

The Formation of a Regional Society

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This interim report on the Regional Society is concerned with some of the problems of top management which emerge in the early stages of the development of a Regional Society. A further report will consider some of the structural problems of the Regional Society.

It may be argued that some of the proposals included in this report are not feasible, given the nature of the co-operative retail society. If this should prove to be the case the benefits to be gained from Regionalisation are likely to be greatly reduced and furthermore the general validity of the case for Regionalisation is called into question. It means that Regionalisation is only likely to be economically effective in those conditions in which the proposals outlined in this report have some opportunity to be implemented. If the co-operative movement wants Regionalisation it will have to create and accept the conditions in which such implementation can occur.

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(A) The formation of the Regional Society

A new Regional Society is the result of a series of 'political' arrangements involving some form of trade-off. Individual societies join together on the basis of expectations, assumptions and agreements about the Regional Society and its future. Some of these expectations are explicitly stated and may even be embodied in formal agreements, others are taken for granted and are largely informal in

character. Some of these arrangements will cover such questions as the future trading policies and practices of the Regional Society, the future of officials, managers and staff and the position of directors and members.

These arrangements provide a series of constraints upon the freedom of the board, chief executive officer and top management to develop the Regional Society along the lines which seem to them appropriate to it. The constraints are imposed before the new Society comes into existence and before its problems are fully understood. Commitments may be entered into which cannot be met once the true state of affairs is uncovered. The more formal the arrangements that are entered into the more difficult it will be for them to be altered unless some form of 'escape' clauses are built in. If this inbuilt flexibility is not provided the chief executive officer will either have to operate within the constraints and be prepared for the society to suffer, or he has to admit that expectations and agreements cannot be honoured and in doing so risk the possibility that suspicion may be generated and morale may suffer. The more informal the arrangements the more the chief executive officer may be called upon to use his 'political' skills to bring about changes in them.

This crucial problem arises out of the democratic nature of the co-operative movement; members have to vote to become part of the larger unit and to get them to vote for it, some inducements must be offered and these become hostages to fortune—they may prevent the performance of those very measures which are essential if the Regional Society is to become efficient.

Freedom of Action

Societies, managers and staff may feel fully justified in safeguarding themselves, but the consequent curtailment of freedom of board and top management of the new society may be self-defeating. So long as societies feel unable to enter a Regional Society without some protective agreements and arrangements, formal or informal, the top management is going to be involved in determining ways of overcoming the constraints previously imposed. The more arrangements there are, the greater the likelihood of disillusionment; the fewer there are, the greater freedom of manoeuvre of top management to meet what is essentially a new situation. In any event there will be assumptions and expectations, many of which have little or no hope of fulfilment and at some stage they have to be brought into the open and their reality examined. If this is done before the amalgamation it is possible that the Regional Society will not come into being and this highlights the democratic dilemma. However, in many cases the reality only comes to light after the Regional Society has been established because those involved only then discover the true state of affairs.

Where the protagonists of Regional Societies overplay the benefits to be gained in order to gain acceptance the sense of disillusionment over unfulfilled agreements and expectations will be even greater. To avoid this disillusionment the Regional Society may be tempted to underplay its problems and highlight its new schemes, many of which may not produce benefits for some time in the future. The danger is that initial oversell compounds oversell.

Clearly a central problem in the development of the Regional Society is how to gain acceptance, by societies, with the minimum of commitments and so avoid constraints on the ability of the Regional Society to take vital decisions.

Summary

1. Top management requires considerable freedom to deal with the development of objectives, effective structures and trading policies and practices.

2. Attempts by amalgamating societies, officials, managers and staff to build in constraints are likely to prevent the development of effective Regional Societies.

3. Oversell by those proposing the Regional Society is likely to create expectations which cannot be met and so create a general feeling of disillusionment with the notion of the Regional Society.

4. To avoid the build-up of debilitating adverse opinion there needs to be a realistic discussion of what is possible. This may carry with it the possibility of rejection, but it avoids the danger of future disillusionment which could well prevent the Regional Society achieving the results which would justify it. If, for any reason, a realistic discussion would be thought to be detrimental, the future consequences of avoiding such discussion must be considered.

5. To enter into agreements, to raise expectations must always be hazardous given that they must often be based on inadequate information.

6. This section highlights one of the requirements of the chief executive officer, he must have highly developed 'political' skills, i.e. an ability to handle constraints imposed by amalgamating societies in such a way as—

(i) not to create too adverse an impression.

(ii) to have as little adverse effect as possible on the development of the Regional Society.

