

Some Reflection - and Projections: 4

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The Annual Review of Statistics is once again available, giving a picture of the Co-operative movement that provides for 1988 indicators of the present state of play and of the likely future.

The overall figures show a modest increase in profitability which, at 2.1%, still falls far short of the 'milestone' of 2.5% and is a long way from the 5% of sales recommended by the Capital Structure Report.

Behind the Figures

The danger is that these and other national figures obscure the real position of societies. The convenient shorthand of national statistics must not stand in the way of our understanding of the individual society position. When this is considered, the wide range of society performance becomes apparent. Concentrating on the results for the twenty-five largest societies, the trading surplus as a percentage of sales varies between 5.1% and a loss of 0.6%. Of the twenty-five societies, ten achieved 2.0% or more, ten fell to between 1% and 2%, with three between 1% and 0%. Two recorded losses. When net surplus as a percentage of sales and reserves as a percentage of capital liabilities are examined, we have further evidence of the strengths and weaknesses of individual societies and of the disparities between them.

When we turn to the performance of non-Co-operative retailers we find a similar spread of results. For example, of the 45 grocers in the Top 500, a listing prepared by the Corporate Intelligence Group, we find that some 17 operators either made less than 1% pre-tax profit, or, in the case of seven, a loss. Again the range of net margins among the top twenty-five largest operators was 7.0% for Sainsbury, dropping to 0.6% for Walter Willson. However, it has to be remarked that of the twenty-five, two recorded net margins over 7%, five between 5% and 7% and nine between 3% and 5%. Considerable variations of sales per square foot also emerged with Sainsbury topping £800, Waitrose falling just below that figure and Safeway coming out at £560, Tesco at £540, Asda at £510 and Gateway at £405. Many others produced figures in the £300-£400 range. At the lower end of the scale, R.T. Willis (Superstores) Ltd. produced £145 and Walter Willson £174.

Variations in Co-operative and Private Enterprises

While many of these figures outstrip those of the top twenty-five societies,

the essential point is that there are considerable variations in both private and Co-operative enterprises. While the top private traders outperform the best of Co-operative societies, some of the latter produce strong performances that are liable to be lost sight of in the national figures.

The range of individual society performance is such that it is abundantly clear there is no easy or tidy solution to the problems that exist. Taking the national figures as a starting point, there is the danger of thinking nationally, of applying national solutions to local and regional issues and of failing to appreciate that the successes and failures of societies are regularly grounded in local conditions, local history, local belief, local boards and management and accidents of time and place. It also fails to take account of the great diversity of local activity, a diversity unequalled by individual competitors.

For the local or regional society to think in terms of the operations of national competitors can lead to faulty and expensive decisions. For example, while many societies have sought to compete with large competitors through the development of superstores and the like, it is evident that not all of these ventures are successful. Indeed in some cases the development has placed a serious burden on the society in question. This situation is exacerbated when a society undertakes an extensive development programme with too small a resource base. It is in the nature of any development programme that out of a number of starts one at least will be a failure. For a society with limited resources, a failure puts the society at risk and threatens its future as an independent entity.

Hopes, Expectations and Beliefs

Behind the figures are countless decisions which are based on the hopes, expectations and beliefs of boards and managements. It is these qualitative elements which lie at the root of success or failure. For example, development programmes are based on assumptions as to the supply and demand for finance; the demands of those who are stakeholders in a society, that is, the members, customers, suppliers, board, management, and staff; the pressure of competitors and so on. Of overarching importance are the management's beliefs relating to its own effectiveness, the state of the market and its future shape. Central to these beliefs is management's vision of the society's distinctive competence, which defines what the society's economic, human and technological resources can and cannot do.

Managers interpret statistics and make judgements which shape their decisions, which in turn produce further statistics. At the core are judgements and beliefs. They act as filters through which management perceives the realities facing a society. They serve the double purpose, first, of simplifying the world in which they operate and second, of providing continuity and stability when change threatens to undermine the lessons of their experience.

