

What Dr. Butler Said - Some Replies

Considerable interest was raised by Dr. Butler's article in Journal 74 *The Importance of Being a Board* and we invited three directors to comment on his analysis and suggestions. They write out of their considerable experience but they are, of course, presenting their own views and not necessarily those of their societies.

1. Alex Arlow

President of Anglia Regional Society

What an interesting set of suggestions Dr Butler put forward in his article though I am not sure whether he was attempting to save democracy or to destroy it!

In East Anglia there are successful societies that still display the closeness and loyalty that existed in the early societies - possibly due to the payment of traditional dividend or to a determined involvement in local affairs. In these independent societies the elected persons still have an involvement with those areas that Dr Butler sees as posing real problems when he asks "How can ordinary members grasp problems associated with cash flow, gross profits, return on capital, investment and development issues and complex industrial relations legislation?"

Equally complex matters do not pose real problems for our elected councillors or Members of Parliament where they debate the issues in the full glare of publicity. I am not convinced that in the more sedate surroundings of a boardroom an elected member cannot, with the help of fellow directors and the assistance of the officials of the society, together with the courses offered by the Institute of Co-operative Directors, achieve an acceptable standard of participation..

The Function of a Board

I do not accept the charge that because we are not, in the opinion of Dr Butler, attracting the most able in the community to the boards this is the reason that we "are no longer pioneers of retail change". The function of a board is to make decisions on alternatives placed before it for consideration by the chief executive and it therefore follows that the responsibility for initiating change clearly lies in the hands of the executive team.

In suggesting a cure can it be that Dr Butler has made a wrong diagnosis? He seems baffled or dazzled by research in Europe and America that "indicates

that a good Board is characterised by a membership of able, independent people with differing backgrounds, abilities and temperaments who are willing to express, and to listen respectfully to varying viewpoints". This is what by our democratic practice we have in the British movement and in particular in the Board over which I am fortunate to preside. Let me list the job descriptions of the present Board: 1) Secretary; 2) Housewife who is also a City Councillor; 3) Retired Post Office worker who is also a J.P.; 4) Chartered Surveyor 5) Manager of Day Centre who is also a Parliamentary Candidate; 6) Dairy Worker; 7) C.I.S. Agent; 8) Housewife; 9) Retail Systems Manager; 10) Personnel Officer; 11) Service Controller; 12) Solicitors' Managing Clerk; and 13) Retired Headteacher.

If this board is typical, and I have no reason to think otherwise, then societies are in fact attracting just the representation from the wider community that Dr Butler indicates is desirable.

The Test of Reality

But what of those boards in the societies that have made hasty transfers due to past failures of judgement? I believe that these boards did not lack ability or the capacity to influence decisions but rather that they lacked a willingness to face up to the reality of the situation as revealed by the balance sheet.

The desire to continue to operate a society or company beyond the point of no return is not confined to Co-operative enterprise as the number of rescues, take-overs, and bankruptcies in the private sector illustrates.

Let me concede that some boards may not be as good as they should be - it is difficult to judge without an insight into the boardroom. It may be that Dr Butler in his work with the Merger Unit visited societies with less than capable boards and he therefore can see a problem that is hidden from the rest of us.

Suggestions for Action?

Let me now examine the four areas that he suggests require urgent consideration:-

a) *A Commission of Inquiry*. I would widen the scope of this inquiry to cover the role of regional committees and their involvement in decision taking.

b) *Co-opted or Additional Directors*. The suggestion here of co-opting directors is to my mind a complete negation of the basic principle of equality of membership and one member one vote.

The worst scenario that I can foresee is for the board to appoint their friends who have failed to win the confidence of the electorate just as the Prime Minister rewards his defeated colleagues with a seat in the Lords or with a Governorship!!

c) *Appropriate Remuneration*. This is a long overdue measure to compensate directors for their contribution to the success of the society.

d) *A Training Provision*. A training provision - in the Rule Book - can only be valid if all directors are elected. "Experts" will not undertake training if they have been co-opted.

