Do Large Membership-Based Businesses have a Future in the Twenty First Century? Some reflections on UK retail co-operative societies

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To somebody outside the movement, UK retail co-operative societies might appear to be something of an anomaly. These businesses, whose combined turn-over exceeds £12 billion, are still owned and controlled by their members, and have a democratic governance structure based on an elected board. This paper considers whether such an ownership and governance structure has a place in the twenty first century, and whether such societies can realistically expect to survive and compete with investor-owned businesses. It concludes that they can survive and compete if they challenge investor-owned businesses head-on, and structure and manage themselves in a way designed to meet contemporary needs.

Introduction

Why do retail co-operatives have members?

Everybody knows that the co-op has 'members', but only a minority of shoppers become members, and of those a minority become involved and play an active role as members. (Spear, 2000) Is it not now something of an anachronism – does it really make any kind of sense today to **join something** in the context of buying food and everyday goods and services?

And what about this form of business ownership – is it not just out of date today, owing more to Victorian social problems than today's business needs? Are the large societies in practice any different from their investor-owned competitors? What are members actually **for**, and can they be relevant and add value to the business today? Are the businesses succeeding **because** of members and democratic governance, or **in spite** of them? Might it not be better to move on, become more focused on the business, and adopt an ownership and governance structure which feels a bit more contemporary?

It is important to consider whether membership is now just a historical embarrassment, something for the enthusiasts to try to make meaningful, but frankly irrelevant to the business and its managers. It is also important to have an open and honest discussion, because if membership has ceased to have any meaning, then other issues must be faced. Is there any point today in trying to be a co-operative business in modern retailing? Is a modern co-operative retail business is really any different from its investor-owned competitors. Why not become a public limited company?[1]

Co-operative purpose has certainly been a widely debated issue over the past years. The work of Parnell suggests that the problems that co-operatives have faced in recent years are a result of their failure to focus on their service offering. He proposes that co-operatives be defined by their narrow business objectives, and that the sole purpose of a co-operative is that of "benefits to members". (Parnell, 1995)

This idea has been critiqued by Davis, who suggests that this is too general a concept, and could, after all, include the rights of members to dispose of the assets of the organisation, which in the short run would provide them with the greatest benefit. For him, "co-operatives are not just about the membership and benefits of membership in abstraction" but "about the benefits of membership in association". This means that social justice and community are central to an understanding of co-operative purpose, and in evaluating the activities, products and services provided to members. (Davis, 2005)

For Fairbairn, the key to co-operative purpose is the relationship that it cultivates and embodies. The most important of these is the one between the co-operative and its members, but relationships among its members and with employees and other stakeholder groups may also be important. The relationship model highlights the importance of issues such as trust and agency, with the most important questions being "how much and in what ways do members trust the co-operative" and "to what extent is it efficient in acting as an agent of their interests". (Fairbairn, 2003)

This paper will assess the UK co-operative retail movement in the following way. First it will consider some of the reasons why co-operative retail societies became well-established and such a powerful commercial force during their first hundred years or so. Second, it will look at some of the fundamental reasons why things changed in the last century, before looking at the contemporary context. Lastly, it will consider the opportunities created by this context, and the most important issues to address if the leading societies are to continue as co-operatives.

1. The Historic Co-operative Model

Co-operatives, like the other traditional mutual societies, came into existence because people needed something which they did not have access to. Food at a fair price without contamination, finance to own their own homes, basic protection against illness and misfortune – these were things denied to many, and the emerging mutual movement was a response to these problems. By pooling their need for something, people within communities realised that they could meet their own needs, through supporting what today we would call a sustainable business. In other words, the traditional mutual society was a self-help mechanism, a response by ordinary people to the problems of their day. (Birchall, 1994)

Self-help was the only option because private traders could not be relied upon to meet basic needs. So from the very outset, mutual societies set out to offer something different; and to challenge conventional businesses. Self-help meant making their own provision: that is to say, customers establishing their own organisations to provide goods and services to themselves. Owning the solution – the society – was therefore at the heart of the response to the problem. Through owning the business, the founders and subsequent members of the traditional mutual societies controlled them and decided what they did, what services they provided, and how they operated. This meant that the businesses would continue to serve the purpose for which they had been created – that is, to provide services that would otherwise not be available (the self-help). There was no separate group of people controlling the business, such as investors, who might be following a different agenda, and diverting the business from its initial purpose.

The ownership point is not only important as the means of delivering self-help. It is not just a case of making sure that the business is not diverted onto somebody else's agenda. It also relates to the matter of trust. When we buy goods and services from businesses, we are taking a risk because we are dependant upon the business for what it provides. We do not necessarily know everything about what is being sold – where it came from, how it was produced, what it cost, what it might contain etc. The historical problem was that in the days before consumer protection legislation, people could not trust privately owned commercial businesses – they were at significant risk of being charged excessive prices, and being sold poor or contaminated goods. In other words, businesses which were owned by people whose agenda was to produce a profit or return for themselves or their investors could not be trusted, or at least, could not be trusted to provide the best deal for customers. Self evidently, those businesses were not trading primarily to meet the needs of those seeking access to goods and services, because they were not owned by them; they were trading for the benefit of their investor owners.

