIE%' or

'percent Return On Opening Invested Equity', defined as

ROOIE% = 100 x pre-tax profit / Opening Invested Equity [Eq. 6].

The latter is defined as

Opening Invested Equity= reserves (if positive) + issued share capital [Eq. 7]

at start of accounting period.

ROOIE% gets round the problems caused to ROSF when reserves are negative. The average ROOIE% for 1,300 listed UK industrial firms between 1992 and 1996 was about 16 per cent (using figures from Datastream UK).

Secondary markets

Without a credible 'exit' route, most investors will not 'enter' into an investment. However, democratic firms need investment which is locked in. To reconcile these two conflicting requirements, and to prevent underinvestment and degeneration, we must create an effective secondary market where existing bonds and shares in democratic firms can be traded. A primary or new issue market is also vital, to allow such firms to raise new capital as cheaply as possible from multiple investors. How can this be achieved for small NOVARS-based firms?

Three options, reaching progressively wider audiences (but not the general public) are:

- the company itself circulating buy and sell offers to its shareholders and creditors
- a trust to buffer supply and demand and act as an informal market maker
- a 'work-place democracy investment club' to arrange deals and circulate investment advertisements among members, making use of the Internet and exemptions from financial services regulations to keep down costs.

10. Summary.

• Democratic firms are rare in part because of underinvestment, degeneration, and poor management.

• To avoid these problems, they need freely tradable non-voting equity shares and effective second-hand markets in such shares.

• Ownership and control must be separated. Instead of routine voting rights, equity investors can be protected by value added sharing, share renewal (moving the rate of return on capital towards some target), information, voice and consultation rights, the right to propose resolutions and to stand for election as a director, and emergency voting rights.

• NOVARS combine these features, and a work-place democracy investment club based on the Internet could provide a cheap secondary market.

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Report by the Secretary

Professor Tom Carbery, Professor Tony Eccles, Dr Robert Marshall, Lord Young of Dartington, Dr Alex Wilson, Graham Melmoth, Lord Thomas of Macclesfield, and Alan Sneddon continued to serve as Presidents.

The Chair has been occupied this year by Peter Davis with Rowland Dale and Jim Craigen as Vice-Chairs. John Butler has been Secretary, Frank Dent, Treasurer and Membership Secretary, and Johnston Birchall, Journal Editor. Len Burch serves on the Committee as immediate past chair, additional elected committee members are James Bell, Rita Rhodes, Peter Clarke, and Martin Stears. Alan Wilkins and Roger Spear have served as co-opted members.

Committee Meetings

The Committee met in September, November, February, and June and will have a further meeting before the Annual Meeting in September. At the four meetings, members' attendance has been as follows -

Len Burch	4
Peter Davis	2
Rowland Dale	3
John Butler	3
Johnston Birchall	2
Frank Dent	4
James Bell	4
Rita Rhodes	4
Jim Craigen	3
Martin Stears	2
Peter Clarke	2
Alan Wilkins	3
Sue Haines	1 (deputising for Alan Wilkins)
Roger Spear	4
Gillian Lonergan	4

(Gillian Lonergan attends meetings in her capacity as Deputy Editor of the Journal).

Membership

Paid up members for the year ended March 31, 1998, with 1997 figures in brackets are set out below.

Region	Individuals		Organisations		Academic Sponsorships		Journal Subscriptions*		Totals	
North	68	(65)	15	(21)	31	(31)	2	(0)	116	(117)
South	81	(79)	15	(18)	41	(37)	0	(0)	137	(134)
Midlands	33	(26)	8	(6)	15	(14)	0	(0)	56	(46)
Overseas*	0	(12)	0	(14)	0	(0)	24	(0)	24	(26)
TOTALS	182	(182)	38	(59)	87	(82)	26	(0)	333	(323)

*During the year membership was discontinued for those living overseas in favour of a more straightforward subscription arrangement to the Journal.

The total number of Journals distributed is 860 (1997 - 907) per issue. There has been a pleasing increase in the number of members in most areas.

Journal Editor

Johnston Birchall continues to undertake his responsibilities with imagination and hard work. Our key publication continues to be eagerly awaited both within the UK and abroad. Our thanks to Johnston for his efforts on behalf of the Society are recorded and our appreciation is also extended to Gillian Lonergan the Deputy Editor who has greatly assisted the Editor over the past 12 months and also her work as Newsletter Editor.