Executive Directors

Dr Butler tells us that "in the private sector 96% of the top 500 companies have non-executive Directors and the system works well and leads to better decision-making." However he doesn't tell us that *all* the companies have executive directors and that this is the way that they differ from Co-operative societies.

If instead of using the term 'lay-director' we substitute 'non-executive' then perhaps an area worthy of consideration would be the introduction of executive directors into the Co-operative sector.

Why not allow the C.E.O. to become the Managing Director with some of the executive team sitting in the boardroom as executive directors?

It won't be Co-operation as I understand the term but it might lead to a more dynamic movement.

2. Alan Middleton Director and Past President, Lincoln Society

Dr. Butler is to be congratulated on raising the important subject of 'the role of directors' in Journal No. 74.

Let me begin by setting out my personal definition of the role of the director in the modern Co-operative society.

The principal responsibilities fall into two main categories - objectives and monitoring. The board must discuss and define its policy objectives on at least an annual basis and commit them to paper. They must set targets in areas that are important to them - shop standards, developments, member participation

for instance and of course, turnover and financial results.

The second principal responsibility of any board is the appointment of the executive officers and the monitoring of their performance. These two areas of responsibility are equal in importance and mutually interdependent. You have to define the objectives and set the targets in order to monitor performance against them.

A Scheme of Delegation

Another duty which the board must undertake is to approve a written scheme of delegation to officers. The board cannot avoid its legal responsibilities, but it can and must devolve the carrying out of many of the society's functions to its officers. This duty is extremely important so that all parties know exactly where the power of decision-making rests. The board may decide that they appoint only the chief executive themselves and delegate authority for all other appointments to him. Alternatively a board may decide to make all management appointments itself. The board may choose to approve all capital expenditure itself or only major items, but the lines must be clearly drawn.

Directors will be called upon to make other decisions on a 'one off' basis, but this must always be within the overall framework set out above. They should ask: is it the board's responsibility - not delegated?; how does it fit in with the policy objectives?

If we keep this definition of role in our minds it does not matter greatly whether we are talking about a small £5m. society or a large regional one. The principles are the same in broad terms; the main difference is in scale and of course, the time involved.

The Four Suggestions

Turning to Dr. Butler's four specific suggestions -

- (a) I could not support the setting up of yet another committee of enquiry. This time honoured Co-operative tactic has not worked in the past and it will not work now. Societies will ignore its recommendations unless it suits them.
- (b) I would totally reject the co-opting of additional directors. If we have to resort to that - we have failed. A Co-operative is about people working together for their mutual benefit and solving their own problems together.
- (c) I agree that directors should be remunerated in accordance with the

contribution *they* make to their society. That principle is sound, but devising a scheme which reflects that and getting it accepted will not be easy. I do not envisage Co-op directors being paid more than nominal fees, not a living wage.

(d) Finally amongst John's areas for action is training and on this point there is no difference between us. The training of directors is absolutely vital to the survival of a democratic Co-operative movement. But the road before us will be a bumpy one. The problem with monitoring is - what to do and how to do it, if you suspect that all is not well.

Put simply, what we are talking about is challenging the chief executive. It is not a simple matter of asking questions - not at all. You have to know the answers; you have to be armed with supplementaries; you have to know your subject and know it well.

Because, remember, the chief executive will have plenty of well rehearsed reasons at the ready, lots of plausible excuses for his failure to hit targets or achieve objectives. It takes an extremely confident person to deal with that. And we must also be aware that we are not talking about one per boardroom. We need several in each society, probably at least half the board, because there will always be a group who, for one reason or another, will spring to the chief's defence, however unjustified.

We are not talking about a few weekend courses, we are talking about long term, intensive training which will need resourcing and exceptional commitment on the part of the directors concerned. Remember we have 100% non-executive directors in retail Co-operative societies. I am not convinced that we can deliver enough quality training to enough directors on the required time scale.

