

# A Single Society?

by Harry Moore

I have been asked by Dr. Marshall to pen a few words in response to any of the arguments or analyses which appealed overwhelmingly to me as a subject, within the special Journal which in February 1994 offered a conspectus of Co-operation in the UK in the last half century and the options now available to it.

My natural reaction in response to this request was to turn again to Professor Leigh Sparks' significant contribution in the first half of the Journal. My guess is that very few Co-operators will have cause to disagree with the general thrust of his review. Indeed, how can they when so much of it is fact and not opinion, and even the opinions and conclusions can be, and probably have been, 'cherry picked' to support whatever pre-conceived view the reader held? In spite of the opportunity to interpret the review to suit a whole range of opinions, I am equally confident that those who agree that Leigh Sparks has accurately summarised the recent history of the movement and its problems will not readily equate that summary to their own particular societies.

## From the General to the Particular?

Why should this be the reaction, apart of course from the usual and natural 'I'm all right Jack' attitude? Could it be that retail Co-operative societies are sufficiently different from each other in terms of geography, size, and more particularly, core activities and management structures, to make their own problems somewhat unique to them?

It is true that there are retail societies who have attempted to overcome problems in the traditional Co-operative retail markets of food and non-food by becoming more heavily involved in travel and motor trades and funerals and banqueting and optical and pharmacy and so on, which can often provide them with sufficient profit to secure at least a short-term future - but are these successful societies?

Professor Sparks sums up his interpretation of the movement since 1945 in this way, and I quote:

"The movement in the post-war era is a failure, in both my terms, and I would argue, its own. It can continue to *survive* by piecemeal changes, but by them it is unlikely to succeed."

## **Organising to Meet Members' Needs**

So what is failure in the movement's terms? I believe we would need to include high in our consideration what the majority of our members want from the movement. Failure would be an inability to meet that specification. I would argue that the majority of our members want us to be retailers of food and non-food products and if that is true, then the movement is failing its members. The Sparks essay and countless works before it have catalogued the inexorable decline in the movement's market share of food and non-food retailing together with the significant growth of private sector retailers at the expense of Co-operatives. Our current position is clear and unequivocal.

### *The Regionally Based Solution -*

So how do we get back to a position where we are meeting the needs of our membership by providing an expanding, efficient, profitable retailing service across the United Kingdom? Professor Sparks intimates that there are a number of ways of doing this, instancing choices between one national society or regionally based solutions, together with alternatives such as a national superstore chain overlaying a regional structure. He goes on to say that there is need to focus on the strengths of the movement which, he argues, would probably mean a selected few regional societies. The remainder would be rolled-up into the national retail agencies, C.W.S. and/or C.R.S., and consolidated with existing operations. He envisages that an assessment of the future of C.W.S. and C.R.S. could then be undertaken and a preferred option would be their amalgamation and the break-up of the retail elements into either existing regional societies or into newly created ones.

### *- And its Weakness*

I would take strong issue with this particular opinion. If ten years ago, or even five, one had sought to protect the movement's strength by concentrating on a selected few regional societies, I would contend that those societies would be very different from the societies one would choose today - and by inference it may well be the societies one would choose today would not be the societies one would choose in five years' time. It is, I contend, almost impossible to choose with any confidence those societies which are going to be strong beyond the next three to five years. My money rests with another of your contributors, James Wood, who says, and again I quote:

“Opinions may differ but there does not appear to be a solid business case that can be made against the creation of a single society.”

## **The Single National Society**

I strongly believe that, from a purely commercial point of view, the formation of a single society is the option most likely to be successful. Indeed, simply extrapolating what has happened to the numbers of societies within the movement over the last ten or fifteen years will very quickly bring you to singularity. Ah, the reader may rightly say, but will such an organisation be Co-operative?

I can, quite frankly, find no real evidence, either existing today or obvious from our recent past history, that size necessarily diminishes democracy. A Co-operative society is either small enough to allow its members to have a real hands-on relationship with the business or it requires some kind of tiered democracy. It is highly probable, in fact I would say almost certain, that a business small enough to allow members a hands-on approach is far too small to succeed commercially in competition with today's enormous retail businesses. It seems to me, therefore, that more indirect democratic involvement is inevitable.

My own Society, C.R.S., is by no means perfect but I would argue strongly that it is at least as democratic as any other society and probably more so than many, including some small societies.

## **Size - and Democracy**

Providing a democratic structure for a large, complex organisation, which a single national society would of necessity be, may be difficult but I believe it is by no means impossible given the substantial advantages that would accrue from having one organisational structure. I believe it is worthwhile the movement's thinkers and doers bending their minds to finding the right democratic solutions to the single society problem.

I could go on, but I won't, because for me the most impressive snippet in the whole of issue 79 was the opening of the contribution by Len Fyfe, and for the third time I will quote:

"If soul searching were a productive activity then Co-operative enterprise would reign supreme. If the combined efforts expressed in column inches of the movement's philosophers and pundits were translated into practical action then our rivals would marvel at our success and steal into the night."

