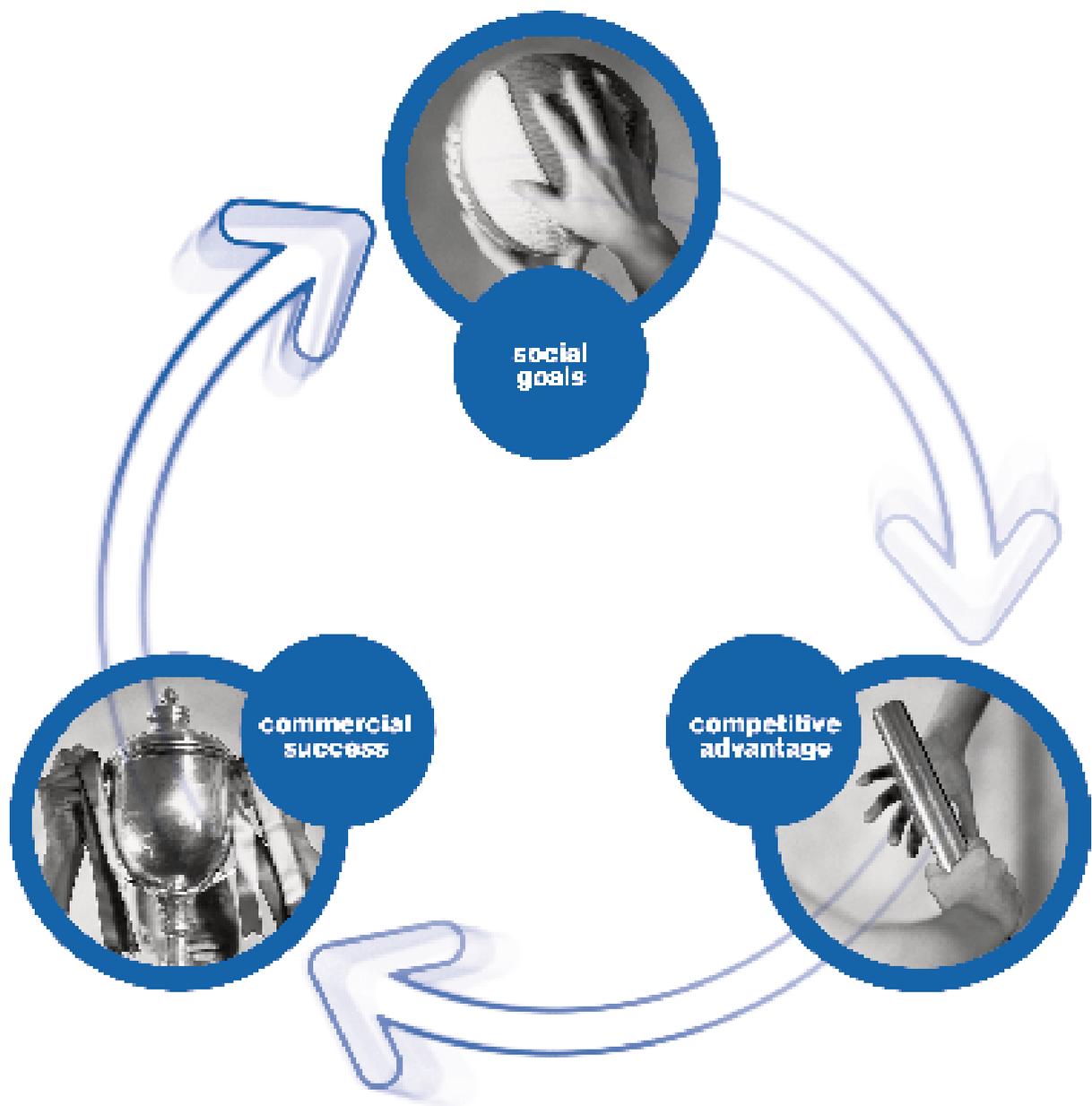


# the co-operative advantage

Creating a successful family of Co-operative businesses



**The Report of the Co-operative Commission**  
**January 2001**

# Contents

Introduction by Tony Blair	
Preface by John Monks	2
Summary of the Co-operative Commission's recommendations	4
Process and overview	10
Chapter 1 – Re-establishing the Co-operative Advantage	12
Chapter 2 – Successful Co-operative Business in the Twenty-first Century	28
Chapter 3 – Membership, Participation and Securing the Co-operative Movement's Legacy	38
Chapter 4 – Effective Management for Change and Development	50
Chapter 5 – National, Regional and Local Structures	62
Chapter 6 – The Social Economy and Co-operation	72
Chapter 7 – Mission Statement and Next Steps	82
<b>Annexes</b>	
1 The Co-operative Commission	88
2 Terms of reference	90
3 The ICA statement on the Co-operative identity	91
4 Submissions	92
5 CWS within the Co-operative Movement	94
6 Counsel's advice	96
7 The Co-operative Independent Commission 1958	100
8 Co-operative milestones	102
9 Glossary of terms	104



10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

I welcome the report of the Co-operative Commission. It is a serious study which, I hope and believe, can help chart the route towards a successful future for this Movement.

I believe, too, that it is important that the Co-operative Movement does continue to prosper in the new century. The values on which it is built – values such as community and social responsibility – are also the values of the Labour Party and are as relevant today as they have ever been.

This Government also believes, of course, that enterprise and fairness must go hand in hand if we are to achieve our goals of building a successful economy and a strong society. The Co-operative Movement is a living example of these twin values in action to the benefit of its employees, its customers and the entire community.

I congratulate the report's authors for this serious attempt to build successfully on what can be called the co-operative advantage. I promise the Government will study their recommendations and urge everyone who has the best interests of the Co-operative Movement at heart to do the same.

Tony Blair

## Preface by John Monks, Commission Chair

A renaissance of the Co-operative Movement in the UK is long overdue.

Over the past 11 months it has become clear to me, as it has to my fellow Commissioners, that the Co-operative Movement has the potential to step up its impact on both business and society.

We know, from the evidence that we have received, that there is much that could be done to boost the performance of many of the current businesses. Indeed it has no alternative if it is to survive.

We can also see opportunities to expand the Movement into new areas that cry out for Co-operative solutions. But above all, we believe that Co-operative principles are highly relevant to society in an age of unprecedented change.

The purpose of this Report is to show how that potential can be turned into reality.

Our vision, as set out in the mission statement which we commend to the Co-operative Movement, is one of a revitalised Movement which challenges conventional enterprises by building a commercially successful family of businesses that offers a clear Co-operative advantage.

In successful Co-operatives, the ethical values of honesty, openness, social responsibility and caring for others, can give an edge over businesses driven simply by the profit motive. That edge helps build commercial success, and that, in turn, provides the resources to strengthen the ethical dimension. Where Co-operatives have failed to match their potential this virtuous circle has been broken; the way the business has been conducted has not always reflected the ethical values and the links between the members and their

Co-operatively owned business have not functioned effectively. Efficiency levels have not matched the best of public companies.

The Co-operative Movement today has many strengths. The scale of business makes it one of the UK's biggest retailers. It operates across sectors from food to pharmacy, from financial services to travel. There are many dedicated people working within the Co-operative Movement who have the commitment and the imagination to transform the Movement and make a real impact on national life. The Co-operative ethos can be in tune with an age that is increasingly disillusioned with corporate greed and lack of ethical standards displayed in some parts of the private sector.

One of the Movement's greatest weaknesses is the widespread image of the Co-op as an old-fashioned retail store chain incapable of meeting the expectations of today's consumers.

Changes are being made. Some local Societies have broken free of the old image and make a real impact in their local communities. The Co-operative Bank is a model of transformation and how to seize the moment and the mood. Lord Morris and his team are now putting in place new structures to take forward the Co-operative Group (CWS) Ltd., which has been created following the merger of CWS and CRS.

Our job has been to look beyond these first steps and to plot a journey that can take the Co-operative Movement on to a higher plane: where business efficiency matches the best in the plc sector; where the Co-operative principles strengthen our business; where, through our work in the community, we raise awareness of the value of co-operation.

Over the past 20 years small businesses have been seen as the engine for change in the economy. I see no reason why many in this generation should not look to Co-operatives as a natural vehicle through which to pursue their entrepreneurial ambitions. It should be as easy and as natural to set up a Co-op, as it is to establish any other form of business.

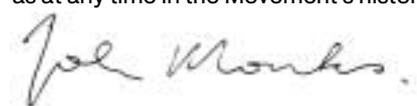
I am grateful to my fellow Commissioners, drawn both from within and outside the Co-operative Movement, who have brought extensive knowledge and experience to our deliberations. We have had first class support from the staff of the Commission and from our advisers. Most of all we benefited from the wealth of information and opinion provided for us by the individuals and organisations that go to make up the Co-operative Movement who took up our invitation to submit evidence for our consideration.

The Commission's work is now complete.

It is up to the Co-operative Movement to decide whether it is prepared to grasp the opportunity and to put these proposals into practice.

If it fails to do so; if it picks and chooses between the recommendations rejecting the radical and the difficult, or if it adopts our recommendations but fails to implement them, then I fear for the future of the Movement.

But, if it adopts them with enthusiasm and commitment and implements them in full, then I believe the prospects can be as bright as at any time in the Movement's history.



January 2001

left to right: Graham Melmoth, John Monks and Tony Blair at the launch of the Co-operative Commission, February 2000



**the commission's work is now complete;  
it is up to the co-operative movement to  
decide whether it is prepared to grasp the  
opportunity and to put these proposals  
into practice**

# Mission statement: “to challenge conventional UK enterprise by building a commercially successful family of businesses that offers a clear co-operative advantage”

## Summary of the Co-operative Commission's recommendations

*In some cases these recommendations have been abbreviated: the full recommendations are to be found at the end of each chapter.*

### Chapter 1 – Re-establishing the Co-operative Advantage

#### Commercial performance improvement

- 1 Boards of Co-operative Societies must establish challenging targets for the commercial performance of their Society.
- 2 The commercial performance targets should include Return on Capital Employed, which should achieve a minimum of 10 per cent as a first step.
- 3 All Societies should urgently review the performance of each of their various business sectors to ensure that each can achieve and/or maintain financial viability over the medium/long term.

#### Societies' performance

- 4 In order to implement and monitor the commercial and social performance of Societies, the Co-operative Union should be given responsibility for establishing a Commercial and Social Performance Panel.

#### Financial auditing

- 5 Co-operative Societies should conform to accounting standards and adopt a standard system of financial reporting.
- 6 Boards of Societies should ensure that the Key Commercial Performance Indicators (KCPIs) are presented to members at the Society's AGM to record the performance of the Society

compared with that of major competitors and peer Co-operative Societies.

#### Social performance improvement

- 7 The Co-operative Union should establish challenging Key Social Performance Indicators (KSPIs), for performance in relation to Co-operative and social goals and should monitor the performance of individual Societies objectively against those targets.
- 8 Boards of Societies should ensure that the Society's KSPIs are presented to the Society's members annually.

#### Social auditing

- 9 The Co-operative Union should develop a standard system for social reporting, so that there is consistency across the Movement.
- 10 The Co-operative Union should produce an annual report on the work of the Commercial and Social Performance Panel to be presented to Congress.

#### Reinvesting the profit

- 11 Reinvestment in the business must always have the first claim on profits, but where a Society is trading profitably, the Commission recommends that the minimum commitment to the members and the community dividend should be 10 per cent of the profit and that the ratio distribution of individual to community dividend should be around 70 per cent to 30 per cent.

#### Co-operative Retail Trading Group (CRTG)

- 12 To enhance the successful performance of CRTG further:

- 12.1 External auditors should be employed to help guarantee the transparency of the accounting procedure.
- 12.2 The Strategy Group of CRTG should be made up of Chief Executives of Societies and the Controller, CWS Retail, for the time being, should be the CEO of CRTG and be a member of the Strategy Group.
- 12.3 The governance of CRTG should be reformed.
- 12.4 Each member of the Strategy Group should have a vote proportional to the purchase volumes of their Society through CRTG.
- 12.5 Clear terms of reference for CRTG should be established.
- 12.6 The CEO of CRTG should produce strategic and annual plans for approval by the Strategy Group.
- 12.7 Delivery of the service to members of CRTG should be based on a revised form of contract.
- 13 The Commission, given the reform of CRTG, recommends that all Societies should now join CRTG.

#### Financial services

- 14 CWS should develop and implement an integrated business strategy for its two financial services subsidiaries, CIS and The Co-operative Bank, in order to harness the latent synergies between the two businesses.
- 15 CWS should review the governance structure of both CIS and The Co-operative Bank with a view to appointing some external and appropriately experienced independent non-Executive Directors to the Board of each institution.

## Chapter 2 – Successful Co-operative Business in the Twenty-first Century Branding and image

- 16 Societies should explore further opportunities for co-ordinated activity including the benefit of a national distribution system; the development of standard store formats, layouts and fascia; and common purchasing of store fixtures and fittings. Societies should also examine the merits of using a common support system across all businesses.
- 17 The Commission recommends that:
- 17.1 A Co-operative Brand Panel should be established to develop a common national Co-operative branding approach for the Movement.
- 17.2 All Societies should ensure that the brand identity for each of their core businesses is compatible with and reinforces the national branding of the Co-operative Movement.
- 17.3 Where the Co-operative brand is being undermined by failure of any retail Society to meet the brand requirements, the Co-operative Brand Panel should report to the CWS Board which may withdraw permission for that Society's continued use of the Co-operative logo or access to CRTG.
- 17.4 All Societies should, under the aegis of the above Panel, explore and resolve the issues surrounding the introduction of appropriate common branding of each Co-operative business under an umbrella national branding approach that encourages the cross-selling of products throughout the Co-operative Movement.

- 17.5 It may also be desirable to appoint Sectoral Brand Panels to examine those branding issues that affect specific businesses common to more than one Society.

### The Co-operative logo

- 18 The Co-operative Brand Panel should consider the long-term future of the existing logo ('clover leaf' design) which some research indicates is perceived by the public as not reflecting the modernising approach now being adopted by the Co-op. A future logo could reflect the modern partnership that will be created among Co-operative businesses.

### e-commerce and new technologies

- 19 Retail Societies should urgently consider how greater use of the Internet can deliver benefits for members and customers. CWS should consider the establishment of a business technology advice centre/service to provide a consultancy service to Societies wishing to introduce new technologies and to encourage best practice technology dissemination throughout the Movement.

### New sectors

- 20 A New Ventures Working Group should be established with a remit to identify new or fledgling sectors where a gap may exist for a Co-operative solution.
- 21 In moving into new areas, the mistakes of fragmentation of the past must not be repeated. In delivering new products and entering new markets there should be a common brand, common performance standards, and shared services.

## Chapter 3 – Membership, Participation and Securing the Co-operative Movement's Legacy Membership

- 22 The Board of every Society should aim to ensure that an increasing proportion of the Society's customers become members, and that an increasing proportion of the Society's business is conducted with members.
- 23 All Societies should up-date and refine their membership records urgently to delete the names of obviously dormant members and establish a membership file that accurately reflects current membership. Societies should thereafter maintain regular contact with their members so that the membership becomes a valued asset to the Movement.
- 24 The Commission recommends that:
- 24.1 Societies should agree and adopt a design for a national Co-operative membership card.
- 24.2 The Movement should work to realise the full value that its membership provides.
- 24.3 The Movement should give further consideration to accelerating the current proposals for the co-ordination into a single Movement database of the customer/member records of constituent organisations.
- 24.4 The adoption of common technical platforms within the Movement should be promoted.
- 24.5 Efficiency and effectiveness in membership administration should be optimised.
- 24.6 The goal should be that for a Co-operative Movement member their membership card is recognised whenever the member undertakes transactions with any Co-op business.

# The Co-operative advantage: “excellent products or services with distinct competitive benefits derived from our values and principles, our rewards for members or our commitment to the communities we serve”

- 24.7 The Retailer Financial Services Committee should be given a more formal status with responsibility for overseeing this work.
- 25 The minimum shareholding of £1 for members should be maintained for entitlement to vote within Societies. Individual Societies should retain the right to determine whether an increased shareholding or purchase qualification is required before nomination to elected office.
- 25.1 All Societies should adopt best practice in increasing participation and strengthening democracy via a range of tried and tested balloting procedures, including postal/ telephone balloting and the provision of referenda.
- 25.2 Societies' membership development policies should provide access to adequate information on the performance of the business, including the Key Commercial and Social Performance Indicators, a new timetable of meetings to make them more accessible to members and structural changes to encourage participation by younger members of the Co-operative Movement.
- 25.3 The Movement should undertake a high-profile recruitment campaign across the country in order to develop a mass membership base.
- 25.4 The Commission recognises that some Societies are considering experimenting with increasing the minimum shareholding for new members and the Commission looks forward to the results of such initiatives being shared with the Movement.

- 26 Co-operative membership should be encouraged among customers of The Co-operative Bank, CIS and other business areas in addition to the traditional base of food retail customers.
- 27 The Co-operative Union, in order to build a strong membership base across the country, should establish and promulgate best practice in the recruitment and participation of members.
- 28 Societies should encourage employees to become members of the Co-operative Movement themselves and to participate actively in the Society's internal democracy via a 'reserved employee member constituency'.

## Securing the Co-op's assets

- 29 This is a critical issue for the Co-operative Movement. The Commission recommends:
- 29.1 All Societies should, as a matter of urgency, put in place rules to make it clear that current members are custodians of the assets.
- 29.2 Societies which have not yet adopted the seven model amendments designed to set high turnout thresholds as a defence against hostile takeovers or attempts at 'demutualisation' and/or to secure the transfer of assets to another Co-op organisation, should do so at the earliest opportunity.
- 29.3 The Government should introduce legislation to secure Co-operative assets for the future as is commonplace in many other European countries.

- 29.4 The Boards and Chief Executives of Retail Societies should give careful consideration to the Counsel's advice received by the Commission as part of our investigations into the protection of Co-operative Movement assets.

## Chapter 4 – Effective Management for Change and Development Boards, management and staffing

- 30 Best practice in relation to the size of the Boards for Societies should be the lowest number that achieves the principle that elected members should always have a majority on the Board whilst achieving the representation from the other constituencies as outlined within the recommendations.
- 30.1 Accordingly, the Commission recommends that the maximum size of Boards should be 15, except in the case of CWS, where the maximum ideally should be 20 members.
- 31 Members of the Board elected from amongst the membership of the Society must always be in a majority on the Board. Nevertheless, the Commission recommends that:
- 31.1 The Chief Executive and Financial Controller, as a minimum, should serve on the Board.
- 31.2 Employees should be recognised as important stakeholders and should be encouraged to participate actively in the Society's internal democracy via a reserved employee member constituency with at least two seats on the Board. Employees may continue to stand as consumer representatives but the total number of employees on the Board (in any capacity) should not exceed one-third.

- 31.3 Boards should introduce a skills audit and should be empowered to fill any skills gaps identified by the appointment of two external independent Directors.
- 32 Within CWS, each major trading business should have its own management executive, as is currently the case in The Co-operative Bank and CIS. The respective management executives would remain responsible to the CWS Board through the CWS Chief Executive Officer.
- 33 The Co-operative Union should, after appropriate consultation, establish the quality and qualifications required of candidates to serve on the Boards of Co-operative Societies as independent non-Executive Directors.
- 34 The Co-operative Union should have the ability to appoint up to two advisers to work with the Boards of consistently under-performing Societies and the Rules of the Co-operative Union should be amended to facilitate this, which would then become a condition of membership of the Union.
- 35 Ongoing training for all Directors should be addressed regularly by all Society Boards. The Co-operative Union and the Co-operative College should develop a new qualification that meets the minimum requirements for elected Directors to execute their duties and responsibilities adequately.
- 36 The Commission recommends that an age limit for Board members within Societies should be set at 68.
- 37 Irrespective of the size of Society or the electoral processes adopted, it must be emphasised that Board members, once elected are not delegates representing any particular constituency, rather they serve on the Board to oversee the competitive and commercial success of the Society as a whole and must always act selflessly in its best interests.
- 38 The Commission recommends that the Boards of all Societies should adopt best practice in relation to equal opportunities policies and should incorporate reports on equal opportunities within the social report.
- 39 The Commission recommends that Societies should review their remuneration policies in order to reward appropriately senior managers in order to attract talented people from outside the Movement. The remuneration package should be based upon the profitability and social achievements of the successful Co-operative business and not on turnover alone.

## **Chapter 5 – National, Regional and Local Structures**

### **Lifelong learning**

- 40 The Co-operative College should lead, on behalf of the Movement, the development of a modular Co-operative and mutual enterprise programme, capable of being used at all stages of learning and available both within Societies and outside the Movement.

### **Co-operative Foundation**

- 41 A Co-operative Foundation should be established to promote the values and principles of the Co-operative and Labour movements.
- 42 The Foundation should work with the proposed Social Economy and Community Task Force to help implement the recommendations of the Government's report on Enterprising Communities to raise community development venture funds and to encourage public and private sector investment in under-invested communities.
- 43 The Foundation should be non-profit-making and the Board should be representative of the Co-operative Societies which choose to contribute and should include representation from the wider Labour Movement.
- 44 The Foundation should be financed from the community dividend with an initial capital injection to enable it to commence its activities.

- 45 In considering applications from individuals or organisations, the Commission recommends that both Boards of Societies and the Co-operative Foundation must give priority to funding projects which relate directly to the principles and practice of co-operation and which help translate the values of mutual support, solidarity and community into practical action.

#### Political structures and affiliations

- 46 The Co-operative Party and the Labour Party should work together in a new partnership to increase participation and political activity and the Co-operative Party should be the only Co-operative body to affiliate to the Labour Party.

#### The Co-operative Press

- 47 The Co-operative Union should initiate discussions with the majority shareholder with a view to requesting the Board of the Press to carry out a review of the Co-operative Press, in order to broaden the editorial content of the Co-operative News, so that it encompasses and supports the wider Co-operative Movement.

#### Regional issues

- 48 Regional Co-operative Councils should work together with the Co-operative Union and should have a seat on the Union's Central Executive.

#### National issues for UK Government

- 49 The Commission requests that, in the future appointment of members of the Regional Development Agencies (RDAs), the Government consider the nomination of at least one Co-operative Movement nominee to the Board of each RDA.
- 50 We are aware of the thorough work being carried out by the Company Law Review. We recommend that a similar approach should be established to develop the future legal framework of the social enterprise and mutual sectors as a whole. The aim of such a review should be to develop a simple, modern, efficient and cost-effective legal framework for carrying out business activity and meeting the social goals of these sectors. This new legal framework should be established within the lifetime of the next Parliament.
- 51 A modernising bill should be put before Parliament to recognise in law the Co-operative form of common ownership.
- 52 The Commission requests that the UK Government should consider, as an immediate step, extending the remit of an existing Government Minister within the Cabinet Office, to have responsibility for the promotion of Co-operative enterprise.

#### Chapter 6 – The Social Economy and Co-operation

##### Social Economy and Community Task Force

- 53 The social enterprise sector is an integral part of the Co-operative Movement. A Social Economy Summit meeting hosted by The Co-operative Bank and supported by the Co-operative Union and the UKCC should be held during 2001.
- 53.1 It should bring together leading players in the UK's social economy, Government Ministers and international experts, to address the funding difficulties encountered in the UK for social enterprises, the feasibility of creating a social economy venture capital fund and the current legal limits in the UK on the scale of Co-operative shareholdings.
- 53.2 The Summit should provide an opportunity to launch a new Social Economy and Community Task Force bringing together the three wings of the Labour Movement to develop an holistic approach to strengthening the social enterprise sector in the UK.
- 53.3 The Commission recommends that the Labour Party should incorporate into its manifesto for the next General Election a commitment for the next Labour Government to examine how it can implement measures to expand the UK's social economy.

#### Housing

- 54 The Government should promote amongst local authorities that are considering transferring their housing stock to the private sector the Co-operative model of social housing.

### UKCC and the Co-operative Union

- 55 The Commission welcomes the news that the Union and the UKCC intend to establish a full strategic alliance to progress further the overall policy development of the Co-operative and social enterprise movements.
- 56 This new strategic alliance should become the national voice for the promotion of social enterprises in the UK and should develop a framework to provide services, support and training.

### Chapter 7 – Mission Statement and Next Steps

#### Mission statement

- 57 The Commission recommends that the Co-operative Movement should adopt as its mission the following form of words:  
 “To challenge conventional UK enterprise by building a commercially successful family of businesses that offers a clear Co-operative advantage.”
- 57.1 The Movement should seek to implement the mission in a consistent, committed and co-ordinated manner at all levels of the organisations that make up the Co-operative Movement and should ensure all employee and Director training starts from and builds upon this foundation.
- 57.2 The Movement should seek to live up to and strive towards the ‘stretching goal’ that this mission represents over the coming years.

### Implementation

- 58 Co-operative Retail Societies should seek new ways of deepening their co-operation at a trading level, particularly in adjacent geographical areas.
- 59 The Co-operative Union should actively seek to ensure the commitment of all sections of the Movement to the implementation of the Commission’s recommendations. In order to review progress on the implementation of the Commission’s Report, it is recommended that the Co-operative Union report formally on this matter no later than Congress 2006.
- 60 The Commission recommends that the Co-operative Movement should prepare for its renewal in the twenty-first century by reinterpreting and reinvigorating the principles that it has always stood for, to make them relevant to the present day.

## Process and overview

The Co-operative Commission was set up in February 2000, with the backing of Tony Blair, following a call by leaders of the Co-operative Movement. The members of the Commission comprised business leaders, politicians, trade unionists and co-operators, under the Chairmanship of John Monks, General Secretary of the TUC (see Annex 1).

The Commission was asked to take an independent look at the sector, against the immediate background of the (then) pending merger of the two largest UK Co-operatives, CWS and CRS (which took place in April 2000). This created a national Society which accounts for over half of the total sector, the other half being located in around ten regional Societies, and thirty or so local and community Co-operatives.

The wider background was one of long-term decline of the sector, in terms of numbers of Societies, market share, and profitability. Nevertheless, the sheer size of the Co-operative Movement still surprises those not familiar with it. The Co-op is a significant retailer, with a turnover of over £8 billion, a customer base of 10 million, upwards of 90,000 employees, and assets with a market value of perhaps £5 billion. Within the Co-op 'family', there are notable success stories, such as The Co-operative Bank, while the Co-op is the leading player in markets as diverse as funeral services and farming. On the other hand, overall, the return on the Movement's assets is well below comparable performance in plcs.

All this makes the Co-op in general, and CWS in particular, attractive to the 'demutualiser'. The Co-op has firmly rejected this idea, and has equally firmly fought off predators: nevertheless, there is now a widespread acceptance that the best long-term defence is to run a 'successful

Co-operative business'. In other words, the sector must succeed both as a business, in terms of its performance – and as a Co-operative, meeting its social goals.

### The birth of the Commission

On 14 January 2000, a letter was sent to the Prime Minister, signed by Lord Graham of Edmonton (Chairman of the United Kingdom Co-operative Council), Graham Melmoth (Chief Executive of Co-operative Wholesale Society Ltd.), Len Fyfe (now Lord Fyfe of Fairfield, but at the time Chairman of CWS and Chief Executive of Midlands Co-operative Society Ltd.), and Pauline Green (Chief Executive and General Secretary of the Co-operative Union). The letter read:

*"The Labour Movement in the UK has three wings: the Labour Party, the Trade Unions and the Co-operative Movement. All are united in their commitment to achieving economic efficiency and social justice. We are writing to you as the Leader of the Labour Party to ask for your assistance in helping in the further development and modernisation of the Co-operative Movement.*

*For 150 years, the Co-operative Movement has sought to provide high quality ethical services to consumers and to involve itself in community developments. As it faces the new millennium, we believe it needs to review its strategy and structures in order better to meet its historical goals, and to do so in a modern setting.*

*Such a review needs to be fundamental. It needs to be done openly and fairly. And it needs to include co-operators from all parts of the Movement, as well as others from amongst the Labour Movement who share our goals and have the commercial and political expertise to contribute to thinking through the optimal future for the Co-op.*

*For this reason, we are requesting that you sponsor and help appoint a Commission*

*to determine how the Co-operative Movement can best be structured to meet the challenges of the next millennium. A copy of the draft terms of reference for the Commission is attached.*

*In the 1950s, Hugh Gaitskell, then Leader of the Labour Party, chaired a Commission to review the structure of the Co-op. We believe that the time is now ripe for a new Commission to help define and demonstrate the relevance of co-operation for the twenty-first century and how it contributes more fully to the values which we all share."*

The Prime Minister responded promptly, in the following words:

*"I am pleased to respond to your request to help set up and sponsor a Commission to investigate and propose ways to modernise the Co-operative Movement.*

*I agree with your desire to modernise the Co-operative Movement. I also agree that this means that the Co-op should be successful both as a business and in making a significant contribution to political education and community development.*

*I have asked John Monks to take on the role of Chair, and I know that you have members of the Commission with an appropriate balance of business and political skills from within the Labour and Co-operative movements. I am sure that they have the expertise needed to make the Commission a success.*

*I am delighted to help in the establishment of the Commission, and to support your desire for a fundamental review."*

### The launch of the Commission

The launch of the Commission was publicly announced on 24 February 2000, and the Commission met for the first time on 29 February 2000. The members of the Commission came from a wide variety of backgrounds and for several, this was the

first time they had been exposed to the intricacies of the Co-operative Movement. That, however, was seen as a strength, in that the majority of the Commission were bringing fresh minds and different experiences to bear – while the minority who had experience of the Co-op, either as elected representatives or as officials, were able to ensure that, whilst remaining independent, the Commission did not become remote from the practical realities of co-operation. In addition, the co-operators on the Commission ensured the work of the Commission was as transparent as possible, taking full account of the views of the Movement.

The Commissioners had been given a remit, as part of the original terms of reference (see Annex 2). They now divided that remit into a list of broad ‘areas for discussion’, which were used not only to guide the work of the Commission and its advisers, but also in the series of regional hearings that took place during the summer of 2000. The fundamental question asked was: *“What is the vision of the Co-operative Movement as we enter the new century – in terms of commercial objectives and social goals?”* This led to two supplementary questions: *“How close to delivering the vision are we?”* and *“What structures do we need to close the gap between the vision and the reality?”*

Over the following six months these questions were addressed, both through receiving evidence from a range of experts and interested parties, and through a large number of thought-provoking individual and collective submissions (see Annex 4), together with extensive debate at regional hearings, at the Co-operative Congress in May 2000, at the Labour Party Conference in October 2000 and in the pages of Co-op News. As the Commission proceeded

with its work it began to be a catalyst for change even before its deliberations were complete, and it has been noticeable that there has been, over the last 12 months, a new focus on the equal importance of the two ‘sides’ of co-operation, the commercial and the social.

In addition to the large number of external submissions, technical reports and advice were commissioned from respected independent advisers and consultants including: Leslie Butterfield of Partners BDDH, L.E.K. Consulting; UBS Warburg; KPMG; Hay Management Consultants; Cobbetts solicitors and IBM. In addition the Commission received advice from Christopher Nugee QC and David Richards QC. A number of Co-operative Societies also supplied the Commission with copies of statistical and research work that they had undertaken and which proved of interest during our deliberations.

The Commission would like to place on record its thanks to the Trades Union Congress for providing office accommodation and to Roger Poole, Assistant General Secretary of UNISON, who acted as independent Chair of the regional hearings.

### **The work of the Commission**

The Commission met formally on nine occasions. The first two meetings ensured a common level of understanding about the trading environment, and the fundamental commercial issues. The third meeting focused on the financial services sector, and on the issue of securing Co-operative assets. The fourth meeting looked at democratic structures, and also the wider Co-operative Movement, and its political arm the Co-operative Party. The fifth meeting looked at corporate governance and legal issues, and also focused on CWS, and on the relationship between the

national Society and the regional Societies, covering issues like the governance of the Co-operative Retail Trading Group. The last of the hearings received presentations on the measurement of both commercial and social goals, and on new technologies.

The remaining three meetings in October, November and December concentrated on drawing conclusions from the hearings, and on the detail of the recommendations themselves, conscious that the recommendations had to be radical, but deliverable. The example of the 1958 Independent Co-operative Commission (see Annex 7) was very much in the minds of those drafting the Report. That earlier report had been prescient in its analysis, and right in nearly everything it recommended: and yet the Movement had failed to implement it. That must not happen this time.

### **Overview**

The Movement needs modernisation and that has to be done from within, by the very people, the Boards and Chief Executives, who are most immediately affected by the proposed changes. We have to rethink and review co-operation, in the interests not just of the Co-operative Movement, but of the wider Labour Movement as a whole. The Co-op needs to listen to all its stakeholders, to admit its failures and weaknesses, and to act now to get things right for its members, for its customers, its employees, and the wider community in which it trades. If it does not grasp this opportunity and modernise now, there is a very real chance that it will not survive to celebrate the bicentenary of those original Rochdale Pioneers who in 1844 created an innovative and inspirational business model, which was unique in combining commercial and social goals, in a new form of enterprise which has, so far, stood the test of time.