The Prospect?

I fear that Dr. John Butler may well be right - we could see the demise of the Co-operative movement as we know it, by the end of the decade.

I do not know whether it will be because of the failure of boards to monitor the performance of their executives and act upon the results, or their failure to recruit top quality executives for the future.

Regrettably, the evidence on either front over recent years has not been encouraging.

3. Tom Philbin

President of Leicestershire Society

No doubt prompted by the recent 'forced' mergers of some Co-operative societies (and no doubt others to come), Dr. Butler's underlying theme seemed to be the incompetence of directors to perform their duties and responsibilities, coupled with their ignorance in respect of seeking professional advice which they may require from time to time.

An important factor to be considered by boards of directors initially must be the communications between directors and senior management and whether the former are kept informed of their society's progress.

Information for Directors

I assume that all directors of societies receive a monthly report giving details of each unit, sales, contribution, overhead costs and net profit compared with budget and previous years, together with capital spends, cash flow etc, on the basis of their published accounts.

Directors should be capable of assessing the current position from the detailed information made available in this form, and, when necessary, of asking searching questions of senior management regarding any unit which is falling short of budget.

It is unusual for a society to come to a sudden halt - more frequently a declining trend becomes apparent over a period, and it is the trend which needs halting. Directors who find themselves in this position should take action, asking management to bring forward their strategy to remedy the situation, which should be carefully monitored during the following months to ensure the business is back on track.

Further Reports and Assessments

Directors should ensure their auditors prepare an annual report on the society's activities, outlining successful areas and pointing out weaknesses. In addition the Co-operative Union does prepare Efficiency Reports for societies every couple of years or so, and, on an annual basis, 'A Review of Statistics', both useful publications.

Directors of societies who have cause for some concern can always seek the views of one of the well known firms of accountants, preferably not their auditors, if they require an independent assessment.

That said, significant investments, particularly where acquiring a business, obviously require in-depth scrutiny by professionals, along with supporting

past history - breakdown of unit profits, asset valuation and potential for the business in the future. It is worth bearing in mind that interest rates do rise; the return being earned in the proposed investment must yield several points higher than the then current interest rate for safety; and of course give a margin of profit on the investment.

Understanding Accounts

I am sure the above is basic every day routine to most society directors, but if the underlying charge made by Dr. Butler is correct, that some directors do not participate actively due to lack of understanding of accounts, return on capital, gross profits etc, then there is a problem.

Certainly the courses for directors offered by Stanford Hall, supported by the Institute of Directors, can be of considerable assistance - many directors from my own Society have attended those courses and found them beneficial - I would have no hesitation in commending them to any society directors who feel they need to be better informed.

Encouraging the Young

There is no doubt, as Dr. Butler states, that we do need able directors within the movement and young ones too, but my own view is that encouragement needs to be given to those young people who take an interest in the affairs of societies by addressing them through member relations activities and half yearly and annual meetings and by sending them to various courses at Stanford Hall where they can be given some insight into Co-operation, marketing, accounts etc before they reach the boardroom.

It may be a good idea for new incumbents to undertake the directors' courses in their first year of their office - as a pre-requisite.

As for the point made by Dr. Butler to co-opt specialist directors - any board which feels their society could benefit from, say, marketing skills, site assessment skills etc can and probably does acquire those skills without the need to co-opt to the board. If Dr Butler is really saying that he feels most current boards do not have the spread of expertise to run a business effectively, then he is probably right. However we employ chief executives to do that for us: if they don't perform, having agreed the level of profit required, then boards must seek those who can perform to the required level. This carries out the board's responsibilities to both members and their society. Directors assume office for a variety of reasons, but that office brings with it obligations and responsibilities which they are required to undertake on behalf of their members.

It may be useful for Directors to refresh their memories as to their responsibilities as directors by reading "*The Businessmans' Guide to Directors' Responsibilities*" published by Guinness Mahon & Co.