Where customers had a share of the ownership themselves, they had the opportunity to find out more about what was being sold. And if they did not get round to exercising their rights as owners for some reason, then they could still rely on the fact that other users of the service, or customers, were taking an interest in the business and making sure that they were not being overcharged, that what was being sold was satisfactory, and what the customers of the business needed. The ultimate comfort was in knowing that the business was not owned and controlled by a separate group of people who, to put it bluntly, were only interested in the profits it generated, and likely to be indifferent to the extent to which customers, staff and suppliers received a fair deal, and or were exploited. They could trust a co-operative business because they owned or had the opportunity to share in the ownership of it; they could not have such trust in a business owned by investors.

The third point arising from ownership relates to the efficiency and success of the business. If the business was managed well and was successful (which of course depended, amongst other things, on the continuing loyalty of its customers) then the owners could share in that success. This was achieved by paying back to customers a dividend or share of the surplus based on what they had bought from their society (the co-operative dividend). It was effectively a mechanism for bringing the price down. There was therefore an economic incentive for members to bring their trade to their society, to maximise its business, to improve its efficiency and to increase their share of the surplus (reduce the price of goods).

Business model

What started off as a self-help mechanism turned out to be the basis of what became a highly successful **business model**. In operating as a business, a co-operative has to face the same commercial challenges as every other business: income needs to exceed expenditure, year in, year out, and just like any other business, the co-operative business needs to be profitable if it is to survive. Any form of trading is risky, and every business (whoever its owners are) operates in an environment of unpredictability. The co-operative business model established a different way of managing these risks.

Where, as in the period when co-operative trading emerged, the alternative sources of basic products were privately-owned businesses which were either charging too much or providing poor quality goods, then the basic co-operative business strategy revolved around low price and basic quality. The starting point is that the co-operative business must be able to source goods and bring them to customers at a price and quality which customers find acceptable, and which therefore secures their continuing loyalty. If the business cannot do this, it will fail.

However in competing with private businesses, the co-operative business is assisted in two basic ways. First, although it has to be profitable to survive, it does not have to maximise profits in order to pay the highest possible return to investor owners. It should therefore be a cheaper way to trade, and that benefit is passed directly on to customers, whether via dividend or other social investment.[2] Second, the very fact that it is a co-operative should make it more attractive, and should encourage people to trade with it. Why? Because provided that the price and quality of the goods and services are acceptable, by bringing their trade to their local self-help provider, customers make it more likely that the business will survive and continue to provide goods and services locally; and because the more people bring their trade to their society, the more widely costs and other trading risks can be spread, prices kept low, dividend paid (effectively a post-facto price adjustment), and the business expanded to provide more and better services; and because the individual member, if they do not like anything about the business, or what it is delivering, instead of taking their trade elsewhere (if there is an alternative source of supply), they can keep trading with their society but exercise their rights as a member, and use the democratic ownership to influence the society to change.

This is a different business model from what we are used to today. It was based upon establishing a relationship with customers which was life-long, and which was earned. It had to be earned by delivering on price and quality, by democratic arrangements which were sufficiently effective and credible so that members believed that they really exercised influence, and that the business was run for them, and nobody else. By earning a trusting relationship and the loyalty of customers through the very structure under which it was set up (democratic) and the way in which it traded (charging a basic price but with the prospect of a later dividend), the co-operative business significantly reduced its trading risks in a way which was not available to investor-owned businesses.

Membership was at the heart of this. It was the mechanism by which people engaged with and became involved in their society, as more than just customers. It was the mechanism through which they were entitled to vote for and receive a dividend on their trade with the society.[3] It was the mechanism through which they contributed share capital to enable the business to exist. And it was the mechanism through which they owned and controlled the society and its business via its democratic arrangements. These arrangements enabled members to elect their representatives to the committee or board, to make major decisions about the society such as whether to merge with another society, changing the constitution, or winding-up the society. They also enabled members to challenge those they had elected, to call them to account for their stewardship of their society, and to replace them if necessary.

In other words, membership was central to the historic co-operative business model and how it operated on a day to day basis. The ultimate risk for any business is losing customers. In a pre-consumer age where the basic needs of people within communities were not met by commercial providers, the mutual or self-help response provided a solution. People would therefore want to continue to support their local self-help organisation, but they would still want it to deliver a competent service, to respond to changing needs, and to reward customers for the loyalty they show. If it let them down in any of these areas, then the answer for them was to do something about it as members – pressing those in authority to do better, and ultimately replacing them if they fail to improve.

So members were at the heart of driving the business model, to make it more effective and successful at what it was trying to achieve – meeting its members' needs. Co-operatives succeeded because, as a response to the needs of the time, the business model worked. A successful legal and governance model was developed to provide a structure to support this business model.

2. A Changing Context

Decline

At some point, the co-operative business model started to break down.