# social goals provide a competitive advantage leading to commercial success

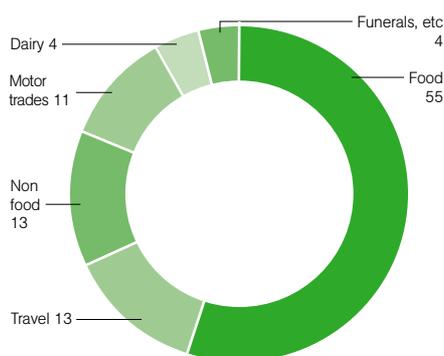
## Chapter 1 – Re-establishing the Co-operative Advantage



13 The Commission's role  
 13 The distinctive character of Co-operatives  
 14 Analysis  
 15 Commercial performance  
 16 Social performance  
 18 Social auditing  
 19 The virtuous circle  
 20 Social goals

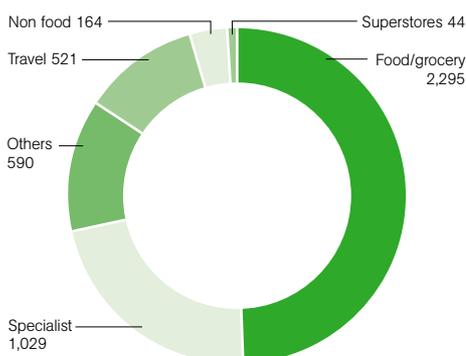
20 Reinvestment in the business  
 21 Allocating the profit  
 21 Positive contributions  
 21 CRTG performance  
 22 CWS Agriculture  
 22 Associated Co-operative Creameries  
 24 Financial services  
 26 Recommendations

**Co-operative Retail turnover by category (%) 1999**



Source: Co-operative Union

**Total Co-operative Movement number of outlets 1999**



Source: Co-operative Union

## 1 The Commission's role

1.1 The Commission has interpreted its role as having three aspects. First, based on its terms of reference, to analyse the performance of Co-operative Societies and of the Movement as a whole during the recent past decades. Second, to make recommendations as to how the commercial and social performance of Societies and the Movement can be improved. Third, to set both the analysis and the recommendations for change in the context of the current and future social and economic considerations and concerns – including the need to develop the social economy – which are facing the Co-operative Movement. The first key step in moving towards this objective is to re-establish the Co-operative advantage.

1.2 In attempting to discharge these responsibilities the Commission has attempted to be radical – prompted by the measure of shortfall in performance of significant parts of the Movement's activities – and yet to root this radicalism in an understanding of the beliefs and commitment of Co-operators and the historic mission of the Movement. We believe that, with the correct remedial action, this historic mission can be carried forward during the twenty-first century to the benefit of our citizens.

## 2 The distinctive character of Co-operatives

2.1 Co-operatives are more than businesses.

They exist as distinctive organisations because they also have Co-operative and social goals, which they wish to achieve. Notwithstanding these social objectives, however, the Co-operative Movement, in its various activities, needs to deliver consumer satisfaction and to achieve a surplus on its operations. In the markets in which Co-operative businesses operate there is a need to keep pace with private sector provision. Failure to achieve the required commercial success will mean failure to achieve the social goals.

“Lessons to be learned from plcs include a genuine performance culture characterised by intolerance of poor performance, proper accountability of senior executives, a more flexible and adaptable approach and more effective staff training.” A co-operator, Manchester regional hearing

2.2 In some areas of business, notably in attempting to compete with the large multiple stores and supermarket chains, it 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. This commercial failure has forced remedial changes in management structures, mergers, and closures. However, these forced developments have been inadequate to prevent substantial loss of market shares and the majority of the Retail Movement is facing an uncertain future.

2.3 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. This is clearly unacceptable as other than a short-term palliative.

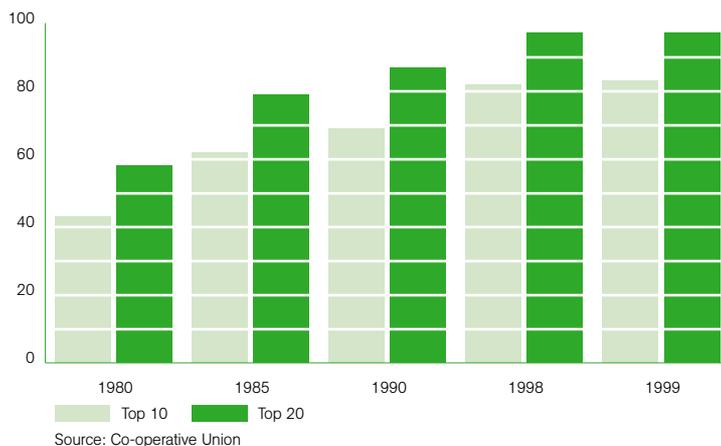
2.4 The failure relative to the market on the part of most of the Retail sector must be arrested. In today's competitive commercial environment such failure is penalised more severely than ever. The Co-operative Movement cannot be sustained simply on the basis of its social commitment.

2.5 It is essential for all Societies to generate annually expanding trading surpluses; to achieve a minimum of ROCE, to increase net profits and to increase market share. The setting and meeting of such key financial performance indicators is an imperative across the whole of the Retail Consumer Movement.

2.6 Other relevant commercial performance targets must be set in relation to the activity of the individual businesses. Meeting these targets – with management and staff incentives to achieve them – is an essential part of achieving the surplus from which the funding for reinvestment and expansion, maintenance of the real value of the assets and funding for community and individual member dividends can be met.

2.7 It is imperative that Co-operatives, as customer-owned organisations, should provide outstanding customer satisfaction, in terms both of the quality of goods and services and of benefits. Indeed the Co-operative Movement should be providing the benchmarks for quality and service in the sectors and areas in which it operates. This cannot be said to be the case over a wide range of the Movement's activities. Unless the majority of the Movement's activities

Co-operative trade accounted for by top Retail Societies (%)



Top 10 Retail Societies

	Turnover (£m)	%
CWS (Retail turnover only)	3,809	45.4
United Norwest	779	9.3
Midlands	610	7.3
Yorkshire Co-operatives	400	4.8
Anglia Regional	253	3.0
Ipswich & Norwich	250	3.0
Oxford, Swindon & Gloucester	246	2.9
West Midlands	206	2.5
Lincoln	206	2.5
Scottish Midland	204	2.4
<b>Total</b>	<b>6,963</b>	<b>83.1</b>

Excludes intra Movement trade – all figures on a 52 week basis  
Source: Co-operative Union – 1999 statistics

can emulate the best then the inexorable, slow decline of the Movement will continue.

2.8 Ironically, the size of the Co-operative Movement’s retail businesses makes the Co-op one of the largest retailers in the UK, yet this notional dominance is not translated into the kind of commercial cultural dominance which, say, Boots has and which the major supermarket chains are attempting to achieve.

2.9 In certain sectors and in certain types of operations, e.g. large department stores and superstores, it is unlikely that the decline can be arrested. The customer offering in these activities is seen as inferior to conventional business competitors. Hard decisions are likely to have to be taken here, and the Movement may have to countenance moving out of large department stores and superstores altogether, as have some Societies already. However, the successful growth in other newer areas such as travel and The Co-operative Bank indicates the growth potential for the Co-operative model, building on the Co-operative business advantage.

2.10 The Co-op is also burdened with an unfortunate, old-fashioned image. It is essential to the future successful growth of the Co-operative Movement that this general poor image is addressed and a new branding strategy is developed. In achieving the essential changes to become successful Co-operative businesses in a modern consumer environment it is imperative that the principal focus of the businesses is on providing the customer with a uniquely satisfying product. This was the basis of the success of the Co-ops in their heyday, it must become so again. The desired success in achieving social goals will only be attained if the Movement, in all its operations,

achieves the commercial success which is the pre-condition and basis for delivering the social objectives.

“Our business has been built up from the energies and the contributions of members and employees over many generations; we hold it in trust for the sake of previous and future generations.” A co-operator, Loughborough regional hearing

### 3 Analysis

3.1 Overall there is a significant gap between the Movement’s commercial objectives and its actual performance. There has been differential performance for sectors, but, overall, sales have declined in real terms. 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.

3.2 There are, however, a number of examples of commercially successful Societies and there should be a greater exchange of best practice between Societies in order to increase overall performance, as a first step to bringing the majority up to the level of the best. The Co-operative Bank’s position has demonstrated that growth and improving economic returns can be generated alongside, and in part through, ethical and responsible trading practices.

3.3 The charts and tables throughout this chapter indicate the nature and extent of the problems faced by the Movement and its lack of success in meeting its commercial and social goals.

3.4 The various tables also demonstrate that the performance of the Co-operative Movement, notwithstanding some notable islands of success, has not achieved either commercial or social goals. Regarded as a set of commercial organisations – and in particular the retail sector – it has under-performed to a degree which can be said to threaten the future existence of Co-operative businesses and of the potential of the Movement itself as a progressive, social force in a modern consumer-oriented society.

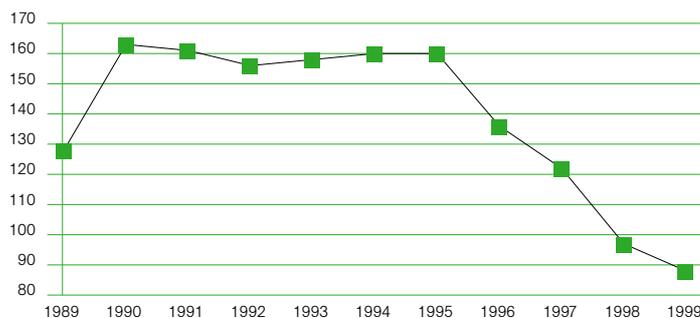
3.5 A variety of factors can be advanced which have led to the under-performance of a substantial section of the Co-operative Movement. The evidence collected and presented to the Commission suggests that the main factors involved in success and failure can readily be summarised.

- 3.6 The main factors involved, not necessarily in order of importance and not present together in all cases, are:
- 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.
  - Concentration on meeting social goals at the expense of, or without reference to, commercial performance.
  - Unwillingness to take commercially necessary decisions, e.g. closure of perennially loss-making activities.
  - Failure to innovate in terms of products, services, or organisation.
  - Failure to adopt modern, successful marketing methods and practices.
  - Failure to keep pace with business sector competitors.
  - An inability to take advantage of the cross-selling potential of the

**Balance sheet – Co-operative Retail Societies**

	1998 (£m)	1999 (£m)
Fixed assets	2,450	2,370
Net current assets/liabilities	129	346
Long term liabilities	962	1,074
Net assets	1,617	1,642
Share capital	308	277
Reserves	1,309	1,365

Source: Co-operative Union

**Co-operative Retail Societies' trading profit – last 10 years (£m)**

Note: The decline in the last four years is principally attributable to CRS

Source: Co-operative Union

Movement as a whole.

- An, as yet, unfulfilled potential of the Movement to communicate its capability to respond to developing consumer demands for trust and social concern in the delivery of goods and services.
- Failure to measure and set clear goals for both commercial and social performance.
- Lack of the active involvement of properly informed members in the affairs of the Co-operative businesses.
- Lack of pressure on management and Boards for change.
- Lack of focus on commercial performance.
- Reluctance to change poor management or recruit new management externally.
- Fragmentation of the Movement.
- Lack of co-operation between Societies.

3.7 Each one of these factors on its own would be sufficient to create substantial problems for Co-operative businesses. In many cases more than one of the factors are present and account for the deteriorating commercial performance of substantial sectors of the Co-operative Movement.

“There was a need to achieve excellence in terms of customer satisfaction, in terms of providing high quality, being price competitive and offering value for money. This was seen as a means of improving bottom line performance, as well as being a practical means of delivering Co-operative values and giving additional credibility to our wider goals as a Co-operative.” A co-operator, Manchester regional hearing

3.8 By contrast where there have been successes then it is the absence of these

negative factors and the presence of their positive obverse that explain the success. For instance, the success of the **smile** Internet banking service can be attributed to strong innovation and capable marketing allied to an efficient business approach. The refurbishment of the CWS Welcome stores has also been related to the same two factors. A number of Societies have recently taken steps to involve their membership actively and to expand it as part of a more dynamic strategy from the Boards of these Societies. A few Societies have closed loss-making activities to improve the overall position of their businesses and raised their level of profitability. Again in connection with social goals and activities some Societies have, on the back of improved commercial performance, involved themselves in a positive and productive manner in community development projects and support for other Co-operative ventures locally and regionally.

3.9 Failure to meet commercial performance measures entails failure to meet social goals on an on-going basis. The fact that some Societies have failed to meet the former, but have continued to meet social goals by the sale of assets is a matter for serious concern, not congratulation.

3.10 Being a Co-operative is not an excuse for poor commercial performance. The Return on Capital Employed (ROCE) must be raised, and other measures of performance must reflect the maximum that can be achieved without compromising Co-operative principles; for example the existing market share must be at least maintained.

3.11 It is important that all involved in the Co-operative Movement appreciate that there is no choice or conflict between

commercial objectives and social goals. Commercial activities must generate a sufficient surplus to ensure the re-development of the business; the payment of individual customer economic benefits; and the payment of a community dividend. Without a surplus the business will decline and social goals will not be met.

## 4 Commercial performance

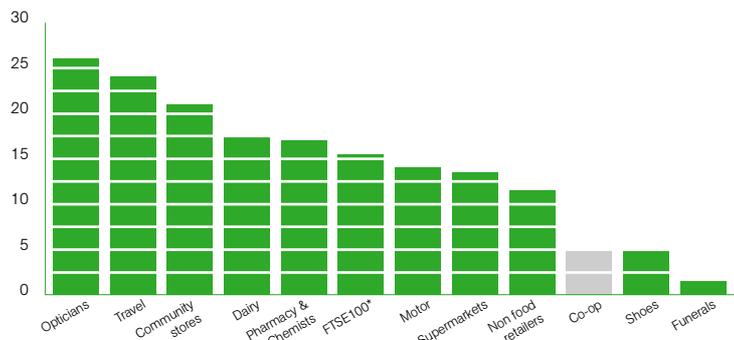
4.1 Some valuable work on performance measures has already been presented to the 2000 Co-operative Congress by the Co-operative Union. The issue to be faced by Societies is ensuring that relevant performance measures, and particularly commercial performance measures, are met on an on-going basis.

4.2 The key performance measures are those that relate to the generation of a trading surplus. Increased turnover or even increased market share alone will not guarantee that a trading surplus will be achieved; any expansion of trading must be profitable (within a reasonable trading period) for it to be justified.

4.3 The assets of the business, human and physical, must be employed effectively and efficiently and must generate an adequate return. This is true whether it is the Return on Capital Employed (ROCE) which is being used or a more general measure such as the proportion of profit in the value added by the business to its inputs in terms of wages and capital employed.

**Performance of the Co-operative Movement compared with competing industry sectors 1998 (%)**

Return on Capital Employed by sector 1999



Note: \*FTSE100 excludes financial institutions, FTSE100 and Co-op 1998 numbers.  
Source: L.E.K., Datastream, Company Reports

4.4 These and other measures of surplus and profit can also be used to compare the performance of Co-operative businesses with similar trading operations in the plc sector. In relation to both the food and non-food sectors, the Co-operative retail performance compares very unfavourably on the measure of ROCE. In these competitors, which correspond with the majority of Co-operative retail activity, it is not unusual to find returns of up to 20 per cent achieved in the most successful supermarket chains such as Tesco (see table page 24). Overall the Co-operative retail sector achieves barely 5 per cent. It is with this in mind that we are recommending a minimum ROCE as a first milestone for Co-ops. Failure to achieve this should result in remedial action being taken by the Movement. Poorly performing Societies affect the health of the Movement as a whole; their performance must be brought up to the level of the best.

4.5 The Boards of Co-operative Societies have a responsibility urgently to establish challenging Key Commercial Performance Indicators (KCPIs) and to monitor their performance objectively against those targets, while respecting Co-operative values. The performance indicators should be presented to members at the AGM.

**See recommendation 1**

4.6 Where it becomes apparent that a Society is failing to meet its KCPIs, then an interim report should be presented to members at the Half Yearly Meeting.

4.7 Performance targets should be set in relation to ROCE – Return on Capital Employed – which is a valuable benchmark when comparing the performance of one retail Society with another and when

comparing retail Societies with equivalent plc competitors. Other performance measures, e.g. net trading surplus, which should achieve a minimum percentage of turnover, appropriate for the nature of the business, to allow for reinvestment and the payment of individual and community dividends; gearing ratios, and market share (which should be maintained or increased) should also be used.

**See recommendation 2**

4.8 However, it is important that managers and directors are aware of the necessity of securing year on year trading surpluses on turnover, from which must be generated the funds for reinvestment in the growth of the business; the finance to provide individual member dividends and other customer benefits; and the funds to establish the community dividend in support of the achievement of the broader social goals. Accordingly, Societies should urgently review the performance of their various business sectors to determine their long-term viability.

**See recommendation 3**

4.9 We believe that the Co-operative Union has an important role to play at the level of the Movement as a whole in setting and monitoring appropriate commercial performance measures. For this reason we wish the Co-operative Union to establish a Commercial and Social Performance Panel.

**See recommendation 4**

4.10 One role of the Panel would be to set common KCPIs for Societies to adopt to measure their individual commercial performances, submitting these to the Panel for scrutiny on an annual basis. This

would enable benchmarking to improve, over time, the performance of the whole Co-operative retail sector.

4.11 The Co-operative Union would be the body ultimately responsible for adjudicating on the performance of individual Societies, against the KCPIs; deciding what remedial action was to be recommended or imposed, and setting appropriate commercial performance benchmarks for all Societies. Societies should adopt a standard system of financial reporting so that there is consistency across the Movement.

**See recommendations 5 and 6**

**5 Social performance**

5.1 Though we take the view that the achievement of a far higher and sustained level of commercial performance by all businesses within the Movement is its first and overriding priority and fully in line with the Co-operative purpose, nonetheless the Co-operative Movement must also achieve its social goals. Indeed, the achievement of social goals is both the outcome of enhanced commercial performance and – properly articulated, communicated, and delivered – exerts a positive feedback on the achievement of improved commercial performance.

“It’s being a Co-operative and expressing Co-operative values and principles that should differentiate us from a plc, this difference should be more clearly promoted in the marketplace. Co-operatives are poor in advertising their principles and values and the Co-op difference.” A co-operator, Loughborough regional hearing

Andrew Knox and smile staff at The Co-operative Bank's customer service centre in Stockport



## smile – the Internet bank

### A Co-operative case study

The Co-operative Bank's reputation for innovation was demonstrated again during 1999 with the successful launch of **smile**, the UK's first full Internet bank.

**smile** made an immediate impact with high profile advertising, PR and its fresh and innovative approach.

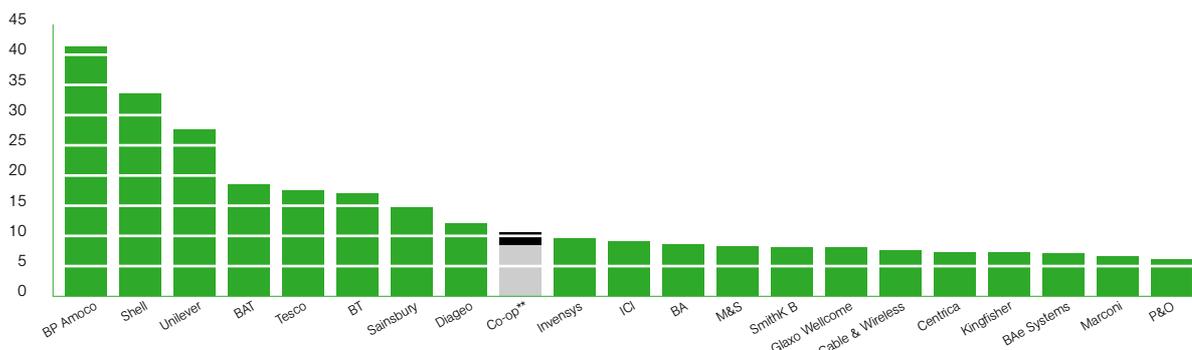
**smile** offers a comprehensive range of banking products including some of the best priced products on the market, and

puts the customer firmly in charge of their finances. It was also the first Internet bank to reach the BS7799 British Standard, for its information security management system.

Customers of **smile** can do their banking on the Internet from anywhere and at any time. They also have the 24 hour support of the **smile** service centre and can use any of 18,000 Post Offices to do their banking.

**smile** recruited 200,000 account holders in just 10 months – more than 80 per cent of whom are new to The Co-operative Bank.

Comparison of Co-operative with the FTSE100 top 20 companies ranked by 1998 turnover (£bn)\*



Note: \*Excludes financial institutions. \*\*Black area indicates the inclusion of the figures for CIS and The Co-operative Bank  
Source: L.E.K., Datastream

5.2 Hence, accompanying the setting, monitoring, and meeting of commercial performance targets there should be a similar framework in relation to social performance targets. Like the commercial indicators, the Key Social Performance Indicators should be presented to members at the AGM, but where a Society is failing to meet the required indicators, an interim report should be presented at the Half Yearly Meeting.

**See recommendations 7 and 8**

5.3 Again this would be the responsibility of the Co-operative Union's Commercial and Social Performance Panel. There would be a parallel procedure for monitoring the performance of Societies against Key Social Performance Indicators (KSPIs) as for KCPIs.

5.4 The Co-operative Union would be responsible for adjudging whether Societies were performing adequately against the published KSPIs and setting appropriate social indicators.

5.5 In determining both KCPIs and KSPIs, the Co-operative Union should consult with leading external experts in this field in developing appropriate benchmarks.

**6 Social auditing**

6.1 Social auditing was originally pioneered by the Co-operative sector, in particular the Scottish community business movement together with the New Economics Foundation. It is now being used by organisations as diverse as local LETS barter schemes and global

businesses worldwide such as BP Amoco and British Telecom. Winners of the 1999 Social Reporting Award included Shell International and The Co-operative Bank. However, while there is a strong corporate involvement in these initiatives, there is a legitimate concern that some shareholder-owned companies are using social auditing as a marketing tool and diluting the extent to which it acts as a tool for the empowerment of stakeholders. The Co-operative sector in the UK and worldwide has a leadership role to play in contributing to the development of social auditing in ways that maintain sufficient quality standards.

6.2 Social auditing sets out the social impact of an organisation's activities. It uses a toolkit of indicators, benchmarks, stakeholder dialogue and public reporting. There are emerging standards in the field, such as AA1000 as well as initiatives such as SA8000, the Global Reporting Initiative and SIGMA – each addressing a component of social reporting or the integration of social, environmental and economic reporting.

6.3 It would not be appropriate, at this stage, to make conducting a social audit a regulatory condition of being a Co-operative, as this will add costs to Co-operative start-ups. Instead, social auditing should be encouraged as good practice and perhaps, potentially, a condition of membership of the Co-operative Union, after an initial trading period. In addition, the Co-operative Union should develop a standard system for social reporting so that there is consistency across the Movement.

6.4 Again a further possibility would be to reduce the costs of social auditing, particularly for community-based

Co-operatives, by developing Peer Group Verification; a mutual association of organisations completing social audits or individual co-operators willing to be trained as social auditors to allow verification of another Co-operative's social audit. This could be done under the aegis of the Co-operative Union.

6.5 Taking account of the above discussion, all existing Societies should be prepared to commit to a social audit. Performance would be measured against pre-stated criteria relevant to all stakeholders, independently and objectively audited by an outside organisation appointed at a Society's Annual Meeting, against a standard to be set by the Co-operative Union (as outlined above) and the results reported to the Society's following AGM and, collectively, presented to Congress by the Union. Such a procedure would allow benchmarking to be carried out and standards raised by emulation of the best-performing Societies.

6.6 The social objectives of the Co-operative Movement must be implemented in such a way that they help to promote – among the public at large – the value of the distinctive Co-operative principles. We believe that the Co-operative Movement as a whole should share common attainable goals, which will help presently disparate sections of the Movement to support each other. The work of the Commercial and Social Performance Panel should encompass this task.

**See recommendation 9**

6.7 The Co-operative Union should produce an Annual Report on the work of the Social and Commercial Performance

### The Co-operative virtuous circle



Panel which would be presented to the Co-operative Congress.

#### See recommendation 10

6.8 Since the Co-operative values give a competitive advantage to the Co-operative businesses, it is essential that the benchmarks set for both the social and commercial goals of individual Societies are reached. The Co-operative Union should have the ability to appoint two advisors to work with the Board of a consistently under-performing Society.

6.9 We also believe that a common and generally accepted mission statement to which all parts of the Movement would subscribe, as discussed in Chapter 7, can assist in motivating all in the Movement to work in a concerted and co-ordinated manner to achieve its common goals, commercial and social.

## 7

### The virtuous circle

7.1 The virtuous circle theory underlying the operation of the Co-operative Movement suggests that attainment of social goals provides a competitive advantage leading to commercial success, which then reinforces the ability to meet the social goals.

7.2 The problem with this theory is that, to work, the social goals of the Co-operative Movement must be articulated, communicated, and accepted by society at large, and particularly by customers, so that they can fulfil the role of business drivers. Competitive advantage must be maintained by efficient operation

at least as well as the private sector, by ethical and responsible trading, and by delivering economic benefit to customers. 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.

*“In the Co-op you have an organisation that is as democratic and as Co-operative as the ideal may be, but if it is not a commercially successful business addressing the crucial business issues of the day, it would not continue to exist in the twenty-first century but on the other side of the self same coin to ignore the Co-operative aspects, we would lose the plot...”* A co-operator, Manchester regional hearing

7.3 It is clear that in some areas of Co-operative Movement activity the virtuous circle has broken down. The breakdown affects all three elements of the virtuous circle, sometimes all three together.

7.4 Hence we see the issues for the Co-operative Movement – in terms of the new vision required to sustain and expand the Movement in the twenty-first century on the basis of the establishment of a sustainable virtuous circle – as three-fold:

- A reinterpretation of the historically valid principles and social goals of co-operation in modern concepts and language 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, and Reward’.
- A clear and positive distribution of the

surplus between redevelopment and expansion and the community and individual member dividends.

7.5 In this way successful Co-operative businesses – based on the belief that co-operation is a superior form of social organisation – can be redeveloped. Moreover, the achievement of regular and expanding trading surpluses – secured by the continuous meeting of appropriate business performance targets – will enable necessary reinvestment to take place and the social goals to be met from the surplus. In this manner the full Co-operative vision can be delivered.

7.6 While it is obviously necessary for a constant monitoring of the performance of trading competitors to be undertaken at all levels, we believe that a more formalised mechanism of support and information exchange is required within the Movement itself. Benchmarking within the Movement to enable the rapid copying of best practice – supported by training and other support mechanisms – is undoubtedly the best way of ensuring the common development of all parts of the Movement. Accordingly, the Co-operative Union, in liaison with Societies, should establish Key Social Performance Indicators.

7.7 In this context, it is worth examining the social goals of Co-operative businesses and how their successful achievement can enhance the competitive advantage of Co-ops.

7.8 Before doing so, it is important to recognise, at the outset, that there is a significant difference between charitable support given by Co-operative Societies – which is laudable in itself and helps to raise the community profile of the

**Social goals**

**Competitive advantage**

Customer economic benefit	Increased customer loyalty and better prices
Member benefit	Increased democratic participation
Employee stakeholders	Align staff goals with organisational goals. Retention and recruitment. Better customer service
Ethical corporate culture	Clarity of purpose for employees/customers
Campaigning for the consumer	Creates trust in the brand
Community investment	Closeness to and understanding of community, recruitment of customers, members and employees
Social enterprise initiatives	Influence at local/regional level
Democratic participation	Sense of enfranchisement for customer shareholders; responsiveness to customer needs
Civic and community education	Increased understanding of the benefits of the Co-operative approach leading to greater community support and customer loyalty

Source: Based on L.E.K. presentation to the Co-operative Commission

Movement, particularly locally – and the fulfilment of the strategic social objectives of the Movement. In so separating these two aspects of the activities of Co-operative businesses, we do not wish to deny the relevance or value of charitable donations given by customers and members or their effectiveness in ‘attaching’ customers to Co-ops, but simply to clarify the direct and strategic aspects of Co-operative social objectives.

**8 Social goals**

**8.1** The social goals and their relationship with the potential competitive advantage of Co-ops are illustrated in tabular form above.

**8.2** A successful Co-operative business must, therefore, be able both to deliver meaningful economic benefits to its customers/members and to make a contribution to the wellbeing of the local community where it is based and from which it draws its employees.

**8.3** One prerequisite for a Society establishing a mechanism for, and a commitment to, the achievement of Co-operative social goals is to have a strong Board with clear views on its Co-operative identity and its twin commercial and social objectives. It will then need to assert and to communicate the ‘Co-operative advantage’ to its members and to its customers.

**8.4** The active engagement of members, for instance via Member Groups, in the pursuance of the social goals (see page 80) is another important means of ensuring the achievement of social objectives.

**8.5** Through the use of the community dividend a Society can become an integral part of the local and regional business and social economy. Societies will be able to undertake involvement in such actions as the establishment of Social Venture Capital Funds; involvement in Small Business Services; and participation in developing and implementing regional development strategies through Regional Development Agencies, including in particular strategies for Co-operatives’ development.

**8.6** Nor should the latent interest of consumers in ethical issues be underestimated. A MORI poll in June 2000 indicated that though there may only be around 5 per cent of ‘ethical activists’, only 20 per cent are uninterested in ethical issues. This leaves some 75 per cent of consumers who are potentially convertible to ethical activism to one degree or another and also to an appreciation of Co-operative values.

**8.7** The challenge, for all in the Movement, is to define and to set social goals that are in line with modern society’s perceived and expressed needs. The further challenge is then to demonstrate that the Co-operative Movement can deliver meaningfully against these goals on a consistent basis, both to its customers and the community.

**9 Reinvestment in the business**

**9.1** Reinvestment throughout the Movement is the first priority and should have first claim on any surpluses generated.

Reinvestment is essential for two reasons, both of which are highly relevant for the Co-operative Movement.

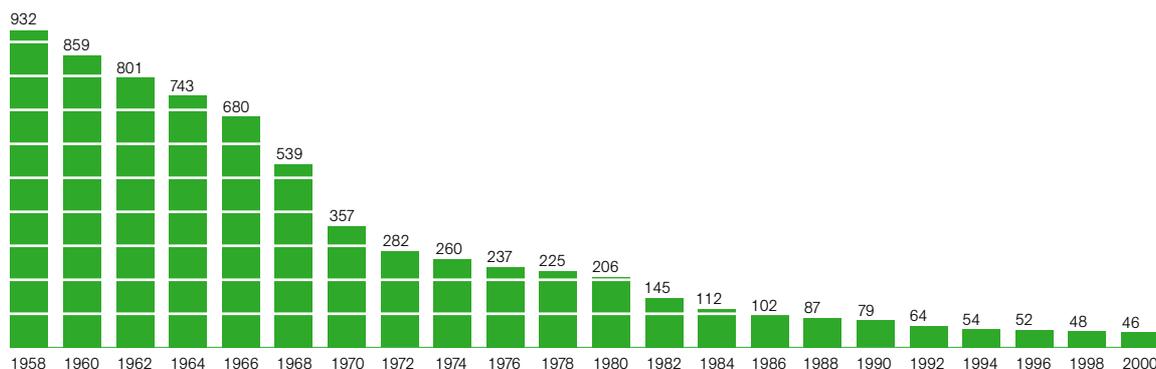
**9.2** First, it is necessary to ensure that the physical establishments and the human resources of the Movement’s businesses are adequate to meet the demands made on them by customers; have modern and attractive premises and well-qualified and trained management and staff; are able to introduce new technology at an adequate pace; and are keeping in line with likely future market developments.

**9.3** Second, reinvestment will be necessary if new sectors and new enterprises are to be developed as recommended in Chapter 2. Reinvestment is not only essential, therefore, to provide a sustained level of service delivery to customers, but also to provide for the expansion of Co-operative businesses in existing successful areas and in the new, exciting areas of business growth where we believe the Co-operative advantage can be demonstrated.

**9.4** There is ample evidence from our own research and from the Movement itself that reinvestment has been neglected for some years in a substantial part of the Movement. Partly this is the result of trading failure and the loss of surpluses, but this is a ‘chicken and egg’ problem; the trading failure partly results from inadequate reinvestment in the past and currently. What is clear is that the current trend must be reversed.

**9.5** Where reinvestment is required it should only be undertaken as part of the new business strategy and not as a short term ‘fix’ and only where there is a prospect of a good return. This renewed investment will need to be accompanied by a process of rationalisation and the

### Number of Co-operative Retail Societies 1958-2000



Source: Co-operative Union

closure of uncompetitive sectors. Such investment must be assessed and implemented in the context of a long-term strategic plan for the business.

**9.6** The positive effect on performance of refurbishments within the CWS estate (Welcome stores) is a clear demonstration of the enhancing impact of reinvestment. However, the common perceptions of success frequently lag years behind the reality. It is imperative, therefore, that Co-operative Societies establish more effective, consistent, and co-ordinated communication of the positive impacts of such investments on customer offerings in relevant catchment areas.

## 10

### Allocating the profit

**10.1** The calls on the surplus of the Co-operative Movement are no different today than they were in the days of the Rochdale Pioneers. As discussed previously, they must be used for the profitable development of the business. Any surplus needs should be split between individual and community dividends.

**10.2** The surplus of a Society should be channelled into three core areas:

- i Reinvestment throughout the Retail Society must always have the first claim on profits. Societies should invest where they are able to achieve the appropriate return – that is one which is above the cost of the members' funds they are committing.
- ii After reinvestment in the business, all Societies should allocate a part of the profit to be returned to members as an individual dividend in proportion to their purchases.

- iii In order to meet the Societies' Co-operative and social goals we recommend that a third area of allocation from the profits should be to a community dividend.

Where Societies are achieving profitability and their funding position permits, they should seek to ensure that a minimum of 10 per cent of that profit is for the allocation to the members' dividend and the community dividend. It may be that where greater levels of profitability are achieved or as part of a stakeholder dividend initiative a larger share of the profit may be allocated to the members, the community or indeed the employees. The Commission believes that the ratio distribution of individual to community dividend should be around 70 per cent to 30 per cent.

**10.3** By adopting this formula, Societies will ensure that their commercial operations are financially sound and that they have appropriate access to new investment funds. However, they will also be making an absolute commitment to returning surpluses to the individuals and to the communities in which they have been earned.

**See recommendation 11**

## 11

### Positive contributions

**11.1** Though, as the above paragraphs indicate, we are critical of the performance of the majority of the Co-operative Retail sector, nonetheless it would be unfair and inaccurate to give the impression that there were not examples of successful operations within the wider Movement. A number of Co-operative Societies have been able in recent years to make

a positive contribution to the Movement's performance and to its image. It is worth balancing our specific and general criticisms contained in the above analysis with a record of areas of Co-operative performance which indicate that a modern commercial approach – though it is imperative that it be sustained – can enable a strong showing to be made.

