The Search Continues

The articles by G.L. Fyfe and F.E. Creed in Journal 61 and the letter by Lord Taylor in Journal 60 continue to draw considerable interest, support and disagreement. Here are three varied and constructive reactions.

1. Paul Derrick
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Mr Creed makes many important points in his interesting article in your January issue; but he appears to be suggesting that consumers' Co-operatives in Britain should abandon the basic Co-operative principle of a limited return on capital which distinguishes a Co-operative from a company.

This would, of course, be contrary to the Industrial and Provident Societies Acts and millions of Co-operators would oppose any such conversion of Co-operatives into companies.

But the principle is that the return paid on capital should be limited, not that it should be low. The 1966 ICA report on Co-operative principles recommended that the maximum should be related to market rates and Mr Creed is surely right in arguing that UK consumers' Co-operatives have been short of capital partly because the return paid has been insufficient. But that does not mean that the return should be unlimited.

Mr Creed is surely right to argue that the return payable £ on Co-operative shares should be adjusted so as to offset the effects of inflation: as in countries such as Spain and Chile and in New South Wales. This is a very clear need in countries where there is a high rate of inflation; and it was one of the recommendations of the 1981 Co-operative Development Agency report on Co-operative legislation.

Special Bonus Shares

Mr Creed notes the way in which the replacement of dividends on purchases by so called "dividend stamps" undermined incentive to membership; and that the members of Co-operatives do not participate in the growth of assets by the appreciation of share values like the shareholders of companies. But the Co-operative way to achieve this is not by the unlimited appreciation of share values but by the issue of special bonus shares to members in proportion to purchases, as by Plymouth and South Devon Society in 1971. As well as increasing incentive for members to shop at the Co-op the society saved itself £160,000 in corporation tax because the distribution of bonus shares was equivalent to the distribution of a dividend on purchases followed by re-investment.

The success of the Mondragon Co-operatives is partly due to the way in which their capital credits system enables worker members to participate in the growth of assets in proportion to work contribution. Similarly the John Lewis Partnership grew rapidly between 1929 and 1970 in spite of the limitation of the return paid on capital because the employee partners participated in the growth of assets through the issue of bonus shares which were marketable and quoted but which did not appreciate in value because they were second preference carrying a limited return. Mr Creed notes that companies issue bonus shares: but in a consumers' Co-operative they should go to consumer members: and perhaps also to employees.

Changes of this kind could help to increase Co-operative investment, to reduce the tax liability of consumers' Co-operatives and to increase incentive for consumer members to shop at the Co-op and for employees to improve performance. They would be preferable to the abandonment of Co-operative principles and the conversion of Co-operatives into companies before city predators start bidding for their assets because of the significant gaps between their share and asset values.

2. T.R. Edmondson
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In renewing attention to Lord Taylor's letter about Co-operative-capitalist collaboration (Journal 60), let me begin by observing his failure correctly to interpret his own first paragraph: against a background of its fast declining share of the bread trade, the SCWS decided to plunge valuable resources into a modern mill of much greater capacity than required! For reasons not offered, Garfield Weston's ABF bread trade was fast expanding! Why? No attention is given to the apparent paradox: yet that answer is paramount to an understanding of the Movement's decline.

The truth is that the almost total disappearance of the Movement's involvement in the milling and bakery trade has been coincidental with the progressive takeover thereof by the (then) two Wholesale Societies. Why? As ever, the answer is simple - incompetent management. I assure you I speak from personal acquaintance with and observation of the operational methods and its inevitable consequences. In his later argument, Lord Taylor shows no awareness of the distinction between the provision of necessary capital resources and the equitable distribution of surpluses, as operating in a Co-operative society and imperative to its special identity. (It might be noted that capitalist organisations have debentures and other forms of loan capital carrying a fixed rate of interest, corresponding closely in form to Co-operative share capital.) Equities, of course, carry risks as well as rewards, as equity shareholders have recently been discovering.

Reasons for the Co-operative Problem

The present Co-operative problem (where it exists, and certainly it has not existed at Ipswich over the past twenty-five years) of lack of liquidity is attributable to a number of reasons; none of them ideological, but wholly unnecessary. They include:-

(i) The most important: the inefficiency of societies leading inevitably to lack of the surpluses needed for the creation of liquidity;

(ii) The failure to utilise the surpluses - where they existed - in an efficient manner, e.g., provide a sensible balance between dividend, reserves and current developments;

(iii) Despite claiming to be a consumer organisation, failing to respond to the rapidly changing pattern of consumer need and demand;

(iv) Disdaining to recognise the irrefutable evidence of all history that, given time to reflect, people are likely to reject appeals to their self-interest which experience demonstrates are clearly not so. "Loyalty" must be supported by sound evidence that it brings rewards;

(v) Ignoring the truth that ideology is not a substitute for, but requires the support of ability;

(vi) The failure to recognise, as with Lord Taylor, that "equity" in the capitalist system involves the balance of risk with reward, and in the Co-operative system the balance of reward to contribution;

(vii) Failing to follow the example of the Rochdaleans who married sound business sense to a sound understanding of human nature. They realised that rhetoric is no substitute for demonstrable solid evidence: they knew meaningful involvement (£2 non-withdrawable share-holding, worth around £250 in real terms today) and risk, plus rewards (dividend) for "loyalty" was a formula for success. The post-war "leaders" rejected Rochdale, only to discover that there is no bread without flour and water.