Perhaps the time has come for me and everyone else to take Len Fyfe's advice, and stop talking and start doing.

### **The Author**

HARRY MOORE joined CRS in 1975 and became Regional General Manager of South Western Region in 1980. He was appointed Joint Deputy Chief Executive Officer of the society in 1983 and became CEO in July 1987.

---

### **In Passing**

*Politics is the Art of the Possible*

*R.A. Butler – from his book of that title 1971*

*Politics is not the art of the possible. It consists in choosing between the disastrous and the unpalatable.*

*J.K. Galbraith in letter to President J.F. Kennedy 1962*

# Master Plans and After

by David Skinner

*"Events take precedence over the plans of men"*

*"The finest plans are always ruined by the littleness of those that should carry them out".*

*"We learn from history that men never learn anything from history".*

*"We surely now have collected enough self-knowledge to recognise that plans for the Co-op at this master plan level do not come to fruition".*

Count Bismarck, Bertolt Brecht, Bernard Shaw as well as Lily Howe might almost have had the Co-op in mind when they made these remarks.

In his extended essay on consumer Co-operation (Journal No. 79) Professor Leigh Sparks acknowledges the continuing scale and diversity of Co-operative enterprise, putting the Co-op, in his own words, "on a par with the largest businesses in the country." He concludes, however, that "the movement in the post-war era is a failure."

## Failure to Change?

The reasons, according to Professor Sparks, are that in the crucial years after the war, the Co-op failed to identify and accept the need for change - change in terms of structure and change, too, in terms of the relationship between Co-operative organisations. What should have happened at that stage, in his view, was a crash amalgamation programme that would have produced between 10 and 20 regional societies. Working with and alongside those regional societies would have been a central federal (a "head office function") created from the merger of CWS, CRS, SCWS and the Co-operative Union. This would have provided services, in terms of branding, advertising, buying etc., to the regional societies.

Those societies would have been free to select which components of the central offering to use, but would not have been able to set up rival operations to supply the same services.

All of this is said, as Professor Sparks says on more than one occasion, "with the benefit of hindsight". But that qualification only serves to underline the inherent improbability of his "what might have been". In the

conditions of the time, when most of the major societies (and many small societies too) were still strong and successful, there was not the remotest chance that a crash programme of amalgamation would even have been attempted, let alone achieved. And if, by some chance, things had come about in the way Professor Sparks would have wished, it is unlikely, to say the least, that the central federal, its relations with societies based firmly on voluntarism, would have fared any differently than CWS, which has worked within a similar framework for the past 130 years.

### **Could Have Been Different?**

I find little difficulty with much of the Professor's analysis of Co-op history over the past 50 years. Supporters and detractors alike will probably agree on its main features and on the social, economic and structural factors that have shaped it. The notion that somehow it might all have been different, however, is another matter altogether.

My particular problem with this idea centres on the view that "it", "the movement", could at some stage have taken crucial strategic decisions that might have completely re-shaped that history. That is to apply to that history, judgements, assumptions and experience that were not available to those involved at the time. Moreover, it misunderstands and misinterprets the nature of the movement. The plain fact is that "the Co-op" was not then, and is not now, a single entity, amenable to central planning and control.

Co-operation is an idea and the consumer Co-op is a whole series of organisations, many of them inter-related and even inter-locking, but still independent, that have developed and evolved from and around that idea.

### **The Tension - Weakness or Safeguard?**

To many, both inside and outside the movement, the tension between unity and individuality has been a fundamental weakness. It is nevertheless an enduring element in the nature of Co-operative associations. It might also have been the movement's salvation and one reason for the Co-op's continued existence, scope and importance.

Had the Co-op been one organisation from an early stage in its history, how much more likely is it that a wrong decision at some point might have consigned it to oblivion? History, particularly the history of commercial organisations, has far more losers than winners. Co-op history - including some very recent history - has some significant failures. Happily, there are also substantial successes, otherwise there would be no celebrations, and no opportunities to agonise over "what went wrong?"

The fact that consumer Co-operation has developed through the evolution of so many and often varied organisations - through their inter-action with one another, as well as their inter-action with their social and economic environment - may well account for its longevity.

### **Master Plans for a Single Society**

Co-operative history, however, seems to be punctuated by master plans - prescriptions for the structure of the movement and the direction it should take. A doctoral thesis is waiting to be written on the provenance of these plans, and another on the reasons why they haven't been adopted and applied (as surely they would have been if they were so obviously practical, beneficial and sensible, as the planners claimed.)

Vivaldi, it is said, wrote only one concerto, but wrote it a hundred times or more. Similarly, the Co-operative master plans I have in mind are essentially a call for a "Single National Co-op Society". Many eminent Co-operators and observers from the side lines have composed variations on this traditional air.

