

Reports from the Co-operative Sectors

This feature presents from time to time short reports from Co-operative sectors in the UK and also a report from the United Kingdom Co-operative Council.

1. Consumer Co-operatives

by **Iain Williamson**

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“After more than a decade of unbridled growth, during which it has hardly put a foot wrong, Sainsbury has been rattled by recent adversity,” writes the *Sunday Times*, while the same day’s *Observer* describes wee Willie Low as “friendless” and notes sourly: “What a pity Tesco is a grocer. For investors, if not for shoppers, food retailing is still a no-go area”.

Oh, what joy is schadenfreude; and how blissful have the Sunday afternoons of Co-operators become, now we can take so much pleasure from the misfortunes of others as we scan the business pages of the weighty broadsheets!

Intensifying competition; the inroads made by discounters such as Aldi and Netto; superstore saturation; new out-of-town planning restrictions; write-downs of property and land values; and (last but not least) the threat of US-style discount warehouse clubs - all have combined in recent months to stop the grocers’ gravy train dead in its tracks. After more than a decade of sales and profits graphs pointing ever onwards and upwards, suddenly the top managers of Sainsbury, Tesco and the rest are having to cope with graphs which paint an altogether different picture: overall sales slowing down, like-for-like turnover levelling off, and profits even showing a downward curve. The poor dears; the signs so far are that they simply cannot cope in this new era of slow growth or no growth, and not surprisingly their share prices have tumbled as analyst after analyst puts out a “sell” message to the City punters.

Consequences for Consumer Co-operatives

So where does this leave the consumer Co-operative sector as it unfurls the flags and banners and prepares for a high-profile celebration to commemorate the 150th anniversary of the Rochdale Pioneers? Alive and kicking but extremely vulnerable is the shortest answer possible in the limited space allowed here.

On the business side, consumer Co-operatives have continued to fight vigorously against the relentless competition from other large retailers, particularly in the food trade. The full detail of societies' 1993 performance is not yet complete, although the picture which is emerging is one of reduced market share but with profitability almost maintained at its prevailing and reasonably satisfactory level.

Other consumer Co-operative businesses are showing healthy increases in turnover and substantial rises in market share. Travel operations, for example, have seen an increase of nearly 10 per cent in turnover during the past year; the motor trade businesses are 10.7 per cent up; funeral services have seen turnover rise by 12.7 per cent; and the Co-operative Bank has reported an 81 per cent surge in pre-tax profits. These improvements, it is fair to note, have been achieved at a time of the lowest price inflation for a generation.

The process of mergers between Co-operative societies has continued, meanwhile. The total number of consumer societies has reduced to 55, and just 15 of those societies now conduct 91 per cent of the sector's retail trade. For the future, further concentration of the business into larger and more efficient societies seems inevitable, though probably not at the pace some would like.

So why so vulnerable? The answer lies quite simply in the discomfort being felt by our major food competitors. They desperately need more growth to satisfy the aspirations of their shareholders, and short of devouring each other (something they are unlikely to attempt in the short term at least, although some mergers within the plc sector must now be on the cards) the only option they have left is to take away from Co-operatives the not insubstantial 7 per cent of the grocery trade which societies still collectively hold.

A Fight to the Death?

So a fight to the death is likely. Meanwhile, the same food retailers will move into other niches of the consumer market to bolster their flagging check-out tills, following the example of Marks and Spencer who are successfully selling financial services along with the socks and suspender belts. A holiday from Sainsbury? A motor car from Safeway? A funeral (and perhaps a short-cut to Heaven) with St Michael? All these are likely developments which could nibble further into Co-operative trade.

One hundred and fifty years on from the opening of the Pioneers' first store, this is rightly a time for the celebration in the consumer sector. What it cannot become is a time for complacency.

2. Worker Co-operatives

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Worker Co-op registrations processed by ICOM last year show the lowest level of new Co-op formations since 1980. Only 93 new Co-ops were registered by ICOM in 1993, compared with 110 in the previous year, maintaining a steady decline since 1984 when the total was 248. ICOM reckons to register about three-quarters of all new worker Co-ops established in the UK.

This disappointing result reflects a reduction in Co-operative development activity being undertaken in the country - a result of pressure on local authority expenditure and the general effects of the recession, which have somewhat stifled enthusiasm for starting one's own business. However, there is a greater interest now in larger-scale conversion to democratic employee ownership and more work is being done in this area; the next few years thus may see fewer new worker Co-ops but much larger ones.

