The Wider Search for Co-operation

# IN NON-CO-OPERATIVE INSTITUTIONS?

by

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The institutions with which this short article is concerned are public companies, nationalised industries, privatised undertakings and building societies. The difficulty in attempting any Co-operative critique of such bodies is that little is known of them internally. Much the same goes for Co-operative societies. In the writer's experience retail societies are mostly similar, but in a different sort of way! Despite corporate status and massive shareholder indifference, retail Co-operatives are animate bodies most of which possess a distinctive character going well beyond the strong official/weak board of directors' syndrome.

## In Building Societies

Building societies are closest in nature to Co-operatives. They share a chief registrar, have common origins, practise one member-one vote, with a few very large societies dominant. Growth of building societies in post-war Britain has been phenomenal. Apart from recent 'competition' from banks, societies are virtually monopoly traders. The interest rate cartel, which functioned under the asupices of the Building Societies Association, recently ended, but there are still informal understandings between members about the basic share borrowing rate. Tax privileges have made building societies into virtual peoples' banks.

Lender/borrower apathy does not worry building societies. The problem hardly got a mention in the Spalding Report published recently by their Association. Directors, especially in the large societies, are 'elected' by unidentifiable minorities and are well paid for part-time service. Like regional Co-operatives, building societies, which are national in character, have constitutions devised in the days when they were town based. The recent closure of a society by the chief registrar and transfer of engagements to another shows that official sanction is possible. His decision was challenged through the courts. Building societies have aspirations to extend their activities well beyond lending on mortgage for house purchase and the Government will shortly consult about this. Major changes could affect their mutual status.

## In Privatised Undertakings –

Privatised undertakings are mainly a product of policies followed by Mrs Thatcher since 1979. Companies which fell upon hard times as a result of the Government's pursuit of counter-inflationary objectives in the middle of a world economic recession sometimes opted to sell the assets cheaply to managers as an alternative to liquidation. Banks were also sympathetic to buy-outs. It is too soon to judge the success of such ventures. Just as certain retail Co-operatives reached a point in their fortunes which made them a liability to rescuers, some management takeovers will fail. Enough survive, however, to justify financial risks taken by senior staff in acquiring shares. Only those who work for and trade with such firms can say whether the change of ownership has altered their character.

Of greater interest is the Government's determination to reduce public ownership. Reasons for this are a mixture of the ideological and the economic. Mrs. Thatcher dislikes the public sector, particularly the power of the trades unions within it, and her acolytes know better than to disagree. Few ministers with present responsibility for public corporations had administrative contact with them during Mr Heath's days. Ironically, Mr Heath, who was and is an economic progressive, was brought down by the National Union of Mineworkers. As his defeat resulted in the election of a Labour Government it was regarded by the unions as a victory. It also began a chain of events culminating in successive electoral defeats for the Labour Party and consequential dismantling of the public sector.

## – The Examples of N.F.C. and British Telecom

The economic reasons for privatisation are a combination of retrenchment and balancing the books. Two examples must suffice. The National Freight Consortium was the largest ever employee buy-out in the UK and created a company owned and controlled by its 10,000 employees who hold 82½ per cent of its issued share capital, the remainder being held by the banks. It operates 13,000 vehicles, has over 700 locations, and in 1982 its turnover exceeded £500 millions. NFC shares were offered to employees, their families and pensioners in January 1982 at £1 per share. By March 1983 shares were valued at £2.45 and after a bonus issue they were worth £3.40. An employee who bought 100 shares in February 1982 will have received £22 in dividends net of basic tax rate.

The Government are pleased with the success of NFC, although whether the business was sold at market value is an imponderable. The main trade union concerned by the change opposed privatisation. We know little of the difference in control of the NFC before and after the change of ownership. The chief executive was unchanged except that he got the chairman's hat in place of the one he had as vice-chairman. Pension fund transfer arrangements are not yet clear.

The privatisation of NFC is dwarfed by the intention to sell 51 per cent of shares in a company due to take over British Telecom, which has always been a public monopoly and a profitable one since it was separated from the Post Office in 1979. The main trade union involved is strongly opposed to privatisation and took expensive industrial action to resist it. Telephone users also need to be wary about privatisation. The proposal to appoint a director-general of telecommunications and licensing arrangements to safeguard the public interest is a measure of the risk inherent in replacing a public monopoly with a near private one.

Supposing workers and their trade union decided to buy shares in British Telecom plc and likewise trustees of their pension fund, then, given the fragmentation of shareholdings which is likely in an issue as large as this, the employee group could put their nominees on the board of directors – a far cry from the Morrisonian concept of public ownership exemplified by the London Passenger Transport Board. Neither should one rule out share buying by major suppliers of equipment and at least one of these has the immediate liquidity to do so. The Government may find its 49 per cent holding of the share capital insufficient to give it control over the composition of the board of directors.

## In Nationalised Undertakings

Nationalised industries which, for the present remain in their original forms, now operate within target systems for profits and borrowing limits set by the Treasury and given to each corporation chairman by the responsible Minister. Board members in the public sector are appointed by Ministers with a mixture of functional and non-functional directorial responsibility usually depending on whether the appointment is full or part-time. Civil servants in post did not serve on the boards of public corporations until Mr Benn so designated certain of his staff when he was Energy Minister.

Trade union influence in the public sector has been deliberately diminished by the Government, including changes in closed shop arrangements. Public corporations now follow price policies in pursuit of their profit targets which also make them instruments of indirect taxation. Such consumer consultative machinery as exists can do little about pricing policy in statutory monopolies.

## In Public Companies –

Public companies are also experiencing a change of character. The institutions and pension funds are now major, but still passive, company shareholders. The basis of choosing company directors remains a mystery wrapped in an enigma. More is known about choosing the Pope of Rome than the method of selecting the chairman of ICI or Unilever. There have been moves, as yet unsuccessful, to establish supervisory bodies, or appoint directors specially, to safeguard the interests of shareholders. The Government, supported by the CBI but opposed by the TUC, has resisted attempts by the Commission of the European Communities to provide for worker consultation by corporates under articles of the Treaty of Rome. It is argued that this is not a matter for the EEC but for individual firms encouraged by national governments. Only the UK takes this view. Consumer organisations show little interest in the tripartite concept of company control, even in near monopoly firms, although vocal enough on the fringes.

## – Including Retailing?

Major retailing companies are still somewhat dynastic in their boardrooms, but the trend towards working directors, not of the blood royal, continues. Employee shareholding, mainly as a result of favourable corporation tax treatment introduced by the Labour Government in 1978 and enhanced by the Conservatives, is likely to become important in certain retail firms. Where labour is intensive and property is significant among the assets employee shareholding is attractive.

Shall we see certain of our retailing giants coming to resemble the John Lewis Partnership in outlook, practice and success, leaving the diminishing Co-operative Movement still worshipping at the shrine of J.T.W. Mitchell and doing little for consumers in the process?

If there is a trend in all this, and it is as yet barely discernible, it is for workers to become partners in major bodies corporate, with direct or indirect participation in shareholding. This may compensate for the decline in trade union influence and has a significance not yet much observed by Government or governed.

## Note of the Author

LORD GALLACHER is a member of the Select Committee on the European Communities. He was formerly parliamentary secretary to the Cooperative Union.