

Co-op. Great BritainA NEW LEVIATHAN?

by

NOEL BRANTON
(Emeritus Professor of Commerce,
University of Strathclyde)

In writing this article the role which has been assumed is that of a sympathetic outsider making an assessment of some of the problems which would have to be faced and solved if Mr. Perrow's concept of Co-op Great Britain were to be realised. Many of the points which are raised are to be found either explicitly or by implication in his presidential address. It is essential that these be brought into the open. In any business setting, reorganisation and change raise formidable problems. In the context of the Co-operative movement these problems are if anything even more daunting.

Objectives of the Plan

To start at the beginning, we must ask what objectives we hope to achieve by the reconstruction. These appear to be threefold - to maintain the basic principles of Co-operation, to develop a trading organisation which will at least match the efficiency of its rivals, and to regain recognition as a consumers'

movement. Will the proposed restructuring into a single national Society achieve these purposes?

We must start with a search for and an evaluation of possible alternatives. Every major review of the trading movement since the war has stressed the need to organise in larger units. This has been the purpose of the Regional Plans. These have achieved a measure of success by reducing the amount of fragmentation in Co-operative retailing and creating a number of larger units of organisation. Mr. Perrow's thesis is that further progress along this road is unlikely. The performance of the Movement still fails to match that of its competitors and a new initiative is required. If this view is accepted, we must be very clear on what has gone wrong and equally clear on how the present proposal will help to overcome the difficulties if, indeed, it can do so. If the Regional Plans have run into trouble will the national plan fare any better?

Economic Benefits of a Merger

Mr. Perrow's scheme calls for the integration of the wholesaling and retailing operations. He condemns a system which levies "two profits", one at the wholesale and the other at the retail level. This criticism is misdirected. If Co-operative retailing is in competition - as it undoubtedly is - then the final price to the consumer will be determined by the market. The profit on distribution is fixed. The allocation of this profit

between the retail societies and the CWS depends on pricing policy within the movement. The total profit does not become any larger merely by reason of the fact that it is split.

The critical question is what economies of distribution can be expected as a result of the integration. Such matters as increased concentration of buying power, closer co-ordination of buying and selling, and possible administrative economies come to mind. It is essential that these should be investigated with care and not left as hopeful generalisations.

The proposed organisation would be very large comprising the CWS, the CRS and a number of large retail societies - hopefully, in the long run, all societies. Mr. Perrow wisely repudiates the idea that "biggest is best". The promoters of mergers in the field of private enterprise have all too often advanced "economies of scale" as a justification for their proposals only to find how elusive these can be. On the other hand, large organisations are frequently subject to diseconomies, particularly in the field of management. Here again a critical examination is required.

One of the possible economies mentioned is the mobilisation and management of capital. Experience both here and in the United States seems to show that financial benefits are those most readily realised by a merger. Possibly this is because the human element plays a relatively subordinate part.

The Human Element

It is certain, as Mr. Perrow points out, that if the Co-operative movement were being organised now for the first time, the existing structure would not be the one selected. Unfortunately it is not sufficient to sit down with a blank sheet of paper and design a more logical one. The existing organisation is there and will not readily go away. Not everyone will be convinced of the need for change. Others will concede that it is necessary but would prefer that it occurred elsewhere. Others pay lip service to the idea but go no further. Chris Argyris writes of major reorganisations in the USA with which he had been concerned where "after three years there were still many people fighting, ignoring, questioning, resisting, blaming, the reorganisation without feeling a strong obligation personally to correct the situation".

There is a need to realise that if the proposed reorganisation were to have any hope of success, it would require a fundamental change of attitudes. If the result of the merger were merely to bring a number of Societies under one umbrella, but seeking to continue in much the same way as before, the result would be disaster not improvement. It is useless to proceed with the structural change in the hope that the human problems will eventually sort themselves out. The question must be faced squarely from the start - Can the necessary change of attitudes be brought about? Exhortation, of which there has been plenty, will not do the trick.

Organisation Structure

This brings us next to a consideration of the proposed organisation structure of Co-op Great Britain. As outlined in the paper it is in essence a divisional type of organisation based on twenty to twenty-five regional groups each having a regional board answerable to the national board. The Chief Executive responsible for production, wholesaling and retailing would be answerable to the national board. He would be supported by a central staff organisation composed of senior executives responsible for the various aspects of the operation of the organisation.