(B) The top management team, its need for information and the impact upon the society.

It would seem that the prospects of success would be greatly increased if the team could be brought together some time before the society actually becomes operative. Only if this arrangement can be developed does it seem possible for the top management team to have time to undertake a long-term consideration of the corporate strategy that seems to be most suitable to the Regional Society. Obviously there are some limitations on this long-term activity as much of the information available is of a piecemeal variety—the C.W.S. surveys are of limited value in that they only deal with limited aspects of the problems which the Regional Society has to solve; the information available from the amalgamating societies is often of variable quality and different societies are likely to have different information systems operating.

In spite of these information shortcomings there is a need for consideration of long-term issues and for the formation of some broad outlines on policy, structure and practice. If examination of these issues is left until the Regional Society is actually established, top management is likely to find itself involved in matters of immediate concern; pressing details are liable to push out broader issues and management by crisis could become the order of the day. Again the lack of long-term planning brought about by the shortage of time could adversely affect the long-term success of the Regional Society.

The above discussion highlights an immediate requirement of the Regional Society, i.e. the development of an appropriate information system so that as

early as possible decisions can be made on the basis of relevant up-to-date information. This basically means the top management team getting down to the question of what information is essential for the making of the important decisions facing the Society, not what information they would like, for this can lead to overelaboration, but what is the bare essential. The request for information from 'constituent' societies may well be an indicator of the immediate relations between top management and the rest of the Society, for the request for information may be regarded as the first step in the formalisation of procedures which have previously been relatively informal. Recipients of the request for information may well regard it as part of Head Office's justification of itself and the beginning of a split between those in the field who see themselves as doing the work and those at the centre. This split is by no means new, many departmental managers in the old 'constituent' societies probably regarded themselves as carrying the general office. With the Regional Society the machinery of administration may well appear large and burdensome to the rest, as functions previously performed at lower levels become centralised for planning and control purposes.

Uniformity of Policies

The formalisation of information procedures is part of the problem of developing uniformity not simply of procedures, but also of policies. The need for uniformity which appears so obvious at the centre may appear far from clear to the 'constituent' societies who are attached to their own particular policies and practices built up over many years and which they believe to be peculiarly suitable to their members. How far uniform policies and practices should be developed must be a question to exercise the minds of top management. Uniformity has an appeal in that it seems to lead to some economies of operation, but where a Regional Society covers different types of shopping area, different types of customer, e.g. urban and rural, the maintenance of uniformity of policy and practice may have far-reaching consequences for the future shape of the Regional Society.

The development of coherent policies must be of concern to top management and raises the question of how such policies are to be made acceptable to the managers and members. One possibility which is attractive to a top management anxious to get things moving and to be seen to be active is simply to inform 'constituent' societies what is going to happen. This may be attractive, even necessary, but the problems it creates need to be clearly understood by top management. Where policies and procedures are issued from the Head Office and local management does not feel committed to them, it is probable that consciously or not this lack of commitment will be transmitted not only to the staff, but through the staff to the members. To mitigate such effects strong educational activities are required which are directed at management, not simply telling them what the policies and procedures are, but explaining and giving the underlying reasons for them. Such an activity may appear time-consuming, especially to a top management under pressure to get things done, but it is a necessary part of the development of an integrated management team in the society who feel some commitment to the development of coherent and acceptable policies and procedures.

Summary

1. It is essential to bring together the top management team before the Regional Society becomes operative, to provide the opportunity for sustained consideration of long-term planning and corporate strategy.

2. At a very early stage it is necessary to develop an integrated information system devised to provide information essential to decision-making.

3. The development of an information system is part of the greater degree of formalisation that is likely to be required. The impact of this formalisation upon 'constituent' societies needs to be considered as it highlights a possible source of conflict between Head Office and the rest of the Society.

4. There is a need to develop an understanding of the reasons for this formalisation among management and staff, so that they recognise that formalisation is not a costly and unnecessary addition, but is an inevitable development in large-scale organisations. This is not the green light for the proliferation of paperwork, the growth of which should be kept to the minimum for efficient operation.

There is also the problem of developing an understanding of the need, where appropriate, for uniformity of policy and practice. The growth of this understanding is not to be achieved quickly, but can only arise out of a long-term educational (not public relations) activity.