On the Financial Choices Presented

The significance of beliefs, expectations and assumptions lies at the root of the demand for funds. If managers believe in their own ability to manage large scale developments, if they believe the future is promising, if they believe the gains far outweigh the risks, they will seek the funds. If they are cautious or pessimistic about these uncertain elements, they are less likely to demand the funds.

Another example of the importance of beliefs is to be found in the approach of management to a policy of diversification. Here assuredly much depends upon management's view of its own ability to manage diverse activities and of the risks involved in such a strategy.

An underlying factor in the demand for funds for both development and diversification is management's attitude to their availability and cost. Some managers hold to the illusion of unlimited cheap resources. Others recognise that finance has to be rationed carefully in the light of a society's ability to support a heavy debt structure. Whichever of these positions is taken by individual managements will be reflected in the output of society statistics.

Limited resources relate not only to capital but to a number of other factors, all capable of being viewed differently by managers. These factors include:

- management's knowledge of competitive conditions and capacity,
- the ability to predict the future of retailing,
- the ability to implement investment decisions and to manage the human and financial resource commitment agreed upon.

- Or in the Perception of Risk

Related to the financial choices that a society's management makes is the critical matter of how risk is perceived. Financial choices are conscious trade-offs between risk and reward. Management rarely mentions risk as a major consideration in making decisions. To do so might be seen as a failure of nerve, and to speak of danger is to imply weakness and vulnerability, which run counter to management's responsibility for inspiring and instilling confidence in the society at large. Added to this is management's belief in its own wisdom and skill and its avoidance of self-doubt.

Another belief that plays an important part in determining society behaviour

and the statistics that emerge is related to the desire for self-sufficiency and a wish to be independent of outside organisations. Managers differ in the degree to which they wish for independence but given the limited ability of societies to achieve full independence, the perpetual question is how can a society's dependence be kept at a level which is not seen as threatening? What that level is will depend upon managerial beliefs.

Underlying all these beliefs is a basic concern with survival, with the accomplishment of individual and society immortality. This underlies the aim of maintaining independence from outside sources, of developing strategies aimed at growth through development and diversification, and of efficient operations.

The Price of Freedom of Management

It is the pursuit of these aims, supported and influenced by differing managerial beliefs, that can and does lead to society difficulties. Independence is often maintained, developments undertaken, new fields entered, when all the evidence of the Review and other indicators points to the fact that there is no future for the society, and that growth is pursued at a cost which is beyond the society to maintain.

Managerial beliefs can be in a state of tension, and conflict is resolved when managers determine their priorities. It has often been claimed that too many managers are concerned with commercial success and its associated beliefs at the expense of Co-operation. The Review does provide some evidence that commercial success provides the springboard for greater support for Co-operative activities. The price of the freedom of management to seek commercial success is twofold; first, management must accept that failure to produce profitable results has inevitably serious career consequences and second, that when a society is successful an adequate part of the profits must go to funding Co-operative activities.

Lessons of the Review

1. National figures should be treated with caution. For effective action they need to be broken down into their constituent parts. When this is done it becomes clear that some societies are doing much better than the national averages. This poses the question, 'What are the reasons for their success?'
2. When private retailers are considered, there is also a significant spread of results. The most successful private traders do significantly better than their Co-operative counterparts. Their results allow them to develop in a manner which is denied to Co-operative societies. It is important to know how they achieve their success, but it is equally

important to recognise that their style is not always a sound guide for societies. The context in which they operate, and their beliefs, are not necessarily the same as those of Co-operatives.

3. Managerial beliefs influence decisions, and the results of their application can be seen in the Review. It is always necessary to look behind the figures to the policies which reflect managerial beliefs. Development programmes and diversification activities are clear indicators of managerial thinking which influences the statistics that appear.
4. Commercial success is a prerequisite for effective support of Co-operative activities.
5. Quantitative and qualitative assessments are inextricably interwoven. To stress one to the exclusion of the other is to set the scene for serious misjudgments and faulty decisions.

The Author

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