The Journal

The Journal has been published three times during the year. The special features have been as follows -

No 91 (January 1998): The Co-op and a Labour Government; The Survival of the Mutual and Co-operative Sectors: forewarned is forearmed; Governments and Co-operatives in Canada; Credit Unions and the New Mutualism; Education for Co-operators; Proceedings of the UK Society for Co-operative Studies Annual Conference, September 1997; Reasserting the Co-operative Advantage; How can the Co-operative Sector Contribute to the

Development of a Stakeholder Economy?; Report of Conference and Annual General Meeting.

No 92 (May 1998): Building Societies in the UK: A Politician's Perspective; Labour Law and Co-operatives? Co-operative Law and Labour!; Retail Planning and Co-operatives in Scotland; Sustainability and Maturity of Community Based Housing Organisations; Human Privatisation: Worker Co-operative Initiatives in the Public Sector; Local Development and Co-operatives: None, Only One, More than One in the Same Village.

No 93 (September 1998): Why Societies Fail; I'd Like to shop at the Co-op but they Never Have What I Want; The Lanica Affair - A Perspective from the CWS; The Lanica Affair: An Attempted Takeover of a Consumer Co-operative Society; Women in Co-operatives: The Policy of the International Co-operative Alliance; The Need for NOVARS (NOn-voting Value Added Sharing Renewable Shares); Annual Report: The Society for Co-operative Studies 1997-98.

Financial Position

The Income and Expenditure Account and Balance Sheet are appended to this report together with the Auditor's Report.

The financial position of the Society remains strong. Although there was an excess of expenditure over income it was less than the previous year. Much of this was due to increased Committee expenses as the Committee has had a full complement and attendance has been good. Your Committee is looking at ways of reducing these costs.

It is proposed to recommend to the 1998 Annual General Meeting that membership subscriptions be increased slightly. Also, *Journal* subscription rates have been increased significantly for overseas subscribers and the full economic benefits of this will not materialise until 1998-99.

Co-opted Members

At the meeting of the Executive Committee held immediately at the conclusion of the 1997 AGM it was agreed to co-opt Alan Wilkins and Roger Spear to serve on the committee for the coming year. Their involvement has helped to further develop closer links with the Co-operative College and the Co-operative Research Unit of the Open University.

United Kingdom Co-operative Council

The Society continues to strongly support the work of the United Kingdom Co-operative Council. The two organisations exchange minutes and will be liaising closely during the next 12 months to ensure that there is no duplication of effort in respect of the two organisations' research projects on the broad theme of mutuality.

Plunkett Foundation

The Society has a reciprocal membership arrangement with the Plunkett Foundation. During the year under review Johnston Birchall has served on the "World of Co-operative Enterprise" Editorial Advisory Board on behalf of the SCS and Rita Rhodes attended their Annual General Meeting held in London in May.

Research Project - Reasserting the Co-operative Advantage

In May 1998, the Society launched its long-awaited Research Project "Reasserting the Co-operative Advantage". This followed detailed work undertaken by our Research Committee and draft proposals submitted to the Society's general membership at the 1997 Annual Conference. Three research partners have been identified - the Co-operative College; Co-operative Research Unit, Open University; and Leicester University Management Centre - each with co-ordinated responsibilities for implementation, analysis of results, and the dissemination of the research programme's results. The benefits of improving the Co-operative advantage will clearly be seen by managers, directors, members, and consumers alike. The objects of the Research Project will be -

1 To identify where the co-operative advantage lies in the context of the contemporary business environment.

2 To investigate management and organisational development practices as they are presently emerging in response to the reassertion of co-operative purposes, values, and principles. The intention is to identify potential and actual convergence and divergence between co-operatives and (a) contemporary management practices and (b) their business environment.

3 To investigate contemporary and historical records of co-operative business activity to identify areas of best practice, successful innovation, and barriers to change.

4 To identify the key business and organisational issues for the Co-operative Movement associated with:

(a) The Movement's adopted ICA Statement on Co-operative Identity.

(b) The change in the social, economic, technological, and competitive environment.

5 To identify the criteria by which co-operative success may be evaluated.

6 To develop models of co-operative strategic management and organisational development that can best respond to the challenges identified by the project.

All retail societies, individual members of the Society and a number of the Movement's professional advisers were asked to contribute towards the cost of the project which will involve an expenditure in the region of £24,000. It is pleasing to report that the response has been very encouraging, and it is hoped that the full amount required will be achieved before the end of summer 1998, thus allowing the project to commence. Our thanks are extended to all those who have contributed so generously.

The Executive Committee of the Society has resolved that to finance the above proposals, and other important areas of research, a Research Fund of £50,000 should be established. Although the Society for Co-operative Studies has only limited funds it was felt appropriate that the Society should contribute £3,000 to the Research Fund.

Other Research Activities

(a) **History of Indian Co-operative Movement**
Encouragement and information is being given to the Indian Society of Studies in Co-operation to assist with their research project.