5. The development of central systems must be considered in cost terms.

The redistribution of costs between 'constituent' societies and Head Office can lead to an apparent improvement in operating costs when in fact the costs have simply been moved to Head Office. Another feature of this problem is that it is relatively easy to produce short run improvements in performance by a variety of cost-cutting devices, some of which are the unpleasant tasks which 'constituent' societies should have undertaken over a number of years, but have failed to do so. When the new Regional Society undertakes them it receives the opprobrium which should have fallen on others. However, some cost-cutting may be in a different category, bringing improvement in the short run, but in the long term reducing morale and adversely affecting efficiency.

(C) The development of the top management team

Whether the top management team comes from different societies in the region or from other co-operative, or from non-co-operative sources, the chief executive officer is faced with the need to develop a common purpose among a group comprising individual managers who have a prime responsibility to develop as quickly as possible (in order to justify the Regional Society) their own departments. The rewards/punishments system of the Society is normally such as to encourage them to concentrate on their own departments. Thus the chief executive officer has the task of building up in the top management team a Society point of view, i.e. a coherent picture of what the Society is all about. This task is by no means easy, for different attitudes, expectations and beliefs about the nature of Co-operation have to be welded together in as short a time as possible. The extent to which the chief executive officer can develop a situation in which members of the top management team can talk openly and constructively about their own

problems and those of other team members is a measure of his success in building the foundation for the general climate of the Society. This task goes beyond that of the chief executive officer in the established society, for in the newly established Regional Society, the members of top management have to carve out their departments from a position of scarce resources.

There is likely to be an awareness among departmental managers that if they do not firmly establish themselves and their departments in the early stages, the opportunity to do so may be lost. Given the best will in the world some competition is going to develop within the team and it has to be kept within bounds, this can only be done by the chief executive officer bringing a total view of the society to bear on the problems that his team have to face.

The need of departments to establish themselves can well create an acute problem between trading departments and service departments. The service departments may be regarded by the operating departments:

(a) as being too costly at a time of financial stringency and

(b) as constraining them from getting on with the primary task of the Society.

Top operating managers who want to act decisively and quickly may find on the one hand the personnel department indicating what can/cannot be done with staff given union agreements and, on the other, the financial controller pointing out that there is an acute shortage of funds and that costs must be cut. All this at a time when both the personnel and financial departments appear to be expanding their operations considerably, both to establish themselves and to improve efficiency in their areas of activity.

Importance of Initial Decisions

The members of the top management team are conscious that initial decisions are likely to be important in determining future activity. Capital and staff decisions made in the early stages will shape the future pattern of the Society for some time to come. At the basic level, top management is concerned with questions of who does what, for once this is established it becomes a matter of custom and practice and may not be easy to alter. This is not only a problem between departments, but also within departments, especially the problem of delegation of authority, what is to be decided at the centre and what at the other levels of management.

In the initial stages when there is pressure to get the Society moving, managerial and staff positions may be created which are essential at the time, but which may lose their validity once the Society is well-established. The likelihood is that as the initial reason for the establishment of these temporary posts fades, their holders become underemployed or new activities have to be fitted to them. There is a need therefore for top management to be aware of these transitional positions and have some declared policy worked out, otherwise (a) the holders of these positions will be concerned about their future and will seek to fill out the positions by one means or another and (b) the advantages of efficiency may be lost through carrying posts which are redundant. In practical terms the short-term nature of these posts should be made clear to their occupants and it should be made clear that at the end of the transitional period they will be required to undertake new tasks. In some instances this could be a testing ground for younger members of staff to see how well they cope with a position of limited duration.

One area of considerable concern to top management is the staffing of the respective departments and the fact that policies relating to staffing, e.g. the position of former managers, can have a profound affect on the effective operation of the department for many years ahead. If top management have to retain within their departments managers who are ineffective then this will not only create problems for the efficient running of the departments it will also provide the top management with ready-made excuses for poor performance and will indeed obscure the effectiveness of their own performance.

In filling positions under pressure in the formative stage of the Regional Society there is the possibility that the people most visible, i.e. around the Head Office, will be appointed to positions without any great deal of search for the most appropriate people. This has at least two consequences—

- (i) that the most suitable people are not considered because there is, in the early period, a lack of information about the competence of staff in the 'constituent' societies. People who are visible are appointed and this means that the prospects of those whose qualities are not known are reduced, possibly for some time to come. In consequence the Society is less efficient than it might be, there is some dissatisfaction and some capable members of staff may be lost. Those who do not leave the society may feel uncommitted and their effectiveness suffers.
- (ii) that those who are not immediately visible feel overlooked and this may further widen the gap between Head Office and the 'constituent' societies.