ICOM, meanwhile, is in the process of implementing a new strategic plan which will encompass more promotional and lobbying work than it has been capable of during the past few years, and it is hoped that this also will yield fruit in the not-too-distant future.

Meanwhile, in the Wider Social Economy . . .

Although there has been less work for ICOM's Legal office in the Co-op sector, it has nevertheless recently expanded from two to three staff to cope with the demands being made by organisations from the wider social economy. ICOM provides a full range of services in the area of legal and organisational structures to charities, community enterprises, social housing projects and the like and enjoys a reputation for innovation and problem solving.

Some recent examples of work undertaken:

The hiving-off of an entire local authority leisure division into a *society for the benefit of the community* under the Industrial & Provident Societies Acts: democratically controlled by its workforce, the non-profit, public benefit structure adopted has enabled the society to acquire discretionary rate relief and other quasi-charitable benefits.

A new and much-simplified structure for trading subsidiaries of charities, making use of changes to company law in 1989 and 1992,

and including a version which permits majority control by the employees of the subsidiary while retaining a "golden vote" for the charity to ensure that it will continue to benefit from profits generated.

Work on a mutual guarantee scheme, structured as a Co-operative, in which a mixture of businesses pool the security value of their assets to give them access to large-scale and relatively cheap venture capital for investing in their individual enterprises.

The expansion of capacity in the Legal Office is intended to make possible more development work in the coming year. It is hoped that an entire new range of model rules will (eventually!) be produced, and work is under way on a "franchise" system which will enable local agencies to offer a complete consultancy and registration service to organisations in their vicinity, backed up by ICOM's resources and expertise.

Meanwhile the Legal Office - which takes a particular interest in policy issues, not just dry legal matters - continues to provide ICOM's representation to such bodies as the UK Co-operative Council and to the UKCC's Legal Working Party, which is busy on proposals for a new Co-operatives Act for the UK.

Projects Funded by the European Union

ICOM has managed European Social Fund-supported training projects since 1980, including the Women's Link-Up programme (which trained 750 women in business skills between 1984 and 1987), the ICOM Pilot Programme (transnational training in democratic management for larger Co-operatives, 1985-86), ICE (development worker training, 1988-90) and Perfecting Co-operative Management (sector-based management training, 1988-90).

Since 1990 its role has greatly expanded, and it has taken on a national strategic role, as a member of the national partnership managing the Objective 3 and 4 Operational Programmes. It is responsible for projects in the "Co-operative and community economic development" sector, which brought together some 120 training providers in over 230 projects to a value of some 13 million ECU in 1993. Its key role is in the selection of projects, the management of the programme, support through training seminars and a telephone help-line, and dissemination of information and good practice. It has seats on nearly all the regional Objective 2 Community Support Framework and OPMC committees and has given support to the sector in accessing both ESF and (since April 1992) ERDF. It has seats on the national steering committees for the Human Resource Initiatives EUROFORM, HORIZON AND NOW, carries out a monitoring role on

behalf of the UK Employment Department and has facilitated and helped develop a number of transnational and innovative projects¹. It has set up a regional support network covering the whole UK so as to give help and guidance to applicant organisations at the grassroots. It has published an evaluation of the ESF funded training in the sector nationally², produced training materials for use by the sector³ and made progress towards the accreditation of Co-operative management and Co-operative development qualifications, including the BTEC accredited Co-operative Continuing Education Certificate in Business Administration⁴. This work is to be continued in 1994.

ICOM has bid successfully to DG XXIII to carry out three projects in the *Preparing SMEs for 1992* programme. The first of these, Strategic Management Training (SMT) (1989-90), piloted the series of strategic management modules prepared for the Commission with a group of information technology Co-ops. The second, *Strategic Management in the Social Economy* (SMSE) (1991), developed and piloted a new training package which deals with strategy development in a non-hierarchical framework, and includes a treatment of the Viable Systems Model. This has been published⁵. The third, *Turnarounds* (1992-93), dealt with the conversion of businesses in crisis to employee control, and a training materials package is shortly to be published. These projects were carried out in partnership with the Co-operatives Research Unit of the Open University (CRU) and CAG Consultants.