Once people could buy their basic provisions from a variety of sources, the need for self-help started to diminish. Increased choice and competition between retailers drove down costs and drove up quality. Increased mobility through better transport and growing car ownership created further options. People no longer needed to work together (co-operate) to meet their needs: they could go to a variety of different retailers to do so. If their society was no longer meeting their needs, they no longer had to take the trouble to exercise their membership rights to force the business to improve; all they had to do was to shop elsewhere.

At this point, the concept of a membership based approach started to unravel. Save for the dwindling number of remaining enthusiasts, loyalty declined, and with it the ability to pay a dividend. The loyalty or mutual bond, the glue that held the whole concept together no longer worked, and the business model fell apart.

The idea of membership no longer seemed to serve a useful purpose from the point of view of the business, and in effect from that point onwards, membership became virtually irrelevant to the business – its only continuing relevance was that it was enshrined in the ownership and governance structure which could only be changed with the approval of members.

Arguably, the movement had failed to evolve when at the height of its power in the first half of the last century.[4] The failure of retail societies to adapt to changing circumstances can be attributed, at least in part, to a failure of their overall governance. At a time in which its members' economic circumstances were rapidly changing, it failed to offer the goods and services they wanted, and was characterised by what Tony Crosland described as "a certain dowdiness, parochialism and technical backwardness". (Crosland, 1962) As the retail movement had grown, it was accompanied by a natural shift in power from ordinary members to the elected boards. Priorities and red lines drawn by 'activist' members were not shared by others and the result was a reduction in the co-operative share of the activity.

The second half of the last century, and particularly the last two decades, witnessed the rapid rise of the investor-owned retailers, and the decline of co-operative retail trade. It was also the time of the privatisation of many former public services into investor-ownership, and the demutualisation of many building societies. As well as changes to large organisations providing goods and services, it was a time of cultural change as well, a change from the days of self-help and mutual support, to a more self-centred world of private ownership, and an increasingly blind faith in market-based solutions. Such a view had little time for the negativities of investor-ownership. (It regarded Adam Smith with reverence, approving his view of the benefit of the "invisible hand" of the market place, and somewhat overlooking his telling comment on the capacity of merchats to deceive and oppress.)(Smith, 1978)Very large corporations were emerging, and private fortunes were being made. Looking beyond private interest was distinctly unfashionable. It was the age of consumerism.

The historic co-operative business model could not work in this environment. There was no impetus to drive the organisation to be efficient and successful. With the need for self-help having been removed by the market, there seemed to be little point in a co-operative business. For many people, being a co-operative business became little more than doing something different with the profits – instead of paying them to investors, you share them with customers, staff and local communities. In practice, the co-operative ownership and governance model – the legal structure which survived despite the collapse of the business model – became more of a drag on the business instead of a being a driving force behind it.

Meanwhile investor-owned businesses were powering ahead, driven by the insatiable demand for a financial return, which consumers were now sharing through their anticipation of retirement based on their growing pensions which were largely invested in such businesses. (Co-operative Commission, 2001)[5]

It may not be unfair to say that during the closing years of the twentieth century, for many senior managers within the co-operative retail movement, doing something different with the surplus had become how they saw co-operative trading. With the success and attractiveness of the private retailers and their offering over that period, being a co-operative business was not just not a unique selling point, it was something which it might be better to keep quiet about. It only affected what happened "below the line". During this period the harsh reality has been that survival of the business had to be the focus of attention – survival against fierce competition.

The period witnessed a dramatic decline of market share (from 15% in 1977 to 5% in 2000[6]) (Co-operative Commission, 2001) though some credit should be given for still being there at all – even with a diminished asset base. By and large, it was a long barren period, when management wanted the least possible distraction from running the business; focus on profitability and stay alive.

In contrast to the experience of the retail movement in some other countries,[7] there was little appetite and frankly little management time to think about what being a co-operative meant, except in relation to what happens below the line. As a result, it was a period when managers and democrats kept each other at arm's length, with a rather uneasy stand-off: you leave us to run the business, and we will leave you to decide what to do with the surplus ("the old settlement").[8] (See also Mills, 2007)

So by the beginning of the twenty-first century, the historic co-operative business model was dead in the UK. It had been overtaken by commercial and cultural changes which left that business model behind, and left membership with no real meaning to the business. Instead of being the driver for the business, the co-operative nature and structure were more likely to be a drag on commercial efficiency and management. The co-operative retail businesses survived, by and large, by playing the competitor investor-owned retailers at their own game: competing with them on their own terms, but deliberately choosing to compete only as convenience stores rather than supermarkets,resulting inevitably in significant losses of market share.[9] However, as their business performance fell well short of their investor-owned rivals, the co-operative ownership and governance structure (the legal structure) survived, fossilised, as it were, within the rule-books of surviving societies, struggling to find meaning and relevance within the contemporary business and cultural context.

What was the point of members any longer?