## 12

### CRTG performance

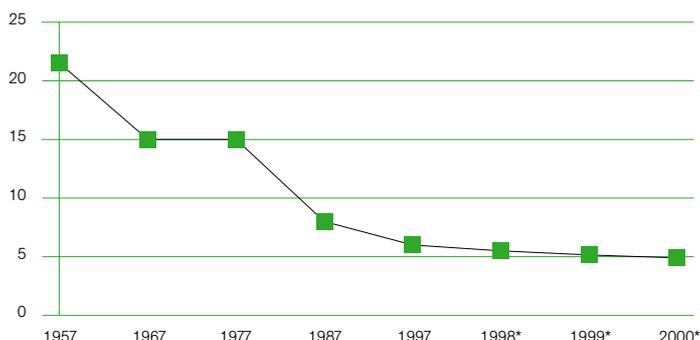
**12.1** It is pleasing to be able to report that in respect of CRTG and its role as a national purchasing agency, there is good news.

**12.2** CRTG has been one of the major success stories of the Co-operative Movement over the last decade. It has grown by 174 per cent over that period and now accounts for 90 per cent of the Movement's food trade. Moreover, it provides a rebate that is equivalent to almost 3 per cent of sales to member Societies. In assisting the development of the CRTG, retail Co-operative Societies have demonstrated that, when they co-operate at a national level, they can achieve much greater commercial success.

*"...CRTG, this has been one of the great successes in recent years... we must build on the success of CRTG and continue its democratic development."* A co-operator, Loughborough regional hearing

**12.3** It is clear that a Movement which co-operates to achieve national scale, but which retains its capacity for local delivery, can achieve increasing commercial benefits. The success of CRTG has been driven by ten factors:

Co-operative share of grocery trade (%)



Source: TNS Till Roll Trade Services\*

- i The establishment by CWS of a single buying point and requiring member Societies to give up their own buying teams.
- ii Forcing the suppliers to deal only with CRTG and therefore preventing them bypassing CRTG with 'special deals'.
- iii Development of a professional category management team.
- iv The buying team's accountability for the bottom line performance of a large proportion of the Movement's stores.
- v Momentum created by CRTG's own success story.
- vi The clear and direct management style that allows the category management function the freedom to take all day-to-day decisions.
- vii Discipline in delivering commitments to suppliers.
- viii Commitment of founding partners and newer members of CRTG.
- ix Commonality of purpose.
- x Flexibility in its operations.

12.4 In 1999 CRTG generated a pool equivalent of rebates that is equivalent to almost 3 per cent of sales and is more than the trading surplus of the entire Movement.

12.5 Over the longer term the Movement would benefit greatly through shared resources in other activities within the food trade; in particular:

- The development of a national distribution system.
- Marketing services such as advertising.
- Development of standard store formats, layouts and fascia.
- Purchasing of store fixtures and fittings.
- Purchasing and provision of IT equipment and services such as EPOS systems.

12.6 Such an approach could yield significant benefits in terms of common branding and image, uniform offerings, and cost savings.

12.7 Notwithstanding the success of CRTG in terms of its overall performance, it is clear that regional Societies have concerns about the current structure of CRTG. In particular, these centre around:

- The concern about loss of control of CRTG as a result of loss of Societies' majority control of CWS Board following its merger with CRS in April 2000.
- A perceived need for transparency to demonstrate equal service levels and rebates as those which CWS Retail receives.
- Concern over service levels and costs of CWS distribution system.

12.8 Both CWS and the regional Societies would like to see CRTG develop its services further, and for this to happen there is a requirement to formalise its structure without undermining the factors that have made it a success. We believe these concerns are valid, but that they can be allayed by a number of specific structural changes in the relationship between CRTG, CWS, and the retail Societies, and in the contractual arrangements for service and delivery.

**See recommendations 12 and 13**

"The structure of CRTG is good as it is, but if we are to get more brands of goods and cheaper commodities, we really need to upgrade CRTG and bring it into the wider business – a kind of CRTG Mark II." A co-operator, Edinburgh regional hearing

## 13

### CWS Agriculture

13.1 The Co-operative Movement through CWS also remains the country's biggest commercial farmer and is thus unique in being involved in all stages of the food chain from plough to plate. The historic commitment of the Movement to the provision of wholesome, unadulterated produce has recently struck a real commercial chord as concerns over salmonella, BSE and genetically modified food have massively heightened consumer awareness and demand for food products of guaranteed origin and quality.

13.2 However, the current crisis in farming has resulted in losses for the first time since the 1920s, raising serious questions about continued practice in this sector if the national situation does not improve.

## 14

### Associated Co-operative Creameries

14.1 Associated Co-operative Creameries (ACC) is the manufacturing and distribution arm of CWS. Its origins are as a federal dairy business, becoming a wholly-owned subsidiary of CWS as a result of the North East merger. From its core business of milk processing and doorstep delivery it expanded into temperature controlled distribution and subsequently took on CWS ambient temperature distribution too. In addition, in 1997 the two remaining CWS manufacturing businesses – Goliath

The Co-op Welcome store in Northolt



## Welcome stores

### A Co-operative case study

The launch and roll-out of over 250 Welcome convenience stores in the last couple of years has been a major success for CWS and highlights its firm commitment to community retailing.

Following a major strategic review of its food activities, CWS decided to focus on doing more of what it did best, namely retailing through market town supermarkets and convenience stores.

New build and acquisition strategy was to focus on these formats and a major refurbishment programme was launched.

In early 1999, CWS trialed its new format for convenience stores under the Co-op Welcome fascia. The results were excellent and customer feedback was very positive.

The decision was taken to roll out the striking blue and yellow Welcome format

on an unprecedented scale. All CWS convenience stores will be converted to Welcome by 2003.

The bright bold colour scheme and fresh new look stores, with the emphasis on convenience, have now become a familiar sight in CWS trading regions, are a hit with customers and are outperforming the market.

Benchmarks – Return on Capital Employed



Note: The competitor data is from the Report of the Competition Commission 2000. ROCE is defined as operating profit as a percentage of shareholders' funds plus long-term debt. The Co-op figures are not strictly comparable – they comprise total Retail Society trade, not just food. However they only include CWS retail businesses, and not The Co-operative Bank or CIS. The figures are taken from Co-operative Union Co-operative Statistics, and refer to trading surplus as a percentage of shareholders' funds plus long-term liabilities. Year 2000 figures not available.

(safety footwear) and Robert Howarth (shirts/corporate wear) were added to the ACC portfolio.

## 15 Financial services

15.1 The issues that must be tackled by the Co-operative Movement are not confined to the retail consumer sector. Considerable challenges also need to be faced in the successful Co-operative business areas of banking and insurance in order to ensure their future success.

15.2 The Movement is fortunate to have (through CWS) two very successful businesses in the field of retail financial services – the Co-operative Insurance Society (CIS) and The Co-operative Bank. However, in an increasingly competitive market that has been undergoing significant structural change and consolidation for many years, the Commission was surprised by the low level of collaboration and co-ordination so far between CIS and the Bank. It is understood that, in spring 1999, CWS commenced a review of its financial services subsidiaries within the context of the changes taking place within the financial services market and that this review is ongoing.

15.3 CIS and The Co-operative Bank have historically developed and operated largely independently of each other, with quite different approaches to the marketplace and to channels of distribution and service. Both now have significant customer bases, with more than three million CIS customers and two million Co-operative Bank customers, but with only a relatively small overlap between the two.

15.4 The research undertaken by the Commission has made it clear that the extent of the changes taking place within the UK retail financial services market is unprecedented in modern times. Traditional distinctions between banking products and insurance and investment products are becoming blurred, consumers are becoming better educated about financial products, and the marketplace is demanding much better value for money. The pace of consolidation and merger activity within the industry is accelerating, with scale economies and access to new and larger customer bases being key drivers in a market where margins are slimmer, and becoming more so, than in the past. Many insurance companies have entered the banking market, many banks now have extensive insurance and investment activities and we have seen the emergence of 'Bancassurance' and 'Allfinanz' as traditional banks, insurers and investment houses become integrated retail financial services businesses. New technology is influencing these changes and is acting to increase the competitive pressures, and has also assisted new competitors to enter the market.

15.5 Against this background of rapid industry change and increasing competitive pressures, it is interesting to compare the strengths and operating models of the two Co-operative financial services businesses.

15.6 The Co-operative Bank has clearly demonstrated a successful and modern business model that includes first-class service and marketing based upon the Bank's distinctive brand positioning, product and technological innovation, and its multi-channel approach to customer sales and service. The Co-operative Bank is well known for its speed of response

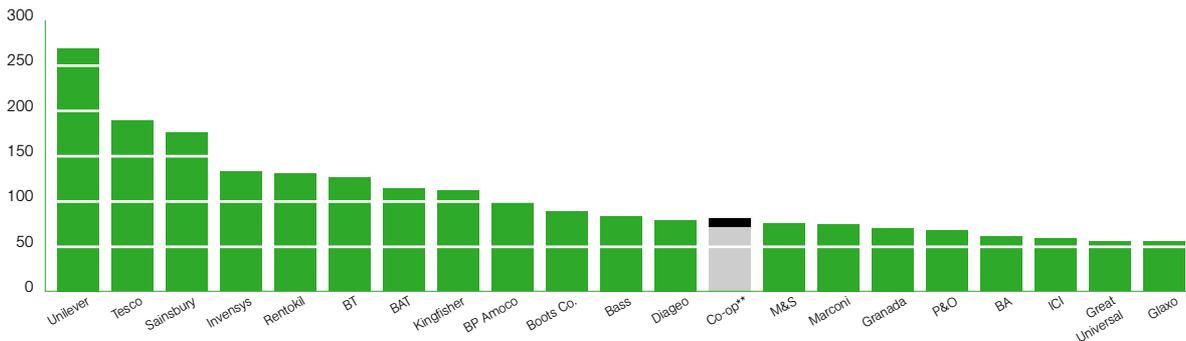
to market changes and for the quality of its service through the most up-to-date facilities including call centres and the Internet. It recently developed and launched **smile**, the UK's first full Internet bank, to considerable accolades. The Bank currently makes relatively few sales of insurance and investment products to its customers. Its services and products are delivered profitably, ensuring that CWS enjoys an upper-quartile rate of return on its investment for the benefit of CWS members. In 1999, the Bank reported its sixth consecutive year of record profits with a return on CWS capital of 35 per cent. However, the Bank is faced by competitors of substantially greater size and resource levels, and may well be disadvantaged in the future in terms of its ability to invest and achieve the required economies of scale and product breadth to meet the changing market.

15.7 Although its customers participate in significant numbers in the formulation of the Bank's ethical policies and community involvement 'customers who care' programmes, customers currently have no membership rights in either the Bank or its parent Society, CWS, related to their product or account holdings.

15.8 CIS has also developed a successful and growing business which includes considerable operational and financial strength, a reputation for good value and service, a rapidly modernising product portfolio, and the largest direct insurance sales force in the UK. Its business model is very different to that of the Bank, however, in that it relies on the single distribution channel of home service and does not manage its business for the benefit of CWS members or report profitability as such. CIS policyholders are not members of CIS or indeed CWS

### Comparison of Co-operative with the FTSE100 top 20 companies ranked by thousands of employees\*

Total number of employees 1998



Note: \*Excludes financial institutions. \*\*Black area indicates the inclusion of the figures for CIS and The Co-operative Bank

Source: L.E.K., Datastream

and have no membership or ownership rights, unlike the typical policyholders of a mutual insurance company, but in many ways CIS operates its business as if it were a mutual insurer. It is not known how many CIS customers are members of its parent Society, CWS, but it is believed to be a very low percentage. The home service distribution method, on which CIS currently relies exclusively has traditionally served it very well. However, today it is generally considered to be relatively high cost and is in long-term decline within the UK financial services industry.

**15.9** The Bank has been at the centre of efforts to cross-market financial services products to Co-operative retail customers throughout the Movement, which have included Co-op Instant Access Savings Accounts, Co-op Cash Mini-ISAs and Shop-and-Save for Co-op shoppers as well as an extensive programme to install ATM cash dispenser machines in Co-op convenience stores. To date, no CIS insurance products have been cross-marketed to Co-operative retail customers although it is believed that worthwhile opportunities could exist.

**15.10** There has been some collaboration between CIS and The Co-operative Bank, but so far it has been quite limited. Under its banking licence, the Bank provides the deposit account facilities for the CIS savings account introduced by CIS about three years ago, and also the cash component within CIS's successful range of Individual Savings Accounts. CIS is providing the payment protection, buildings and contents insurance products being offered by the Bank alongside its new mortgage product.

**15.11** It seems clear that both CIS and the Bank have considerable strengths,

and in many ways these strengths are complementary. Equally, there would appear to be significant opportunities to utilise the large individual customer bases of each institution by cross-selling the combined products of both. Similarly, it would be surprising if there were not also opportunities to gain some operating efficiencies by combining some administrative and back-office activities. The imperatives of the changing marketplace would appear to suggest that such synergies should be actively sought. Equally, the success of other major UK retailers in the field of personal financial services would suggest that the Co-op could have a significant opportunity in the future with a combination of CIS and Bank products carefully marketed to Co-op shoppers.

**15.12** The changes in the financial services industry and the market, described in 15.4, make it likely that prospering as independent entities in the future will be increasingly difficult for the Bank and CIS. Both are relatively small compared to the big battalions of the opposition, and both could be strengthened by much closer collaboration together. We would not wish to imply that either can not survive separately, but rather that success and prosperity are likely to become progressively more difficult, and significant resources are likely to be needed to stay the course.

**15.13** With these observations as a context, it seems very important that CWS takes a holistic view of its financial services businesses and actively develops an integrated business strategy towards the retail financial services market. It would be regrettable if two of the Movement's best and most successful businesses were to start experiencing

a long-term decline in prominence because of an inadequate response to the new challenges of the market.

#### See recommendation 14

**15.14** Finally, the Commission has some concerns about the governance structure of both CIS and the Bank, where it is believed that modern standards of corporate governance could be better met. Financial services institutions today are complex and quite specialised businesses operating in rapidly changing markets. The non-Executive Directors of both the Bank and CIS are appointed by CWS from amongst the Board members of CWS (apart from the Chief Executives of the Bank and CIS, who serve on each other's Boards). It would seem unreasonable to expect even the most able and talented Directors of CWS, be they lay Directors or Corporate Member Chief Officers, to have sufficient knowledge and experience compared to the Executive of the Bank or CIS. Given the complexities and challenges of these businesses, the Commission believes that the Boards would be considerably strengthened by the appointment of some external, and appropriately experienced, independent non-Executive Directors, and recommends that CWS actively considers this.

#### See recommendation 15

## Recommendations

### Chapter 1 – Re-establishing the Co-operative Advantage

#### Commercial performance improvement

1

The Commission recommends that the Boards of Co-operative Societies must establish challenging targets for the commercial performance of their Society and monitor their performance objectively against those targets. The targets must take account of the benchmark performance of major competitors and the best performing Co-operative Societies.

2

The commercial performance targets should include particularly Return on Capital Employed, which should achieve a minimum of 10 per cent as a first step, together with other performance measures e.g. net surplus (which should be sufficient to allow for reinvestment and the payment of member and community dividends), and market share (which as a minimum should be maintained and ideally should be increased) and gearing.

3

The Commission recommends that all Societies should urgently review the performance of each of their various business sectors to ensure that each can achieve and/or maintain financial viability over the medium/long term (3-5 years). If such assurance cannot be provided in respect of any sector, the Society should consider other Co-operative options to achieve the required performance and/or withdraw from the sector.

#### Societies' performance

4

The Commission recommends that in order to implement and monitor the commercial and social performance of Societies, the Co-operative Union should be given responsibility for establishing a Commercial and Social Performance Panel. The Panel should establish Key Commercial Performance Indicators (KCPIs) in the various business sectors and should report regularly, including at least annually to Congress, on whether Societies are achieving the KCPIs.

#### Financial auditing

5

The Commission recommends that Co-operative Societies should conform to accounting standards and adopt a standard system of financial reporting, both of which are established by the Co-operative Union Accounting Standards Committee, so that there is consistency across the Movement.

6

Boards of Societies should ensure that the KCPIs are presented to members at the Society's AGM to record the performance of the Society compared with that of major competitors and peer Co-operative Societies. (The starting points for some targets would be those recommended by the Co-operative Union in its Report to the May 2000 Co-operative Congress). Key Commercial Performance Indicators should also distinguish between branded and non-branded activities. Where a

Society is failing to meet the required indicators, an interim report of KCPI achievement should be presented to the Society's Half Yearly Meeting.

#### Social performance improvement

7

The Commission recommends that the Co-operative Union should establish, after appropriate consultation with leading experts in the field, challenging Key Social Performance Indicators (KSPIs) for performance in relation to Co-operative and social goals. Following this, the Union should monitor the performance of individual Societies objectively against those targets. The KSPIs should aim to reconnect the commercial and social goals of the Co-operative Movement and ensure that all members and employees understand how fundamental this is to the future success of the Movement.

8

Boards of Societies should ensure that the Society's Key Social Performance Indicators are presented to the Society's members annually. Where a Society is failing to meet the required indicators, an interim report of KSPI achievements should be presented to the Society's members.

#### Social auditing

9

The Co-operative Union should develop a standard system for social reporting, so that there is consistency across the Movement. One possibility would be to develop a Co-operative Social Audit

CD-ROM (or software downloadable from the web), accredited with the AA1000 standard. This would allow a more standardised and straightforward route to enable Societies to complete a social audit than is currently available.

## 10

The Commission recommends that the Co-operative Union should produce an annual report on the work of the Commercial and Social Performance Panel to be presented to Congress.

### Reinvesting the profit

## 11

The Commission recommends that in considering the distribution of profits, there are the following priorities:

- Reinvestment in the business.
- A dividend for members in relation to their purchases.
- A community dividend.

Reinvestment in the business must always have the first claim on profits. Societies must invest where they are able to achieve the appropriate return – that is, one which is above the cost of the funds they are committing on behalf of their members.

Where a Society is trading profitably and its funding position permits, the Commission recommends that the minimum commitment to the members and the community dividend should be 10 per cent of the profit and that the ratio distribution of individual to community dividend should be around 70 per cent to 30 per cent.

The Commission recognises that some Societies will be able to allocate more

than the minimum to both members and the community dividend after reinvestment in the business, and recommends that as part of a stakeholder initiative the Society should be encouraged to consider some allocation to the employees.

### Co-operative Retail Trading Group (CRTG)

## 12

The Commission recommends that, to enhance the successful performance of CRTG further:

- External auditors should be employed to help guarantee the transparency of the accounting procedure.
- The Strategy Group of CRTG should be made up of Chief Executives of Societies and the Controller, CWS Retail, for the time being, should be the CEO of CRTG and be a member of the Strategy Group. However, CRTG should consider in the long-term the possibility of a dedicated CEO for CRTG.
- The governance of CRTG should be reformed so that the Chairman of the Strategy Group is elected from the non-CWS members of the Group.
- Each member of the Strategy Group should have a vote proportional to the purchase volumes of their Society through CRTG.
- Clear terms of reference for CRTG should be established and set out.
- The CEO of CRTG should be required to produce strategic and annual plans for approval by the Strategy Group and to report back on progress.
- Delivery of the service to members of CRTG should be based on a revised form of contract, expressly providing for the benefits and obligations of membership.

## 13

The Commission, given the reform of CRTG, recommends that all Societies should now join CRTG.

### Financial services

## 14

The Commission recommends that CWS takes active steps to develop and implement an integrated business strategy for its two financial services' subsidiaries, CIS and The Co-operative Bank, in order to harness the latent synergies between the two businesses. Both are successful Co-operative businesses but have historically operated largely independently of each other. However, both now face the challenges of a highly competitive market undergoing rapid and fundamental change: scale, operating efficiencies, distribution power and cross-marketing are becoming ever more important, customer preferences are more demanding and the traditional distinctions between banks and insurance/investment companies are fast disappearing.

## 15

The Commission recommends that CWS reviews the governance structure of both CIS and The Co-operative Bank with a view to appointing some external and appropriately experienced independent non-Executive Directors to the Board of each institution.

# setting the agenda for the next decade

**Chapter 2 – Successful Co-operative Business  
in the Twenty-first Century**



28	General
28	The new co-operation – common branding
30	Building the brand
32	Modernising the Co-op logo
32	e-commerce and new technologies
34	New sectors
36	Recommendations

## 1

### General

**1.1** We took the view that our work would be setting the agenda for the Co-operative Movement for the next decade. Hence, the recommendations we have made should enable the Co-operative Movement to take its place as a key part of the social and economic development of the UK, in the context of the globalising economy, during the next 10 years.

**1.2** Co-operation offers to the consumer and to the citizen in this new century a unique socio-economic response to their demonstrable, but in some cases, unarticulated needs. These range from the desire for the active involvement of the final consumer in influencing the nature of the products (goods and services) on offer to them; to an increasing feeling of anonymity in the face of large national and global transnational companies; to the fear of the impact of new technologies; and to the desire for trust in commercial relationships.

**1.3** A new focus is required on developing business areas where the Co-operative advantage can be demonstrated, and in some cases moving out of old ones. Two important areas where Co-ops are likely to be able to demonstrate their Co-operative advantage are long-term care provision for the elderly and the expansion of credit unions.

**1.4** The Co-op must, therefore, be seen to be actively involved in expansion into new sectors and also to be embracing and using new technology, including e-commerce. In all these various ways

the Co-op – commercially, technologically, economically, and socially – must reinvent itself for an expanding role in the twenty-first century.

**1.5** Co-operative principles and practice should be seen as part of a modern market economy. In the USA, for example, 25 per cent of US citizens belong to credit unions. Co-operation is an international practice and the UK Co-operative sector should and can lead the way again in the modern context, as it has before.

**1.6** A key element of the ‘new’ co-operation should be a positive Co-operative branding, covering all areas of Co-operative activity and supported by all Co-operative Societies. This will enable a positive, reassuring, and self-reinforcing image of the Co-op across all sectors to be developed and communicated to customers. It will also facilitate the wider educative role of the Movement in relation to the values and principles of co-operation.

**1.7** The Co-operative Movement’s involvement with the broader Labour Movement needs to be strengthened in relation to the development of economic and social policy linked to the wider application of Co-operative principles and the emerging ‘social economy’. To achieve this strengthening there is a requirement for institutional change. (In Chapter 5 we make a number of proposals in this area concerning the future of the Co-operative Union and the Co-operative Party, and the establishment of a new body, the Co-operative Foundation.)

## 2

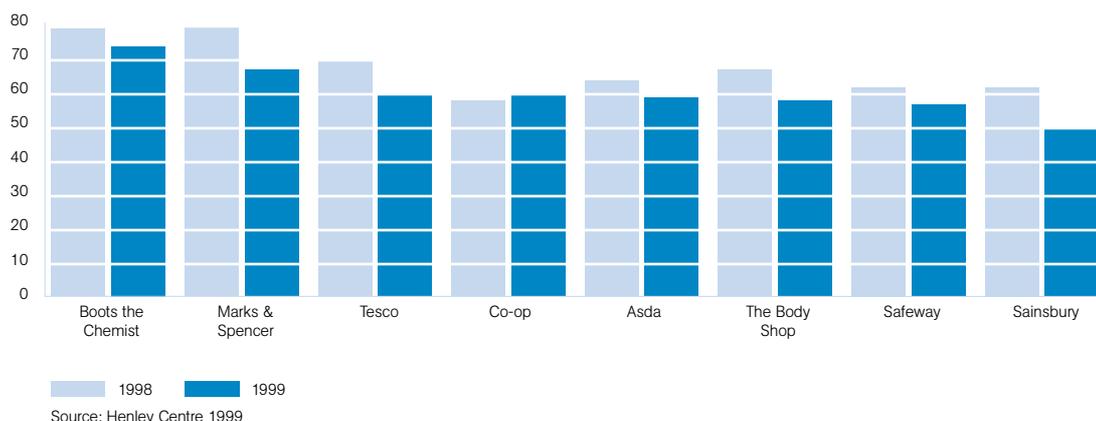
### The new co-operation – common branding

“Businesses like Asda are known from Inverness down to Bournemouth with the same common brand, why should we not be the same...common branding of the Co-operative logo...would be an excellent idea.” A co-operator, Edinburgh regional hearing

**2.1** The Co-operative brand was not built simply to succeed in the social conditions in which it was launched – it was built to last. Today, it must succeed not by relying upon distant past successes, but by putting its house in order and by renewing and representing itself as a desirable and enduring brand. This remodelled message can be increasingly attractive and relevant to new generations of consumers. Rebranded products and services sold efficiently and ethically in traditional sectors of the economy, and new products developed to meet new social and economic needs, can provide a vital and viable future for the Co-operative Movement in the twenty-first century.

**2.2** Notwithstanding this clear potential for development of Co-operative business, there is considerable work to be done and problems to be overcome. Some of the Co-operative Movement’s own research has drawn the following conclusions on branding: “The Co-operative Movement, as a homogenous entity, is not something that many people seem to recognise these days. The businesses... do not

Market positioning – Shoppers who trust the big retailers (%)



seem to add up to a 'brand' at present... if anything they have in common an apparent lack of...

- stature
- competitiveness
- modernity
- aspirational value".

2.3 Yet, the Co-operative brand and all it stands for is potentially an enormous asset for the Movement.

2.4 At its best it can provide a highly attractive proposition for customers, producing strong business performance plus a demonstration of Co-operative values and principles. Consistency is critical; a customer's attitude to the Co-operative brand proposition can be formed by a single unsatisfactory experience, in a single local store or with a single product or service provided. It is clear that there is a huge potential to develop greater synergy between the Movement's different offerings.

2.5 However, questions need to be raised as to why certain customer-facing activities are deliberately marketed without reference to the Co-op brand. If the answer is that customers are believed to be resistant to buying the products from a Co-op-branded outlet, then this would point to obvious serious flaws in the brand image. Accordingly, radical and remedial action will be required in order to rectify this situation.

2.6 The Co-operative Movement must, as a priority, establish and invest in a high quality national brand strategy that brings coherence and consistency to what the Co-op is, what it looks like and what it offers across the country. This should be articulated through the adoption of common store formats or

fascia. It should also entail the cross-selling of Co-operative Movement products throughout the Movement at local, regional, and national levels.

2.7 In the context of promoting cross-selling, it is our understanding that currently there is relatively little cross-fertilisation between different Co-operative businesses and Societies. The process is being hampered by incompatibilities of IT systems and data. The potential for commercial benefits from cross-selling and from the ability to refer customers from one Co-operative business to another is considerable. To realise that potential we must exploit the latent synergies that exist in the Movement.

2.8 The development by the Co-operative Movement of a single Internet web site would considerably enhance the ability of the Co-op to communicate a positive, clear common branding via the Internet.

2.9 But the development of a new brand and brand image for the Movement represents far more than a revamping of stores or even the development of cross-selling. It represents a renewed belief in the values and the advantages for both consumers and citizens of co-operation as a response to modern economic and social life in the UK in the twenty-first century.

the second is the brand identity for each sectoral business e.g. food retail, travel or financial services and the third is the brand of the individual Society at regional or even local levels.

3.2 The regional/local character of Co-operative Societies is a distinctive asset that needs to be built in to the overall commercial equation. However, there is an overwhelming argument for a universal subscription to a national brand and the brand image. As far as customers are concerned the Co-operative brand should be a national brand they can trust and from which they can expect a high quality and socially responsible product. In this way we believe that branding as such should be seen as a strategic, national strength, to which is added at sector, region, and even locally an extra positive commercial element.

3.3 This strategic approach will entail agreement by Societies to:

- The systems and processes by which it is delivered.
- The standards adopted and applied in practice.
- The sharing of customer research amongst Societies.

3.4 A Co-operative Brand Panel representing all sections of the Movement should be set up to establish, develop, and maintain the procedures for the national brand.

### 3

## Building the brand

3.1 The Commission recognises that there are three levels to the Co-operative brand. The first is the overall umbrella brand of all Co-operative businesses;

See recommendation 16

3.5 We believe it essential that the commitment of the whole Movement is secured for the renewal and the consistent application of a national Co-operative brand throughout all business sections of the Movement.

Vera Dent and Floss Billingham at the Nethercrest care home



## Care homes

### A Co-operative case study

West Midlands Co-operative Society moved into the care homes sector in 1998, when it acquired a 19 bed residential home in Codsall, in the belief that involvement in care homes fits ideally with Co-operative values and principles.

The Society implemented new procedures, trained staff and gained Investors in People accreditation. The home which was only half-full at

acquisition now maintains a bed rate of 95 per cent and is to be redeveloped to increase bed capacity by 50 per cent. Relationships with Social Services are excellent and a waiting list speaks well of the home operation.

In 2000, the Society took ownership of two additional care homes at Castle Meadows and Nethercrest in Dudley, bringing in 153 additional beds.

A Care Home Group Manager with specific nursing experience has been introduced and the homes will be consolidated and the training plan expanded and developed.

3.6 In view of the fact that a number of core businesses are marketed without reference to the Co-op brand, it is recommended that KCPIs should differentiate between business generated from Co-op-branded activities and non-Co-op-branded activities. The intention would be to reduce and eventually eliminate non-branded activities, in favour of the adoption and promotion of the unique Co-operative brand, supported by the various other measures we have proposed, such as a new national branding strategy, new logo etc.

3.7 Where the Co-operative brand is being undermined by failure of any retail Society, the Co-operative Brand Panel should be required to report this view to the CWS Board who may withdraw permission for that Society's continued use of the Co-operative logo or access to CRTG. Further examination is required to determine whether the 'Co-operative' description could also be removed from those Societies who are undermining the Co-operative brand.

See recommendation 17

## 4 Modernising the Co-op logo

4.1 Some of the evidence from submissions and independent evidence gathered by the Commission suggests that – in the context of developing a new approach to branding – the Co-op should consider adopting a new logo to replace the 'clover leaf' which is perceived by some as not reflecting the modernising approach now being adopted by the Co-op.

4.2 A new logo should reflect the modern partnership that exists amongst Co-operative businesses and the modernity of the new Co-op approach, and would reinforce the modern, common branding we have recommended. The Co-operative Brand Panel, as part of this work should accordingly consider the long-term future of this logo.

See recommendation 18

## 5 e-commerce and new technologies

5.1 The Commission has also examined the role of new technology – including the rapid emergence of e-business in the UK – as it relates to the business models of Co-operative enterprises.

5.2 Technology can play a crucial role in the success of the Movement and its member enterprises. Experience demonstrates that the key to gaining competitive advantage from technology lies in its integration into a clearly articulated and understood business strategy.

5.3 In its work, the Commission has identified a range of opportunities whereby technology can contribute to success:

- Improved delivery of products and services through e-commerce.
- More efficient running of Co-operative businesses.
- More effective running of the Movement itself.
- Faster communication and sharing of best practice.
- Automation of back-office functions.

5.4 However, these opportunities beg a range of questions for the Movement if technology is to deliver its full potential:

- What products and services should the member enterprises deliver and in what way do the selected customers of each of the enterprises wish to be dealt with?
- What are the measurable efficiency targets and where are the current bottle-necks in the business processes of the Co-operative businesses?
- What are the appropriate common business processes of the Movement and to what extent should there be a central focal point for brand development, business practice development and the monitoring of common issues and opportunities?
- What are the appropriate business models for the member enterprises and to what extent can common back-office processes be combined?
- What are the opportunities of synergy between enterprises that have fundamentally different business models (e.g. banking/ insurance, retailing, travel, etc)?

5.5 The effective use of technology and particularly the emerging technology of the Internet depends entirely on the extent to which technology is integrated into the business objectives.

5.6 An excellent example of the Co-operative Movement's e-commerce capability, when led boldly and imaginatively and embracing new technology is the successful launch of **smile** – The Co-operative Bank's successful Internet banking operation. A combination of considerable market and technological research, allied to an entrepreneurial spirit, and a perception of the need among potential customers for trust, lies at the root of this example

Children at Greenwich Leisure's Waterfront Leisure Centre



## Greenwich Leisure

### A Co-operative case study

Greenwich Leisure Limited (GLL) is London's most successful social enterprise.

In 1993 Greenwich Council faced a 30 per cent reduction in the funding of leisure centres, which would have led to closures and redundancy.

Faced with this crisis, the local authority and its workers created a new type of business which has since opened new centres and increased employment. A not-for-profit industrial and provident society with an

employee-controlled board has managed Greenwich's leisure centres ever since.

GLL was the first of its kind. Twelve other local authorities have since followed this model rather than handing over leisure services to private enterprise.

The model used by GLL combines the benefits of private management, the dedication of stakeholders including both staff and customers, and public accountability and ownership.

The new structure has proved a great success. Three new facilities have been built and new services developed in existing centres. These include swim clubs, fitness centres and gym clubs.

Since 1993, costs of running the service have been halved, income has more than doubled.

GLL also boasts London's most effective social inclusion access policy, with one in two borough residents holding Greenwich cards.

of Co-operative commercial innovation in the new product area.

**5.7** e-commerce could be used by the Co-operative Movement with particular advantage in the travel sector. The potential here is considerable both in terms of innovation in direct customer services and the automation of back-office support functions.

**5.8** e-commerce is also becoming fashionable in relation to food and non-food retail activity, providing options for customer choice and delivery. However, it is not clear what proportion of the market it will eventually take up.

**5.9** Before any heavy investment in e-commerce in the Co-operative retail sector is undertaken it would seem prudent to pilot a few schemes around the country and to monitor the response from Co-operative customers and to analyse the full economics of the provision.

**5.10** Assuming that it can be demonstrated that there is a valuable and important e-commerce market in which the Co-operative Movement can deploy its unique comparative advantage then it would seem preferable to organise the business(es) at the level of the Movement as a whole.

**5.11** With a unified approach and a high profile presence, the size of the rewards for all participating Societies would be significantly greater than if there are competing regions and localities, with an array of web site addresses serving only to confuse the customer and condemn the Co-operative brand to an uncertain e-commerce future.

**5.12** Notwithstanding a degree of caution

in connection with the introduction of e-commerce, the case for automating back-office functions such as payroll processing is already made. Business process outsourcing is well established in the commercial world.