3. George McMillan
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I was interested for two reasons to read the articles by G.L. Fyfe and F.E. Creed. Firstly because the basic philosophy and strategy I have applied in the development of my own Society since I assumed control three years ago, is very much akin to the experience of Leicestershire Society as expressed by G.L. Fyfe; secondly because I found the proposals put forward by F.E. Creed, while perhaps not exactly revolutionary, at least pointing towards a course not hitherto given serious consideration by the Movement. I must confess that for various reasons, some of which I shall refer to later, I do not see such a course providing anything like a complete answer to our problems. Frankly, I do not think that it can ever be possible for us to meet our competitors on equal terms in the matter of raising capital as long as we are governed by the provisions of the Industrial and Provident Societies Acts and the inviolable Co-operative tenet of one member one vote, and they are not so governed.

Transferable/Redeemable Shares?

Interesting as the concept of transferable/redeemable shares is, in my opinion it would fail to achieve fully its objectives for the following reasons:-

i) If offered side by side with withdrawable capital there would be a marked tendency for members with a sizeable holding of withdrawable shares simply to switch their investment to the more attractive, higher yielding transferable/redeemable shares;

ii) Even if the above did not prove to be the case, I think it is very doubtful whether sufficient capital would be generated to fund the amount of new development required to hold, let alone increase, our market share;

iii) The time factor is so important in taking advantage of suitable development opportunities, which are becoming all too rare, that there is a danger of the capital which it is hoped to raise by this means not being available when required;

iv) Once the real cost of setting up and marketing a transferable share system and maintaining the necessary accounting and administrative procedures is taken into account, coupled with an interest rate sufficiently high to attract the required level of investment, it could well prove little cheaper than capital immediately available at the going market rate.

Scotmid's Methods of Funding

During the time likely to elapse before any proposals along these lines would be implemented to any appreciable extent throughout the Movement, many valuable development opportunities could be lost to our competitors and so I would suggest that, in the shorter term, we should address the question of how best to overcome the problem given the way things stand at the present time. I could not agree more with both writers who state in slightly different ways the fundamental truth that if the Movement is to increase, or even maintain, its market share we must provide modern stores of the highest standard in prime trading locations, efficiently managed and with long-term prospects of viability.

A further factor that cannot be overlooked if these objectives are to be achieved is that, in addition to investment in bricks and mortar, the Movement must invest heavily in management training. Even the finest store, if inadequately managed, is doomed to failure.

In Scotmid we have opened one major new store each year for the past three years, another in course of construction is scheduled to open in August 1988 and we are committed to three further new developments spread over the next four years. In addition to these developments, an extensive programme of refurbishment of existing stores has been carried through and 33 stores have been equipped with laser scanning check-outs which will be increased to 40 stores by the end of this year. All of the foregoing has been funded by a combination of the following means:-

a) Secured loans at the keenest negotiable rates of interest;

b) Self-generated funds from trading operations;

c) Re-investment of proceeds of sale of redundant assets;

d) Increased leasing of fixtures, refrigeration and vehicles;

e) Tightening up of internal controls on stockholding, debtors and creditors.

Sufficient to add that from a position of a trading loss of £1.5 million in 1984, the Society is now trading profitably.

"The Doctrine of the Strenuous Life"

Undeniably the Movement's capital structure makes development more difficult and more costly for us than for our competitors but this should not be made the reason for failure to develop - rather it should engender a more positive atttitude on the part of management by acceptance of the need to be that much more efficient than our competitors in order to compensate for the extra cost of the Movement's borrowing. So let's not get too hung up on the difficulties but translate these instead into positive action.

Theodore Roosevelt might well have been referring to Co-operative Society Chief Executives when he wrote, "It is not the critic who counts, nor the man who points out how the strong man stumbled, or where the doer of deeds could have done better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat, who strives valiantly, who errs and comes short again and again; who knows the great enthusiasms, the great devotions and spends himself in a worthy cause; who, at best, knows in the end the triumph of high achievement and who at the worst, if he fails, at least fails while doing greatly, so that his place shall never be with those cold and timid souls who know neither victory nor defeat."

Yes, I can just hear many of you saying, "Sure, but Teddy Roosevelt was crazy too!"