3. New Challenges

The work of the Co-operative Commission published in January 2001 was a milestone. The Commission had to do two things. It had to deliver a big wake-up call to the movement, that business performance was so dreadful that if it was not addressed very quickly then the retail movement was dead. And it had to start a process of enabling the movement to rediscover a basis on which to challenge conventional businesses again: somehow, it had to find a new co-operative business model. This involved effectively trying to redefine what it means to be a co-operative in the twenty first century – to redefine corporate purpose, and to find a new means of driving a co-operative business.

The report of the Co-operative Commission (*The Co-operative Advantage*) bluntly stated the priority of commercial competence and financial success (Co-operative Commission, 2001, 1, 1.3 and 1, 3.10)[10], which it felt had been lost sight of. The report set out a lengthy list of factors contributing to the under-performance of the business, and these included: inadequate strategic direction of businesses by societies' boards; lack of quality management and inadequate employee training; an inability to motivate and involve co-operative employees fully in co-operative businesses; and concentration on meeting social goals at the expense of, or without reference to commercial performance. (Co-operative Commission, 2001, 3, 3.6) [11]

Societies were not just failing as businesses, they were failing as co-operatives as well. The report brought to centre-stage the importance to the business of the co-operative ethos, in terms of building what it called "the co-operative advantage". The concept of the virtuous circle was used: social goals giving the business a competitive advantage, leading to commercial success which could then deliver the social goals. The issues in terms of establishing a sustainable virtuous circle were threefold:

- A reinterpretation of the historically valid principles and social goals of co-operation in modern concepts and languages and connecting with modern concerns.
- Strong marketing of the Co-operative advantage at national level in terms of the already suggested formulation of "Effectiveness, Responsibility, Reward".
- A clear and positive distribution of the surplus between redevelopment and expansion and the community and individual member dividends.

Whilst actively advocating the promotion of the co-operative ethos as a means of driving forwards the business was a very significant step forwards, there were some difficulties with the Commission's message. Co-operative managers, particularly after the bruising experiences of the previous two decades, did not really see their job as delivering social goals. Their job was to run a business, and if people started distracting management from maintaining a profitable business, there would be no business left. If "delivering social goals" was merely concerned with delivering economic benefits to members (commercial success), or what happens below the line – using the surplus to support local communities (Co-operative Commission, 2001, 1, 7.2)[12] - then this was less of a distraction to management. However in that sense, the Commission merely reinforced the 'old settlement'. But the Commission's social goals went further than that. The following were identified:

- Customer economic benefit
- Member benefit
- Employee stakeholders
- Ethical corporate culture
- Campaigning for the consumer
- Community investment
- Social enterprise initiatives
- Democratic participation
- Civic and community education

Much of this (apart from the first item) would not have been perceived by management as their core responsibility; furthermore, it would have been seen as difficult if not impossible to deliver from the trading platform in 2001. The problem in 2001 was convincing managers that the attainment of social goals had anything to do with the business, let alone provide a competitive advantage. How would attaining social goals change the behaviour of customers and help to rebuild or recreate a co-operative business model which was distinctively different from investor-owned competitors?

The commercial market-place as well as the wider political and cultural context have changed significantly since 2001. The privately-owned retailers have continued to grow rapidly, and to expand into new sectors, but there is a noticeable change of public perception in relation to large and particularly dominant PLCs.

The admiration of commercial efficiency is tempered by a recognition of the negative impacts of very large corporate businesses, not just at local level (destruction of small local businesses, effect on town-centres and villages, damage to local communities), but on a much wider scale as well: global warming, climate change and the plight of growers and producers, often from poor economies, have become high profile issues at a popular level and are beginning to take hold in our social and political culture.

Whilst such developments might be thought to favour co-operative trading with its principled position in relation to such issues, the reality is that most large consumer-facing corporations now promote themselves as responsible corporate citizens, and are spending substantial amounts of money under their corporate social responsibility programmes on local communities, schools, and charities. Many would argue that such 'public-spiritedness' merely serves a commercial purpose. But the upshot of this is that it is no longer sufficient for co-operative businesses to say that they do good things with their surpluses; so does everybody else.[13] If being a co-operative business simply involves doing something public-spirited with the profits and paying a bonus back to customers, then it is no different from a PLC business. There is no 'co-operative difference' or co-operative advantage in this any more. In which case why not become a public limited company?

The question facing those trying to rediscover a co-operative business model today is this. How can you convince people to bring their trade, by preference, and on a regular basis, to a co-operative business, rather than to an investor-owned business?

Historically, people traded with societies because they provided a solution to a problem.

In today's language the self-help remedy enabled them to manage their risks as customers. As already discussed, the problem today is not usually one of access to basic provisions, of acceptable quality and at a fair price. The market, consumer protection legislation and increased mobility have largely solved that problem for us; access is not the main risk today.

At the same time, it is not a question that should be entirely ignored. Consumer co-operatives tend to be rooted in the communities that they serve, keeping fresh and high quality food within easy reach of those without cars. (Cook et al, 2003) This is in direct contrast with the majority of supermarkets, which have moved their services out of communities and into 'out of town' sites. A similar trend can be seen with financial mutuals. While 24.9% of bank branches closed between 1995 and 2000, only 2.4% of building society branches did the same.