In December 1993, ICOM heard that it had gained support for its FORCE project *European Employee Ownership Training*. This project, so far involving 35 partners in 7 countries, will develop and pilot a best practice model of training for the worker-directors of larger businesses newly come into employee ownership (in the UK case, mainly bus companies).

Notes

- ¹ Notably the LACE project developing a transnational professional qualification for business and community development workers, and the Euro-CDA project creating a Co-operative development manual and CD-ROM.
- ² A full evaluation of its 1992 programme is published as *Training in the Social Economy*, ICOM 1993 ISBN 1 870018 07 9.
- ³ *Organisational Issues in Democratically Managed Businesses*, ICOM 1992 ISBN 1 870018 06 0; soon to be publishing a sequel on financial management.
- ⁴ *The Co-operative CBA Handbook*, ICOM April 1993, ISBN 1 870018 08 7.
- ⁵ *Strategic Management in the Social Economy*, ICOM 1991 ISBN 1 870018 05 2.

3. United Kingdom Co-operative Council

by **Lord Carter**

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"If I thought that the UKCC was just a talking shop I would not have accepted the chairmanship. My first few months as chairman have convinced me that the UKCC has an important, relevant and practical role to fulfil."

So I wrote in my inaugural message to members when I took over as chairman of the Council in January 1993.

Far from being a talking shop, two years of steady progress under my predecessor, Keith Brading, laid the foundations for the UKCC to become the first truly representative body for the wider UK Co-operative movement and one that now seems firmly set to play an increasingly important role in Co-op affairs.

Comprising organisations as varied as the Association of British Credit Unions, the Co-operative Bank plc, CWS, CIS, the Federation of Agricultural Co-operatives, the Co-operative Union, the Industrial Common Ownership Movement, its Co-operative finance equivalent, ICOF, and the Co-operative development companies for Wales and Scotland, the UKCC is already in the unique position of negotiating for the whole Co-operative movement, both with central government and with Brussels. In the process, it has become a sounding board and a stimulus for debate between the various Co-op sectors and the world outside while remaining strictly non-partisan in political matters. It is now indeed a 'one-stop shop' for the Co-operative movement as a whole.

Proposals for New Co-operative Statute

There is much to be done and there is no doubt that the Co-operative movement now faces very considerable challenges - the first being the need for a comprehensive new Co-operative statute. Although the government has indicated that it is not prepared to produce such legislation in the near future, the first and most important task of the UKCC is to continue work on drafting a statute so that when the government is persuaded to introduce such a law, the groundwork will have been done and any problems will have been foreseen and dealt with.

In response to this need and to an EC proposal for the creation of a single European Co-operative statute, a legal working group under the chairmanship of the UKCC's legal adviser, Ian Snaith, Senior Lecturer in Law at Leicester University, reported to the Second UKCC Forum in November 1993 with first outline recommendations for possible changes to the law governing Co-operatives, including:

1. The possibility of a single Co-operative Societies Act to replace the Industrial and Provident Societies Act as the basis for registration and supervision.
2. The establishment of a Co-operative Commission.
3. The treatment of capital in Co-operatives within the framework of a new Co-operative Societies Act.
4. Necessary changes to ensure that the right legislative framework exists to harness Co-operative enterprise in the interests of creating a flourishing Co-op sector and to remove obstacles to its creation and development while ensuring proper accountability and safeguards.

The EC's Proposals

The UKCC through its legal working group has urged the British Government to support the EC's proposals, emphasising how important it is for Co-operatives in all economic sectors to be able to operate across national boundaries whilst retaining their Co-operative identity and principles.

"It is important for the health of the UK movement that its members have the possibility of trading across the EC in the Single Market without facing the problems that might result from an inadequate legal structure", the group reported. "The principles of open membership, democratic control, limited return on capital, distribution of surplus and co-operation among Co-operatives are not inflexible. However, it is important that any body describing itself as a Co-operative should meet these key criteria. The UKCC is concerned to see a 'level playing field' both for the UK Co-operative movement in the Single Market and as between the various Co-operative sectors."

Improving the Public Perception

Another important task facing the UKCC is to improve the public perception of Co-operatives and recommend how they might be presented more

effectively. To this end, in 1992 the UKCC commissioned a far reaching survey - "Public Policy and Co-operative Enterprise" - from the Institute for Public Policy and Research, an eminent independent think tank. This considered the main issues affecting all kinds of Co-operative enterprises, from the legal framework in which they operate to their promotion and development.