(b) **History of Co-operatives under British Colonial Administration**
The Society is supporting the above research project being undertaken by Rita Rhodes.

(c) **Bursary for Cataloguing Co-operative College Archive**
The Society, with matching funding from the Co-operative College, is to provide a Bursary to a student for cataloguing the Co-operative College Archive for two weeks in August 1998.

Further details on the research activities identified above will be provided at the Annual General Meeting on Sunday 27 September 1998·.

Internet Developments/Research Register

The Society's internet site is now included in the ICA web site. The ICA site includes the SCS Research Register which has become a joint undertaking with the ICA with our Chairman, Peter Davis, chairing the project.

Fringe Meeting

A highly successful Fringe Meeting was held at the Lincoln Co-operative Congress. In a radical break with tradition the Congress President, Alan Middleton opened the meeting with a short but hard-hitting presentation on "Why Societies Fail." Following Alan's contribution James Bell a member of our Executive Committee spoke on "I'd like to shop at the Co-op, but they never have what I want". Both presentations were enthusiastically received by 120 delegates, making it the best attended of the four fringe meetings held at the Lincoln Congress.

The thanks of the Society have been forwarded to United Norwest Co-operatives who provided generous financial support for the meeting.

Annual General Meeting of Society

Members are notified that the AGM of the Society will be held at the Co-operative College, Loughborough on Sunday 27 September at 11.15 am.

A Vear of Challenge

1997 /98 has been a year of challenge for the Society. The committee continues to work well as a team and our special thanks are extended to Peter Davis, our Chairman. We believe that we are meeting the objects of the Society to advance the education of the public concerning all aspects of the Co-operative Movement and Co-operative forms of structure.

The Society for Co-operative Studies

Accounts

1. Income & Expenditure Account
for Year to 31 March 1998

Income	Note	1998	£	1997	£
Subscriptions	1	5032		5321	
Academic Sponsorships		736		656	
Sale of Journals		1000		628	
Interest Received	3	1255		687	
Grants and Donations		152		0	
			8174		7292
Expenditure					
Journal	4	6758		6474	
Annual Conference	2	127		229	
Congress Fringe Meeting		244		200	
Regional Activity		0		0	
National Executive Meetings		1552		984	
Secretarial		29		30	
Advertising & publicity		45		277	
Newsletter		144		0	
Other		1		33	
			8900		8227
Excess of expenditure over income			-726		-935

2. Balance Sheet as at 31 March 1998

	Note	1998 £	1998 £	1997 £	1997 £
FIXED ASSETS					
Co-op Bank Deposit Account		12617		5520	
Other Investments	5	4000		10000	
			16617		15520
CURRENT ASSETS					
Co-op Bank Current Account		3706		4249	
Debtors	6	425		1589	
TOTAL CURRENT ASSETS		4131		5838	
TOTAL CURRENT LIABILITIES	7	1930		1814	
NET CURRENT ASSETS			2201		4024
Total assets less current liabilities			18818		19544
NET ASSETS			18818		19544
FINANCED BY:					
Accumulated fund			19544		20479
Addition to accumulated fund from 1997/8 revenue account			-726		-935
			18818		19544

3. Auditor's Report

I have audited the Financial Statements set out above and in my opinion these are in accord with the books of account. In my opinion the income and expenditure account and the balance sheet give a fair view of the financial position as at 31 March 1998.

22 June 1998 Peter Roscoe

Notes to the Accounts

	1998		1997	
	£	£	£	£
Note 1 Members' subscriptions				
Individuals		2348	2149	
Organisations		2684	3172	
		5032		5321
Note 2 Annual Conference				
Income	2485		3579	
less				
Expenditure				
accommodation etc	2612			3808
		-127		-229
Note 3 Interest received				
Co-op Bank Deposit Account		7		12
Other Investments		1248		675
		1255		687

Note 4 Journal

Printing	5099	4812
Distribution	1186	1084
Editorial & secretaria1 expenses	474	578
	6758	6474

Note 5 Investments comprise the following

Co-operative Retail Services Ltd	4000	4000
United Norwest Co-operatives Ltd	0	6000
	4000	10000

Note 6 Debtors are made up as follows

Individual Subscriptions	0	5
Organisation Subscriptions	75	304
Academic Subscriptions	0	656
Journal Sales	210	624
Conference	140	0
	425	1589

No provision is required against these debts as they have all been agreed.

Note 7 Liabilities are made up as follows

Subscription received in advance	34	214
Journal - Secretarial	0	0
Journal - Printing	1750	1600
Newsletter - Printing	50	0
Other	0	0
Journal subs received in advance	96	0
	1930	1814