Indeed, in the case of financial mutuals, the consumer case is more compelling. The Building Societies' Association has estimated that the absence of external shareholders provides mutual organisations with a cost saving of approximately 35%, which is distributed straight back to the members - through the provision of low cost borrowing, high returns on savings and dividends. It is this very difference that has enabled mutual organisations to be consistently at the top of best buy tables for mortgages and offer higher value products than their competitors. The Association of European Co-operative and Mutual Insurers has found that mutual insurers pay out a greater proportion of their turnover as claims (73.1% against 71.2%)

A PA Consulting international study in 2003 showed that the size of the mutual sector in most countries had a direct influence on the size of bank's profits, finding that the "profitability of the banking sector is inversely proportional to the market share of mutuals within the banking sector." (Welch, 2006)

A viewpoint that is gaining increasing currency in management and social sciences is that of stakeholder theory. Stakeholder theory is based on the idea that organisations should be responsible to a range of groups, beyond its immediate owners, all of which have a 'stake' in how the organisation is run. Wheeler and Silanpää have suggested that enterprises run in the interests of stakeholders are more likely to behave responsibly, and create social, as well as commercial value. They see social and commercial value as being mutually reinforcing, leading to greater stakeholder loyalty and corporate resilience, with social and commercial transparency leading to greater organisational identity and efficiency. (Wheeler and Silanpää, 1997)

The standard response to this from market fundamentalists is that investors who provide capital to the businesses which they own are entitled to a reward reflecting the risks they assume as investor-shareholders. The fallacy with such an argument is that the only risks which are taken into account in this equation are risks to the business itself. The investor-owned corporation passes many risks to customers, staff, suppliers and the communities affected by their trade, which are not taken into account in measuring its success. Companies such as BAT and Shell can often make vast profits, despite the negative impact that they might make on the population at large.

The early co-operators and members of other mutual societies challenged the investor-owned business model, and the way it simply passed risks on to customers; they refused to accept those risks by setting up their own businesses as their own self-help solution, and taking their trade to those businesses. Are we in a similar position today, where the imbalance is such that as consumers of goods and services (and employees, suppliers etc), we wish to take our trade, as a matter of principle, away from corporations trading for the profit of investors, and want to 'manage the risk' of destruction of the environment, local businesses, traditional ways of life, health and well-being by choosing something else?

Wheeler and Silanpää suggest that while companies that ignore their stakeholder's needs may profit in the short term, "the long term value of a company rests primarily on: the knowledge, abilities and commitment of its employees; and its relationships with investors, customers and other stakeholders". If we are to take this approach, one could argue that taking a stakeholder approach could give the co-operative model an advantage over investor owned businesses.

The last few years have seen a tremendous shift in public awareness of global issues. Ten years ago, a suggestion that a business should take steps to tackle climate change would have been inconceivable. Now it would be catastrophic for them not to. In all sectors of our national community, from civil society to politics, students and religious communities, concern over business's impact on the wider world has advanced, and is beginning to take hold in our social and political culture.

Inevitably, this has had a significant impact on consumers and business. From seeking to guarantee a fair price for primary producers, to reducing their carbon footprint; people are realising that their behaviour, as consumers, investors and citizens, has an important impact on how organisations and companies behave. The co-operative movement has played a significant role in this, and indeed led many socially beneficial campaigns. But if this model for business is the future, it could be argued that the co-operative model for governance is once again highly relevant.

Co-operatives and financial organisations differ from their plc competitors in one crucial respect; they exist to provide mutual self-help for their members rather than to generate profits for investors. These core values can drive high standards of behaviour throughout the sector. The absence of external shareholders mean there are no conflicts of interest between the claims of consumers and owners, leaving mutuals no incentive to exploit their customers for short term gain.

The fact that these organisations operate democratic voting systems, on a one member one vote basis, allows them to pursue values which are not purely financial and take a long term view of their members' interests. It also gives them space in which to pursue social goals and support the communities in which their members live and work.

In short, the very way in which co-operatives are structured means that they are the ideal vehicle to take this business approach forward. While in the good times it is easy for business to take into account the wider needs of its stakeholders, in the bad times this is less straight forward. In an economy owned and operated primarily by the private sector, shareholders' interests come first, and in the context of the British stock market, these tend to be short term financial interests. (Hutton, 1995) This leads to the downgrading of the interests of other stakeholders, given that if it is in the short term financial interests of shareholders to sell its assets to be stripped by venture capitalists, then that is what will generally be the end result.

If we are seeking to address this problem, then substantial changes are needed in two areas if there is to be a realistic possibility that we can make any impact by choosing where we spend our money; namely changes in current attitudes, and changes in businesses seeking to trade on this basis.