As well as identifying changes to the law governing Co-operatives that have since been taken up by the legal working group, the IPPR recommended questions which the UKCC could usefully pursue on behalf of the wider movement, such as:

1. The promotion of discussion on membership problems and, particularly, how best to encourage members' active participation in Co-ops and the associated issues of education and training.
2. Considering ways in which the UKCC can help raise the public profile of Co-ops eg, by media publicity and through direct representations to educational institutions and curriculum bodies.
3. Investigating the possibilities of mutual aid, not in the form of preferential trading (which has proved difficult, if not unworkable) but through secondments, placement and training opportunities, both between and within Co-op sectors.

One tangible outcome of the IPPR's findings was the UKCC's decision in 1993 to commission the production of a definitive report on Co-operation for distribution to politicians, academics, students, journalists and other opinion formers on a global basis. It is intended that this comprehensive and authoritative report will inform the widest possible audience of the potential of Co-operation as both an economic and social activity. This report will be completed in the summer of 1994.

Further Agenda

The Co-operative scene is an ever changing one. For example, the demise of the Milk Marketing Boards and their replacement by voluntary Co-operatives will bring some very big new players into the Co-operative arena.

Agriculture is already well represented on the UKCC by the Federation of Agricultural Co-operatives and once again the unique nature of the UKCC is evident as the body which can bring together all the different parts of

the movement, including the new and very powerful milk producers' Co-operatives.

Despite the winding up of the Co-operative Development Agency, I detect from the discussions I have already had with Government the realisation that the Co-operative movement has a great deal to offer, particularly in terms of job creation and the development of small businesses. This is an area on which the UKCC will be concentrating in the various proposals it is making to Government while work on the proposed Co-operative statute, the taxation of Co-operatives and the general legal framework of Co-operation continues. At the same time, the Council has begun to produce specific proposals in areas where it knows the Government would welcome suggestions, particularly in the field of increased job opportunities and the prospect of growth for small businesses.

As a result of this policy initiative the DTI has commissioned the UKCC, in conjunction with ICOM, to produce a 'Business Link Co-operative Resource Pack'. This will provide professional business advisers in the DTI and others with resource material to enable the identification of business opportunities where the Co-operative option is appropriate, together with information regarding the specialist support infra-structure which is available within the Co-operative sector. The resource material will consist of a comprehensive explanation of the Co-operative form of enterprise and a practical guide to introducing the Co-operative option and the best way of using the existing infra-structure of support.

The Second Annual UKCC Forum, held in November 1993, examined the current situation in Co-operation and its future both in the UK and in the European Union. Expert speakers covered the European situation, Co-operative law and practice, the Co-operative opportunity and Co-operative governance and business ethics. The Forum concluded with a wide-ranging open discussion in which all sectors of the movement were represented. The informal meetings in the margins of the Forum were immensely helpful in bringing together representatives of every sector represented in the UKCC. One of the informal discussions had a very practical result in the formation at the Forum of the Association of Co-operative Lawyers.

The Criteria to be Met

Since I took over as Chairman of the UKCC I have tried to ensure that the work of the Council meets my original criteria of being important, relevant and practical. At the same time I have been anxious to ensure that the Council does not duplicate in any way the activities of its member organisations or attempt to assume any of their responsibilities. I have

been immensely encouraged by the genuine goodwill and support from all parts of the movement confirming my original view that the UKCC has an important and relevant role to play in the development of Co-operation as a practical method of achieving both economic and social goals in society.

Further information on the role and work of the UKCC is obtainable from the Executive Director, Peter Walker, c/o The Co-operative Bank plc, PO Box 101, Balloon Street, Manchester M60 4EP, telephone: 061-829 5290.

'Network', the official UKCC newsletter, is available free of charge and can be obtained from the UKCC office. Those wishing to receive copies of future editions of 'Network' and have their names added to the UKCC mailing list should advise Peter Walker.

In Conclusion

Behold, how good and joyful a thing it is, brethren, to dwell together in unity.

Book of Common Prayer

In necessary things, unity; in doubtful things, liberty; in all things, charity.

Richard Baxter – Motto