**5.13** The importance of giving due consideration to the adoption of new technologies cannot be over-estimated. However, the relationship of technology to business change is a complex one. On the one hand, technology can enable new possibilities that can be used to gain competitive advantage. On the other hand, the evolving marketplace and business environment can demand practical responses from technology.

*“We should seek competitive advantage through delivering businesses and services that humanise the business processes, such as banking, funerals, insurance, social housing, residential care homes, domiciliary care, information services and transport. We should consider new fields and not allow ongoing decline through the erosion of existing business.”*  
A co-operator, Manchester regional hearing

**5.14** In this complex relationship, successful companies are able to balance “the art of the possible” (the technologist’s contribution), with the “art of the practical” (the business manager’s contribution). Ultimately this balance is achieved because the culture of the organisation supports it. Both the technology team and the business team within Societies must establish a dialogue that is driven by their overall business strategies. This is the fundamental prerequisite for the successful use of technology in delivering a Co-operative Movement that is relevant, successful, and true to its values in the future.

**5.15** The Commission therefore believes that a modern Co-operative Movement must integrate the new opportunities presented by technology into the values and undertakings that have provided historic value.

**5.16** To enable the Movement to exploit effectively the potential that new technologies can offer, CWS should consider providing a business technology advice centre/service to Societies. Such a service would be able to monitor the use of new technology by competitors, to advise Societies and other branches of the Movement on the implementation of technologies appropriate to their specific requirements and to advise of technology best practice within the Movement.

**See recommendation 19**

## 6

### New sectors

**6.1** No business can afford to stand still and the Co-operative Movement should be examining the current opportunities for the development of new Co-operative businesses, as did the pioneers of the Movement in the nineteenth century. We believe that there is an opportunity to build upon the existing Co-operative values to sound commercial effect by examining the opportunity to enter business sectors in which the Co-op is not currently represented but where its values are likely to be highly relevant.

*“The Movement must widen its trading format, we must have alternative forms of Co-operative trading, blind reliance on food retailing could prove fatal.”*  
A co-operator, Oxford regional hearing

6.2 Typically these might be sectors where high levels of trust and social values are necessary and desirable, but where current providers (for whatever reason) seem unable to operate effectively overall. The Co-operative advantage is capable of demonstrating its ability to meet the ‘appetite for trust’ that is emerging from contemporary consumer-led society.

6.3 Two categories of business come to mind in this connection: long-term care of the elderly and the expansion of credit unions. In categories such as these, Co-operative values are likely not only to be socially relevant, but also to have significant commercial relevance. We believe these are areas of business to be explored in detail by the Movement. They are types of business opportunity where socially valid and commercially sound Co-operative propositions can be developed.

6.4 An entry into (or exit from) a sector, of course, constitutes business strategy at the highest level – and a major financial commitment for a particular Society, as well as creating implications for the Movement as a whole. It is proposed therefore that a Working Group should be established with the remit of:

- Identifying new or fledgling sectors where a gap may exist for a Co-operative solution.
- Expressing the nature of the Co-operative advantage in that sector.
- Drawing up high-level cost benefit scenarios for each.

6.5 Given the experience of the Co-operative Union in a wide range of markets, it is proposed that this work stream should be led by the Co-operative Union, under a New Ventures Working Group with inputs from CWS and other

Co-operative Societies, the UKCC, CIS, The Co-operative Bank and external consultants.

“...we need visions for new forms of enterprise for the twenty-first century. The recent success of Poptel and the Phone Co-op indicates these opportunities.” A co-operator, Edinburgh regional hearing

6.6 The New Ventures Working Group should consult with the appropriate agencies in order to determine which sectors would benefit from Co-operative involvement.

#### See recommendation 20

6.7 In moving into new areas, the Commission strongly recommends that the mistakes of fragmentation of the past must not be repeated. It is essential in delivering new products and entering new markets that there is a common brand, common performance standards, and shared services. These developments would, in this way, become the Co-operative Movement’s equivalent to franchising. This in no way would preclude ownership through joint ventures of a number of Societies. Moreover, proposals would have to be submitted to the Boards of Societies for their approval.

“It would be nice to have care Co-ops etc, and obviously I’m supportive of the need for more forms of Co-operatives, but we won’t get those by doing a long list of what might be.” A co-operator, Oxford regional hearing

#### See recommendation 21

## Recommendations

### Chapter 2 – Successful Co-operative Business in the Twenty-first Century

#### Branding and image

#### 16

The Commission recommends that to back up the development of nationwide branding within the food retailing sector and also to achieve significant cost savings, Societies should explore (within the framework of CRTG) further opportunities for co-ordinated activity including the benefit of a national distribution system; the development of standard store formats, layouts and fascia; and the common purchasing of store fixtures and fittings. Societies should also examine the merits of using a common support system across all businesses for administrative tasks such as payroll processing, etc, the merging of databases and cross-referral systems, and upgrading to compatible IT systems across the Movement.

#### 17

The Commission recommends that:

- A Co-operative Brand Panel appointed by the CWS Board with membership drawn from key Co-operative Societies, including The Co-operative Bank and CIS, led by the CWS Executive Management team and supported by professional advisors, should be established to develop a common national Co-operative branding approach for the Movement. For the work of the Panel to carry authority it must be able to demonstrate on creation that its membership is properly representative and inclusive of the Retail Movement.
- All Societies should ensure that the brand identity for each of their core businesses is compatible with and reinforces the national branding of the Co-operative Movement.

- Where, in the view of the Brand Panel, the Co-operative brand is being undermined by failure of any Retail Society to meet the brand requirements, the Co-operative Brand Panel should be required to report its view to the CWS Board which may withdraw permission for that Society's continued use of the Co-operative logo or access to CRTG.
- All Societies should, under the aegis of the above Panel, explore and resolve the issues surrounding the introduction of appropriate common branding of each Co-operative business, under an umbrella national branding approach that encourages the cross-selling of products throughout the Co-operative Movement.
- It may also be desirable to appoint Sectoral Brand Panels to examine those branding issues that affect specific businesses common to more than one Society.

#### The Co-operative logo

#### 18

The Commission recommends that the Co-operative Brand Panel should, as part of its work, consider the long-term future of the existing logo ('clover leaf' design), which some research indicates is perceived by the public as not reflecting the modernising approach now being adopted by the Co-op. A future logo could reflect the modern partnership that will be created among Co-operative businesses.

#### e-commerce and new technologies

#### 19

The Commission recommends that Retail Societies should urgently consider how greater use of the Internet can deliver benefits for members and customers, and how through its engagement in e-commerce, efficiencies and cost savings can be made.

The Commission further recommends that CWS should consider the establishment of a business technology advice centre/service to provide a consultancy service to Societies wishing to introduce new technologies and to encourage best practice technology dissemination throughout the Movement.

#### New sectors

#### 20

The Commission recommends that a New Ventures Working Group led by the Co-operative Union – and with appropriate representation from CWS, other Co-operative Societies, the UKCC, CIS, The Co-operative Bank and external consultants – should be established. The remit of the Working Group should cover: identifying new or fledgling sectors where a gap may exist for a Co-operative solution; expressing the nature of the Co-operative advantage in that sector; and drawing up high-level cost benefit scenarios for each. The New Ventures Working Group should consult with appropriate agencies in order to determine which sectors would provide potential for profitable Co-operative involvement.

## 21

The Commission recommends that in moving into new areas, the mistakes of fragmentation of the past must not be repeated. In delivering new products and entering new markets there should be a common brand, common performance standards, and shared services. A key element in any new venture is that of staff training (particularly for those in direct contact with customers). There needs to be an understanding of Co-operative values and principles and the ability to communicate these to customers.

# a revitalised membership informed and fully involved in democracy

**Chapter 3 – Membership, Participation and Securing the  
Co-operative Movement's Legacy**



39	General	44	Commitment to change
39	A strong membership	44	Extending participation to stakeholders
40	Types of membership	46	Securing the Co-operative Movement's legacy
40	The individual dividend	47	Securing assets
42	New areas of membership	48	Recommendations
42	Employee membership		
42	Democracy and increased member participation		
44	Equal opportunities on Societies' Boards		

## 1

### General

**1.1** Successful Co-operative businesses require a large and widespread membership that is supportive of the broad principles of co-operation and the participation of an active, informed, and representative elected membership. The current estimate of membership of the UK Co-operative Movement, of around 10 million, we believe is a substantial overestimate and the true membership figure may be less than two million. Membership records need to be improved to reflect the correct figure on which membership development policies can then be based.

**1.2** The Commission considers that the fragmented structure of the Movement means that it has not obtained the value that exists in its membership. Specifically, the lack of a co-ordinated identity means that the scale and weight of the Co-op's membership are not recognised by opinion formers, the media and the general public. Also commercial opportunities, involving cross-marketing between the members and/or customers of various Co-operative businesses are wasted.

**1.3** However, the Commission notes that the Retailer Financial Services Committee, comprising representatives of CWS, CIS, the Bank and other Societies, has made proposals to establish a Movement membership/customer database from the records of constituent organisations, and that co-ordinating the customer files of CWS, CIS and the Bank will be the first step.

**1.4** Currently membership is only available via membership of retail Societies. This situation excludes a considerable

potential membership. Ways of enabling membership to become available to a wider group of potential members, for example in The Co-operative Bank and CIS, need to be considered.

**1.5** This reference to CIS and The Co-operative Bank customers indicates the importance of securing a customer base from which, if the Co-operative advantage is sufficiently strongly perceived in the context of the consumer offering, future membership will be drawn.

#### See recommendation 22

**1.6** We took the generally accepted view within the Movement that those members participating in the democratic process will always be a small minority. Our concern was that the current minority was not necessarily representative – for instance in age structure – either of the membership as a whole or of the consumer population at large.

**1.7** Some Societies, notably Oxford, Swindon & Gloucester, have taken steps successfully to increase participation in elections, via postal voting, and to increase membership substantially. They have also initiated a debate on the issue of multiple stakeholder participation in Co-ops. These developments and discussions need to be carried forward more generally in the Movement.

**1.8** Within a modernised membership structure it should be possible – as some Societies have – to involve members in decision-making in a more active manner than is the case generally.

**1.9** It is also important that there is a clear understanding within Societies of the roles of the elected members in approving

and monitoring the strategic direction of the Co-operative businesses and of the senior executives working with the Board to develop the strategy and managing the businesses against clear and monitored business performance targets.

*“...it's our values of democracy, equality, equity, solidarity, as well as self help and self responsibility, which are unique Co-operative values and the ones where we can put clear blue water between ourselves and our competitors... where we refer to values we need to be absolutely clear as to what they are.”* A co-operator, Loughborough regional hearing

**1.10** Management of any business, and particularly of Co-operative businesses, should be based on partnership with the employees of the organisation. Our research suggests that this is an area where improvement is imperative if the reforms of the direction and management of Co-operative businesses are to succeed.

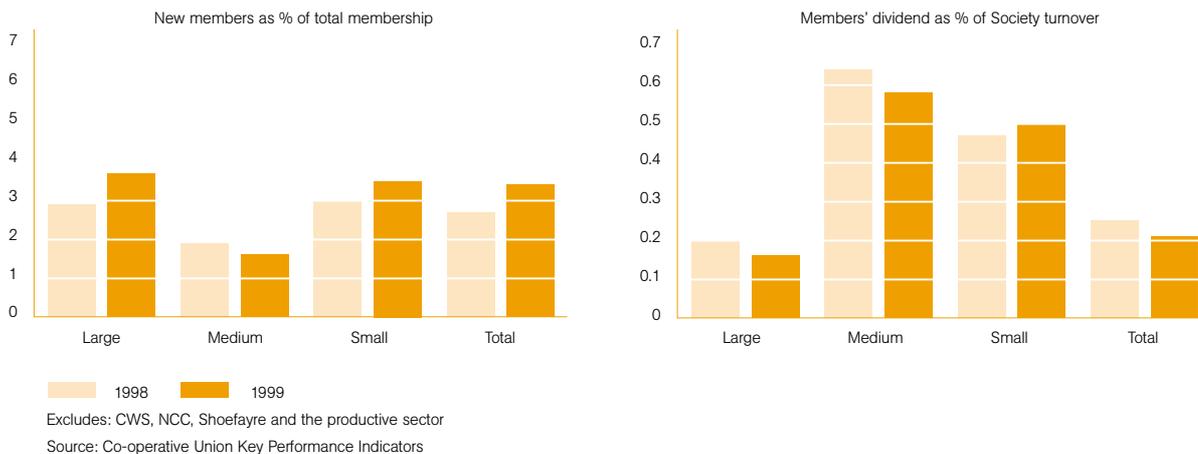
## 2

### A strong membership

**2.1** It is of fundamental importance to the Co-operative Movement to recognise that its future is linked to its ability to build a strong membership across the country.

**2.2** Whilst recognising the positive work undertaken by some Societies to improve their membership registers, the current claimed membership of the Co-operative Movement in the UK is substantially overstated, because of the failure of the Movement properly to maintain up-to-date membership registers.

Key Co-op difference indicators for 1999 vs 1998 for Society & size groups of Societies



2.3 Accordingly, the existing membership registers of all Societies should be reviewed so that the Movement has clear and concise records for future membership development work.

See recommendation 23

2.4 We consider that the new 'clean' membership registers should be established as soon as possible so that an accurate picture of Co-operative membership can be ascertained. We also believe that it is important that Societies should maintain regular contact with their members through the new membership register so that the members become valued assets of the Movement.

*"Active membership is what makes Co-operatives not only distinctive and effective, but also gives them a potential business advantage, and this voluntary component of Co-operative business which by building upon a sense of ownership can unlock levels of knowledge, sharing, commitment and involvement that other businesses can not."*

A co-operator, Edinburgh regional hearing

2.5 Societies should agree and adopt a design for a national Co-operative membership card to be issued to all members and to include details of the member's host Society. In addition the Retailer Financial Services Committee should give further consideration to accelerating the current proposals for the co-ordination into a single Movement database of the customer/member records of constituent organisations. In addition it should give consideration to promoting the adoption of common technical platforms within the Movement to optimise both efficiency and effectiveness in membership administration and to pursue the goal that

for a Co-operative Movement member their membership card is recognised whenever the member undertakes transactions with any Co-operative business.

See recommendation 24

### 3 Types of membership

3.1 The Commission deliberated upon the current £1 shareholding required for membership of a Society. There was strong support both in the public submissions received and at regional hearings for this to be increased as a means of making membership meaningful and as a demonstration of Co-operative commitment on behalf of the member.

3.2 However, the historical membership/ shareholder contribution of £1 would need to be increased very substantially to maintain its value in current prices. In considering membership and shareholding – and taking account of a number of submissions on the issue and of the origins of the Movement – we have come to the view, that, in order to achieve a maximum increase in membership throughout the country, the current £1 minimum shareholding should be maintained. This would not preclude individual Societies from setting, as some now do, other minima for standing for office.

3.3 The Commission further recognises that some economically active members may not wish to spend a great deal of energy in the direct democracy of the Movement, but may, nonetheless, have a sense of pride in being associated with a visibly socially-conscious business. Members therefore must be fully valued by the Movement and should receive

regular communication and information both about the commercial performance of a Society and its execution of its agreed social goals both via their local store and through direct mailings.

3.4 The Commission recognises however, that individual Societies may wish to consider experimenting with increasing the minimum shareholding for new members. The Commission would welcome the results of such initiatives being shared with the Movement.

See recommendation 25

### 4 The individual dividend

4.1 Developing a mass membership will require Societies to re-establish the link with the members' dividend. In contrast to a Loyalty Card, the dividend has two distinct elements: it is payable only to members and it is an allocation of profit, when the amount of profit is known. But, the dividend will need to be substantial; it will need to be paid regularly. It will also need to be perceived as an integral part of membership, and a key element of participation. The dividend should be clearly associated with the success of the Co-operative Movement.

4.2 Achieving these objectives for the dividend is conditional on the commercial success of the individual Co-operative businesses. It will also be important to ensure that the Commercial Performance Indicators and the Social Performance Indicators and how they are being met by the businesses are communicated to members, as part of the process of explaining the dividend distribution.

Children in Glasgow with fruit from the Fruit Barra



## The Co-opportunity Programme

### A Co-operative case study

The Co-opportunity Programme is an incremental programme of activities that foster the development of food Co-operatives in the West of Scotland as part of the Govan Healthy Eating Project.

It uses a step ladder approach in response to difficulties experienced in starting a food Co-op. The Fruit Barra in Glasgow is a good example of small voluntary-based Co-ops working in partnership with local authority projects.

Its mobility means that different partner groups can share resources and increase their joint buying power, and no permanent space is needed. It is a service-oriented Co-op, providing ready access to affordable high quality fresh fruit and vegetables, all sold at fruit market prices.

The Barra is run on a contractual basis – which clearly lays out the expectations and responsibilities of the partner

groups. Encouraging membership and keeping clear records is a key volunteer responsibility.

The aim of the Barra is to meet immediate local need and make a start towards developing community food Co-ops.

## 5

### New areas of membership

5.1 Currently, membership of the consumer Co-operative Movement can only be achieved via membership of a retail Society. This excludes a vast constituency of potential Co-operative members. It is our view that membership should be open to customers of existing and new non-retail Co-operative organisations, such as customers of The Co-operative Bank and CIS.

#### See recommendation 26

"Two tier membership, so you were actually a member of your local Co-op, but that gave you the membership nationally to other Co-ops." A co-operator, Loughborough regional hearing

5.2 This potential source of new members may be encouraged to join once the national branding and the basis of cross-selling, linked to the use of the new national membership card, are established. We believe this would radically alter the perceptions of the Co-op for a whole new generation as well as drawing back earlier generations of those who experienced a positive, if different, form of co-operation in their youth.

#### See recommendation 27

## 6

### Employee membership

6.1 In creating a modern Co-operative culture in the retail sector, employees will play a fundamental role. Where examples exist of employees being properly valued, and understanding the values of co-operation, it is clear that they become important ambassadors and front-line recruiters for the Movement.

6.2 Management of any business, and particularly of Co-operative businesses, should be based on partnership with the staff of the organisation. Our research suggests that this is an area where improvement is imperative if the reforms of the direction and management of Co-operative businesses are to succeed. Encouraging employees to become members and making that membership meaningful should become an important focus of management and of Societies' policy.

"...Co-operative workers actually have a weaker financial stake in the success of their business, we're therefore proposing a new concept, the employee dividend, the principle that the surplus generated by Co-operative businesses should be shared with staff as well as members." A co-operator, Manchester regional hearing

6.3 Our recommendation is that employee members – as stakeholders within the Movement – should be encouraged to become members of the Society and have a reserved employee member constituency from which they should be able to elect employee Director(s) (see Chapter 4). This change will be a positive means of reinforcing the key role of employees in achieving the

improved commercial performance of Societies. But it will also mean becoming fully involved in developing the overall commercial strategy of the Co-operative businesses for which they are working and in the drive to achieve the social goals of co-operation.

#### See recommendation 28

## 7

### Democracy and increased member participation

"...the Co-operative Movement can complement the vast range of public sector activities which are essential to the cultural, economic and social needs of working people." A co-operator, Manchester regional hearing

7.1 It has been demonstrated that the current participation of members in the democratic activities of the Movement is at a level that is too low to ensure that genuinely representative decisions are being taken.

7.2 One of the social objectives must be a high level of real membership participation within the democratic procedures and activities of Co-operative organisations. This should include consultation on policy development; access to adequate information on the performance of the business; and postal balloting to achieve greater participation in elections. Revised timetables of meetings should be introduced to make them more accessible to members.

Mehnaz Begum and Andy Cox trialling Instant Membership at Oxford, Swindon and Gloucester Society



## Membership recruitment A Co-operative case study

Oxford, Swindon and Gloucester Co-operative Society has helped lead the way with its impressive member recruitment programme.

Ending the 'secret Society' was their first goal. By making membership a highly visible in-store campaign, conducted to the same professional standards as food marketing, it switched from losing 500 members a year, to gaining over 20,000.

Central to this success is a number of

factors. There is complete integration of member recruitment with retail operations and marketing, ensuring that campaigns reach all customers and not just the traditional membership base.

Delivering a dividend to encourage customers to become members is important and this is linked to the Society's profit through in-store material with messages such as "What does £1 buy you? – a share in the profits and a say in the business."

The Society also provides support with activities aimed at new members and from these sessions, members often go on to attend regular member group meetings and become more active.

The work continues. The long-term aims are to persuade most regular customers to become members, encourage more people into active membership and offer members more opportunities to be consulted on Society policies.

7.3 Societies should consider structural changes to encourage participation by younger members of the Co-operative Movement. It is important that the Co-operative Movement is regarded by the young as being as relevant to their social and environmental concerns as organisations such as Greenpeace and Friends of the Earth.

7.4 Relations with local media should be cultivated and newsworthy events, when they occur, should be well publicised. In this way the role and nature of Co-operative activity in the local economy and communities can be communicated to a wide audience. Local newspapers and the local media generally tend to be widely appreciated, and particularly where local events and personalities are involved, can provide important and regular channels for local and regional Co-operative Societies.

## 8 Equal opportunities on Societies' Boards

8.1 It is important that all groups in society should be encouraged to play an active part in Co-operative Movement activity and democratic control. There is no suggestion that any positive discrimination would be required or desirable. What is required is that – through more active contact and consultation with all members and implementation of the various other measures we have recommended to increase democratic participation in the Movement's activities – the groups that are currently under-represented at Board and executive level should increase that representation, i.e. women, young people, and ethnic minorities.

## 9 Commitment to change

9.1 It must be recognised that for increased meaningful membership participation, the current leadership of the organisations within the Co-operative Movement must themselves embrace change and promote increased participation through contested elections. A key failure of the 1958 Commission Report was that the leadership of the day chose to dilute and assimilate the changes required rather than being a champion of change.

9.2 The Commission believes that it is essential that the Boards of all Societies should commit themselves to opening up the Movement as widely as possible, and to accept wholeheartedly the changes we have proposed. If this is done then the Co-operative Movement can have a revitalised membership base and one that is more fully involved in the democracy of the Movement.

## 10 Extending participation to stakeholders

10.1 Consumer Co-operatives are owned by those customers who are members. It follows from this that providing the best possible service to its customers should be the driving imperative of retail Co-ops. Their customers should experience service that is better than that provided by peer competitors, whose objectives include a return to investors. Customers

should perceive that the Co-op is more interested in their issues and concerns, than the simple profit orientated plc retailer is prepared to be. These are the first benefits that customers of Co-ops should expect.

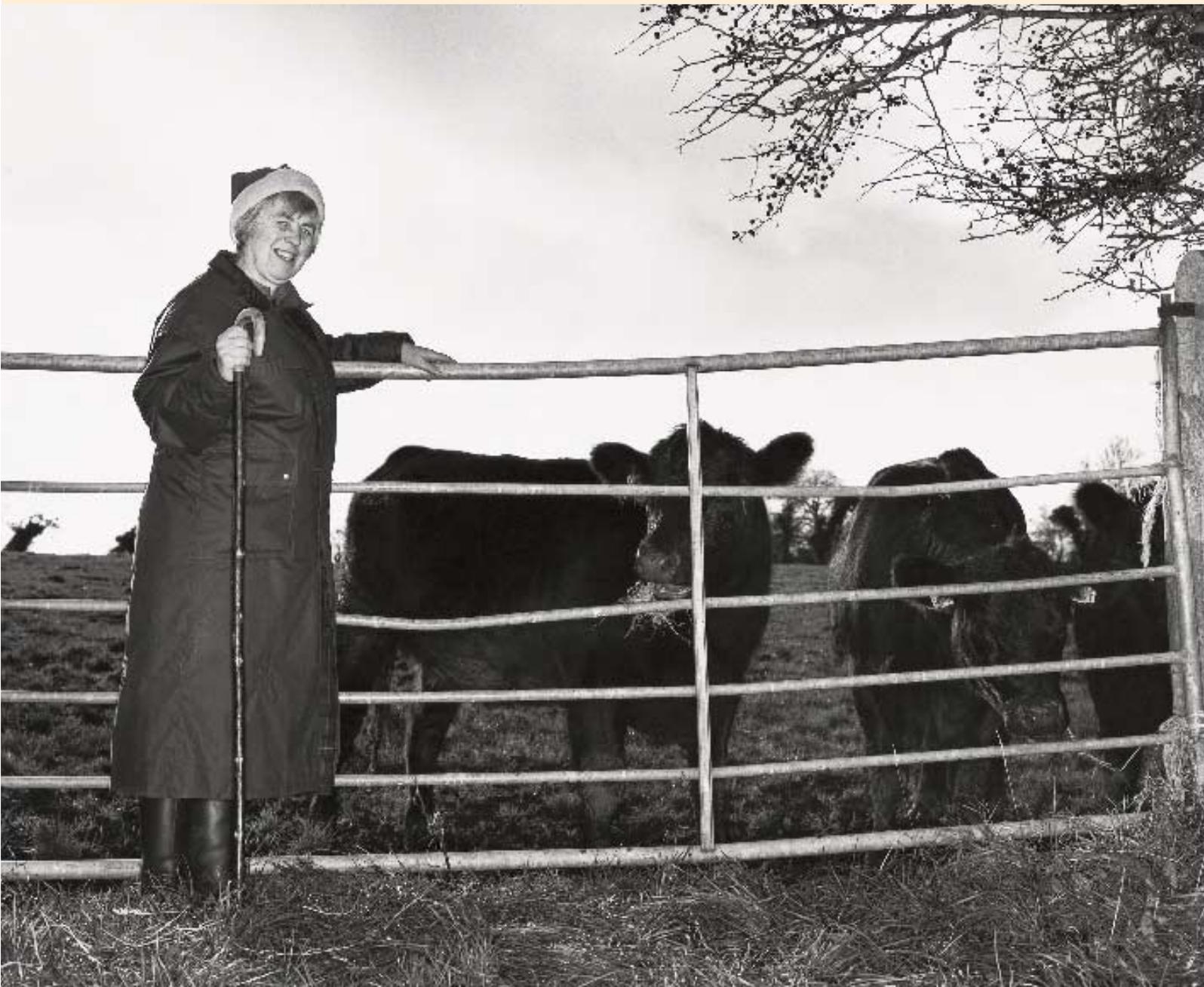
*"I feel that one of the features of the Movement in the last 40 years has been the ability for independent organisations to thumb their noses at reality, raid the reserves which other generations have built... I think we have to protect it from those Boards who refuse to merge or refuse to transfer engagements."*

A co-operator, Edinburgh regional hearing

10.2 Most of those customers who choose to become members of the Co-op will probably do so to enjoy the traditional benefit of Co-op dividend, an allocation to members of a share of the Society's profits, in proportion to their patronage of the Society. A proportion (usually relatively modest) of members will choose a more substantial relationship with the Society and will seek to participate actively in the Society's democratic procedures, including ultimately seeking election as a Director of the Society. Thus, all consumer Co-operatives have in common these groups of consumers, i.e. customers, shopping members and active members, that have interests in the Society. The success of Co-ops today depends crucially on the Society knowing, understanding and satisfying the interests and requirements of these groups of people, alongside those of other groups that also have interests in the Society.

10.3 In recent times, groups of people with an interest in an organisation have become known as stakeholders. There have been many definitions of stakeholders. Two, which help to

Ann Morrison of UAOS, and Aberdeen Angus cattle



## Ulster Agricultural Organisation Society

### A Co-operative case study

UAOS plays a major role in supporting the agricultural sector in Northern Ireland.

It was established in 1922, as an umbrella organisation with responsibility for the promotion and development of agricultural, fishery and other rural Co-operatives in the province.

Over the years the organisation has evolved and currently has over 48 affiliated members drawn from a variety of agricultural and rural sectors. Members

range from large food processors such as 'Fane Valley' to primary producer Co-operatives such as Aberdeen Angus Quality Beef Ltd (AAQB).

Each member Co-operative contributes an affiliation fee based on turnover and in return UAOS provides a range of support services.

UAOS is helping Aberdeen Angus Quality Beef (AAQB) put together a business plan to expand its operation.

The Co-operative has successfully managed to develop a partnership with processors and retailers to supply Aberdeen Angus cattle for a niche market.

In a difficult agricultural environment UAOS has an important role in helping to meet the needs of the agricultural Co-operative sector.

explain the concept of stakeholders, are as follows:

- "A stakeholder in an organisation is any group or individual who can affect or is affected by the achievement of the organisation's objectives." R Freeman
- More compelling, from a commercial point of view, is "Those groups without whose support the organisation would cease to exist." Stanford Research Institute.

10.4 Few could argue that customers, shopping but non-active members, and active members are groups without whose support the organisation would cease to exist. We suggest that this also applies clearly to the employees of Societies, those who fund Societies, other members and organisations of the Co-operative Movement and the communities in which Societies operate. There may be other groups, but our purpose here is not to provide an exhaustive list of stakeholders. Rather, we seek to highlight the main, different interests that Co-operatives must serve. We think that it is vital for Societies to seek to satisfy each of these stakeholder groups, as they seek to achieve the commercial and social performance improvements that we have recommended.

10.5 We consider that there is a series of levels of engagement by stakeholder groups in the affairs of the Society. These are illustrated in the table opposite. All Societies should consider carefully the most appropriate levels of participation of their key stakeholders in the affairs of the Society and should establish efficient and effective processes to facilitate and derive the maximum benefits from the chosen levels of participation for each group of stakeholders.

10.6 There has been discussion in recent years within the Co-operative Movement

on the issue of extending participation in governance to groups of stakeholders, beyond consumer members. Various 'multiple stakeholder' models have been considered, including the worker-consumer structure adopted by Grupo Eroski, the distribution division of the Spanish Mondragon Corporacion Co-operative. Governance structures involving various stakeholder groups have been considered in some parts of the UK Co-operative Movement. The Commission thinks that this discussion should be continued at local, regional, national, and international levels and that as a minimum, efforts should be made to ensure that 'structured' consultation of various stakeholder groups should be encouraged. It will be for individual Societies to decide how far they wish to go in this direction and how formalised they wish to make the discussion.

"...a reward scheme for loyal Co-op users, it should be a scheme whereby those who attempt to live with the Co-operative commonwealth by using Co-operatives wherever possible are rewarded for their loyalty and for attempting to live the Co-operative way." A co-operator, Oxford regional hearing

10.7 One stakeholder group that we do wish to involve more actively in the governance of Co-operative businesses is that of the employees; hence, our recommendation for the creation of a reserved employee constituency, from which and by which some Directors would be elected to the Board.

10.8 However, whatever changes are made to the structures and governance of consumer Co-operatives, it is imperative both for democratic and for legal reasons that control should continue to reside with consumer members. It is also

imperative that the democratic traditions of the Movement are maintained, i.e. one member, one vote and that Societies take steps to ensure that the existing status of Co-operatives is not jeopardised, i.e. that this extension to democratic participation does not contribute to the process of demutualisation that we oppose.

## 11

### Securing the Co-operative Movement's legacy

11.1 The introduction of up-to-date membership registers, the systematic recruitment of new members, and extending participation to other stakeholders will enable the Movement better to protect its legacy assets from carpetbaggers. However, it is also important for the Movement to look at other mechanisms that can offer protection.

"If one wants to make Co-operatives more successful one needs to tie Co-operatives more closely to the members and one of the problems we have at the moment is that in nearly every case the Society is very distant from the members and the members therefore have little interest or knowledge about how their Society works...I want to find mechanisms whereby management are accountable to the Board and the Board are directly accountable to the members." A co-operator, Loughborough regional hearing

11.2 Given recent unwelcome commercial challenges to the position of parts of the Co-operative Movement we believe that

### The four levels of stakeholder participation

Levels	Characteristics
<b>Listen</b>	The stakeholder in all groups is seen as being of enough significance to the interests of the Society that comments made by members of it are taken into account.
<b>Consult</b>	The stakeholder group's importance is seen to be sufficient that the Society seeks its views through structured consultation processes, such as market research and meetings.
<b>Involve</b>	The Society sets up permanent and structured ways for the stakeholder group to interact with it and to influence its practices and strategic direction.
<b>Govern</b>	The stakeholder group is of such importance that it has a formal role in the governance and policy making of the Society, including Board representation.

Source: Oxford, Swindon and Gloucester Co-operative Society's submission to the Co-operative Commission

it is imperative to protect the substantial asset base of the Movement. It is important to recognise that these assets have been built up over many decades of 'self-investment' and are a 'legacy' to the current generation of co-operators. There needs to be a clear recognition that current members are custodians of the assets. Hence, the assets should not be sold for the financial benefit of the current generation of members. For this reason we have recommended that immediate steps are taken to safeguard the total assets of the Movement in a trust or to establish an alternative legal form of protection.

## 12 Securing assets

**12.1** The Industrial and Provident Societies Act (1965) leaves to the Society's own Rules provisions about the distribution of surplus assets on dissolution. Therefore it is essential that the rules provide that upon dissolution the assets should be transferred, for example, to some other body with similar objectives. If no such body exists, the rules should provide that the assets must then be used for similar charitable or philanthropic purposes.

**12.2** The most obvious method of securing assets would be to place the assets of Societies in a 'trust'. However, this is not necessarily the simplest route. Nonetheless it probably offers the most secure method of defence of the assets of co-operators that have been built up over decades.

**12.3** In essence there are two types of asset trust. There are those whose purposes are charitable and those which

are incorporated in a company vehicle. The Co-op's assets cannot be permanently secured as a charitable foundation and hence a separate corporate vehicle would be required to be set up. Though this would not be impossible, there are a number of practical implications, including fiscal issues and cost. However, such a route could be worthwhile exploring for CWS and for the top 10 large Societies. The Commission sought the advice of David Richards QC on the protection of assets. He commented: *"Any attempt to achieve ring-fencing through appropriate provisions in the Rules of a Society will be inadequate, for the simple reason that the Rules can always be altered. An effective structure must, I think, involve a transfer of ownership of assets, albeit in a way which will enable assets to continue to be used by the Co-operative Society."*

**12.4** Using CWS as an example, a company vehicle could be established as a holding company within which assets of CWS (including if appropriate shares in CIS and the Bank) could be held. The company might have two classes of shares: 'A' shares and 'B' shares. The A shares would belong to CWS members and the CWS Board would run the holding company. The B shares would be held by a group of trustees – nominated by CWS, but separate from CWS Board members – and would only be used in the event of an 'attack' on CWS. Under the specified conditions, e.g. a hostile takeover bid or an attempt at demutualisation, the trustees would use the B shares to block the unfriendly attack and defend the assets.