Given the pressures at which the development of the Regional Society is expected to take place the problems of positions and persons are almost inevitable. To avoid some of these problems a long-term consideration of them is advisable. This is all part of the general fact that early decisions can have lasting effects and can freeze the Society into inappropriate structures and staffing.

Summary

1. The chief executive officer has to build a top management team with a sense of common purpose, with a group of managers who have a primary task to develop their own departments as quickly as possible. This means that the chief executive officer needs team-building skills which he exercises in special top management meetings.

2. The competition for scarce resources may make the task of building an effective team more difficult. There is the need for the chief executive officer to have a clear idea of the guide lines to be followed in allocating resources between competing departments.

3. Service departments may be regarded by operating departments as the source of constraints and of adding to the cost of running the Society. This special area calls for the attention of the chief executive officer.

4. Early decisions on structure and positions can have a profound effect upon the future development of the Society.

The establishment of positions which may be of a temporary nature needs careful consideration as they can take on a life of their own.

The staffing of positions by people who are most visible, but not necessarily the most efficient can have serious consequences for the society.

5. There is a need for careful consideration of these early decisions, but this is not easy under pressure to get things moving and to produce results.

(D) One of the major issues faced by the Regional Society is resistance to change, both in its top management and through its constituent parts.

The resistance to change in top management may come from having to adapt to working in a new team with new colleagues. Their determination to develop their own department may lead them to resist ideas, policies and practices which may be beneficial to the whole Society, but which calls for changes in their way of thinking about and running their own departments.

The reaction in the 'constituent' parts arises from a variety of sources:

- adherence to policies and practices which appear to have worked in the past.
- adherence to people with whom management and staff have worked previously and now feel that the Regional Society has become depersonalised.
- because patterns of relationships have changed, access to the top becomes more difficult.
- feeling of loss of control over the way things are done.
- loss of status—old style departmental managers who find they no longer act as buyers, old skills may no longer be as highly valued.
- loss of promotion prospects and growth of general uncertainty about the future.

To the top management of the Regional Society it may appear that:

- (a) there is little or no resistance to change, but this could be a distorted impression due, first, to the fact that top management is to some extent isolated from the feelings and views of middle and lower management and staff and, second, to the fact that resistance to change can take many forms, some of which may not be recognised as symbolic of resistance to change—people may leave the Society, they may put less effort into the Society, they may use a variety of administrative tactics to symbolise their resistance, they may indicate to customers their lack of belief in the new organisation.
- (b) a committed top management cannot bring itself to believe that there can be any doubters. Top management may see the Regional Society as providing higher status for managers, greater opportunities for promotion, greater responsibility for management and staff, but if these people do not have the same perception then there is likely to be resistance.

Differences in Perception

If there is a gap between the perception of top management and the rest of the management and staff, the Society will be divided and there is likely to be misunderstanding and distortion of information flow.

One of the difficulties faced by top management is that different individuals and different groups will respond to the new Society in different ways. Some will

see it as offering opportunities for development and promotion, others will see it as a threat to established positions and view new positions such as area executive officers with some uncertainty as their final form may be uncertain even to the occupants themselves, and very probably to those around them in the structure who have never met such positions.

To deride those who view change with some trepidation as obstinate is to misunderstand the nature of the problems faced by these people, many of whom have a substantial investment of their working lives in their former society.

The problem of change is likely to be aggravated by the probability that in the early stages of the Regional Society there will be a period of contraction when outlets are being closed and growth has not yet occurred. The prospects of future growth are not of great comfort to those who are threatened by the immediate closures.

The manner in which the problems of change are handled will provide managers, staff and members with a yardstick against which to measure the new Society and will contribute to the future climate of relations in the Society.

The acceptance of change will be affected by the relationships within management and between management and staff of the 'constituent' societies which existed prior to the establishment of the Regional Society. Where the flow of information between levels was limited, where superiors provided subordinates with little support, the establishment of sound information flows and supportive relationships in the Regional Society will not be easy to develop even given the will to do so. At the very time when people want to know what is happening it may be difficult to get information flowing because of the lack of practice at doing so. Because of this a high degree of uncertainty is likely to exist and this will not encourage the building up of morale.

A Communication Network

To minimise some of these problems it is necessary to provide an effective communication network, unfortunately it is easier to build the network than to develop the basic human relationships which will enable the network to operate successfully. Here the responsibility of top management is great, for managers and staff will take their cues from the behaviour of top management, for it is from the latter that the rest will learn what behaviours are rewarded and what behaviours are punished, how much trust can develop, how far support is available.

