Membership and Share Capital
by F.E. Creed

Any consideration of the capital needs of Co-operative societies to finance retail development will be based primarily on commercial criteria but should also be undertaken with an awareness of Co-operative principles and an acknowledgment that societies are owned by their shareholding members. It is beyond doubt that the Co-operative Movement is not spending as much on development as its major competitors and that societies could deploy substantially greater sums of capital to meet competition and hold market share. The requirements of Co-operative societies for development capital is unlikely to be met in totality by investment from members however attractive the terms of investment might appear.

Collective Action on Store Development and Marketing -

There is a strong case for combined action between retail societies and the national federal bodies to establish a Co-operative property holding organisation with the task of developing and financing retail stores particularly in areas which have potential and lack Co-operative development. Such stores could be leased, or sold to the appropriate retail societies. The development of Co-operative trade is obviously to the mutual advantage of retail societies and the C.W.S. Ltd.

There is also a compelling economic argument for retail societies and the CWS Ltd. to participate in co-ordinated marketing in order more effectively to challenge the increasing supremacy of nationally controlled competitors.

The proposition for collective action on retail store development and national marketing are important issues - but they are not the subject of this article.

- But also Consideration for Member Investment

The present consideration of the subject of membership and capital is based upon the belief that in many cases shareholders in Co-operative societies, the consumers who own their own organisations, have not received an adequate return on their investment. This has worked to the detriment, of most, if not all, Co-operative members and the Co-operative movement at large.

Investment by members in their societies is less attractive than it was years ago and the Co-operative movement has, in general terms, failed to respond to the substantial competition for the savings of ordinary people. It is suggested that there may be a correlation between members trading with their Society and their investment decisions. Consumers may more readily support an organisation if they have a stake in the business. Trading support has, of course, to be earned by the quality of the shops and services which are in competition with the most successful organisations engaged in retailing. The development of attractive stores efficiently managed is therefore of prime importance.

The relative decline of the Co-operative movement in the post-war years in terms of trade, membership and member investment has to be examined in the context of consumer motives and opportunities. Consumers only ever traded and invested in a Co-operative society if they perceived that it was to their advantage to do so. In a previous age consumers had to be members of their societies in order to obtain the benefit of dividend on purchases. The combination of an attractive rate of dividend with a competitive rate of interest on share capital was a strong motivating factor both to trade and invest with the local Co-operative society. The investment in share capital, which always held its value at par, was quite acceptable when there was little or no inflation to erode the value of the investment.

The Statistics of Decline

A comparison of Co-operative statistics between 1950 and 1985 will illustrate the dramatic extent of the change which has been experienced. The following information is drawn from "Co-operative Statistics" published by the Co-operative Union Ltd. and compares extracts from the aggregate 'National Balance Sheet' of Retail societies.

	1950 £M	1985 £M
Turnover	613	4,812
Share Capital	231	158
Loan Capital	99	301
Reserves	23	385
Fixed Assets	74	756
Investments	243	145

In 1950 Co-operative members had £231 million invested in Co-operative societies. This sum was more than adequate to cover the £74 million of capital used to finance fixed assets. Indeed, a sum equivalent to the whole of members' share capital was reinvested and fixed assets were, in effect, financed by loan capital. Between 1950 and 1985 members' investment in share capital actually declined in sterling terms from £231 million to £158 million. In real terms, allowing for the effect of inflation, investment in share capital declined to an alarming extent. Without being too precise one can say that the aggregate of retail societies share capital today would need to be at least £2,300 million to maintain the 1950 level of members' share capital.

Reasons for Weakness in Store Development -

Co-operative sales have risen in sterling terms at a rate considerably lower than the rate of price inflation and the movement's market share has fallen as major competitors have increased their hold upon the retail market. The failure of Co-operative societies collectively to invest in new store development on a comparable scale is a major factor in the decline in market share. The lack of investment in new store development on the scale required, apart from any lack of commercial enterprise, may reflect:

(1) the limited availability of capital resources;
(2) the failure to find a formula which would attract the savings of members;
(3) an unwillingness to pay market rates for capital.

- Including Decline in Share Capital

In the intervening period consumers have become considerably more affluent but their savings have been diverted into Building Societies or National Savings, where there are tax advantages or, in more recent years, into ordinary shares which have held the lure of capital appreciation.

It must be said that our members/investors have not been well treated, particularly those who have held and maintained a substantial investment in shares over a long period of time. First, the value of shares has been eroded by inflation; secondly, despite the fact that the monetary net worth of Co-operative societies has risen appreciably, the shareholders have had no benefit of capital appreciation, unlike shareholders in joint stock companies. It is hardly surprising that share capital has fallen in real terms to something less than 7% of the aggregate holdings in 1950.

A New Basis of Member Investment - and Participation

It must be emphasised that this paper is not just about capital. Consideration of this subject is stimulated by the desire to find a formula which attracts increasing numbers of consumers to 'participate' in their local Co-operative society both in terms of trading and investment support. To arrest the trend of declining share capital and to encourage new investment a basis has to be created which is relevant to the present day. The rate of dividend on purchases in the post war period has declined to the point where very few societies now pay any dividend at all. The erosion in the value of members' shares, due to inflation, combined with no return on purchases, is *one* reason for the reduced trading support and lower level of share investment by Co-operative members. It is suggested that the present situation is sufficiently serious to demand a change in the basis of member participation which will arrest the continuing decline in Co-operative market share and provide for a successful advance into the 21st century.