*"It's quite clear that we can't rely on the Co-operative Act to provide predator protection, Societies should look after*

*themselves in this regard and find permanent solutions...such as trust status."* A co-operator, Loughborough regional hearing

**12.5** The procedures and the financial and legal arrangements would be rather more complicated than this summary view suggests, but it represents an outline of how Co-op assets could be defended via a trust structure. The Commission takes the view that though an attack on CWS is not necessarily imminent, CWS should speedily commission a report by legal and financial experts to prepare for the establishment of a trust to protect the members' assets.

**See recommendation 29**

## Recommendations

### Chapter 3 – Membership, Participation and Securing the Co-operative Movement's Legacy

#### Membership

#### 22

The Board of every Society should aim to ensure that an increasing proportion of the Society's customers become members, and that an increasing proportion of the Society's business is conducted with members.

#### 23

The Commission recommends that all Societies should urgently up-date and refine their membership records to delete the names of obviously dormant members and establish a membership file that accurately reflects current membership. The Commission further recommends that Societies should maintain regular contact with their members so that the membership becomes a valued asset to the Movement.

#### 24

The Commission recommends that:

- Societies should agree and adopt a design for a national Co-operative membership card to be issued to all members and to include details of the member's host Society.
- The Movement should work to realise the full value that its membership provides. It should give urgent consideration to:
  - Accelerating the current proposals for the co-ordination of the customer/member records of constituent organisations into a single Movement database.
  - Promoting the adoption of common technical platforms within the Movement, optimising efficiency and

effectiveness in membership administration; pursuing the goal that for a Co-op Movement member their membership card is recognised whenever the member undertakes transactions with any Co-operative business.

- The Retailer Financial Services Committee should be given a more formal status with responsibility for overseeing this work.

#### 25

The Commission recognises that the £1 shareholding has only a nominal value. A key goal of the Co-operative Movement in the twenty-first century is to encourage a mass membership. Therefore, we recommend that there should be no increase in the minimum shareholding, but that this recommendation must be linked to a high profile recruitment campaign throughout the country. Further, the Commission recommends:

- The minimum shareholding of £1 for members should be maintained for entitlement to vote within Societies. Individual Societies should retain the right to determine whether an increased shareholding or purchase qualification is required before nomination to elected office.
- All Societies should adopt the best practice in the Movement for increasing participation and strengthening democracy via a range of tried and tested balloting procedures, including postal/telephone balloting and the provision of referenda (where appropriate). The Rules of all Societies should include the requirement for an election manifesto to include details of the qualifications and relevant experience of the candidate.

- To encourage more informed, active participation in the Movement's activities, Societies' membership policies, promoted by the Member Relations Officers, should provide access to adequate information on the performance of the business, including the key commercial and social performance indicators, a new timetable of meetings to make them more accessible to members, and structural changes to encourage participation by younger members of the Co-operative Movement. The aim of all this is to encourage greater member participation in the Society, including consultation with members in the course of policy development.
- That the Movement undertakes a high-profile recruitment campaign across the country in order to develop a mass membership base.

The Commission recognises that some Societies are considering experimenting with increasing the minimum shareholding for new members and the Commission looks forward to the results of such initiatives being shared with the Movement.

#### 26

The Commission recommends that Co-operative membership should be encouraged among customers of The Co-operative Bank, CIS, and other business areas in addition to the traditional base of food retail customers.

#### 27

The Commission recommends that the Co-operative Union, in order to build a strong membership base across the

country, should establish and promulgate best practice in the recruitment and participation of members. Boards of Societies should be encouraged and be prepared to exchange examples of best practice. The Co-operative Union should be used as a clearing house for new ideas and innovations related to ensuring stronger democratic structures.

## 28

The Commission recommends that Societies should encourage employees to become members of the Co-operative Movement themselves and to participate actively in the Society's internal democracy via a 'reserved employee member constituency'. Societies should consider carefully the most appropriate levels of participation of its key stakeholders in the affairs of the Society and should establish efficient and effective processes to facilitate and derive the maximum benefits from the chosen levels of participation for each group of stakeholders.

### Securing Co-op assets

## 29

This is a critical issue for the Co-operative Movement. The Commission recommends:

- That all Societies should, as a matter of urgency, put in place rules to make it clear that current members are custodians of the assets.
- Those few remaining Societies which have not yet adopted the seven model amendments of the Co-operative Union designed to set high turnout thresholds as a defence against hostile takeovers or attempts at 'demutualisation', and/or to secure the transfer of assets to

another Co-op organisation, should do so at the earliest opportunity.

- The Government should introduce legislation to secure Co-operative assets for the future as is commonplace in many other European countries.
- The Boards and Chief Executives of Retail Societies should give careful consideration to Counsel's advice received by the Commission as part of our investigations into the protection of Co-operative Movement assets.

# people policies and systems that are in line with best practice

**Chapter 4 – Effective Management for Change  
and Development**



51	General	58	Remuneration and incentives
51	Board structure and size	60	Recommendations
52	Directors' qualification and training		
54	Implications of the new Board structure for Societies		
54	Employee Directors		
54	Summary of Counsel's advice		
56	Equal opportunities		

## 1

### General

**1.1** Changes in the operation and structures of Co-operative Societies to achieve their successful development are necessary. If such changes are to be introduced at an appropriate pace then there is a need for effective pressure for change to be introduced into Co-operative businesses where it is currently weak or absent.

**1.2** This will entail creating high quality leadership at Director level in the businesses and the development of professional and qualified management. The Movement must be able to attract and to keep management and employees of the highest quality, rewarded not only by attractive remuneration packages, but also by a feeling of belonging to a dynamic, expanding organisation to which they are committed.

**1.3** Remuneration and incentives packages for senior employees will need to be modified to ensure that they are related to relevant profit/trading surpluses and not simply to turnover.

**1.4** On the issue of Board representation for employees the Commission took the view, after considering a number of options, that the preferred method of enabling the employees of Co-operatives to be represented at Board level was via a 'reserved constituency'. Hence, employees would be encouraged to become members of the Society and this employee member constituency alone would elect Board member(s).

**1.5** The institution and monitoring of organisational performance targets, by

managements and by Boards, are a critical aspect of the reforms required to achieve the necessary culture change in the least well performing sectors of the retail sector of the Movement. As argued earlier in the Report, the Co-operative Union has a key role to play in this regard, on behalf of Societies, in establishing, via a Commercial and Social Performance Panel, a common set of commercial and social performance indicators.

**"Co-ops are also born out of the communities they serve... it's vitally important that Co-ops develop and operate a community-based approach in everything they do."** A co-operator, Oxford regional hearing

**1.6** To support this culture change, Co-operative Societies should develop people policies and systems that are in line with best practice, whilst still reflecting Co-operative principles. They must be demonstrably fair and encourage the recruitment, development and retention of quality employees at all levels. Policy and practice must be clearly linked to the objectives of the organisation. Societies must ensure that reward is related to achievement of these objectives, improving individuals' capabilities and their contribution to the business. People-related performance indicators must be defined, measured and reported on regularly, along with the key business measures.

**"From where I'm sitting I actually see officers spending a lot of time on the road actually travelling to meetings, and see members' education and political education being separated and I'm just wondering whether we spread the available resources too thinly."** A co-operator, Oxford regional hearing

**1.7** Employees should be encouraged to participate in their community as part of their own development, and to reinforce the link between Co-operatives and society in general. One particular area where Co-operatives can set an example and make a difference is that of equal opportunities. They should develop a meaningful diversity agenda that should be implemented in the workplace and community and regularly measured and reported on. Co-operatives should be models of best practice. Equal opportunities and diversity should be viewed not only in the context of social responsibility, but also as a business imperative, thereby completing the 'virtuous circle' which would be mutually beneficial to the business and society.

**1.8** Co-operatives should encourage employees to join the appropriate trade union and also encourage participation in the business based on 'partnership' with employees and their representatives where appropriate. There should be participation between parties in the management of change, where it is in the long-term interests of the business and its employees, with effective communication a prerequisite to its successful achievement.

## 2

### Board structure and size

**2.1** There was considerable discussion as to the desirability of a two-tier Board structure, but on balance – bearing in mind the nature of the Co-operative Movement – the Commission took the view that all that could be achieved by

a two-tier Board could also be achieved by a restructuring of the main Board to include the relevant stakeholders.

**2.2** In relation to the size of Boards, the Commission took the view that the Boards of Co-operative Societies should be constructed so that they are significantly smaller in number than at present while still respecting Industrial and Provident legislation. The current best practice in this area would suggest a Board size of between 10–12 for medium and large Societies. We recognise that this is the status quo for a majority of retail Societies with some of the larger Societies adopting a bigger Board size.

**2.3** There is a strong case for reducing the current size of Society Boards to the lowest legal number required which ensures that the elected members are in a majority – accordingly we would expect Board membership to be a maximum of 15. The exception to this general rule will be the CWS main Board that has wide Movement responsibilities and where the maximum can be raised to 20.

#### See recommendation 30

**2.4** Whilst recognising that the Boards of Co-operative Societies must by law have a majority of elected Directors, the Commission's research demonstrates that in a practical way a Society CEO plays a major role in the operation of the Board. This ad hoc arrangement may not place upon CEOs the same fiduciary responsibility as the elected Directors. There have been occasions where CEOs of Societies have deliberately misled the Board and could claim that legal responsibility rests with the elected Directors. We believe that this ad hoc arrangement is

unacceptable. Therefore, the Commission is recommending that the CEO and the Financial Controller should be seen to share fiduciary responsibility. In addition the practice adopted by some Societies in setting out the responsibilities of the management executive in the Rules of the Society should become the norm for all Societies.

**2.5** It is also important that the proper distinction is maintained in Societies between the responsibilities of the Board Directors and the management executive. The elected Board should approve and monitor the achievement of the commercial and social performance targets whilst also approving the overall business strategy of the Society. The management executive is required to work with the Board to develop the approved strategy and manage the business in line with the strategy approved by the Board.

#### See recommendation 31

**2.6** The Commission believes that within CWS each major trading business should have its own management executive as is currently the case in The Co-operative Bank and CIS. In addition to providing more focused management this similar level of focus could develop at Board level. This would allow the CWS Board to make management more accountable across the diverse businesses which make up CWS and should allow appropriate comparison analysis of all CWS businesses.

The respective management executives would remain responsible to the CWS Board through a Chief Executive Officer.

#### See recommendation 32

## 3

### Directors' qualification and training

**3.1** The Commission believes that the Co-operative Union should, after appropriate consultation, establish the quality and qualifications required of candidates prepared to serve on the Boards of Co-operative Societies as external independent non-Executive Directors. The Union should compile a pool of suitable candidates.

**3.2** The Commission believes that the Co-operative Union should have the ability to appoint up to two advisors to work with the Boards of consistently under-performing Societies and the Rules of the Co-operative Union should be amended to facilitate this, which would then become a condition of membership of the Union.

#### See recommendations 33 and 34

**3.3** Recognising the complexities of a rapidly changing business environment, the Co-operative Union and the Co-operative College in consultation with leading business schools should consider developing a new qualification that meets the minimum requirements for elected Directors to execute their duties and responsibilities adequately. This new qualification – or its academic, professional or experienced equivalent – should be mandatory for any candidate seeking election or re-election as a Director from the beginning of 2003.

#### See recommendation 35

**3.4** The issue of ongoing training for

Pupils at NEMCO in Newcastle



## NEMCO Music Teachers

### A Co-operative case study

NEMCO is a flourishing Co-operative, run by teachers, which grew out of Newcastle City Council's musical instrument teaching service.

In 1995, Newcastle Local Education Authority was facing budget cuts and was being forced to make all peripatetic music teachers redundant. The LEA wanted to continue to offer the service to its schools, but could no longer afford directly to employ the teachers.

With support from the City Council and the Musicians Union, the teachers grouped themselves together as a Co-operative, which contracts directly with the schools.

The results have been spectacular. Newcastle City schools now enjoy more musical instrument teaching than ever before. Hours taught in schools has increased by over 67 per cent, whilst the number of teacher members of NEMCO

has increased from 16 to 32. The range of musical instruments available has also broadened.

NEMCO has managed this success by introducing a wider range of instrument teaching options, staggered payment plans, and discount schemes with local musical shops.

At the heart of the business lies the belief in the value of music in education.

all Directors should be a regular item addressed by Society Boards and a skills audit to help identify skills gaps on Boards should be introduced.

**3.5** The Commission believes that a combination of better qualified and trained elected Directors and the appointment of external non-Executive Directors is the best way of meeting the obligations laid on the Directors of the businesses.

**3.6** We also believe that it is essential for the future success of the Co-operative Movement to address the problem that exists in some Societies and Boards that are mainly composed of Directors in their 70s and 80s.

**See recommendation 36**

## 4 Implications of the new Board structure for Societies

**4.1** With the establishment of the new Board structure the CEO and Financial Controller will have joint fiduciary responsibilities with the rest of the main Board. It will be imperative that the responsibilities of the Board and management are clearly defined in the Rules and Constitution of each Society. In particular, the Board should approve the targets and strategy and monitor the performance – taking account of appropriate benchmarks – both commercial and social – while the management would manage the business in line with overall strategy approved by the Board.

## 5 Employee Directors

**5.1** Evidence from both regional hearings and submissions indicates that there is no overall consensus on the question of employee representation on the Board. The argument outlined by those who object to employee representation is that employees should seek election to office as members of the Society and should not represent the employees directly, if successful in that election, but rather should have the long-term interests of the Society at heart. The counter argument to this position is that if we are to encourage employees as stakeholders in the business then they need their own electoral arrangements in relation to representation on the Board. We believe that a satisfactory compromise is for the employee members of a Society to have a 'reserved constituency' that will elect Board Director(s).

**See recommendation 37**

**"...the Movement has always believed that the Co-op workforce remains one of its greatest assets..."** A co-operator, Edinburgh regional hearing

**5.2** In this way employees will be empowered to play a full part in the affairs of Societies and the Movement, but within democratic Co-operative structures. We take the view that this will provide both an acceptable and a challenging new mechanism for employees to participate in the businesses for which they work, while preserving the unique Co-operative mode of consumer-owned organisations.

## 6 Summary of Counsel's advice

**6.1** The Commission received advice from Christopher Nugee QC regarding the duties of Directors of Co-operative Societies. The following is a summary of the Commission's conclusions, based on Counsel's advice. A full transcript of that advice is printed in Annex 6.

**6.2** Directors of Co-operative Societies (like Directors of companies) have a duty to deploy such skills and experience as they have to the benefit of the organisation. They are obliged to fulfil the role allocated by a Society's Rules carefully, prudently and responsibly. Though a Board may, and should, take external advice where a Board lacks expertise, great care ought to be exercised in routinely bringing external professionals into the Boardroom where as well as being an expensive resource they may well have a destabilising effect on existing executive management. To assist Directors in discharging this duty of skill and competence, the Commission believes that there is a role for non-Executive Directors, at least in the larger retail Societies.

**6.3** The fiduciary duties which apply to Directors of Co-operatives are the same duties of loyalty, honesty and good faith, which apply to Directors of companies. This fiduciary duty might be characterised as a duty for the Director to give their undivided loyalty to the Society. A Director, though able to take account of wider interests, must not subordinate the interests of the Society to those wider interests.

Tyrone O'Sullivan and miners at Tower Colliery



## Tower Colliery

### A Co-operative case study

Tower Colliery is a remarkable success story. The miners of the colliery at Hirwaun, near Aberdare, fought for the right to buy the pit with their redundancy pay from British Coal, which claimed it was no longer economically viable. Five years on, the last deep mine in Wales is on a sound financial footing.

The colliery has been in existence since the nineteenth century and was capable of producing 900,000 tons of coal per year. It was closed by the Government in

April 1994 and offered for sale to the public as part of the privatisation of the whole industry.

A buyout team of six miners, representing the whole workforce, was formed and miners were asked to invest £8,000 each on a one person one vote basis to buy the pit.

Since then, the colliery has gone from strength to strength, generating a regular turnover of £25 million and now employs 300 people who are all shareholders.

They have bought out a coal distribution company, developed a new visitor centre, converted methane gas to electricity, promoted a credit union for the local area and are the largest non-public sector employer in the area. They have also formed an alliance with a company to develop another mine, which will be up and running in 2003, and will create 200 new mining jobs.

The success is down to the determination and commitment of the miners to save their pit.

**6.4** One facet of this fiduciary duty which may arise within the Co-operative sector concerns conflicts of interest. The duty of undivided loyalty demands that not only must Directors act in the best interests of the Society whose Board they serve on but they must not disclose for the benefit of those who may have nominated them any information received in that capacity, notwithstanding that this may conflict with a separate duty they have to a nominating society, region or another Co-operative body.

**6.5** The Commission believes that these issues are perhaps best highlighted by analysing them in the context of CWS which now has a pre-eminent position within the consumer Co-operative Movement. The scale and diversity of the CWS Group is such that it is difficult to envisage a Board elected entirely by the democratic process being equipped to deal with the complex and diverse problems that will arise within the CWS Boardroom. Since the democratic process cannot be relied upon to fill any skills gaps at Board level, and since external advice, for the reasons alluded to will prove on its own an unsatisfactory solution, the Commission's view is that this is best addressed by the appointment of a small number of external non-Executive Directors with requisite skill and experience to assist elected Directors. Even if we assume the appointment of non-Executive Directors on the CWS Board, issues may arise in the CWS Boardroom where a decision which would be in the best interests of CWS would prejudice the interests of a corporate member, a particular region or part of the wider Movement. Given the federal Co-operative nature of CWS, its Co-operative culture and history and the provision in its Rules to promote Co-operative principles, such a detrimental

impact should be taken into account. However, it would not be legitimate for a Director to vote in a way that materially prejudiced CWS' ability to be a successful Co-operative business. Directors must weigh the arguments and come to a decision which is in the best interests of CWS and not of any corporate member or other body. It follows that Directors be they representatives of corporate members or of a geographical area cannot be mandated to vote in a particular way; they must weigh the arguments.

**6.6** These are often difficult areas and perhaps easily overlooked. The issue of Directors' duties and position in conflict situations should be more expressly addressed in the Rules of Societies, with Directors receiving appropriate training on these often complex issues. It is important that Boards and individual Directors, particularly those on the Boards of federal Societies, are alert to these issues and are appropriately advised.

## 7

### Equal opportunities

**7.1** Equal opportunities for all is a fundamental component of the Co-operative agenda, not just for social and ethical reasons, but as sound business practice. This is especially the case given the Movement's customer and employee base; for example 60 per cent of Co-operative customers and employees are women.

**7.2** Equal opportunities policies and procedures go to the heart of the Co-operative Movement's structure and businesses, because internal policies send out a clear message, externally

as well as internally, about its values and philosophies and how it wants to do business. Furthermore there is the obvious need to comply with legislation, as failure to do so carries a financial penalty along with damage to the Movement's reputation and public image, and impacts on employees, customers and clients.

**7.3** Expectations of fair treatment at work have quite rightly increased, as people have become more aware of their rights and of equal opportunities issues in general. This in turn influences their aspirations to join, or continue to work for, employers with good employment practices.

**7.4** Active equal opportunities management can also open up new opportunities and improve market share by broadening the customer base, particularly where they can identify with the specific policies and practices e.g. gender, disability, race and age. Conversely, bad practice can lead to a loss of reputation and customers, particularly as Co-operative businesses are perceived as having, or are expected to have, high regard for equal opportunities.

**"We need to be seriously concerned about our age and race profile among our members... and if we look around this room today we can see perhaps a little bit more about the age gap. This is a matter that we should grasp if we are to be an ongoing movement with relevance and resonance in the twenty-first century."**  
A co-operator, Loughborough regional hearing

**7.5** In summary, the legal, social and the business cases are interwoven and compelling and contribute to policy and practice becoming part of everyday working.

Elaine Woodfiner with a customer at the Stockport Late Shop



## Late Shops

### A Co-operative case study

Over the past four years, the number of food convenience stores operated by United Norwest Co-op throughout the North Midlands and North West has doubled to over 300, making it the clear market leader in its region.

Around three years ago, United Norwest undertook extensive customer research into the development of a new concept convenience store to take the Society through the first part of the new millennium. Every aspect of the design, range, feel

and operation of the stores was thoroughly investigated, resulting in the development of a number of striking blue and aqua Late Shop pilot stores. To date over 100 of United Norwest's stores have been converted to the new colour scheme.

The new format has been very well received by customers and members, with an average sales increase of 16 per cent and profit margins up 31 per cent due to improved product mix, particularly in the fresh food area.

The success of the 'Going for Blue' programme led to United Norwest being shortlisted in the IGD Multiple Retailer of the Year Awards 2000, alongside Asda, Tesco and Iceland – a rare achievement for a regional retailer.

**7.6** One of the biggest challenges for business today is to respond to constant and frequent change. To attract and retain employees and customers and enhance business competitiveness, it is vital to keep up with best practice. By doing so, ideas are stimulated and more open and attractive policies and procedures are encouraged.

**7.7** Best practice in equal opportunities can be seen as a dynamic process, achieving a balance between the needs of the organisation and meeting those of the individual, whilst promoting the fundamental values of equality.

**7.8** Good examples of best practice are:

- Setting standards (Key Performance Indicators) for equal opportunities and measuring and reporting on them, as part of the regular business review with senior management and the Board.
- Regular communication with employees and customers, using surveys, focus groups, briefings, newsletters and electronic media as appropriate to update them regarding progress the organisation is making on equal opportunities issues. Conversely, such communications also provide important feedback as to, for example, whether newly introduced policies are understood and are working in practice.
- In addition to a grievance policy, the provision of a confidential help line or nominated supporters for employees who may believe they are being harassed or bullied. For a variety of reasons staff feel isolated and unable to confide in friends, colleagues or managers but need support and guidance to resolve a particular situation. A confidential support mechanism will allow this to happen.

- Positive recruitment programmes away from the normal labour market e.g. in areas with a high population from ethnic minorities.
- Publication of the organisation's policy and commitments in all job advertisements.
- Training in equal opportunities to keep employees up to date and aware of their responsibilities, so that it is seen as being integral to the business.
- Active participation in equal opportunity related groups and organisations e.g. Business in the Community, Equal Opportunities Commission.

**"...if you want to establish a co-operation which is really going to mean anything, I think we have got to have a reinvestment and a resurgence of housing co-operation."**  
A co-operator, Oxford regional hearing

**7.9** Practice in the Co-operative Movement varies, driven by individual Society priorities:

- To support Co-operative initiatives and illustrate the difference, it is essential that leadership and commitment to equal opportunities continue to be demonstrated at the most senior levels in Co-operative organisations and are effectively communicated both internally and externally.
- Benchmarking, sharing best practice and setting performance indicators that will monitor progress towards a diverse workforce is necessary, together with ensuring these results are fully and openly reported, "warts and all". Statistics and reporting must not be seen as an end in themselves, however, but as a way of contributing to the business by using all available resources to best effect.
- Co-operatives must continue to develop strong links with the community, and employ a workforce

that is representative of the one in which they operate, thus ensuring that members of the community identify and do business with them.

- They must ensure that policies and procedures not only comply with legislation as a minimum, but also go further to set an example to other employers, therefore maintaining and emphasising the Co-operative Movement's values as a social and ethical employer, with whom customers will seek to do business.
- Best practices can be shared throughout the Movement by communication with its more advanced exponents e.g. those featured in the case studies and the Co-operative Union. Furthermore the Society can gain assistance from various specialist bodies, such as the Equal Opportunities Commission, The Commission for Racial Equality and The Disability Rights Commission, particularly in respect of setting performance standards and measuring and reporting progress against them.

**See recommendation 38**

## 8

### Remuneration and incentives

**8.1** Commensurate with the ambition of being a successful Co-operative business, it is essential for retail Societies to attract and retain the highest quality of employee particularly at senior management level in competition with the private sector. Competition for such people has never been greater and Societies must have the freedom and the will to attract their fair share of such individuals.

**8.2** It is perhaps not surprising to observe that in general the remuneration systems for management in the Co-operative sector are not in line with the private sector. In particular, there is less focus on incentives and therefore a diminished relationship between performance and reward. For example, annual and long-term plans are the exception in the Co-operative sector, but the norm among plcs of comparable size to the top 20 Co-operative Societies. While not suggesting rewards in line with some over-generous bonuses in the plc sector, the Commission believes that some strong element of incentives, consistent with the maintenance of Co-operative principles, must be appropriate, given the urgent need to improve performance. The corollary, of course, is that persistent failure to achieve targets should result in management changes.

**8.3** Societies should review their remuneration policies in order to reward better both current and potential senior managers, based upon the profitability of the successful Co-operative business and not on turnover.

**8.4** We would expect the key elements of the remuneration packages for senior executives might include:

- A market-based salary.
- An annual financial incentive scheme based on an appropriate financial indicator.
- A long-term (e.g. 3 years) incentive plan linked to the achievement of key measurable targets from the 3-year business plan.

**8.5** Societies should review their policies in relation to openness concerning remuneration policies and examine the best practice initiatives within the plc sector in this field.

#### See recommendation 39

**8.6** More generally, for all employees a human resources strategy should be adopted by Co-operatives to include:

- Competitive remuneration linked to comparable market rates.
- Modern flexible working practices.
- Excellent training and development policies.
- Clear accountability linked to quality performance appraisal processes.
- Team bonuses based on individual unit or branch performance.
- As employee shareholders, a share in the distributed profits of Co-operative Societies.

**8.7** The introduction of any changes should be with due regard to consultation with the relevant trade unions.

# Recommendations

## Chapter 4 – Effective Management for Change and Development

### Boards, management, and staffing

**30**

The Commission recommends that the best practice in relation to the size of the Boards for Societies should be the lowest number that achieves:

- The principle that elected members should always have a majority on the Board...
- Whilst achieving the representation from the other constituencies as outlined within the recommendations.

Accordingly, the Commission recommends that the maximum size of Board should be 15, except in the case of CWS, where the maximum ideally should be 20 members.

**31**

The Commission acknowledges that members of the Board elected from amongst the membership of the Society must always be in a majority on the Board. Nevertheless the Commission recommends that:

- The Chief Executive and Financial Controller as a minimum should serve on the Board.
- Employees should be recognised as important stakeholders who should be fully involved in the decision making process and should be encouraged to become members who participate actively in the Society's internal democracy via a reserved employee member constituency with at least two seats on the Board. Employees may continue to stand as consumer representatives but the total number of employees on the Board should not exceed one-third.
- In order to close the skills gap that exists on Societies' Boards, and to

foster the performance culture required in a successful Co-operative business, it is essential that Boards should introduce a skills audit. Boards should be empowered to fill any skills gaps identified by the appointment of two external independent Directors, and the Commission recommends that Boards should do so.

**32**

The Commission recommends that within CWS each major trading business should have its own management executive as is currently the case in The Co-operative Bank and CIS. In addition to providing more focused management this similar level of focus could develop at Board level. This would allow the CWS Board to make management more accountable across the diverse businesses which make up CWS and should allow appropriate comparison analysis of all CWS businesses.

The respective management executives would remain responsible to the CWS Board through a Chief Executive Officer.

**33**

The Commission recommends that the Co-operative Union should, after appropriate consultation, establish the quality and qualifications required of candidates prepared to serve on the Boards of Co-operative Societies as external independent non-Executive Directors. The Union should compile a pool of suitable candidates.

**34**

The Commission recommends that the Co-operative Union should have the ability to appoint up to two advisors to work with the Boards of consistently under-performing Societies and the Rules of the Co-operative Union should be amended to facilitate this, which would then become a condition of membership of the Union.

**35**

The Commission recommends that on-going training for all Directors should be a regular item addressed by all Society Boards. Recognising the complexities of a rapidly changing business environment, the Co-operative Union and the Co-operative College, in consultation with leading business schools, should develop a new qualification that meets the minimum requirements for elected Directors to execute their duties and responsibilities adequately. This new qualification – or its academic, professional or experienced equivalent – should be mandatory for any candidate seeking election or re-election as a Director from the beginning of 2003.

**36**

The Commission recommends that an age limit for Board members within Societies should be set at 68.

**37**

Irrespective of the size of Society or electoral processes adopted, it must be emphasised that Board members, once elected, are not delegates representing any particular constituency; rather they serve on the Board to oversee the competitive and commercial success of the Society as a whole and must always act selflessly in its best interests.

**38**

The Commission recommends that the Boards of all Societies should adopt best practice in relation to equal opportunities policies and should incorporate reports on equal opportunities within the social report. The Co-operative Union should promote best practice in equal opportunities and encourage its application in all Societies.

**39**

The Commission recommends that Societies should review their remuneration policies in order to reward appropriately senior managers in order to attract talented people from outside the Movement. The remuneration package should be based upon the profitability and social achievements of the successful Co-operative business and not on turnover alone. Societies should review their practices in relation to openness concerning remuneration policies and should implement the relevant recommendations of the Co-operative Union's corporate governance code of best practice.

# the movement needs a more effective, united and co-ordinated voice

## Chapter 5 – National, Regional and Local Structures



63	General
63	National representational structures
64	The Co-operative Women's Guild
64	The Woodcraft Folk
64	Lifelong learning
65	The Co-operative Foundation
66	The Co-operative Party – the political voice
67	The Co-operative Press

67	Regional structures
67	Local structures and action
68	UK Government action
68	UK legislation
70	Recommendations

## 1

### General

1.1 Within the UK there are national, regional, and local dimensions of the Co-operative Movement. At all these levels change is needed.

1.2 Locally, at the level of the communities where Co-ops are located there is a requirement for successful Co-operative organisations to become valued service and community support organisations in their local communities, following the lead of the best practice across the Movement.

*“It’s a bit like the Gordian knot, we spend that much time looking at why things were the way they were and if you try to unpick a Gordian knot you never will, you’ll pick at it and you pick at it and pick at it, and that’s what we do, we pick at it all the time trying to solve the problem, but it never works, the only solution to the Gordian knot is you take a sword to them, you cut them down and you start from scratch, so what we need in our membership organisation is innovation, more participation and control by membership and above all, vision from the Movement’s leaders.”*

A co-operator, Edinburgh regional hearing

1.3 It is essential that the link between Co-operatives and their local communities is developed and extended. The potential for local action – enshrining Co-operative ideals – is considerable. Nothing will better reinforce the rebirth of the Movement nationally than the evidence that its local roots in voluntarism are thriving and are delivering services required and prized by local communities.

1.4 Regionally, there is not only a need to become actively involved in the new regionalism emerging and centred in England around the Regional Development Agencies (RDAs), but also the specific regional dimension of the Movement’s activities involving an avoidance of self-defeating competition and promoting greater co-operation between Co-ops. The common Co-operative branding we recommend elsewhere in our Report should considerably assist, both in promoting greater co-operation and avoiding unnecessary competition between Societies in the same catchment areas.

1.5 In Scotland, Wales and Northern Ireland analogous intensification of the relationships between the various parts of the Movement, aimed also at maximising the synergies and avoiding self-defeating competition, is required.

1.6 At UK level, the Movement needs a more effective, united, and co-ordinated voice to ensure commonality of purpose, diversity of local action, and the active promotion of Co-operative principles at the highest levels of Government and in public debate. In particular this will entail promotion of Co-operative principles and action in the context of the development of social enterprise and the social economy.

## 2

### National representational structures

2.1 At UK level, there is a lack of synergy

between the consumer retail Co-operatives and the wider Co-operative Movement involved in social enterprises. This has been institutionalised by the creation of the UKCC that has largely represented the non-retail movement.

*“...if we want to promote co-operation to the public at large and, in particular, to opinion formers in the various tiers of Government, we need to ensure that the voice of co-operation is more co-ordinated in the future than it has been in the past.”* A co-operator, Oxford regional hearing

2.2 It is clear from public submissions received and evidence taken during the regional hearings, the Movement believes that the UKCC – under the previous Chairmanship of Lord Carter and the current Chairmanship of Lord Graham and with the executive support of David Dickman – has undertaken some important and valuable work in promoting and developing the concept of Co-operative enterprises across the UK.

2.3 The existence of two national level bodies suggests a lack of unity of purpose and outside organisations may be confused as to the roles of the two bodies and why there cannot be one organisation speaking for the Co-operative Movement in its broadest sense.

2.4 We therefore welcome the proposed merger of the administrations between the UKCC and the Co-operative Union and the broad agreement that the two organisations will work more closely together in the future.

2.5 Indeed, the Commission understands that the two organisations will proceed to a full strategic alliance with a national

remit that would include promoting the development of the social economy and social enterprise and in so doing recognise the wider Co-operative Movement and the social enterprise sector as full partners with the retail movement.

**2.6** This new alliance acting as the national voice for the promotion of social enterprises should develop a proper framework to provide business advice, support and training for potential and existing Co-operative enterprises. Also, the Co-operative Union should develop the co-ordination of best practice as experienced within the regions.

**2.7** The Co-operative Union, acting as a clearing house to promote innovation and best practice within the Movement will have as a key aspect of its work modernising the Movement and promoting Co-operative aims and values to the wider community.

## 3 The Co-operative Women's Guild

**3.1** Established in 1883, the Women's Guild has set out to educate and raise the confidence of women co-operators within their own autonomous organisations. Sponsoring women as candidates for places on the Boards of Societies, sectional Boards and eventually as Directors of local Societies, the Guild pioneered many reforms within the Movement, in order to further the cause of women co-operators – in particular the campaign for 'open membership' which allowed more than one member per household.

**3.2** Outside the Movement, the Guild undertook a wide range of campaign work to secure changes in legislation to emancipate women. The Guild's work ensured that maternity benefits were included in the 1911 Insurance Act; they campaigned for improved health care for mothers and infants through school clinics and they were also influential in the suffragette movement.