Attitudes

Tesco is a highly successful business (by currently accepted standards) not just because it has highly competent management, or a first class offering, or harsh trading terms for their suppliers, or a constantly innovative business. Tesco is a successful business because lots of people go shopping in its stores. Lots of people do this frequently, and they spend lots of money there. Tesco's business succeeds because customers take their trade there. Although the reasons mentioned previously are largely why customers are prepared to do so, we tend to underplay the extent to which **we choose where** to shop.

But as already pointed out, attitudes are changing; towards the way retailers treat suppliers and growers, towards the unaccountable power of very large corporations and their impact on localities, about the way we live our daily lives, and how that impacts on those around us. However, many people feel powerless as individual consumers. They think that they would be making a pointless gesture, and frankly would be rather stupid if they did not take advantage of the latest financially attractive offer, or the latest convenience product or service. They are probably right. But the gesture would not be pointless as part of a wider and longer term endeavour to use their purchasing power as a consumer, and to encourage others to act similarly, in order to achieve wider and highly desirable objectives.

It is clear from the growth of Fairtrade sales that people will buy particular products, and will change their behaviour patterns if they believe that they will thereby achieve some significant result. This can be seen in recent years not just in relation to concerns about third world suppliers, but in the changed attitudes towards recycling, or smoking, or drinking and driving. Attitudes can be changed, and where they do, behaviours can be changed as well. But will people, in significant numbers, choose to spend money on goods and services in order to achieve specific objectives, such that it makes sense to have trading organisations specifically set up to achieve those objectives?

I believe that the answer is emphatically yes: and I also believe that unless the answer **is** yes, and is made to work for the Movement, then there is no future for co-operative retailing. It is only if you believe this, and if you believe that it is possible to have such a thing as a contemporary co-operative business model, that there is a clear and valid reason to continue as a co-operative, and not convert into a public limited company. And it is only when you have worked out that contemporary co-operative business model that you can then try to work out the best governance, management and business arrangements (all of which are a means to an end) to implement that business model.

Let me put it another way, via a series of propositions.

1. I, and the other people in my community, need goods and services to meet our daily needs.
2. We can buy those goods and services from a variety of organisations.
3. One type of such organisations (namely those owned by investors, which happen to be the vast majority) are established on the basis that the interests of investors come before the interests of customers, employees or others whom they trade with; consequently these businesses have numerous negative impacts on people individually and collectively, and on the physical environment.
4. There is another type of organisation which is set up to trade on the basis that it seeks to address those negativities because it is established to trade in the interests of its members (membership being open and voluntary), and those affected by its trade.
5. By taking my trade and seeking to encourage others to take their trade to such an organisation, it is more likely that the negative outcomes will not occur, and that more positive ones will occur. I will therefore commit to doing so.

This is not philanthropy, or charity: it is self-interest. The main difference from the self-interest of the Victorians is that it is rather longer term – it is as much for our children and grand-children as it is for me and my community; it is not quite so immediate as in the nineteenth century, but it is no less real. It also needs to be rather more enlightened – we need to be continually inquisitive about cause and effect as the impact of small changes can have such wide effects. But at the heart of it is the same essential self-interest, and the desire to do something ourselves to remedy a situation which nobody else is going to, or can remedy for us. And there still needs to be the financial incentive driving customer loyalty – sharing the financial benefits of the business's success.

This depends on the retail movement's ability to provide a competitive offering. People may be prepared to use their purchasing power to create a better planet, but they are likely only to do so if they can get relatively similar levels of price, quality and ease of access. Fairtrade is a significant example of this – in which growth only came after an improvement in its quality when offered by mainstream companies. A similar revolution in price and quality of product and service will be needed if retail co-operative societies are going to be able to grow in the same manner.

As individuals, we need to change the way we do business – how we make every decision about how we spend our money, and who we do business with. I believe that we are starting to make those changes, and I believe that the growing number of people attracted to the idea of trading as a social enterprise recognise this, and recognise that there is a demand for doing business in a different way. It is also one of the reasons why there is continuing opposition to the privatisation (transfer into investor-ownership) of more public services, and an ongoing search for new models as an alternative to state and conventional investor ownership. The NHS foundation trust project, the establishment of an Office of the Third Sector and Social Enterprise Units within a number of government departments, and the continuing search for better means of community empowerment are all indicative of a desire to find an alternative to investor-ownership as a business model for those services which the state no longer wishes to provide.

We are concerned here, however, with the consumer co-operative movement, with all of its history and baggage, its personalities and businesses, its highlights and its horrors. If it is not to seek to convert into public limited companies in order to be able to compete with its investor-owned rivals, if it is instead to put clear water between a contemporary co-operative business model and a traditional capitalist or investor-owned business model, what has to happen?