At management level the speed at which management training and development schemes are developed can be a touchstone of considerable importance, for their development operationally will indicate to managers the concern of top management with their problems. One way to undermine morale is to let managers/staff feel that no one is aware of and is actively doing something about their problems. Here it is not enough to develop an appropriate scheme, it is necessary to foster the appropriate attitudes.

Acceptance of change is unlikely to occur quickly; beliefs and patterns of behaviour established over many years are not likely to be changed easily. Economic pressures may produce a surface acceptance which does not produce commitment and which leads to suboptimal performance.

Summary

1. Some resistance to change is inevitable. Unless the basis of this is realistically appreciated the performance of managers and staff will suffer.

To assume, because it is convenient to do so, there is little or no resistance can lead to the creation of new problems.

2. The wide variety of responses to change need to be taken into account.

3. The way change is handled can be a clue as to how other problems will be dealt with.

4. Acceptance of change depends upon the appropriate climate within the Society and an effective one is not easy to establish quickly.

5. Top management can contribute to the appropriate climate by developing training and developments systems and seeing that they are put into operation and by giving them full support.

6. The institution of the Regional Society, whatever its basis, is certain to create many and diverse problems, many of which are not capable of being expressed numerically in terms of sales per square foot, surplus, turnover etc., but which are of basic importance to the success of the Regional Society.

In the light of these qualitative problems, concerned with the interaction of technology, structure and people, it would be advisable for a Regional Society to establish a position the function of which is to look at these problems in their total context and to ensure that they are not dealt with on an *ad hoc* basis. Such a position would be required for some considerable time and would need to be filled by someone with the appropriate skills. When the transitional problems were resolved the occupant of the position would still play an important part in helping top management with the many problems of change that are likely to be a permanent feature of the dynamic environment of retailing.

A Dominant Society

(E) So far the assumption has been that of a Regional Society in which there is no one dominant society around which the new Regional Society will grow. It has been assumed that a new top management team with new objectives, policies and structure has to be developed. Where this is not the case and the Regional Society is based upon a dominant society the problems already outlined may take somewhat different forms, but the essence of them remains the same. The dominant society may well provide the bulk of top management, it may well provide the pattern for future policies and procedures to be adopted throughout the new Society. Out of this position certain problems develop:

- (i) there may be the assumption that the top management of the dominant society is composed of the most efficient top managers in the new Society. This is an assumption that cannot be taken for granted, if it is, then others who are in the smaller societies may be frozen out of the top levels of management with adverse consequences for efficiency and congruent with this an adverse effect upon managerial morale.

- (ii) similarly the assumption that the objectives, policies and structure of the dominant society are automatically appropriate to the new situation is open to question. Again, given the pressure for action and quick results, this assumption is likely to be accepted by the dominant society, but it may well create divisions within the new Regional Society.

The creation of a Regional Society round a dominant society is the time for the latter to review itself and to consider the extent of its own efficiency. The fact that the dominance may arise because of size does not preclude the possibility that the society though large, because of historical circumstance, is inefficient.

This indeed raises some of the important issues of Regional Societies. There is a tendency to think in some cases of building round the largest society in the region, but this society may be inefficient and then the Regional Society is founded not on strength but on weakness—the bringing together of a number of mediocre or weak societies does not necessarily lead to strength, but rather to a compounding of weakness. Given the situation where there is a dominant society, efficient or otherwise, it is probable that it will expect that many of its policies and top managers will be the basis of the Regional Society, indeed it may be unwilling to become part of a Regional Society unless there is agreement that this be the case. But where the dominant society is inefficient, this may simply lead to the creation of a larger area of inefficiency. This is an issue that needs realistic appreciation, otherwise the new Society may have from its very inception built-in inefficiency which makes future success highly improbable. Inappropriate policies, structures and inefficient managements do not automatically become appropriate and efficient when applied to new situations.

Summary

1. Where a single large society is likely to be the centre around which the Regional Society is to be formed, it is unwise to assume that it is efficient. A realistic appraisal of its efficiency is called for.

2. The claims of such a society that it should provide the bulk of top management in the Regional Society should be closely scrutinised. If the society is inefficient and if its management occupies the top management posts, then the prospects of an efficient Regional Society are dimmed. Experience of managing a large society is not quite the same as efficiently managing such a society.

In any event the automatic acceptance of top management from the large society can have a disruptive effect upon the rest of management in the Regional Society.

3. If the large society overplays its position it can create divisions arising out of its assumption that it knows best. This is one sure way to create adverse feeling. It is true that the large society may have skills and experience lacking to the smaller societies, but all-important is the manner in which it handles its expertise.