**3.3** The achievements of the Women's Guild both within the Co-operative Movement and wider society, cannot be overestimated. 80 per cent of Co-op members are women. The current President of the Co-operative Congress, Pat Wheatley, for eight years was Secretary of the National Guild which together with the Women's Guild has devoted much of its finance and efforts to the promotion and education of women.

**3.4** The Commission, whilst not making any specific recommendations in relation to the Women's Guild, wishes to place on record its gratitude for the support, encouragement and determination of its members to advance the cause of co-operation throughout the local communities in which they serve.

## 4 The Woodcraft Folk

**4.1** For over seventy-five years, the Woodcraft Folk has been working with children and young people, aiming to develop their self-confidence and ability to play a positive role in society.

**4.2** The Woodcraft Folk currently runs 500 groups and has 13,000 adults, young people and children as members. Since

its founding, it has seen itself as part of the broad Co-operative Movement. Its education programme and activities are organised on a Co-operative basis and centre upon equality, peace and social justice.

**4.3** Financial support for the organisation is given at Society level, although it has received some core funding from national bodies.

**4.4** Whilst the Commission does not intend to make any specific recommendations concerning the Woodcraft Folk, we do place on record our appreciation for the work they do in promoting Co-operative ideals to young people. In addition, the Woodcraft Folk have suggested the formation of a joint Woodcraft Folk/ Co-operative initiative modelled upon the successful TUC Youth Academy, which would be run in partnership with the Co-operative College. This would link with the Young Co-operators courses currently held at the College. The Commission reviewed this proposal with interest and commends it to the Movement for further discussion.

## 5 Lifelong learning

**5.1** The Commission is pleased to acknowledge the progressive work of the Co-operative College since its inception in 1919, and in particular its exciting aims to build upon the historic strength of the College through the recently published strategic plan.

**5.2** The vision within the plan seeks to create a resource for the whole of the Co-operative and Mutual Enterprise

(CME) sector which will ensure the highest quality standards in their work.

5.3 The College is the major provider of credit union training; has worked with Co-operative development workers on an NVQ-based management programme; works closely with the Plunkett Foundation for Co-operative Studies; and through the Adapt programme (funded through the European Social Fund), has taken work developed with CWS on Co-operative values and principles to small and medium sized Co-operative enterprises.

5.4 The Commission believes that the time is right for the College to lead on behalf of the Movement the development of a modular Co-operative and mutual enterprise programme entitled 'Learning and Citizenship and Community through Co-operative and Mutual Enterprise'. The programme should be capable of being used at all stages of learning; available both within the Societies and outside the Movement; and should be fundable via various DfEE programmes including the Learning and Skills Council.

**See recommendation 40**

## 6

### The Co-operative Foundation

6.1 The original Rochdale Pioneers were quite clear that the Co-op was not just a business. They understood that the notion of 'self help' was a community philosophy. The original Rochdale store was there to give its members control over the forces that shape their lives.

It was there to provide good food, to avoid rampant profiteering. But from the earliest time it was committed to a larger social role, to promote its values beyond those of food retailing.

*"We in the Co-operative Movement have all of the building blocks, we have cradle to grave co-operation, we are able to offer people control over every single bit of their lives if they want it."* A co-operator, Manchester regional hearing

6.2 It is still the case today that thousands of individuals and many communities are unable to take part in the decisions that shape their lives. The Co-operative Movement still has a major role to play in providing access to education and training, supporting lifelong learning and developing innovative ways of working in local neighbourhoods to help regenerate some of the most deprived communities in the UK.

6.3 There are already excellent examples of successful community initiatives supported by local Co-operative Societies, many of which are highlighted in this Report, where Co-ops are working with partners in local authorities and voluntary groups to improve opportunities for local people. One example is Lincoln Society's Aims in the Community, where members collaborate in local projects. Some of the organisations in which they volunteer time are involved in economic regeneration such as Investors in Lincoln, Urban Challenge and Gainsborough Regeneration. Some have social or environmental goals such as the Lincoln YMCA, Groundwork Lincolnshire and Lincoln Employment Accommodation Project. The Lincoln Society also has a Healthcare Fund supporting health-

related schemes with equipment and an Education Fund, supporting schools bidding for technology/language/sports college status.

6.4 The challenge for the Movement is to build on this success, to spread the good ideas to all areas of the country and to encourage creativity and imagination in projects to maximise the impact of Co-operative ideals. The development of new Co-ops in residential care for older people and the use of resources from the Government's Children's Fund to develop Co-operative solutions for child care are just two ventures which desperately need support if they are to develop from concepts into reality.

6.5 Despite the tremendous success of some local community initiatives, the overall impact of the Co-op in tackling issues such as social exclusion, regeneration and empowering local people is relatively small. This is partly due to the failure of the businesses to generate the profit necessary for a more robust and significant programme of community action and partly due to the lack of co-ordination and consistency of approach of the projects that are implemented.

6.6 It is difficult to support long-term and sustained community activity unless there is a reliable source of funding available, but it is sustained action over a period of time that results in tangible change that leads to real improvements in the lives of local people.

6.7 The Commission is recommending that in order to address these needs a Co-operative Foundation should be established to help complement and

reinforce the impact of Societies' individual community initiatives.

**6.8** There is a need to carry out research and development work to explore new ideas about how communities work. The Co-op should be a major player in developing such policies and should be able to exercise considerable influence in shaping future economic and social policies at local, regional and national levels. The excellent work being carried out by Communicating Mutuality is leading the way in this area and its innovative approach should be a central element in the research and development work of the Foundation.

*"Why should people sacrifice their time and energy to develop new Co-operatives... if they cannot be sure that the effort they're putting in is of lasting benefit to their communities."* A co-operator, Oxford regional hearing

**6.9** The Foundation is designed to be the national recipient of the community dividend particularly for those Societies that do not already have active local programmes which promote Co-operative activity.

#### See recommendation 41

**6.10** The Foundation would translate the values of mutual support, solidarity and community into practical action by:

- Funding sustainable Co-operative initiatives.
- Funding research in new areas of Co-operative activity.
- Funding community initiatives that bring fulfilment to local people and enrich the environment in which they live.
- Funding political and citizenship education within the Co-operative and

wider Labour movements where such education promotes an understanding of the value of strong communities and gives local people access to a wider social arena.

**6.11** The Foundation would become a catalyst for promoting the values and principles of the Co-operative and wider Labour movements. It would recognise and embody the fact that Co-operatives represent the individual as entrepreneur and consumer; trade unions represent the individual in the workplace; and the Labour Party represents the individual as citizen. The Foundation should become a focal point for economic and social discussion within the whole Labour Movement.

**6.12** The Foundation would help to ensure that community activities could be funded over the long-term so that real benefits could be gained from the Co-op's investment. It will help to ensure that community projects are of a consistently high quality and that they meet the goals of the Co-operative Movement.

**6.13** We recommend that Co-operative Societies should contribute to establishing and funding the Foundation and that individual co-operators should be able to make donations to the Foundation if they so wish.

#### See recommendation 44

**6.14** The Board of the Foundation should be fully representative of the Societies that contribute (possibly in a similar way to CRTG) and should also include representation from the other wings of the Labour Movement. It should give priority to supporting projects which

relate directly to the principles and practice of co-operation and which help to translate the values of mutual support, solidarity and community into practical action. The Foundation should also direct funds towards projects that serve the areas from which the funds have been earned in order to secure a real community dividend for people at local, regional and national level.

#### See recommendation 42 and 43

**6.15** The Foundation can help to give the Co-operative Movement a much stronger voice in shaping the development of policies by providing a practical way of making real improvements at local level. It can be a means to achieve many of the aims of the founders of the Co-operative Movement to educate and empower local people and to help them to shape their own lives and to control their destiny.

#### See recommendation 45

## 7

### The Co-operative Party – the political voice

**7.1** The Co-operative Party fulfils an important function in seeking to promote Co-operative interests through its participation in politics. Through its long-standing links with the Labour Party, it engages Co-operative members in the work of the Labour Party. This involves a programme of political education carried out through a number of weekend schools and events, plus the national summer school.



Co-operative Party MPs and Peers from the Co-operative Party's Parliamentary Group

**7.2** The Co-operative Party currently has a large number of elected advocates including 27 Westminster MPs; 2 MEPs; 7 Members of the Scottish Parliament; 5 members of the Welsh Assembly and over 700 Labour and Co-operative councillors.

**7.3** The last two years have seen the Co-operative Party become the leader in the development of new mutual policy initiatives at the same time as overhauling its core advocacy activities. In addition, the work of its elected advocates has ensured the successful promotion of Co-operative ideals at all levels of government.

**7.4** The Commission recommends that links between the Co-operative Movement and the Labour Party should be strengthened nationally and locally to reflect the increasing importance of co-operation. The Co-operative Party should remain the political interface and is the appropriate body to affiliate to the Labour Party. The Labour Party and the Co-operative Party should work together on a new partnership to increase participation in political activity.

**See recommendation 46**

## 8

### The Co-operative Press

**8.1** The Co-operative Press Ltd. is an independent secondary (federal) Co-operative Society whose role is the dissemination of news and information to the Co-operative Movement. It fulfils this role by publishing the Co-operative

News, the world's longest-established Co-operative newspaper, which was founded in 1871.

**8.2** The Co-operative News sells approximately 11,000 copies a week – the majority of which are bought by consumer Co-operative Societies for internal distribution. As a business the Press is financially independent (though 51 per cent owned by CWS), with its own Board.

**8.3** Income for the Press comes from two sources: sales of publications and sales of advertising space, both of which are declining and place the future of the Co-operative News in serious jeopardy.

**See recommendation 47**

## 9

### Regional structures

**9.1** Regional Co-operative Councils are seen as being an important component for the promotion of Co-operative enterprise in Scotland, Wales and the regions of England. They have the potential to develop a distinct Co-operative agenda throughout the UK, bringing together retail Societies and the Co-operative Development Agencies (CDAs), Social Enterprise Agencies and other sectors of the non-retail Co-operative Movement. Their valuable contribution should be recognised through the possible allocation of one seat on the Central Executive of the Co-operative Union to be filled by an elected representative of the RCCs.

**See recommendation 48**

**9.2** Regional Co-operative Councils should play a key role in the evolving structure of the modern Co-operative Movement, linking with the development of regional economies through the new regional structures emerging at that level.

**9.3** Analogous structures and linkages should be established in Scotland, Wales, and Northern Ireland.

**9.4** In the future appointment of members of the Regional Development Agencies, the Government should be requested to consider the nomination of a Co-operative Movement nominee within each region.

**See recommendation 49**

## 10

### Local structures and action

**10.1** The local dimension of Co-operative activity is not only important as part of the distinctive commercial offering of Co-operative Societies, but also because the reconstruction of communities is an integral part of the modern political agenda. Co-operatives directly and by the support of social enterprise in its broadest sense are capable of reviving community life. The delivery of a variety of new or disappearing community services, to provide support to various societal groups, e.g. the elderly, people with disabilities, single parents, the socially disadvantaged, is an important role that Co-ops should fulfil as part of their social mission.

**10.2** As some Societies have shown,

working with other groups equally committed to social and community enterprise can provide a much-needed expansion of services to the local communities. Co-operative Development Agencies, such as the Durham Co-operative Development Agency, one of the largest in the UK, or others in areas such as Northern Ireland, can develop a variety of local businesses to benefit people, communities, and the environment, supported also by funding from the European Union.

**10.3** A local dimension relating Co-operative activities to the communities in which they are located is, therefore, an essential component of future Co-operative development. An example of this might be the broadening of the role of local retail stores to become 'community service centres', offering, under the Co-operative banner, a range of other services including, for example, banking, other financial services, travel, post office facilities, etc.

## 11 UK Government action

**11.1** The Commission believes that the Government should develop stronger liaison and supportive linkages with the Co-operative Movement at various levels.

**11.2** The UK Government should be encouraged to recognise the Co-operative advantage as a key component of the 'Third Way'. The Co-operative sector, embracing the rising tide of 'new mutualism' can and should play an active role in bridging the gap between commerce and community, between private and public sectors.

## 12 UK legislation

**12.1** Many of the laws governing the social enterprise and mutual sectors originate from the nineteenth century and their relevance to the twenty-first century is highly questionable.

**12.2** In effect, the current legislation is largely a consolidation of nineteenth century law. It has failed even to keep pace with the framework of company law, which itself is in need of radical overhaul as evidenced by the current thoroughgoing Company Law Review.

**12.3** The Commission believes that Co-operative Societies must demonstrate on a regular basis to the Registrar of Friendly Societies that they continue to operate as Co-operatives, in order to retain their legal status.

**12.4** Unlike in some other countries, there is no legal recognition in the UK of the Co-operative form of common ownership. There is also no statutory recognition of the principles of the International Co-operative Alliance.

**12.5** We conclude that there is an urgent need for modern legislation that enshrines the ICA principles (see Annex 3) as well as providing the Co-operative Movement with freedom of choice on how best to protect its assets.

### See recommendation 51

**12.6** The Commission has also considered evidence relating to the legal framework governing the social enterprise and mutual sectors. We take

the view that the framework is in need of a fundamental overhaul similar to that proposed for companies.

**12.7** We believe that a new modernised legal framework should provide consistency, clarity and conciseness so that the law is accessible and easily understood by all those who wish to engage in the sectors – from the start-up to the large mutual.

**12.8** We are aware of the thorough work being carried out by the Company Law Review. The Government is committed to modernising company law and regulation in a way that promotes the competitiveness of UK business. The review aims to develop a simple, modern, efficient and cost-effective framework for companies carrying out business activity in the UK.

**12.9** The Company Law Review was launched in March 1998 by the DTI. An independent steering group was formed to oversee the management of the review bringing together those with expert knowledge of company law matters. The review has considered a wide range of issues including company registration procedures and corporate governance.

**12.10** The social enterprise and mutual sectors are an integral part of British business activity. They require laws which enhance rather than impede competitiveness. We believe that the Government's commitment to modernisation must extend to the mutual and social enterprise sector. We recommend therefore that a similar approach should be established to develop the future legal framework of the social enterprise and mutual sectors.

**See recommendation 50**

12.11 The Commission believes that the UK Government should consider, as an immediate step, extending the remit of an existing Government Minister within the Cabinet Office, to have responsibility for the promotion of Co-operative ideals and to act as the main point of contact for the Movement, seeking to highlight its concerns and aspirations to the Government. The Commission also recommends that the Scottish Parliament and the Welsh Assembly should also consider such a measure.

**See recommendation 52**

# Recommendations

## Chapter 5 – National, Regional and Local Structures

### Lifelong Learning

**40**

The Commission recommends that the Co-operative College should lead, on behalf of the Movement, the development of a modular Co-operative and mutual enterprise programme entitled 'Learning Citizenship and Community through Co-operative and Mutual Enterprise', capable of being used at all stages of learning, available both within the Societies and outside the Movement and fundable via various DfEE programmes including through the Learning and Skills Council.

### Co-operative Foundation

**41**

The Commission recommends that a Co-operative Foundation should be established. This would be an exciting new opportunity to promote the values and principles of the Co-operative and wider Labour movements.

**42**

The Commission recommends that the Foundation should work with the proposed Social Economy and Community Task Force to help implement the recommendations of the Government's report on Enterprising Communities, to raise community development venture funds and to encourage public and private sector investment in under-invested communities.

**43**

The Commission recommends that the Foundation should be non-profit-making and the Board should be representative of the Co-operative Societies which choose to contribute (possibly in a similar way to CRTG) and should include representation from the wider Labour Movement.

**44**

The Commission recommends that the Foundation should be financed from the community dividend with an initial capital injection to enable it to commence its activities. The Commission further recommends that individual co-operators should be able to make donations to the Foundation if they so wish.

**45**

In considering applications from individuals or organisations the Commission recommends that both Boards of Societies and the Co-operative Foundation must give priority to funding projects which relate directly to the principles and practice of co-operation and which help translate the values of mutual support, solidarity and community into practical action.

### Political structures and affiliations

**46**

The Commission recommends that the Co-operative Party and the Labour Party should work together on a new partnership to increase participation and political activity and that the Co-operative Party should be the only Co-operative body to affiliate to the Labour Party.

### The Co-operative Press

**47**

The Commission recommends that the Co-operative Union should initiate discussions with the majority shareholder with a view to requesting the Board of the Press to carry out a review of the Co-operative Press, in order to broaden the editorial content of the Co-operative News, so that it does not rely upon contributions solely from the Retail sector, but encompasses and supports the wider Co-operative Movement.

### Regional issues

**48**

In the context of devolution, the Regional Co-operative Councils are seen as being an important promoter of Co-operative enterprise in Scotland, Wales and the regions of England since the creation of the Regional Development Agencies (RDAs). Therefore, the Commission recommends that they should work together with the Co-operative Union/ UKCC and could possibly have a seat on the Union's Central Executive.

**National issues for UK Government****49**

The Commission requests that in the future appointment of members of the Regional Development Agencies, (RDAs), the Government should be requested to consider the nomination of at least one Co-operative Movement nominee to the Board of each RDA.

**50**

We are aware of the thorough work being carried out by the Company Law Review. We recommend that a similar approach should be established to develop the future legal framework of the social enterprise and mutual sectors as a whole. The aim of such a review should be to develop a simple, modern, efficient and cost-effective legal framework for carrying out business activity and meeting the social goals of these sectors. This new legal framework should be established within the lifetime of the next Parliament.

**51**

The Commission is convinced by the argument that a modernising bill should be put before Parliament to recognise in law, for the first time, the Co-operative form of common ownership and deal with the securing of Co-operative assets already referred to in recommendation 29.

**52**

The Commission requests that the UK Government should consider, as an immediate step, extending the remit of an existing Government Minister within the Cabinet Office, to have responsibility for the promotion of Co-operative enterprise and to act as the main point of contact. The Commission also recommends that the Scottish Parliament and the Welsh Assembly should also consider a similar measure.

# businesses that trade profitably and for a social purpose

**Chapter 6 – The Social Economy and Co-operation**



73	General	78	Extending the boundaries of co-operation
73	Uniqueness of credit unions	79	Meeting the social enterprise challenge
73	Role of ICOF and ICOM – finance for social enterprise	79	Essential changes required in legal framework
74	The development of the Co-operative housing sector	80	What are our social goals?
76	Social enterprise in the twenty-first century	81	Recommendations
76	Social Investment Task Force		

## 1

### General

**1.1** The Commission took an early decision to expand its remit to cover the broader issue of the development of social enterprise and the social economy generally. We were much encouraged, and confirmed in our decision, by the response of the submissions received. Not only did we receive submissions from social enterprise organisations themselves, but also, a number of submissions from Co-operative organisations and from individuals set co-operation itself in the context of the more general development of social enterprise. We have been further encouraged that the Government in establishing the Social Investment Task Force has already recognised the integral part that the social economy has to play in overall economic development.

**1.2** The social economy is growing in size and importance, there are around 670 credit unions, with a membership in excess of 285,000 in the UK and assets of £179 million, and the potential for growth in this sector is considerable. Worker Co-operatives, of which there are around 1200 in the UK, and housing Co-operatives, have also seen steady growth and, of course, if the voluntary sector and housing associations are included, the total economic and social impact of the social economy is significant in terms of GDP.

**1.3** The Co-operative Movement may thus be seen as part of the wider family of businesses that trade profitably and for a social purpose; this being the broadly accepted definition of social enterprise. In terms of sheer size the Co-operative Movement dominates the social

enterprise sector. However, it is clearly in the interests of the Co-operative Movement that it should support and sponsor the further and future development of social enterprise and the 'social economy' in its broadest sense at national, regional, and local levels in the UK, and also at European and international level.

## 2

### Uniqueness of credit unions

**2.1** Credit unions are the acorns of the financial sector. They provide financial services to millions of people across the world. In Ireland, half of the population is in a credit union. In the United States and Canada, the figure is 25 per cent, there are strong credit union movements in the Caribbean and fast developing movements in the Far East and in Eastern and Central Europe.

**2.2** In the UK by contrast, 22 years after the passing of the Credit Union Act, credit unions serve fewer than 300,000 people, just 0.4 per cent of the population. The penetration of credit unions has been disappointing, particularly given the £10-15 million of public money that is spent annually on credit union development. Two factors contribute to this: the UK's credit union legislation is among the most restrictive in the world whilst at the same time regulation of credit unions has been inadequate.

**2.3** The credit union advantage lies in four main areas:

- Credit unions do not have to pay significant dividends to external shareholders.

- Credit unions tend to have exceptionally low defaults – partly because of the common bond.
- For the same reason, they tend to have low advertising and promotional costs.
- As social businesses, even established credit unions tend to enjoy support from local firms, local government, religious or community groups.

**2.4** Of particular importance – it is estimated that between 50-75 per cent of the money saved and loaned through a credit union is spent within the local economy. Credit unions share many of the characteristics of building societies and other mutuals. The demand for credit unions today is, in part, a consequence of the privatisation of so many mutuals. Credit unions fill a gap in the market for locally owned, democratically controlled financial institutions.

## 3

### Role of ICOF and ICOM – finance for social enterprise

**3.1** Industrial Common Ownership Finance Ltd (ICOF) provides loan finance to employee owned Co-operatives and to social enterprises. As such it is the sister organisation of the Industrial Common Ownership Movement (ICOM) which provides legal and registration services for businesses wishing to use such structures.

**3.2** ICOF's raison d'être is to help people take more control of their own economic lives. They achieve this by lending at risk to those who are often excluded from mainstream financial provision, providing

loan finance and business advice that enables people to own and control the businesses in which they work or which are in their neighbourhood. In 1976 ICOF received £250,000 of central Government money but since then they have made a profit entirely from their own resources. ICOF's companies include Community Capital which lends to community businesses and social enterprises and ICOF plc which lends to employee-owned businesses.

**3.3** Examples of the types of enterprise which ICOF supports include:

- PS Refrigeration, a successful employee buy-out based in Nottingham.
- Slaidburn, in rural Lancashire, a community Co-op buy-out of village store and post office.
- Bookprint 2000, a phoenix rescue by disabled people against all odds in South Wales, which saved their former Remploy factory.
- Poptel, one of the UK's leading Internet service providers.
- Phone Co-op, the highly rated Co-operative phone service.
- Ashiana project, which provides language and business training in the Sparkbrook area of Birmingham.
- Buzz Co-operative, a highly successful bus company based in Harlow.

**3.4** However, for ICOF, there is constant pressure to raise lending capital in more share issues but competition for ethical investment has increased sharply and the promotion of funds which they have available to lend. Whilst ICOF is successful in getting its loan capital out as well as getting it back, it has to do all of its own promotions which can be expensive for a small organisation.

**3.5** ICOM is a non-profit membership organisation that promotes and

represents common ownership and Co-operative enterprises throughout the UK. Although primarily concerned with advancing the cause of democratic employee ownership (especially in the form of worker Co-operatives) it is also involved in developing other innovative forms of co-operation including 'Co-operative consortiums' made up of small businesses or self-employed individuals.

**3.6** Since 1976, ICOM has registered over 2,700 Co-operatives whether they are worker Co-ops or one of the many new forms being built.

## 4

### The development of the Co-operative housing sector

**4.1** The Co-operative housing movement has, during the past twenty-five years, conclusively demonstrated that the application of the Co-operative principles to the provision and management of housing delivers quality cost-effective housing services and creates sustainable communities. However, despite its proven benefits, the Co-operative housing sector remains small and disadvantaged. Housing Co-operatives own or manage less than 0.1 per cent of the UK's housing stock. This contrasts sharply with other European countries in which housing Co-operatives make a major contribution to the provision of quality affordable housing. A leading example is Norway where housing Co-operatives provide 14 per cent of all housing in a highly developed system.

**4.2** The empowerment of tenants through Co-operatives is in many ways vital following the demise of social housing provision by local authorities and the shift of responsibility for the management and maintenance of estates to tenants. The potential assets are substantial. A recent merger of housing Co-operatives in the Grampian region in Scotland has seen the establishment of a new fully mutual organisation, wholly controlled by its tenants and with assets of over £20 million.

**4.3** There is currently no legal framework in UK housing law in which rights of occupancy of residential property can arise from membership of a democratic mutual provider. This lack of a proper legal and administrative framework for Co-operative housing creates numerous practical administration difficulties – it also denies members legal protection of their rights.

**4.4** The development and expansion of the Co-operative housing sector is also of mutual importance to the wider Co-operative Movement. Housing Co-operatives are concerned to ensure that members are educated and informed about the principles and practice of co-operation; this practical understanding of the Co-operative principles is vital to their success.

**4.5** Potentially, members of housing Co-operatives could be an important source of new members for established retail Co-operatives, but because of the lack of a direct link between the development of housing Co-operatives and the retail Co-operative sector this cross-fertilisation of membership and Co-operative ideals rarely happens.

**See recommendation 54**

Staff at Annabelle's Restaurant in London – a successful social enterprise



## Social Enterprise London

### A Co-operative case study

Social Enterprise London is the regional agency tasked with the job of promoting social enterprise in London and increasing the scale of the social economy.

It is a positive example of how different parts of the Co-operative sector such as worker Co-ops and credit unions can join with other types of business that trade for

a social purpose, like community trusts and trading charities, to work together at a regional level to support the growth of the sector.

The strength of SEL's partnership approach has given it a policy voice with the key players in London Government. SEL is using its influence to develop a co-ordinated

approach to the way social enterprises are being promoted and developed.

In some areas specialist support has been given to employee buyouts and new models of work organisation for disadvantaged groups and people with disabilities, such as Annabelle's Restaurant. This work has produced very impressive results.

## 5

### Social enterprise in the twenty-first century

5.1 The resume of the breadth and development of social enterprises and their relevance to the Co-operative Movement as the largest player in the social economy suggests that the current century could witness – notwithstanding the movement towards a global economy – a resurgence of the development of co-operation and social enterprise more generally. Indeed, a persuasive case could be made for the necessity of the development of social enterprise, particularly of co-operation, as a balancing accompaniment to that very globalisation. In this way the scale and anonymity of globalisation may be ‘softened’ by consumers’ involvement in key areas of the economy, particularly those dealing with consumer goods, consumer credit, and social goods, e.g. long-term care of the elderly. These are all areas where direct contact with the product, a strong element of service, and trust are required.

5.2 We do not consider that these are simple issues, but their resolution may hold some part of the key to easing the apparent alienation of consumers in the modern, rapidly changing, and technologically dominated world. A recent report by the International Association of Investors in the Social Economy suggested that, for instance, banking regulation is too important to be left solely to banking regulatory authorities and that banking in the absence of a social context is poorly regulated. Co-operative banking provides this social context,

allowing innovation and service to flourish as both the social means and the social objective of profitable operations.

5.3 These combined issues – necessary globalisation, consumer alienation, successful co-operation – point to the need for the expansion of successful co-operation (the very reason for the Commission being established) and the need for co-operation and collaboration at all levels between the various organisations which make up the social economy. At local, regional, national, European, and international levels the need is first to understand and then to explain the importance of developing the social economy. Nor does this mean some soft option in economic terms. We are, throughout this report, stressing the ‘profit imperative’. By this we mean the need, if the Co-operative Movement is to deliver against its social objectives, to ensure by efficient trading the continuous development of surpluses which can then be devoted to securing the social goals, among which should also be included the popularising and expansion of co-operation itself.

“Co-ops should not be seen as an answer to market failure, instead they should be seen as an alternative people-centred way of doing business. Co-operative enterprises are opportunities to harness the skills, energy, enthusiasm and commitment of ordinary and extraordinary for mutual benefit.” A co-operator, Loughborough regional hearing

5.4 Whether the new century will, in fact, see a considerable expansion of co-operation and with it the social economy will partly be determined by economic and social forces that cannot be predicted with certainty. What is more

certain is that, without the new inspiration for co-operation, the basis of which we hope to have set out in this report, and the effective commitment of co-operators, the positive development of a strong social economy will not happen.

## 6

### Social Investment Task Force

6.1 The Chancellor’s Report on Enterprising Communities, prepared by the Social Investment Task Force, recommends five specific areas for action:

- A Community Investment Tax Credit to encourage private investment in under-invested communities, via Community Development Financial Institutions that can invest in both not-for-profit and profit-seeking enterprises.
- A Community Development Venture Fund as a matched funding partnership between Government on the one hand and the venture capital industry, entrepreneurs, institutional investors, and banks on the other.
- The monitoring of banks’ lending activities in under-invested areas, leading to disclosure of each bank’s performance.
- Greater latitude and encouragement for charitable trusts and foundations to invest in community development initiatives.
- Financial and other support for Community Development Financial Institutions, including new mechanisms to collect funds at wholesale level which can then be channelled into Community Development Financial Institutions.

6.2 These five key recommendations set out how £1 billion of private finance can

Annette Howie, who bought her car with a loan from Capital Credit Union



## Capital Credit Union

### A Co-operative case study

Capital Credit Union is a democratic, member-owned and controlled financial services Co-operative for public service employees in Edinburgh and their families.

As an independent, non-profit, volunteer-based organisation, its aim is to provide quality services to meet the needs of members within the credit union philosophy.

Capital first opened in 1989 in Edinburgh, and has had a high street presence since 1995, providing members with access to services on a full-time basis.

Capital is now a leading credit union. With assets of over £6.5 million it provided members with a dividend return of 4 per cent for the financial year 1998/99. It has 7,000 members and is committed to extending access to low cost financial

services. Products include savings facilities and low cost loans as well as free life insurance and an option to insure regular deduction against sickness, accident or redundancy.

Capital's Board of Directors have an extensive range of skills and experience, providing effective management with a member focus.

be invested into the UK's most deprived areas. In this way the aim is to develop the enterprise and wealth vital to building sustainable communities that will provide long-term growth for the future.

**6.3** Already active in community development and itself forming a substantial part of the social economy, the Co-operative Movement must seize the opportunity presented by the Government's positive stance on the development of the social economy to enlarge and deepen its activity as the leader of the social economy movement. The social economy should no longer be seen as a marginal, add-on area of business for the Co-operative Movement, but rather as an integral part of its mission and its activities. If the ending of social exclusion is to be made a reality then the social economy is the means to establish and to maintain the inclusive society which underlies the Co-operative Movement's own agenda.

**6.4** The exclusion of many people in deprived areas from access to finance can be remedied by the development of credit unions. There is an urgent need to expand their coverage very substantially. A number of Co-operative Societies, for example Lincoln, have been active in providing management time for the setting up of credit unions in their areas. This activity should be regarded as a mainstream activity for Societies. Moreover, The Co-operative Bank should become more closely involved. A transition, over time, can be envisaged of a number of individuals 'graduating' from credit unions to holding accounts with The Co-operative Bank. Seen in this way credit unions are clearly an integral part of the financial economy, as indeed they are in the USA.

## 7

### Extending the boundaries of co-operation

**7.1** The potential for expansion of Co-operative endeavour is enormous, but to develop and expand, co-operation needs supportive government both at national and regional level. A realigned third sector can play a significant role in the development and expansion of the UK economy. However, there also needs to be a realisation that the social enterprise sector is an equal partner with the retail sector of the Co-operative Movement. Sustaining small enterprises of a Co-operative nature is as important to the whole Movement as protecting the larger retail sector.

**7.2** Co-operation provides a clear alternative to the private sector in fulfilling commercial objectives and encouraging the development of successful sustainable communities. This fact has to be recognised at the highest level. In developing organisations based on the attitude and ethos of co-operation, we have the chance to develop a fairer, balanced society in which each community can play its part.

**7.3** The submissions received from social enterprise partners all indicate that whilst they are undertaking positive and productive work, they are in some cases hindered by a lack of a proper legal framework and in some cases a feeling that they are operating alone. The Commission is recommending that a 'Social Enterprise Summit' should be held in 2001, hosted by The Co-operative Bank with the support of the Co-operative Union and the UKCC. The Summit should

bring together social enterprise partners and representatives from the retail sector from around the UK, the Labour Party and the Trade Union Movement to discuss in depth how to pursue further co-operation between all sections of the Co-operative Movement in the UK.

**7.4** The Summit should seek agreement to establish a permanent Social Economy and Community Task Force with the administrative support of the Co-operative Union. The Task Force would be a tripartite body bringing together the three wings of the Labour Movement, the Co-operative Movement, the Labour Party and the Trade Union Movement. Unlike a previous tripartite body, the Council of Labour which was largely unfocused and did not connect with local communities, this new Task Force should be firmly rooted within the local community and undertake ongoing research and development projects designed to create a holistic Co-operative approach to economic development. The Task Force would also act as an interface with central government, the Scottish Parliament, the Welsh Assembly, the Northern Ireland Assembly and the RDAs as well as other public bodies. The Task Force should meet on a formal and regular basis and should be encouraged to approach the new Co-operative Foundation for financial support to strengthen and promote social enterprise initiatives across the UK. As an immediate step, the Commission is requesting the Labour Party to include a commitment in its next general election manifesto for the Labour Government to examine how it can utilise the development of the social enterprise sector to strengthen the social economy, build local communities and tackle social exclusion.

**See recommendation 53**

## 8

## Meeting the social enterprise challenge

8.1 Clearly, as with our views on the future of the Co-operative Movement, we see a clear development path for the social economy on the basis of a combination of new business dynamism coupled with a new covenant of trust with the owners and customers of social enterprise. The task for the broader social enterprise movement is to prove its intrinsic worth to the consumer, to the general public, and to government. We believe this is achievable and that the Co-operative Movement has a key role to play in developing and promoting the social economy and its potential economic and social roles.

*“We should promote social inclusion and ensure that we work closely with other self-help Co-op and Co-operative groups to develop initiatives to meet people’s needs. Social goals must be an integral part of our business and we must measure and monitor these through social and Co-op audits.”*  
A co-operator, Loughborough regional hearing

8.2 In connection with the promotion of social enterprise, the Commission is pleased to acknowledge – as a constructive move – the agreement that the Co-operative Union will provide administrative services and professional back-up to the Industrial Common Ownership Movement (ICOM). This will ensure that ICOM is able to maximise existing resources and minimise outgoings.