The Co-operative movement should seek to promote consumers interest in every possible way. It is an irony that the market value (net worth) of societies has increased in monetary terms but the shareholding members, who collectively own their societies, get no benefit individually from this increase in value. A formula might be sought whereby members are rewarded with an appreciation in their shareholding if held for a given period of time. This clearly presents difficulties with withdrawable capital and it is therefore suggested that societies should provide the opportunity for shareholders to invest in transferable/redeemable shares which would appreciate in value.

The Aim: Transferable/Redeemable Shares - with Appreciation

It is certainly desirable to have some investment by shareholders on a longer term basis than exists at present. This new category of share could be offered side by side with withdrawable capital and members would have a free choice. They could in fact invest both in withdrawable and in transferable/redeemable shares if they so wished to the limit imposed by the Industrial and Provident Societies Acts.

The concept of a category of transferable/redeemable share which appreciates in value is proposed in order to stimulate thought and action on the principle that Co-op shareholders own their societies and should receive a tangible benefit. The proposition should be considered in terms of the present social and economic environment in which we all live and work. It is not sufficient to say that the proposition offends Co-operative principles as postulated in the 19th Century. We are now approaching the 21st

Century and the world is totally different to the one of a hundred and fifty years ago. The commitment of lay activists and professional managers must surely be to promote a successful Co-operative movement underpinned by Co-operative ideals and practices which are relevant to the contemporary world.

If the principle now proposed for consideration is right, ways and means can be adopted for its implementation and the author is reluctant to advance a detailed formula which could side track the discussion from this fundamental issue. The services of many wise and successful Co-operative practitioners can be secured in order to obtain a consensus on the detail if the principle can be agreed.

Discussing the Means

One possibility would be for societies to offer transferable/redeemable shares in units of £100 with annual interest, variable according to market conditions, plus an annual bonus payable on redemption of the shares after they have been held for 5 years or more. The shares would represent an attractive form of saving and a substantial proportion may be invested for considerably longer than 5 years. The shares could be marketed upon the basis of £100 becoming 'at least' £120 after 5 years. (The bonus could be varied and increased from time to time if the performance of the society so justified).

The basis for appreciation of transferable/redeemable shares could be *related* to the increase in the value of fixed assets. Over the years, fixed assets (land and buildings) have consistently appreciated in value in current monetary terms and even with a lower rate of inflation in recent years that trend is likely to continue. The rise in the value of land, which is a scarce resource, combined with the increasing cost of creating new buildings, is likely to ensure the continued increase in values of land and buildings.

The increase in aggregate reserves of societies shown between 1950 and 1985 reflects in part the accumulation and retention of trading profits. It is contended, however, that the major part of the increase in reserves has arisen from profits upon the disposal of fixed assets - realised due to inflation of values in monetary terms.

Capitalising the Reserves?

The cost of the share appreciation could be met by a capitalisation of realised reserves. Before a shout of 'heresy' is raised it should be pointed out that competitors capitalise part of their reserves when making a scrip (free) issue of shares to their shareholders.

Despite substantial appropriations from reserves to meet trading deficits the aggregate reserves of societies increased from £164 million in 1975 to £294 million in 1980 to £385 million in 1985. This was not a stirring performance when market share was continuing to decline: it did represent, in the main, realised *capital* profits *attributable to the shareholders.*

Clearly the disadvantage of capitalising reserves in the case of a Co-operative society is the obligation, in due course, to produce the liquid resources to effect repayment of the appreciated transferable/redeemable shares. The major competitors of Co-operative societies do not have this problem; the value of their shares is determined by the Stock Market, but they can fall as well as appreciate in value. Having due regard to Co-operative philosophy it is unlikely that an external market in Co-op society shares could or should be created. Co-operative shareholders, however, should not be denied a share in the increasing net worth of their business. An increasing level of investment, retained in the business for a longer period of time due to the terms being more attractive, would mitigate the problem of liquidity. (An improvement in profitability would, of course, make its own impact.)

If One in Ten Members Invested . . .

If new and/or existing shareholders, to the extent of 10% of the present recorded membership, could be encouraged to invest only £100 each in an attractive Co-operative investment the sum of £80 million could be raised. This is a modest figure but it would be a start. The combined cost of interest and share appreciation on the transferable/redeemable share proposition may, in fact, be less than the cost of loan capital. The benefit would be passed to *Co-operative* shareholders and there would be a greater incentive both to trade and invest in the local Society.

If the aggregate of retail societies share capital was doubled in a short span of time by an initiative such as the one proposed, the cost of the appreciation of the transferable/redeemable shares would be of the order of £6 million annually. The likely annual appreciation of existing fixed assets would be many times this figure.

The increase in aggregate reserves (substantially capital profits) realised in recent years has been as follows:-

1986	£114 million
1985	£ 44 "
1984	£ 42 "
1983	£ 5 "

Society Discretion - but a General Need

Throughout this paper the figures have been taken from the aggregate of retail societies activities. It is appreciated that all Societies will not readily conform with the overall national picture but it is reasonable to assume that the majority will do so. In finality, every Society will make its own decisions on this subject as on other matters.

The objectives of a Co-operative society must be to serve the interests of consumers, efficiently, successfully and profitably. It is certainly not implied in this paper that there is any alternative to the pursuit of good commercial practice in order to achieve a successful Co-operative enterprise. The proposition for increased shareholder participation is seen as desirable in that context.

Note of the Author

FRANK CREED joined Peterborough Society in its Grocery office in 1940 and returned to it after active service in the infantry from 1944 to 1947. Before and after that war service he undertook his Co-operative studies in local classes and correspondence courses. In 1955 he was appointed Chief Clerk and Cashier of Loughborough Society and in 1957 its Chief Executive Officer. In 1961 he moved to Mansfield Society as Deputy C.E.O. and has been C.E.O. at Brighton since 1966.