4. The Need for Changes

First comes the business model. The most powerful way to challenge investor-owned businesses is by reference to their very nature, the way they operate and trade, the impact of what they do, their reason for existence. The modern co-operative business needs to set out to secure customer loyalty and commitment by **being something different, trading in a particular way and for a different purpose**. Investor-owned businesses will try to compete with this (eg the strap-line "Your M and S" is simply untrue – the business belongs to shareholders not customers even if the business wants customers to believe that they own it; corporate social responsibility is merely a trading strategy etc), but ultimately they cannot, and the co-operative business has to deliver convincingly and consistently. It is only in this way, in the long term, that customer loyalty can be built upon the values and principles which underpin the way in which the business operates. (Cote, 2005)

Second comes the implementation. We are talking about a different way of doing business, which many people have never come across, and which has never been explained to them. It has to be clearly articulated as a preferable way to do business (because it is not for the private benefit of investors), and it has to validate its claims to be operating in ways that respect the interests of those affected by the business. At the heart of this is providing a voice – a means for those who are affected by the business to bring their issues and concerns to the attention of others within the structure of the organisation. As Davis has stated, in today's marketplace "co-operatives can simply not afford to appoint non-co-operative managers", as their survival depends on having a committed management that can use co-operative purpose and values to leverage an advantage in the market place. (Davis, 2005)

This is most uncomfortable for managers, and the reason why the co-operative way of doing business is more demanding for them. It may be hard satisfying your masters when they are the shareholders owning and controlling the business which employs you, but managers in an investor-owned business have a comparatively simple job because they know that their job is ultimately to satisfy people who want one thing only: a return on their capital invested.

It is not nearly so simple for the co-operative manager. They still have to ensure financial success, but they have to take into account a wider set of priorities as well, because ultimately it is by respecting those wider interests – while also being financially competent and successful, because that remains essential (and members expect their dividend) – that the co-operative business succeeds where its investor-owned businesses fail. Managers given such a task need to be properly trained and supported, and appropriately rewarded when they do it well. It is not just financial performance which should be reported, verified and rewarded; it should be all the aspirations of the owners of the business, as those aspirations evolve over time. Social audit can play a key role in this, as it can mark clear priorities for a co-operative business independent of profitability and increases in asset value.

And lastly to the issue of governance and ownership. As Davis has suggested, "we must recognise that the purpose of governance is the preservation of the integrity to fulfil the purpose for which it was founded … Issues of democracy are issues of process; they are secondary issues concerned with means". (Davis, 2001)

It is important that the ownership structure provides an effective mechanism for the owners to secure their own self-interest (it remains a self-help mechanism). For this they need to have sufficient opportunity to express and communicate their concerns to others; to exercise sufficient influence within the democratic structures in the choice of member representatives; sufficient, in both instances, to satisfy members and potential members that for those who wish to spend the time doing so, membership affords a mechanism for influencing the way the organisation operates, and that it therefore does operate broadly in accordance with the members' wishes. Membership has to be seen as the reason, ultimately, why individuals should take all possible trade to the co-operative organisation.

The day-to-day control of such a business must be in the hands of those who are competent to manage it. Appropriate remuneration must be offered to attract individuals of sufficient calibre to deliver what the co-operative business wants. But that must be the delivery of a co-operative business strategy, which is distinctively different what investor-owned businesses are doing because it is based on a co-operative business model as outlined above.

A fundamental feature of a co-operative society is that it is owned **and controlled** by its members. This means not just members being the grass-roots owners of the society, but members or their elected representatives being in control of **the society including its management**. The current model for this is a fully elected board of directors, which oversees a separate executive management team.

It is my personal view that this model is no longer credible for businesses of the size (hundreds of millions of pounds) which the large retail societies have now reached. There are two main reasons for this. The first is that the façade of keeping management and elected representatives in completely separate governance boxes is both inappropriate for the individuals concerned, and for the society itself. It is inappropriate for the individuals concerned because in corporate law terms the senior executives would be treated as shadow or de facto directors, and they should be recognised as such in the formal constitution. It is inappropriate for the society because the dynamics between groups of people at the top of the organisation are critical to its success. The separation of management and elected representatives into two mutually exclusive groups is bound to result in the development of group loyalties and tensions, rather than being united in a common endeavour. Where a corporate constitution conflicts with the underlying way in which the law treats the individuals concerned, this creates significant additional risk when the organisation is under stress and the governance is put to the test.

The second reason is to do with experience and expertise. Professional management are expected to have a high level of experience and expertise. The development of corporate governance theory and best practice over the last fifteen to twenty years strongly supports the proposition that such professional management needs to be balanced by independent professional non-executives. (Committee on the Financial Aspects of Corporate Governance, 1992; Higgs, 2003) The elected representatives of members would not be regarded as independent from the point of view of corporate governance thinking, as they hold their position specifically because they represent others. Furthermore, a democratic process of election cannot be relied upon to produce individuals who have the necessary expertise and experience to be able to operate at the level of the society's paid executives. Independent professional non-executives are needed.

Paradoxically, it is my view that the lack of a significant number of such independent professional non-executives makes it less likely that a modern co-operative business model will be established. My reasoning is as follows. As already explained, the large societies have had to compete with the investor-owned businesses by playing them at their own game, because there is currently no co-operative business model at this level. Consequently, there is no executive experience of devising and running a truly co-operative business model. For the current executives, brought up and experienced in traditional retailing, to embark on something dramatically new would be a bold step. It would be a new experience for them. It is highly unlikely that elected representatives would provide the necessary support and credibility to enable them to feel comfortable establishing taking such a bold step. However, experienced professional non-executive directors, experienced in the traditional business world but sympathetic to a co-operative ethos and prepared to see its commercial opportunities if applied carefully and imaginatively – such individuals might well do. They could bridge the essential credibility gap for current elected directors.