8.3 The Commission is also pleased to record the agreement reached between the UKCC and the Co-operative Union to integrate their administrative work.

**See recommendation 55**

8.4 In addition, the Commission feels that the Co-operative Union and the UKCC – in their new form – should have a national remit to represent and to promote activity and policy research in the area of the social economy (the latter via the Co-operative Foundation which we propose should be set up). These new national roles and activities are discussed in more detail in Chapter 5. Here we simply state that such a strong national level promotion is an essential element in the development of the social economy in the UK.

**See recommendation 56**

8.5 The present Industrial and Provident legislation is out-dated. The Commission welcomes the Company Law Review and calls on the Government to implement a similar approach to the social enterprise and mutual sectors.

## 9

## Essential changes required in legal framework

9.1 The Commission is aware of the rigorous work being carried out by the Company Law Review and believes that a similar approach should be established to develop the future legal framework of the social enterprise and mutual sectors as a whole.

9.2 The aim of such a review should be to develop a simple, modern, efficient, and cost-effective legal framework for carrying out business activity and meeting the social goals of these sectors. This new legal framework should be established within the lifetime of the next Parliament.

9.3 It is also important that the implementation of the recommendations of the Government-commissioned Social Investment Task Force should take account of the need to provide sufficient flexibility for Co-operative Societies to invest in community development projects.

*“...need for Co-operative commercial strategy that matches the highest ethical standards in the industry.”* A co-operator, Oxford regional hearing

# what are our social goals?



This represents the collective view of membership officials of Co-operative Societies present at the MRO Consultation Meeting at Stanford Hall on October 10, 2000.

## Overview

### Social goals should:

- Be central to Co-operative enterprises to represent the interests of all stakeholders.
- Encourage active citizenship.
- Enable and empower stakeholders.
- Create a Co-operative enterprise economy, think globally and act locally within the Co-operative Movement.
- Inform and educate to raise awareness of Co-operative values and activities.
- Be SMART (specific, measurable, achievable, realistic and timed).

## Process

### In implementing social goals, Co-operatives should:

- Undertake social audits.
- Take the opportunity to market the Co-operative advantage.
- Provide channels of communication between community and resource providers to develop a culture of consultation with all stakeholders.

## Creation and regeneration

### In implementing social goals, Co-operatives should:

- Proactively promote, create and support a sustainable environment in which new and existing Co-operatives can form and grow through financial and practical support.
- Regenerate and reinvest in communities.

## Caring and ethical behaviour

### Every level of business should:

- Reflect social goals and promote ethical behaviour. (Examples of ethical behaviour cited include active engagement in fair trade, human rights, animal rights, racial/sexual equality, fair investment policies, fair employment policies, and minimising negative environmental impact).
- Where possible, proactively trade with other Co-ops.
- Challenge the status quo to achieve social goals.

# Recommendations

## Chapter 6 – The Social Economy and Co-operation

### Social Economy and Community Task Force

#### 53

The Commission recognises that the social enterprise sector is an integral part of the Co-operative Movement and appreciates the difficulty that the third sector can face because of a lack of a modern legal framework and of available financial support. The Commission recommends that a Social Economy Summit Meeting, hosted by The Co-operative Bank and supported by the Co-operative Union and the UKCC should be held during 2001 under the Chairmanship of John Monks.

The Summit Meeting, which would bring together leading players in the UK's social economy, Government Ministers and international experts should particularly address the funding difficulties encountered in the UK for social enterprises, the feasibility of creating a social economy venture capital fund and the current legal limits in the UK on the scale of Co-operative shareholdings.

The Commission recommends that the summit should also provide an opportunity to launch a new Social Economy and Community Task Force which would be a tripartite body bringing together on a permanent basis the three wings of the Labour Movement to develop a holistic approach to strengthening the social enterprise sector in the UK.

Furthermore the Commission recommends that the Labour Party should incorporate into its manifesto for the next General Election a commitment for the next Labour Government to examine how it

can implement measures to expand the UK's social economy.

### Housing

#### 54

The Government should promote amongst local authorities that are considering transferring their housing stock to the private sector, the Co-operative model of social housing.

### UKCC and Co-operative Union

#### 55

The Commission welcomes the agreement that the Co-operative Union will provide administrative support to ICOM and to the UKCC. Also, the Commission welcomes the news that the Union and the UKCC intend, at the same time, to establish a full strategic alliance to progress further the overall policy development of the Co-operative and social enterprise movements.

#### 56

The Commission recommends that this new strategic alliance should become the national voice for the promotion of social enterprises in the UK and should develop a framework to provide services, support and training for potential and existing Co-operative and other social enterprises and should assist the development and co-ordination of social enterprise/social economy representation at national and regional levels.

# the new vision of co-operation for the twenty- first century

## Chapter 7 – Mission Statement and Next Steps



83	General
83	What should be the Co-op's mission statement?
83	Guidelines for the statement
84	The mission: challenging convention 'the Co-operative advantage'
84	Implementation of the mission
85	Recommendations
86	Next Steps

## 1

### General

1.1 In the context of the Co-operative Movement, the formulation of a mission statement represents an 'encapsulation' of the already established principles of Co-operation. The aim of the statement would be to encapsulate – for members and employees – the vision of co-operation for the twenty-first century, linked to the common branding of all Co-operative Movement ventures and activities.

1.2 There is a clear acceptance by the Commission and by all associated with the Co-operative Movement that Co-operative Societies combine both a commercial and a social purpose. These purposes/objectives should not be seen as opposites; rather they should be regarded – particularly in this modern age – as offering the opportunity to achieve breakthrough strategies for co-operation in new and, in some areas, mature markets.

1.3 Mission statements can sometimes be dismissed as mere 'window dressing'. The Commission however believes that for the Co-operative Movement in the twenty-first century, the principle of a defined mission – a stretching goal – is an excellent way of expressing the social purpose of the Movement and integrating this with the essential commercial mechanisms for achieving the social goals.

1.4 The mission statement will seek to:

- Guide the overall direction of the business.
- Inspire and direct the efforts of management and employees.

- Give coherence to the activities of different parts of the business.
- Act as a vision for the future development of the business.

*"Co-operative businesses must achieve their business success through the consistent practical application of Co-operative values and principles, our values and principles are integral to our activity, not some kind of add-on feature. We must set out to be the consumer's champion, we must work to unite rather than to divide the interests of producers and consumers, to provide for our members' needs in a sustainable way."*  
A co-operator, Oxford regional hearing

## 2

### What should be the Co-op's mission statement?

2.1 To formulate a mission statement for Co-operatives we consulted widely on the nature and precise wording of the statement. The process involved:

- Reviewing existing Societies' mission statements.
- Conducting a content analysis of those Societies' 'positioning' and an appraisal of common elements.
- Reviewing the recent inputs from advisers to the Commission.
- Reviews of some other company mission statements.
- Development of an appropriate template for a single mission statement.
- Advancement of a number of suggestions for debate by the Commissioners.

2.2 In addition to the above, we sought contributions from Commission members themselves; from academic writings; from CWS; and from the Movement at large (via Co-op News and the Commission's own web site).

2.3 Various themes emerged. These may be summarised as follows:

- Considerable disparity within existing Societies' missions as to whether their 'aim' was to serve 'customers' or 'members'.
- Similar disparity as to whether 'profit-seeking' formed a part of their aims.
- A broad range of current views as to the 'aims' of Societies, but with clusters of agreement in four main areas:
  - Generic service benefits.
  - Co-operative principles and values.
  - Community focus.
  - Success.

## 3

### Guidelines for the statement

3.1 Above all the mission statement should be audacious and expressed in specific terms; i.e. it should not simply be a statement of existing competencies or vague ambitions.

3.2 To an extent, therefore, it should be reasonable to inspire positive adoption and commitment at all levels of the organisation, and indeed of the Movement as a whole.

3.3 Ideally, the mission statement should be brief, intelligible, without qualification, and memorable. Taking account of the substantive inputs and meeting these

structural criteria was difficult. As might be expected, there was considerable discussion within the Commission before a consensus emerged.

3.4 However, we believe that the following statement meets the criteria and can serve the Co-operative Movement and its constituent parts for some considerable time to come. We would like to think that the Rochdale Pioneers would have approved.

## 4 The mission: challenging convention – ‘the Co-operative advantage’

Our mission is:

“To challenge conventional UK enterprise by building a commercially successful family of businesses that offers a clear Co-operative advantage.”

4.1 What do we mean by a ‘Co-operative advantage’?

We mean:

“Excellent products or services with distinct competitive benefits derived from our values and principles, our rewards for members or our commitment to the communities we serve.”

4.2 There are a number of important elements to this statement:

- The notion of ‘challenge’, effectively saying there is another way of doing business.
- The word ‘build’, which implies more than maintenance and suggests both investment and commitment.
- The idea of the ‘Co-operative advantage’, offering consumers a real choice in a number of different sectors.

Supporting this:

- The ambition of excellent products and services because effectiveness is the ‘sine qua non’ of our business.
- The notion of ‘distinct competitive benefits’ based on the three pillars of our Co-operative values, our unique member ownership and our community focus.

**See recommendation 57**

## 5 Implementation of the mission

5.1 The Commission is aware that mission statements can – however well devised – be the subject of cynicism. Nonetheless we believe that not to have attempted to encapsulate the overarching mission for the Movement as we see it at the beginning of the twenty-first century would have been an abdication of responsibility on our part.

**See recommendations 59 and 60**

5.2 What is critical is how effectively the mission is ‘sold’ to Co-operative organisations. Literature on this subject suggests that there are three distinct stages in this process:

- i Communicate and explain the mission.
- ii Create belief in the mission by demonstrating its successful application.
- iii Solidify ‘emotional’ commitment to the mission.

To which we would add a fourth:

- iv Thereafter, ensure all employee and Director training starts from and builds upon this foundation.

# Mission statement: “to challenge conventional UK enterprise by building a commercially successful family of businesses that offers a clear Co-operative advantage”

## Recommendations

### Chapter 7 – Mission Statement and Next Steps

#### Mission statement

57

The Commission recommends that to express its fundamental purpose the Co-operative Movement should adopt as its mission the following form of words: “To challenge conventional UK enterprise by building a commercially successful family of businesses that offers a clear Co-operative advantage.”

The Movement should seek to implement the mission in a consistent, committed, and co-ordinated manner at all levels of the organisations that make up the Co-operative Movement and should ensure all employee and Director training starts from and builds upon this foundation.

The Movement should seek to live up to and strive towards the ‘stretching goal’ that this mission represents over the coming years.

#### Implementation

58

Co-operative retail Societies should seek new ways of deepening their Co-operation at a trading level, particularly in adjacent geographical areas.

59

The enlarged Co-operative Union should actively seek to ensure the commitment of all sections of the Movement to the implementation of the Commission’s recommendations. In order to review progress on the implementation of the Commission’s Report, it is recommended that the enlarged Co-operative Union reports formally on this matter to Congress no later than 2006.

60

The Commission recommends that the Co-operative Movement should prepare for its renewal in the twenty-first century by reinterpreting and reinvigorating the principles that it has always stood for to make them relevant to the present day.

# next steps

Our work having been completed it is for the Co-operative Union and the other Co-operative Movement bodies to which the various recommendations are addressed, to consider the individual recommendations, taken as an interlinked set of proposals.

We urge the Co-operative Union, the Co-operative Party; CWS, all Co-operative Societies; The Co-operative Bank and CIS; and all other parts of the Movement to work together from this moment to sign up to and implement our recommendations and, in so doing,

to secure a vibrant future for the Co-operative Movement in this new century.



**John Monks**



**Alan Donnelly**



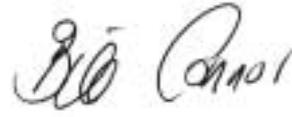
**Lord Fyfe of Fairfield**



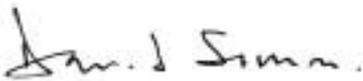
**Hazel Blears MP**



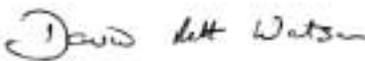
**Mervyn Pedelty**



**Bill Connor**



**Lord Simon of Highbury CBE**



**David Pitt-Watson**



**Gerard Hill**



**Bob Burlton**



**Pauline Green**



**Alan Middleton**

# annexes



## The Co-operative Commission

### 1 **John Monks**

Born 5 August 1945

#### **Current position**

General Secretary, Trades Union Congress.  
Chairman, Co-operative Commission.

#### **Offices**

Member of the British Government and EU Competitiveness Councils since 1997. Member of the Chancellor of the Exchequer's Standing Committee on EMU. Member of the Learning and Skills Council. Member of ACAS from 1979 until 1995. Currently a Visiting Professor to the School of Management at UMIST, Manchester.

### 2 **Alan Donnelly**

Born 16 July 1957

#### **Current position**

Secretary, Co-operative Commission. CEO of Sovereign Strategy. Chairman, Northern Infomatics Applications Agency.

#### **Offices**

Member of the European Parliament for Tyne and Wear from June 1989 until retirement from the Parliament in January 2000. Former Leader of the European Parliamentary Labour Party. Board Director of Unity Trust bank 1987 until 1989. Former National Finance Officer of GMB Trade Union. Former member of National Executive Committee, the Labour Party.

### 3 **Hazel Blears MP**

Born 14 May 1956

#### **Current position**

Labour MP for Salford. Vice Chair, Labour Home Affairs Departmental Committee.

#### **Offices**

Former Salford City Councillor. Former Principal Solicitor for Manchester City Council. Member of the Labour Party's National Policy Forum. In October 1999, appointed Deputy to Ian McCartney MP. Currently the Labour Party's Development Co-ordinator.

### 4 **Lord Simon of Highbury CBE**

(Life Peer)  
Born 24 July 1939

#### **Current position**

Advisor to the Cabinet Office on the modernisation of Government. Appointed by President Prodi to advise on Institutional Reform within the European Union 1999.

#### **Offices**

Former Group Chief Executive and then Chairman, BP. Former Minister of State in HM Treasury and the DTI as Minister for Trade and Competitiveness in Europe 1997-1999. Former Vice President of the European Round Table and a member of the CBI Presidents Committee. Previously a non-executive Director of the Bank of England.

### 5 **Lord Fyfe of Fairfield** (Life Peer)

Born 10 April 1941

#### **Current position**

Member of the House of Lords. Chairman, Unity Trust Bank plc.

#### **Offices**

Former Director, The Co-operative Bank. Former Director, CIS. Former Chairman, CWS. Former Chief Executive, Midlands Co-operative Society.

### 6 **Gerard Hill**

Born 27 October 1966

#### **Current position**

Membership Development Officer, CWS Scottish Co-op.

#### **Offices**

Vice President, Scottish Midland Co-operative Society. Former CWS Director.



7

7 **Mervyn Pedelty**

Born 16 January 1949

**Current position**

Chief Executive, The Co-operative Bank.

**Offices**

Member of the Executive Committee of CWS.  
 Director, CIS.  
 Deputy Chairman, Unity Trust Bank.  
 Fellow of the Institute of Chartered Accountants.  
 Fellow of the Chartered Institute of Bankers.

8 **David Pitt-Watson**

Born 23 September 1956

**Current position**

Commercial Director, Hermes Lens Asset Management.

**Offices**

Deputy Chair, Labour Finance and Industry Group.  
 Former National Finance Director and Assistant General Secretary, the Labour Party.  
 Former Executive Member, Deputy Chair, Labour Finance and Industry Group.  
 Non-executive Director, Pensions and Investment Research Consultancy 1990.  
 Councillor, Opposition Leader on Finance and Personnel, Westminster City Council, 1986 until 1990.



9

9 **Bill Connor**

Born 21 May 1941

**Current position**

General Secretary, Union of Shop, Distributive and Allied Workers.

**Offices**

Former Labour Leader of Skelmersdale Council.  
 Member of the National Executive Committee of the Labour Party 1990 until 1997.  
 Member of the General Council, sitting on the Executive Committee of the TUC.

10 **Bob Burlton**

Born 7 June 1948

**Current position**

Chief Executive, Oxford, Swindon and Gloucester Co-operative Society.

**Offices**

Director, CWS from 1992.  
 Director, The Co-operative Bank from 1993.  
 Chairman, The Co-operative Union.  
 Member of the Board, Co-operative College.  
 President, Co-operative Congress 1999.  
 Director, Heart of England Training and Enterprise Council.



11

11 **Pauline Green**

Born 8 December 1948

**Current position**

Chief Executive and General Secretary, Co-operative Union.

**Offices**

Member (LP and Co-op) London North, European Parliament 1989 until 1999.  
 Leader of the Group of the Party of European Socialists 1994 until 1999.  
 Leader, European PLP 1993 until 1994.  
 Parliamentary Assistant, Co-operative Movement 1986 until 1989.  
 President, Co-operative Congress 1997.

12 **Alan Middleton**

Born 18 August 1941

**Current position**

Freelance writer and lecturer.

**Offices**

Director, Lincoln Co-operative Society.  
 Associate, Co-operative College.  
 Chairman, Co-operative Cleaners.  
 Deputy Chairman, Shoefayre.  
 Chairman, Co-operative Production Board.  
 Member of the Central Executive of the Co-operative Union.  
 President, Co-operative Congress 1998.

# The Co-operative Commission's terms of reference adopted at its first meeting on 29 February 2000

## 1

### Introduction

We believe that the principles first enunciated by the Rochdale Pioneers and subsequently adopted and periodically updated by the International Co-operative Alliance (ICA) – (see opposite) are an important part of the beliefs of the three wings of the Labour Movement. We believe they have a significant and ongoing contribution to make to the future of the Labour Movement as a whole and to the commercial, political and social life of the country.

We acknowledge that consumer Co-operatives are the most established and successful part of the Co-operative Movement in the UK. There is now a growing need and desire for that sector to give active support and encouragement to the newer, innovative Co-operative developments in the economy which are assuming a new importance for job creation and social inclusion.

We also recognise that the structure and strategies of the Co-operative Movement must continue to change with the times if it is to apply those principles to the conditions of the UK in the twenty-first century and to make them meaningful for the Labour Movement in the next century. In particular we believe that:

- Co-operative enterprises must demonstrate their ability to compete in the marketplace, by delivering products and services as well as the public company sector.
- Co-operative enterprises should continue to make and, indeed, to increase their contribution to consumer rights, to the communities

in which they trade and to political education.

- Co-operative enterprises have a distinctive role to play in their communities and can do this whilst maintaining high standards in employment and in their relations with stakeholders.

We also recognise that partly as a result of modest performance by some Co-operatives in recent years, the Movement has been under threat from those who seek to destroy its Co-operative structures and to profit from the liquidation of assets built up by prior generations of co-operators. We believe it to be a matter of priority that the Co-operative Movement takes measures to ensure its successful continuation to support and build on its contribution to the Labour Movement.

## 2

### Scope

The Commission will have as its aim the encouragement of conditions and changes which will facilitate the achievement of the goals set out above. In particular, the Commission will:

- Ensure that consumer co-operation brings its support and experience to bear on the development of the wider Co-operative sector of the UK economy.
- Review and measure the success of the consumer Co-operative Movement in meeting its commercial and social goals.

- Determine the factors which have influenced its successes and failures including:
  - Business strategies.
  - Ownership and control.
  - Scope of its activities.
  - Relationships with members and customers.
  - Engagement with communities.
  - Relevance of its contribution to consumer issues and political education.
- Review and make recommendations on the structures for the ownership, control and management of the Consumer Co-operative Movement for the future.
- Review and make recommendations for a structure that will ensure a substantial and continuing contribution by the Co-operative Movement to its wider goals.
- Propose a realistic course of action to improve the effectiveness, performance and contribution to society of the Co-operative Movement, with suggested avenues for commercial strategy development.
- Involve and, as far as possible, seek the agreement of relevant Boards, management and employees to any proposal.
- Involve and inform members of the thinking and conditions of the Commission.

# The ICA statement on the Co-operative identity

## Definition

A Co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

## Values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, Co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

## Principles

The Co-operative principles are guidelines by which Co-operatives put their values into practice.

### 1st principle

#### Voluntary and open membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

### 2nd principle

#### Democratic member control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary Co-operatives members have equal voting rights (one member, one vote), and Co-operatives at other levels are also organised in a democratic manner.

### 3rd principle

#### Member economic participation

Members contribute equitably to, and democratically control, the capital of their Co-operative. At least part of that capital is usually the common property of the Co-operative. Members usually receive a limited compensation if any on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their Co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the Co-operative; and supporting other activities approved by the membership.

### 4th principle

#### Autonomy and independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their Co-operative autonomy.

### 5th principle

#### Education, training and information

Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their Co-operatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

### 6th principle

#### Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the Co-operative Movement by working together through local, national, regional, and international structures.

### 7th principle

#### Concern for community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

# Submissions

## Co-operative Society submissions

Anglia Regional Co-operative Society  
Brixham Co-operative Society  
Channel Islands Co-operative Society  
Chelmsford Star Co-operative Society  
CIS  
Colchester & East Essex Co-operative Society  
Co-operative Press Ltd  
Co-operative Union  
CWS Board  
CWS Regions:  
Greater Nottingham Co-op  
North East & Cumbrian Co-op  
Northern Ireland Co-op  
Scottish Co-op  
South Midlands Co-op  
Heart of England Co-operative Society  
Ilkeston Consumer Co-operative Society  
Ipswich & Norwich Co-operative Society  
Leeds Co-operative Society  
Lincoln Co-operative Society  
Lothian Border & Angus Co-operative Society  
Midlands Co-operative Society  
Oxford, Swindon & Gloucester Co-operative Society  
Penrith Co-operative Society  
Plymouth & South West Co-operative Society  
Radstock Co-operative Society  
Raunds Co-operative Society  
Scotmid Co-operative Society  
Sheffield Co-operative Society  
Southern Co-operatives Ltd  
Tamworth Co-operative Society  
The Co-operative Bank  
The Woodcraft Folk  
UKCC  
United Norwest Co-operative Ltd  
West Midlands Co-operative Society Ltd

## Other submissions

TUC  
USDAW  
UNIFI Trade Union

MSF (Leeds General)  
The Co-operative Party  
Hounslow & Spelthorne Co-operative Party  
Waltham Forest Co-operative Party  
Reading & District Co-operative Party  
Wolverhampton Co-operative Party  
Yorks & Humberside Co-operative Party  
Wansbeck and Berwick Branch Co-operative Party  
Haringey Branch Co-operative Party  
Leicester West Co-operative Party  
CWS Cambridge Regional Co-op

Bristol CWS Branch Committee  
Co-operative Accounting Standards Committee  
Co-operative Futures

CRU Open University  
CWS Manchester Regional Board (Provisional)  
CWS Members Relations, Doncaster  
CWS Members Relations, Huddersfield  
CWS Members Relations, Humberside  
CWS Members Relations, Merseyside  
CWS Members Relations, Barnsley  
Heriot-Watt University Social Enterprise Institute  
Home Counties Branch Committee Southern Division  
University of Leicester  
Industrial Common Ownership Finance Ltd/  
Industrial Common Ownership Movement  
Institute of Chartered Accountants  
MCS Party Council Leics Region  
Reading Branch Committee  
Communist Party of Britain  
South East Regional Co-operative Council  
Southampton Area Co-operative Development Agency  
Building Societies Association  
CWS Humberside Branch  
CWS Barnsley Branch  
CWS Doncaster Branch  
CWS Liverpool Branch

CWS Birkenhead Branch  
Lancashire CDA  
The Labour Party  
UpStart Workers Co-operative  
Poptel  
Social Enterprise London  
Durham CDA  
Two Piers Housing Co-op  
East Midlands Co-op Council  
Eastern Region Co-operative Council  
Equal Exchange Trading Ltd  
Job Ownership  
National Association of Co-operative Officials  
Co-operative Productive Board

## Individual submissions

Roy & Patricia Stuttard  
Jim Lamb  
Duncan Chew  
Kevin Robertson  
Jeffrey Boss  
Tony Bodley  
Peter Collier  
Carmel Keogh  
D Strode-Willis  
Geraint Day  
Catherine Tarling  
Chris Godbold  
John Courtneidge  
G Brown  
Glyn Thomas  
Ian Mason  
Graham Guest  
M Powell  
Edgar Evans  
Brian Townsend  
G Darby  
Daryl Barker  
G Bober  
Alan Jackson  
Kit Seyd  
John Walker  
Basil Loveridge  
RN Franklin  
Burt Cross

MD Mathieson  
 A Coomber  
 VA Gander  
 Muriel Gee  
 R Harrington-Vail  
 Edwin Martin  
 Shaun Fisher  
 Neil Wareham  
 Kenneth Allchin  
 Stephen Yeo  
 Steffan ap Dafydd  
 Howard Perrow  
 Sonya Conwell  
 Alan W Judd  
 W Gatherer  
 Doreen Tonkin  
 Bill Eyres  
 Gerald Sandison  
 Audrey Purr  
 George Conchie  
 Alex Gordon  
 VN Bingham  
 Derek Smyth  
 Richard Bickle  
 John E Smith  
 Jim Craigen  
 Hilda & David Smith  
 Edgar Parnell  
 Len Burch  
 Rosemary Watts  
 Kevin Hogarth  
 Joe Perry  
 CJ Richell  
 Barbara Rodgers  
 Ivor Zott  
 Kate Whittle  
 RA Bunn  
 Ashley Baldwin  
 Geoffrey Whiteley  
 E Rattery  
 David Smith  
 Muriel Jeffs  
 Johnston Birchell  
 DM Pate  
 T Jolley  
 CH Benda

### Regional hearings

In addition to contributions from a number of individual co-operators, the following persons gave formal evidence to the Commission at regional hearings:

#### Oxford

Vivian Woodell – President, Oxford, Swindon and Gloucester Co-operative Society  
 Frank Jones – Chair, Bristol Branch CWS  
 Peter Begley – Director, CWS

#### Loughborough

David Hudson – Vice Chair, South Midland Regional Board, CWS  
 Simon Butler – CWS Board member  
 Stuart Parker – Director, Lincoln Co-operative Society  
 Stephen Yeo – Chair, Co-operative College Management Board  
 Dorothy Runnicles – Director, Raunds Co-operative Society

#### Edinburgh

Graeme Reynolds – CWS Scottish Board  
 Joe Hill  
 Frank Whitelaw – USDAW

#### Manchester

Robin Stewart – Vice Chair, CWS Board  
 Kevan Nelson – Unison, North West Region  
 Bill Eyres – CWS Manchester Regional Board  
 Peter Rogan – CWS Manchester Regional Board  
 Brenda Pearson – CWS Regional and MRCs (formerly CRS)

#### London

Erskine Holmes – Northern Ireland Co-operative Society  
 Baroness Thornton – Social Enterprise London  
 Malcolm Corbett – Social Enterprise London  
 Russell Porteus – North East and Cumbrian Co-operative Society  
 Bob Harbour – Chair, South East Co-operative Society  
 Sean Bish – Leeds Co-operative Society  
 Jean Whitehead – Eastern Region Co-operative Council

### Acknowledgements

The Co-operative Commission would like to thank the following people for their invaluable assistance during the Commission's work throughout the year: Iain Malcolm, Neva Brahmhatt, Roger Poole, Mike Smith, Phil Wilson, Leslie Butterfield and Michael Lloyd.

# CWS within the Co-operative Movement

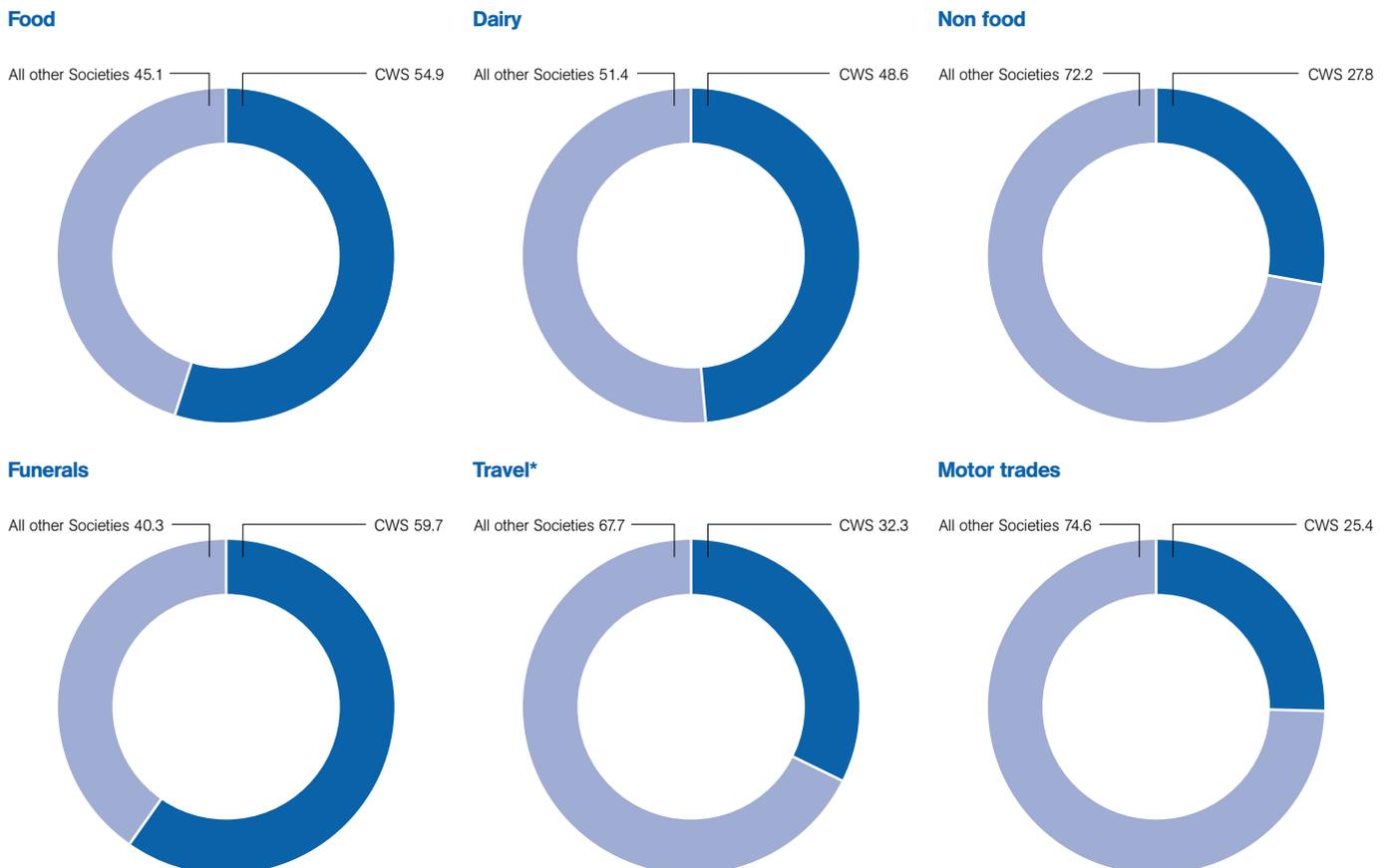
Since the merger of CWS and CRS the new Society (which changed its name to Co-operative Group (CWS) Ltd, in January 2001) now accounts for more than half the turnover of the Co-operative

sector, while its share of the assets of the Movement is even more significant, given its ownership of The Co-operative Bank and Co-operative Insurance Society (CIS).

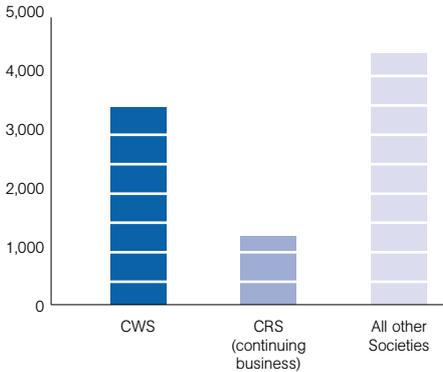
Note: CWS figures include former CRS. \*Travel turnover for CWS excludes the turnover of the managed service provided by CWS for a number of independent Societies. Latest estimate including managed services and other recent developments takes CWS share to approximately 53%.

Source: Co-operative Union Co-operative Retail turnover Jan-Oct 2000 (these figures should be used as a guide only)

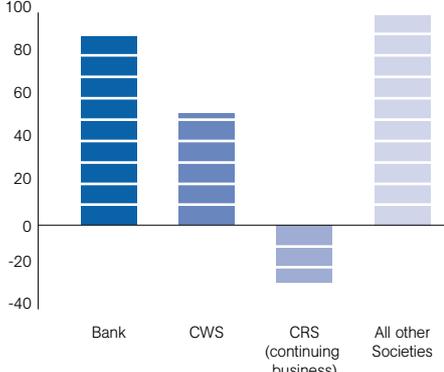
## CWS share of total Movement turnover 2000 (%)



1999 sales – turnover less VAT (£m)



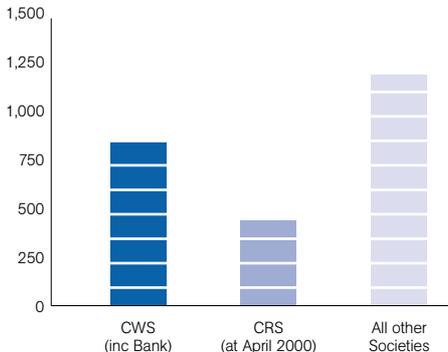
1999 trading surplus (£m)



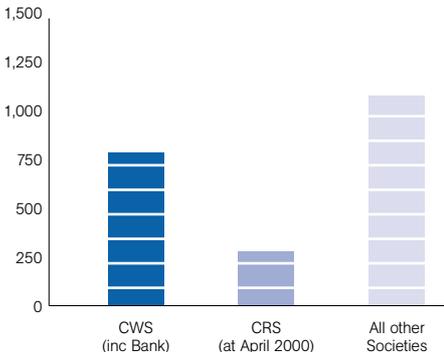
Note: Sales exclude Bank. Net assets include Bank at £264m and CIS at a nominal £0.1m share capital value. Warburg Dillon Reed, for the Commission, considered that, on an adjusted value basis, CWS/CRS (including the Bank and CIS at estimate market value) accounts for 92% of the total asset value of the Movement. CRS sales and surplus are for year to January 2000. Assets and reserves are at transfer, April 2000. Net assets are defined as fixed assets less long-term liabilities.