This would be a fairly conventional form of organisation for a business of the size visualised. A point worthy of discussion, however, is the desirability of having so many regional groups. One would have thought that the number should be smaller, and the suspicion is aroused that there is some placation of entrenched interests. This has a further consequence that the organisation would find itself over-weighted with directors both in the regions and at the national level. This could provide a built-in resistance to full integration which is the essential purpose of the scheme.

But there are other and equally important matters which have to be considered. The position of the present CWS in the structure does not seem to have been worked out. Its status in Co-op Great Britain would be that of a wholesaling

division of no greater importance than that of the retailing divisions. As such it would have its own divisional board but would it be necessary for the retailing divisions to nominate the directors? They would no longer "own" it. Liaison between the retailing and wholesaling divisions would be vital but this could be achieved by normal administrative processes. Again, would the retailing units be compelled to buy through the wholesaling organisation?

But the organisational complications do not end here. Particular mention is made of the important Co-operative dairy trade. The suggestion is that it should be organised on a national basis as a specialist operation. This introduces a different type of unit within the organisation as well as the tricky problem of hiving off this activity from the societies.

The problem of Co-operative non-food trade is mentioned but not discussed in any detail. Yet, if it is to be expanded it will give rise to similar problems. Many of these problems were brought out very clearly in Mr. Stephenson's analysis in Bulletin No. 32 (March 1978). The "universal provider" concept of individual societies will have to be abandoned. Societies might continue to specialise in a narrow range of non-food items in which they are likely to be successful. Other lines would have to be hived off altogether to specialist chains of which Co-operative Chemists and Shoefayre are successful examples. How are these to be fitted into

the organisation structure? What reactions can be expected from the societies?

This raises the question of the central buying of non-food items. Successful experiments appear to have been made by some large societies outside the CWS. What changes in the CWS would be necessary to handle this business successfully? There would be a deal of heart searching in many parts of the movement. The full implications should be studied.

Clearly Mr. Perrow visualises a situation in which, initially, only some of the societies will come into the new organisation - the CWS and the CRS would presumably be essential to any hope of success. What would be regarded as the "critical mass"? What proportion of the movement must be willing to take the plunge in order that the project may be viable? If this proportion is too low, the confusion of which Mr. Perrow complains is likely to be compounded. The existence of "outsiders" will create complications, particularly in relation to the CWS.

Who Makes the Decisions?

This brings us to the crucial question which arises in any large organisation organised on divisional lines. On what basis is decision making to be divided between the central authority and the divisional authorities? What type of control mechanism can be developed to ensure the pursuit of a concerted strategy for the organisation as a whole without destroying local initiative?

To find satisfactory answers in the early stages of the development of an organisation presents special difficulties. If the various component parts are to be welded into a coherent whole, strong guidance and direction from the centre will be needed during the period of transition. This, as already pointed out, may be protracted. But it will be a period during which doubts and misgivings and resistance to "interference" will be at their greatest. If persuasion and logical argument fail to win the day then the central authority will have to act to secure conformity. Obviously this approach will be anathema to many co-operators.

This also raises the question of the powers of the central staff attached to the Chief Executive. It should probably discharge duties on the following lines:

- (a) determining and agreeing plans;
- (b) guiding and co-ordinating performance;
- (c) appraising results; (d) correcting unsatisfactory performance.

Each division must put forward its own plans which must be consistent with the policy objectives of Co-op Great Britain. Securing agreement may be no easy task in the early days. Once formulated and approved, each division is left to carry out its plan without interference but subject to a final assessment of results.

Also located at the centre would be the various advisory services. These should no longer be linked with the CWS. Relocation would help to dispose of the fear which is said to exist of over-dominance

of the CWS within the Movement. What should be the relationship between these central service departments and the operational units? Should it be a supplier-customer relationship with the operational units having freedom either to use the services or to "shop around" for them outside? Or should these departments have power to move in when things go wrong and enforce their recommendations when local managements are reluctant to accept them? The latter approach will be stigmatised as undemocratic, but how much inefficiency can be tolerated in the name of democracy? The question must be faced when the units are members of a single organisation.

In conclusion, this article makes no attempt to pass any judgment on the proposal for Co-op Great Britain. The editorial remit was to analyse some of the problems which would arise if the project were to be undertaken. Happily the writer was not required to supply the answers.