This could help to form the basis for a "new settlement" which is needed between management and elected representatives. The old stand-off has to be replaced if significant progress is to be made. A new dynamic is needed which makes being a co-operative a real business advantage, which makes management appreciative of the value of having members, seeing them as an asset and supportive of the business, and which enables members to be of real value to the business, not an embarrassment or a burden.

Conclusions

So is the future with large investor-owned businesses, or community and customer-owned businesses?

That is firstly up to us. It is our choice whether we want to trade with one rather than the other. Many people in Victorian England (and subsequently in many other places) decided that they wanted to trade with customer-owned businesses because the alternatives were unacceptable. We have to make the same choice today. That choice is likely to be based on self-interest, and a decision as to whether we want to do something (self-help) about the issues that affect us today. The risks addressed by the nineteenth century model were lack of access, excessive price, poor quality, and contaminated or even dangerous goods and services. The risks in the twenty first century are damage to economic, environmental, social and health interests. Those impacts are felt in any place affected by the business; anywhere between the place of production and the place of consumption or subsequent disposal of waste. We have to decide whether we wish to change the way we do business and spend our money, and whether we wish to change who we do business with.

If we are to be able to choose something different, to trade with an organisation which exists not for the private purposes of producing a financial return for its investors, but for the wider public good, then the large co-operative retail societies are in a powerful position to establish the format for the future. But to do this, they need to adopt a clear co-operative business model; to ensure that their ownership structure is designed to support and deliver that model, and to modernise their governance to prove that democratically-owned businesses can provide a better model of business ownership than the conventional alternative.

But mainly the choice is ours. We have the power, through the everyday decisions we make when spending money for goods and services, to precipitate change. Are we prepared to use it?

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Notes

1 Conversion of a society into a company under the Industrial and Provident Societies Act 1965, or "demutualisation" as it is normally called, would result in members becoming shareholders.

2 In the days of Resale Price Maintenance, the level of dividend was what counted.

3 Historically rule-books have provided for members to approve the dividend at the annual members meeting. The members commonly also had the power to approve a dividend of a lower level to non-members.

4 Beatrice Webb's quote: "They have descended into a movement of shopkeepers". Virginia Woolf's letter on the Guild 50th Anniversary saying "They all sing of the coming of the glorious co-operative commonwealth, but they all know in their hearts that it isn't going to happen".

5 The Co-operative Commission (2001), *The Co-operative Advantage: Creating a successful family of Co-operative businesses*, 1, 2.2. This goes on to say "In some areas of business, notably in attempting to compete with the large multiple stores and supermarket chains, [the Co-operative Movement] has failed to perform adequately. Indeed, there has been a long-term, significant under-performance in the majority of the Retail sector within the Movement, caused by a lack of vision; a failure of co-operation, and poor direction and management of businesses across the sector". 1, 3.1. "The overall profitability of the retail movement is lower than most other industry participants in the retail sectors. Significantly, profits across the retail sector have not been sufficient to achieve a return on capital employed above the rate of inflation".

6 The steepest decline (from 15% to 8%) was between 1977 and 1987.

7 One example is S-Group Co-operatives in Finland as described in Uski, Jussila and Saksa (2007).

8 It is recognised that this is a rather crude summary, and there are some notable exceptions, but is a characterisation which many recognise.

9 It also survived by selling assets to fund trading losses.

10 1, 1.3. "Despite the fact that parts of the Co-operative movement are clearly successful, across the retail sector as a whole, performance has been inadequate and declining. In recent years, this poor performance has been accompanied by the sale of assets to fund trading losses". 1, 3.10. "Being a Co-operative is not an excuse for poor commercial performance."

11 While still Chief Executive of United Co-operatives, Peter Marks provided a gloomy progress report on the Commission's comments: "Now the important lessons to be drawn from these figures are, firstly, that we are not producing the profits we need to produce in order to be able to reinvest, and, secondly, even when we do invest, in most cases we do not achieve anything like the rate of return on that investment which we need to, in order to grow our businesses, at the rate we need to. Friends, not only is the Movement losing market share but overall its trading and financial performance is hampering our ability to do anything about it." (Marks, 2006)

12 "Commercial success must secure a balance of distribution of the surplus generated between the competing demands of reinvestment in the development of the business, the community dividend, and the individual dividend to continue the virtuous circle."

13 There is a particular irony here. First, the idea of the co-operative dividend to customers was taken over by the private retailers, through their loyalty card. Then the co-operative tradition of supporting the local community, which dates back to the early days of co-operation, is adopted as well. In recent years, some retailers have now started copying the idea of being owned by customers (eg the "Your M and S") campaign, suggesting (falsely) that the business somehow belongs to its customers.