Sources: All other Societies: Co-operative Union Co-operative Statistics 1999. CWS: Report and Accounts January 2000.

1999 net assets (£m)



1999 reserves (£m)



## Advice given by Christopher Nugee QC in conference on 7 July 2000

Counsel had been instructed to advise generally on the position of Directors of Co-operative Societies. The conference was attended by Ian Snaith, Roger Jones, Cliff Mills and Kevin Jaquiss of Cobbetts. The following note summarises the advice given on the issues discussed.

### Background

1 There is no legislation setting out the duties of a Co-operative Director. The statute does refer to a Committee of Management but the only legislation dealing with the duties of its members is the legislation dealing with fraudulent or wrongful trading.

2 This mirrors the position in relation to company Directors and there is no logical distinction to be drawn between the duties of a company Director and the duties of a Co-operative Director. Both flow from the basic principle that the property and business of a corporate body belongs to the company or Society. The Directors who act for the corporate body are agents acting for a principal and have the implied duties of agents:

- a) A duty of skill and care or competence. This is a duty to do the job reasonably carefully and could be described as a 'negligence type' duty.
- b) Fiduciary duties flowing from the fact that they are agents who have control of someone else's property. Any person in that position attracts a quasi-trustee analysis; they are not strictly trustees but are treated as such and owe all the fiduciary duties of loyalty, honesty and good faith.

### Duties of skill and competence

3 There is a clear and detailed exposition in the City Equitable case which confirms that Directors cannot properly be treated as trustees because it is not possible to say in general what their duties are. There are

different duties in different companies and it is relevant to look at the balance of duties taken on by Directors and officers, provided that balance is reasonable. The case makes it clear that:

- a) A Director is not required to exercise a greater degree of skill and judgement than his own actual experience.
- b) He need not give the company or Society his continuous attention and need not attend all meetings (though he should try to do so).
- c) Subject to the provisions of the Articles (in the case of a company), a Director is justified in trusting the officials unless he has some reason not to do so.

4 If, therefore, you have a situation in which a business is run in effect by managers (as is the case in many retail Co-operatives), it is sensible from the point of view of the Directors to ensure that they are not precluded from delegating responsibility to officers and/or a Chief Executive. Mr. Justice Romer in the City Equitable case laid great stress on the Articles of the company determining the extent to which Directors were entitled to delegate responsibility. It is therefore important to ensure that a Society's constitution matches the reality of the way in which it is run.

5 The case also makes it clear that a Director who has special skills must deploy them. This means that the Directors of a federal Society who have relevant skill and experience as executives of a corporate member must deploy that skill and experience on the federal Board. It is not open to them to say that some lower standard appropriate to a 'lay Board' applies.

6 The further question is whether any objective test of skill and competence applies, particularly in the context of larger retail Co-operative Societies. In the

company context, the Courts have suggested that the test under Section 214 of the Insolvency Act 1986 applies generally. On this basis, a Director should reach the conclusions or take the steps which would be reached or taken "by a reasonably diligent person having both:

- a) The general knowledge, skill and experience that may reasonably be expected of a person carrying out the same functions as are carried out by that Director in relation to the company; and
- b) The general knowledge, skill and experience that that Director has."

7 It is not possible to rule out a Court following this line against a lay Director of a retail Co-operative Society and importing an objective element. However, account would have to be taken of the basis on which Directors of Co-operatives are appointed and the culture of the organisation. This culture involves Directors being elected for the purpose of exercising democratic control over the organisation. In broad terms, a Director might say in relation to his appointment "you knew I was a plumber" but could not say "you knew I wasn't careful".

8 The remarks of Lord Justice Scott in the Barings case may be relevant. He indicated that, the more senior and highly paid the executive, the greater degree of skill and responsibility to be expected from him. It would appear to follow from this that, in the Co-operative context, a high level of skill and competence is to be expected from highly paid executives and a much lower level from non-paid non-executives.

9 The following principles emerge:

- a) A Director of a Co-operative Society cannot be careless, imprudent or irresponsible.

- b) He or she must understand the role and should be:
  - i) given a copy of the Rules and told to read them
  - ii) taken through some form of induction in which his or her attention is drawn to the particular functions of the role.
- c) It is not acceptable for a Director to turn up to meetings without reading the papers or thinking about them.

**10** The reference to the ‘functions’ carried out by a Director in Section 214(4) of the Insolvency Act is a reference to the functions of being an agent of a corporate body. It is not possible to say that the ‘functions’ of a Co-operative Director differ from the ‘functions’ of a company Director. The Co-operative background is relevant to the skill and competence which the Director may bring to the exercise of those functions.

**11** It is not possible to say, as a matter of general principle, that the level of skill and competence to be expected of a Director varies by reference to the size of the organisation. It is appropriate to consider this in the context of a proposed sale of land:

- a) The duty to take care to get a proper price is the same duty however large the price may be.
- b) A Director who is not a valuer is not required to try to make his own assessment of value – he can (and should) take advice from the executive and act on that advice unless it is obviously misconceived (for example because it conflicts with advice given by a professional valuer).

**12** This analysis brings one back to the importance of the Rules. A lay Director of a large retail Co-operative Society cannot deal with the significant questions of retail strategy which will arise. Indeed, he or she might be in breach of duty if they tried

to do so. The lay members of the Board therefore have to rely on the executives (although, as has been said, executives of corporate members who sit on federal Boards might be expected to take their own view). This being the case, it is unsatisfactory to have a constitution which does not reflect what is going on on the ground. If any case concerning Directors’ duties came to Court, the Judge would look first at the constitution. If the constitution makes lay Directors responsible for management of the organisation, there is a risk that the Judge will say that they must take the consequences of having taken on a role which they were not capable of fulfilling. This risk should not, however, be over stressed; in practice the legal principles would be drawn from the facts of the case and the delegation of responsibility, provided there is a power of delegation in the Rules, would generally exonerate the Directors.

**13** It is a part of the duty of care of a Director to take advice if a point is reached where he or she is no longer able to deal with the issues which arise in the Boardroom. There also comes a stage where, in a business which is not performing, the Directors have to question the performance of the executives and will have to take external advice. There is a potential lacuna in the normal Co-operative structure in these circumstances arising from the absence of skilled and independent non-executive Directors. This might be addressed by some form of ‘health check’ service to establish whether the system of delegation and monitoring in a particular society was effective. Great care is required in bringing external professionals into the Boardroom. The cost involved may be difficult to justify in a Society in financial difficulties and there is a serious de-stabilising effect in having external professionals looking over the shoulders

of executives. All of this suggests that there may be a role for independent non-executive Directors in larger retail Co-operative Societies.

#### **Fiduciary duties**

**14** All the fiduciary duties which apply to company Directors will apply to Directors of Co-operative Societies. The phrase used by Lord Upjohn in the *Boulting v ACTT* case, ‘undivided loyalty’ is a good way of expressing the position.

**15** An illustration of the principles appears in the case *Charterbridge Corporation v Lloyds Bank* in which Mr. Justice Pennycuik dealt with the duties of the Directors of a subsidiary company who are nominated by the parent. This situation is a persuasive analogy to the situation of Directors of federal Co-operative Societies nominated or appointed by corporate members. The principle which emerges from the case is that the Directors of the subsidiary cannot sacrifice its interests to the interests of the group. The question is whether an intelligent and honest man could have believed that the transaction in question was for the benefit of the subsidiary. Another way of putting the point is that the Director cannot subordinate the interests of the subsidiary to those of the group.

**16** This suggests that a Director appointed or nominated by a corporate member of a federal Co-operative Society is strictly limited in the account he or she can take of the interests of the corporate member in the federal Boardroom. However, it is clear from the decision in *Harries v Church Commissioners* (dealing with the duties of trustees) that there is a balance to be struck. In that case, it was decided that the trustees are under a duty to get a return on investments, but they can have an ethical policy provided they do not subordinate the need to get a return to that policy.

17 Translating these principles to the Co-operative Movement, the position is that a Director of a Co-operative Society is a Director of that Society and not of the Movement. However, provided he or she does not sacrifice, subordinate or ignore the interests of the Society in question, he or she can take account of a wider interest.

18 These issues are brought into focus in circumstances where a Co-operative Society proposes to take a transfer of engagement of another Society which is in financial difficulties. It is not legitimate in that situation to say that, because any surplus in either Society goes to the Co-operative Movement, there is no need to consider the effect of the transfer on the transferee’s business. Difficult questions might arise if it was a separate object of a Co-operative Society to rescue other Societies in financial difficulties, but in the absence of any such provision the Directors of a transferee Society must look at the transaction and decide what, if any, effect it has on the Society’s ability to continue to deliver Co-operative services.

19 This point can be illustrated by reference to the history of CWS. CWS has built a large and solid retail business out of a series of rescues and has to consider the impact the failure of any Co-operative Society would have on its image. However, CWS is committed to running a ‘successful Co-operative business’. This phrase provides a helpful background when considering the duties of Directors of CWS (or any other Co-operative Society). In considering whether to take a transfer of engagements from a Society in difficulty, the Directors must take steps to establish (by reference to figures) whether and to what extent the transfer would impact on the Society’s ability to run a ‘successful Co-operative

business’. The fact that the Act gives an Industrial & Provident Society power to accept a transfer of engagements shows that a ‘rescue’ of this kind is a proper thing to consider but this does not detract from the need for the Directors to look at the long term interests of the receiving Society. Assuming that the Society does not have an independent object of rescuing Societies in difficulty (and the position there would be far from clear), it is questionable whether the Directors of a receiving Society could properly embark on a transaction which would ruin that Society, even if there were strong reasons in line with Co-operative principles or the interests of the Co-operative Movement for doing so.

#### **Conflict of interest**

20 The case of SCWS v Mayer demonstrates the potential dangers for the Directors of a subsidiary company who are nominated by the parent. In that case, the Directors were found to have acted oppressively towards a minority because they acted in the interests of SCWS rather than in the interests of the company. However, it is clear from Lord Denning’s decision in the Boulting case that it is acceptable in principle for a Director to be a nominee provided he or she does not act in accordance with instructions given by the nominating Society.

21 Specific issues arise from the fact that the corporate members of federal Co-operative Societies who nominate members of the federal Board are in competition with each other (there being no agreed common commercial strategy for all Societies).

22 One area where a nominee Director might have difficulty in this context is that of confidential information. There can be no doubt that a Director nominated by a corporate member on the Board of a

federal Co-operative Society is under a duty (in accordance with the agency principles previously discussed) to keep confidential information which he or she receives in the Boardroom and not to use or disclose that information. The duty of ‘undivided loyalty’ requires that the information be used only for the benefit of the federal Society.

23 Equally, however, the Director will, on the face of it, be under a duty to disclose to the corporate member information which he receives which is relevant to the corporate member’s business. The case of Halifax BS v Stepsley (which dealt with the conflict of interest affecting a solicitor who acted for a Mortgagor and a Mortgagee and received information from the Mortgagor which was prejudicial to the Mortgagee) makes it clear that a person in this situation may have conflicting duties of confidentiality and is not absolved from his duty to one party by his duty to the other.

24 This creates a real and significant problem, to which there are three possible solutions:

- a) The federal Society could authorise disclosure. In practice, within federal Societies, this may be the solution which is adopted. However, disclosure of commercial information to corporate members who are represented on the Board is unfair to those who are not represented. Theoretically, the unrepresented Societies could allege breach of duty unless the position was addressed in the Rules.
- b) The corporate member agrees not to be party to any confidential information which its nominee receives as a Director on the federal Board. It may be that an arrangement of this kind is implied with the power in the Rules to nominate. There is, however, a practical difficulty about this, in that it may be extremely

difficult for a Director who receives information on the federal Board to put that information out of his mind when dealing with an issue on behalf of the corporate member.

- c) Discussion of issues where there is a conflict of interest could be delegated to a sub-committee excluding the Director affected.

**25** Issues may arise on the federal Board where a decision which is in the commercial interests of the federal Society might prejudice the interests of a corporate member. A Director nominated by that corporate member might think it right to vote against the proposal and an issue then arises as to whether, in so doing, he or she would be in breach of fiduciary duty to the federal Society. In approaching a situation such as this in the context of CWS, the provision in CWS's Rules that it is an object of CWS to promote Co-operative principles is relevant and can be taken into account. The culture and history of CWS are also relevant. There might, therefore, be reasons why it was inappropriate for CWS to take a particular course of action which was commercially beneficial but which would be seen outside the Society as high handed or abusive. In that situation, a Director of CWS nominated by a corporate member could legitimately make these points and might also vote against the resolution on the basis that the proposal ran contrary to CWS's commitment to be a successful Co-operative business. However, it would not be legitimate to vote against a proposal if this would materially prejudice CWS's ability to meet the other two elements of its corporate aim. CWS's power to trade has to be used within its original purposes, which include its history and culture, so that it would be inappropriate for CWS to trample on other Co-operative Societies. To that extent, there is a distinction from the position of a company but the Directors

must be aware that they are still running a business and not a charity.

**26** Issues arise from the fact that corporate members of federal Societies enter into contracts with those federal Societies. This means that Co-operative Directors of federal Societies find themselves voting on contracts with their Society. As a matter of law, their interest in those contracts ought to be disclosed to the membership rather than to the Board; the common provisions in company Articles permitting disclosure to the Board are a relaxation of the basic rule. It follows that a federal Society which trades with its corporate members should have a provision in its Rules dealing with disclosure of interest.

**27** Similar but separate questions arise in relation to lay members of the Board of a Co-operative Society who are nominated or elected from a particular geographical area. Such a Director might be placed in difficulties, for example, by a proposal to close stores in his or her area. The principles which apply are as follows:

- a) The Director cannot be mandated by his or her region to vote in a particular way and must listen to debate in the Boardroom.
- b) The Director cannot take into account in casting his or her vote the effect the vote would have on his or her ability to be re-elected.
- c) It is, however, entirely appropriate for the Director to articulate and pass on concerns expressed in the region; that is the proper function of a Director in this position and he or she should express his or her own experience and the views of members in the region.
- d) In making a decision, the Director can take into account any commitment of the federal Society to the Co-operative Movement, but should still carry out

the balancing exercise in relation to the three elements of a 'successful Co-operative business' set out above.

**28** The same broad general principles apply to an employee who serves on the Board of the Co-operative Society, whether or not the employee is in place as an 'employee representative'. An employee representative might be under a duty to articulate the position of employees and it would be entirely legitimate for him or her to make reference to good employment practices. There is, however, no specific Co-operative principle dealing with the rights of employees and an employee representative cannot, in any event, subordinate the interests of the Society to the interests of employees.

**29** The high level of interaction between federal Societies and their corporate members at executive level may on occasion place an executive of the federal Society in the difficult position of being asked for commercially sensitive information by a Director nominated by a corporate member. On the face of it, the Director is entitled to the information as a Director, although the executive would be entitled to suggest that the request ought to be made in the Boardroom or to refer it to the Chair. However, even this puts the executive in a difficult position and federal Societies should set up systems and channels of communication in advance to avoid it happening. The key is that the people involved should be sensitive to the issues and understand the systems and their purpose.



## The Co-operative Independent Commission 1958

The present Report is not the first report of a Co-operative Commission, as that honour belonged to the Co-operative Independent Commission, which reported in 1958. Set up by resolution at the Edinburgh Co-operative Congress of 1955, it was chaired by Hugh Gaitskell, and had Tony Crosland as secretary. The other members of the Commission, all selected as “suitable persons not engaged in Co-operative management or administration”, were Miss Margaret Digby, Professor D T Jack, Dr J B Jefferys, Lady Hall, Colonel S G L Hardie, Mr. J T Murray and Alderman F Pette.

The background to the Commission was the rapid changes which were taking place in retailing following, amongst other things, the end of rationing and the start of self-service. The Co-op was losing market share – but still had 30,000 shops and 250 factories. There were two separate Wholesale Societies, one for England & Wales and one for Scotland – and there were 967 Retail Societies, of which 166 operated only one shop, while 650 had fewer than ten. Those Societies were together paying dividends to customer members in excess of £40m per year – but this was often at the expense of retained income, and there were major concerns about the ability of the Co-op to fund its future development.

Following 35 meetings spread over almost three years, a range of visits, and formal and informal consultations, the Commission produced its report which, unfortunately, also contained a Minority Report from Colonel Hardie, dissenting from the main findings, by recommending the establishment of a single national Society for England & Wales (plus one for Scotland) combining retail, wholesaling and manufacturing interests.

The majority report comprised 51 recommendations, many of which refer to issues and debates long forgotten. Recommendation 13, for example, proposed the clearly radical idea that “the Movement should be more willing than it has been in the past to recruit from Grammar Schools and Universities”. Similarly the idea that “the ideal number of societies is in the region of 200 – 300” (Recommendation 18) has long been overtaken by events.

However, there is much in the Report that was ahead of its time and is still in many ways relevant. The Commission was clear about the respective roles of Boards, and of Management. “Boards should concentrate on major policy and ultimate supervision, leaving the detailed management to the paid officials” (Recommendation 10), and “all societies ... should, if necessary with the help of outside business consultants or the Co-operative Union, create a clear management structure, with unambiguous job specification and an explicit chain of command” (Recommendation 12).

This theme was further expanded on with regard to CWS, where the key recommendation (Recommendation 37) was that the then full-time elected Board should become part-time, and “confine itself to supervising and sanctioning major policy, and altogether eschew interference in detailed management”.

The Commission had much to say on the subject of dividend and price policy, arguing that the Movement should “sell at market prices and treat dividend as a residual” (Recommendation 1) that is, it should aim to match local competition, and not expect the dividend to compensate for high prices. Concerning the dividend,

the Commission assumed, without spelling it out, that the dividend was a sine qua non of a Co-operative. However, recognising that Societies were increasingly paying out dividend which they should have retained, it recommended that Societies should stabilise dividend at a level “high enough to act as an effective inducement to trade, but not so high that it cannot be maintained for a period of years ahead; and they should allocate the remaining surplus, and any increases in the surplus, to reserve” (Recommendation 3).

In looking at the financial performance of the Movement, the Commission was again ahead of its time in terms of introducing return on capital as the crucial measure, and recommending that “investment decisions should be taken on the basis of a comparison of relative rates of return on capital” (Recommendation 29). Even more significantly, it recommended that “the greater proportion of Co-operative capital expenditure in the next few years should take place, not in the production, but in the retail field” (Recommendation 27). In part flowing from this, the Commission recommended that a “Co-operative Retail Development Society should be set up, to plan and operate national chains of specialist shops” (Recommendation 45), involving “the surrender of the notion that a local Society can claim a permanent monopoly of Co-operative trade in its own area”.

Finally, recognising that the Movement was likely to be faced with on-going change, it recommended “that the Movement should formally examine both major constitutional issues, and also its basic trading policies, at least once a decade” (Recommendation 51).

### What happened next?

Regrettably, not a lot. The idea of a Retail Development Society led to the establishment of Shoefayre, but little else happened immediately. In 1964, though, the Board of CWS grasped the nettle and set up a Joint Reorganisation Committee under Sir Leonard Cooke, which reported in August 1965. This report (the JRC Report) led rapidly to the replacement of the then full-time CWS Board with an elected part-time Board, and brought in professional management, in a structure which has broadly lasted until today.

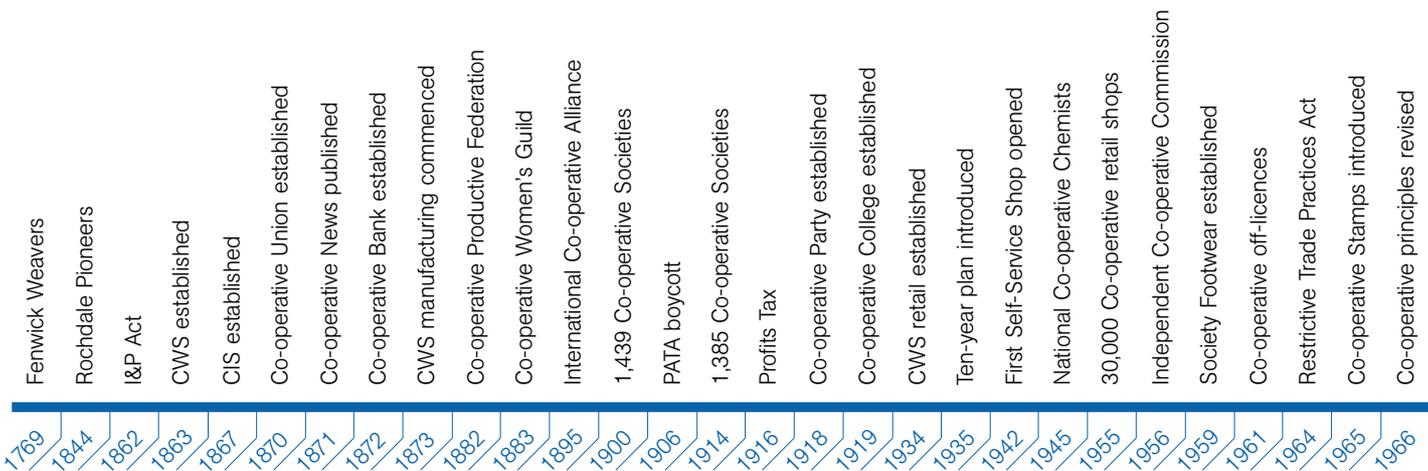
This led in turn in the late 1960s, to a programme of tackling declining market share, the old fashioned image, and inadequate shops with the launch of the Co-op logo, the first national TV advertising campaign, and Operation Facelift, a national refurbishment programme.

At the same time, the Co-operative Union published, in November 1967, a Regional Plan, aimed at reducing the tally of Societies from 467 (there having been a large number of failures and forced mergers in the meantime) to a more realistic 50. Its report, almost ten years after the Independent Commission, said: “If the serious warnings of the Independent Commission had been heeded, the Movement would be in far better shape to withstand the impact of new problems which have developed”.

The activities of the late 60s and early 70s led to a halt in the decline – even briefly in the mid 70s a period when the Movement was showing growth again. But the Independent Commission’s call for a formal re-examination of the constitution and trading policies at

least once a decade went unheeded thereafter, and with some notable exceptions, the Commission recommendations were ignored, or brought about by force of circumstances, rather than freely adopted.

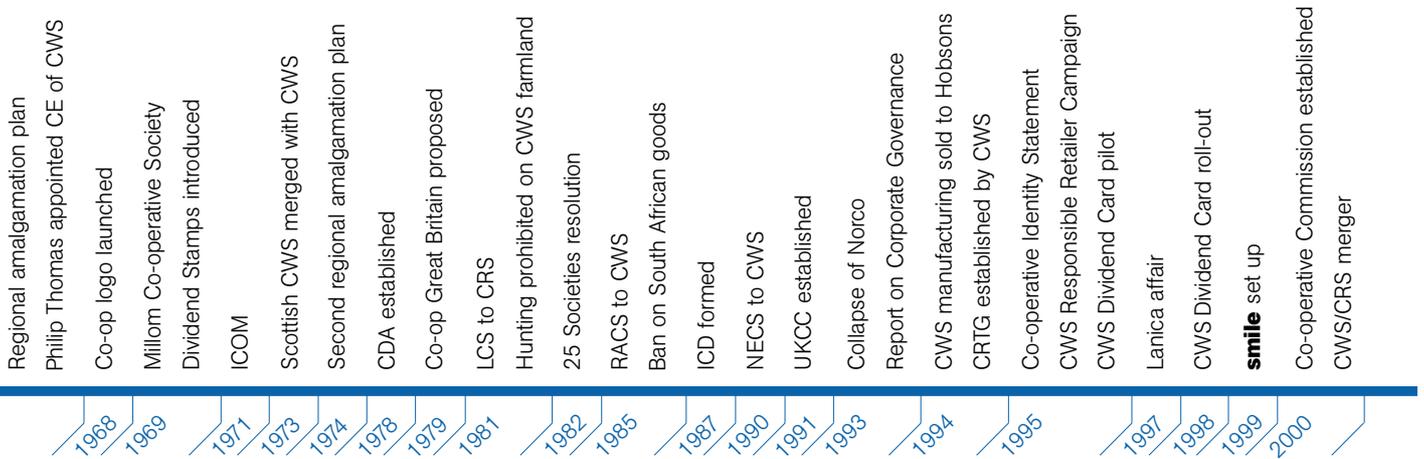
The lessons are obvious!



## Co-operative milestones

The following are some of the key events that have significantly contributed towards shaping the Co-operative Movement we have in the UK today:

- 1769** Fenwick Weavers Co-operative Society established and in the subsequent years many other Co-operatives were formed with varying degrees of success.
- 1844** Rochdale Pioneers Society established, starting a period of phenomenal Co-operative growth. Based on their eight 'Rochdale rules', including distributing a share of profits according to purchases that came to be known as 'the divi'.
- 1862** Industrial and Provident Societies Acts (I & P Act) for the first time gave Co-operatives corporate status providing a proper legal framework for Co-operatives. The first I & P Act had been enacted in 1843.
- 1863** Co-operative Wholesale Society (CWS) established originally called the North of England Co-operative Wholesale Industrial and Provident Society Limited; the Scottish CWS followed in 1868.
- 1867** Co-operative Insurance Society (CIS) established.
- 1870** Co-operative Union established (initially known as the Co-operative Central Board) as an outcome from the first national Co-operative Congress, held in 1869.
- 1871** Co-operative News first published.
- 1872** The Co-operative Bank established, initially as the CWS Loan and Deposit Department, registered as separate wholly-owned subsidiary of CWS in 1971.
- 1873** CWS entered manufacturing and later became substantially involved in importing, ship owning and in many overseas ventures, including joint CWS/SCWS tea estates.
- 1882** The Co-operative Productive Federation established bringing together producer owned (workers') Co-operatives – now a committee of the Co-operative Union.
- 1883** Co-operative Women's Guild established.
- 1895** International Co-operative Alliance (ICA) established and held the first international congress in London.
- 1900** A total 1,439 Co-operative Societies now registered.
- 1906** 'Abortive boycott' on the supply of branded goods to Co-operatives imposed by the Proprietary Articles Trade Association, to prevent Co-operatives paying 'divi' on such goods.  
Calls for a national Society to encompass all consumer Co-operatives by the President of Co-operative Congress, JC Gray.
- 1914** The number of consumer Co-operatives was 1,385, the process of amalgamation had started that has continued to this day; by the year 2000 the number of Societies had fallen to a total of 45.
- 1916** Profits Tax applied to Co-operatives for the first time, resulting in CWS paying £1 million in tax for the year.
- 1918** Co-operative Party established, as a Department of the Co-operative Union, leading to direct Parliamentary and local government representation under an electoral agreement with the Labour Party.
- 1919** Co-operative College established, first based in Manchester and in 1945 relocated to its current site at Stanford Hall, Loughborough.
- 1934** CWS retail established, becoming Co-operative Retail Services (CRS) in 1957, with the purpose of opening shops in 'Co-operative deserts' and taking over failing retail Societies.
- 1935** Ten-Year Plan for Co-operative development introduced, which was intended to encourage Co-operatives to expand into areas not yet served by Co-operatives.
- 1942** First Self-Service Shop opened by the London Co-operative Society. By 1950, 90 per cent of all the self-service stores in the UK were operated by Co-operatives.
- 1945** National Co-operative Chemists (NCC) established becoming the first national chain of Co-operatively-owned retail outlets.
- 1955** British Co-operatives operating 30,000 retail shops reaching their peak in terms of market penetration; having market shares for food of 20 per cent and 12 per cent of non-food; and with 13 million people reported to be in membership.
- 1956** Independent Co-operative Commission set up, initially only to consider Co-operative production, but widened to include retailing, which came to be known as the 'Gaitskell Commission'; publishing its report in 1958.
- 1959** Society Footwear (renamed 'Shoefayre' in 1964) established in a bid to form new national chains of non-food shops.
- 1961** Co-operatives operate their first 'off-licences', hitherto having maintained the abstinence policies of the founding fathers.
- 1964** The abolition of resale price maintenance as a result of the introduction of the Restrictive Trades Practices Act, heralding intensive price competition in UK retailing.



- 1965** Dividend Stamps introduced as an alternative to the traditional methods of paying the 'divi', and as a response to the adoption of trading stamps by other food retailers; individual Societies operated their own stamp schemes. CWS launched the national Dividend Stamp scheme in 1969.  
Publication of the Joint Reorganisation Committee Report.  
CWS full-time elected Directors discontinued (a practice which dated from 1906).
- 1966** Co-operative principles revised by the International Co-operative Alliance (ICA), with a view to making them more relevant to a wider variety of fast-growing Co-operatives throughout the world.  
A Regional Plan, promoted by the Co-operative Union, called for the amalgamation of the then existing 680 Societies into 55 regional Societies.  
CWS appointed its first 'outsider' Chief Executive, Philip Thomas, who was killed in a plane crash less than two years later, before the completion of the programme of radical change he introduced.
- 1968** Operation 'Facelift' launched and the first national 'Co-op logo' was introduced.
- 1969** The failure of the Millom Co-operative Society highlighted in the BBC TV 'Nationwide' programme, creating apprehension in the minds of Co-operative members throughout the UK as to the safety of their investments in Societies.  
Dividend Stamps scheme introduced.
- 1971** The Industrial Common Ownership Movement (ICOM) established, becoming the central organisation for the 'new wave' of worker Co-operatives.
- 1973** Scottish CWS merged with CWS, following difficulties with the SCWS Bank; CWS now became directly involved in retailing.
- 1974** A second regional plan launched, which called for the amalgamation of the then existing 260 Societies into 26 regional Societies.
- 1978** National Co-operative Development Agency (CDA) established by government, mainly promoting worker Co-operatives; it was wound up in 1989.
- 1979** Co-operative Congress President, J H Perrow, calls for the formation of 'Co-op Great Britain'.
- 1981** London Co-operative Society transferred to CRS.  
Hunting with hounds prohibited on CWS farmland (not fishing or shooting).
- 1982** Co-operative Congress resolves to reduce the number of Societies to 25.
- 1985** Royal Arsenal Co-operative Society transfers to CWS.  
Ban on South African goods (lifted 1992).
- 1987** Institute of Co-operative Directors (ICD) formed.
- 1990** North Eastern Co-operative Society transferred operations to CWS, on the basis of new management arrangements.
- 1991** United Kingdom Co-operative Council (UKCC) established, for the first time providing a single body representing all forms of co-operation in the UK.
- 1993** Report on Corporate Governance launched, leading to a 'code of best practice' for the conduct of the affairs of Co-operatives, issued in 1995.  
Collapse of Aberdeen Northern Co-operative Society (NORCO).
- 1994** Sale of CWS food factories to Hobsons.  
Co-operative Retail Trading Group (CRTG), joint purchasing group, established by CWS.  
The 150th Co-operative Congress called for a single UK Society by the year 2000.
- 1995** New Co-operative Identity Statement adopted by the ICA Centenary Congress, held in Manchester.  
CWS Responsible Retailer Campaign launched. CWS commences Dividend Card pilot.
- 1997** The 'Lanica' affair. Efforts to take over CWS by city businessman repelled.
- 1998** CWS rolls out Dividend Card nationally.
- 1999** Co-operative Bank sets up **smile**, the Internet bank.
- 2000** Co-operative Commission established. CWS/CRS merger finalised.

For a detailed listing of UK Co-operative historical events visit the following web site:

<http://www.co-op.ac.uk/cch/resources/history/timeline.htm>

With thanks to Edgar Parnell.

# Glossary of terms

<b>ATM</b>	Automated Teller Machine.
<b>Board</b>	The Board of Directors.
<b>BOGOF</b>	Buy one get one free.
<b>Central Executive</b>	The Board of the Co-operative Union.
<b>CEO</b>	Chief Executive Officer.
<b>CIS</b>	Co-operative Insurance Society.
<b>Communicating Mutuality</b>	A policy development and campaigning body set up by the Co-operative Party as a secondary Co-operative.
<b>Community dividend</b>	That part of the surplus spent supporting local community activities.
<b>Co-operative Congress</b>	Annual gathering of UK co-operators (includes AGM of the Co-operative Union).
<b>Co-operative Party</b>	Political wing of the UK Co-operative Movement.
<b>Co-operative Press</b>	Publishers of Co-operative News, the official newspaper of the UK Co-operative Movement (weekly paper).
<b>Co-operative Group (CWS) Ltd</b>	The new name for the merged CWS and CRS.
<b>Co-operative Union</b>	The representative body of the consumer Co-operative Movement in the UK.
<b>CRS</b>	Co-operative Retail Services, now merged with CWS to form Co-operative Group (CWS) Ltd.
<b>CRTG</b>	Co-operative Retail Trading Group. A food buying and marketing group operated by CWS on behalf of itself and the majority of Co-operatives.
<b>CWS</b>	Co-operative Wholesale Society Ltd. Now Co-operative Group (CWS) Ltd.
<b>Director</b>	A member who has been elected to serve on the Board of a Co-operative Society.
<b>Financial Controller</b>	Head of Finance.
<b>ICOM</b>	Industrial Common Ownership Movement.
<b>IGD</b>	Institute of Grocery Distribution.
<b>Individual dividend</b>	That part of the surplus paid to members.
<b>ISA</b>	Individual Savings Account.
<b>KCPI</b>	Key Commercial Performance Indicator.
<b>KSPI</b>	Key Social Performance Indicator.
<b>Management Executive (or Executive Management team)</b>	The top management team (not normally Directors).
<b>Member</b>	A person who holds a share in a Co-operative Society.
<b>Member Relations Officers (MROs)</b>	Employees who interface most closely with members.
<b>Membership records</b>	List of members.
<b>RCC</b>	Regional Co-operative Council.
<b>RDA</b>	Regional Development Agency.
<b>ROCE</b>	Return on capital employed.
<b>Rules</b>	The rules approved by the members and registered with the Registrar of Friendly Societies.
<b>UKCC</b>	United Kingdom Co-operative Council.