J.C. Gray, Secretary of the Co-operative Union, (approaching his conception through ideas of the past!) made an eloquent and closely argued appeal for the creation of a national Co-operative society, when he gave the Presidential address to the 1906 congress, held in Birmingham. This message was presented to a confident and still expanding movement. The objective, in Gray's words, was to advance Co-operation to the point where, in effect, the movement became a state within the state, catering for virtually all the needs of its members.

Fifty-two years later, Colonel Hardie in his minority report in the (Gaitskell) Independent Commission review, put forward much the same plan.

J.C. Gray's call was not heeded by the Co-op in its heyday, nor was Colonel Hardie's plan applied half a century later when the movement was immensely powerful, but struggling. By the time Howard Perrow came up with the plan for Co-op Great Britain the movement was even more clearly on the defensive, but this plan in 1979 generated as many words and as little productive action as the earlier versions.

The master plan has the benefit of apparent simplicity, but it has not, in a hundred years, been adopted voluntarily. No one has yet suggested realistically how the single society plan is to be imposed, and whether by the minority on the majority, the weak on the strong, or vice versa.

Will the latest, 1994 variations be any different in their impact, and if not, why not?

## **Unity in Diversity**

Until the means of delivering the benefits of the master plan have been found, what are practising, dedicated Co-operators to do in reaching effective solutions to problems, which clearly exist? Rewarding measures lie readily to hand. They can be taken up wholeheartedly and urgently even by those who favour the master plan solution.

The actions need to be relevant to the present and anticipated problems, and they have to be achievable in practice. Although not exclusively committed to any single long-term strategy, they do not shut out strategic options that deserve future consideration. More specifically, improving the quality, value and performance of Co-operative retailing is an essential task! Developing closer and more co-operative working relations with neighbouring societies will also provide necessary progress on the path towards greater unity!

Taking this practical, if prosaic approach, does not preclude the pleasures of the master plan. It need not be the case that

“I do not ask to see the distant scene  
One step enough for me.”

The kindly light of a single society theory can still lighten the encircling gloom for devotees of structural revolution.

## **Progress - Past and Present**

Since the Second World War, indeed over an even longer period, the component parts of the consumer Co-operative movement have come gradually closer together. This has been an evolutionary response to the growth of powerful multiple competition and changing social and economical circumstances.

The process has not, however, been a smooth one. It has not followed a simple, logical path, but has proceeded by a series of steps, the most important of which were not foreseen in any master plan. That is, after all, the very essence of evolution in the true Darwinian sense.

There have been successes, as well as diversions and failures along the way. In order to preserve the strength derived from local and democratic roots, much flexibility, imagination and goodwill has been needed in the development of new structures.

The results of this process have involved massive changes in the nature, number and size of retail societies, and similarly in the CWS; many earlier

activities have gone, new ones have developed, but the primary role remains to support and service Co-operative retailing.

Progress does not necessarily involve dramatic structural change. An encouraging recent development has been the formation of the Co-operative Retail Trading Group, a voluntary, disciplined partnership founded by a number of successful regional societies and CWS Retail. This is providing major benefit to participants in marketing, buying, advertising and distribution. Other partnerships are evolving in the travel and funeral sectors.

### **Hope for the Future**

This voluntary but planned Co-operative progression can take many forms; some will succeed, others will fail and new ones will ultimately take the place of both.

More societies may merge into larger regional groupings - yet some very small societies are likely to remain, serving their particular communities. The measure of their success will be defined in economic terms, and in preserving and developing the democratic and social ideals of Co-operation.

The key for collective success is a willingness to work together and an openness to new ideas or new initiatives which will combine the benefit of size, when large regional businesses work in unison, with the advantages of local, regional or specialist knowledge and the values derived from Co-operative vision and principles.

The Co-op no longer permeates every aspect of economic, social and personal life as it once, almost, did in the very different Britain of 50 years ago. The idea that it might have retained that degree of power and influence was surely unrealistic in a rapidly changing pluralist society. But if we approach the future with a combination of pragmatism, realism and idealism, I am convinced that the Co-op will continue to play an important part in the economic and social life of the nation and that there will be good reasons to celebrate further anniversaries.

### **The Author**

DAVID SKINNER has been Chief Executive of the CWS since June 1992. He joined the SCWS in 1968 and was for four years in charge of the Food Division. After the transfer of engagements to CWS in 1973, he was successively Non-Food Controller (1974), Retail Controller (1983) and Deputy Chief Executive (Retail and Services) from 1986.

## **Death of Co-op Exaggerated?**

**by Professor Noel Branton**

Professor Sparks in Journal 79 has provided a very clear study of the progress - or lack of it - of consumer Co-operation in the United Kingdom since 1945. Much of his review deals with the economic and social background of the movement together with a statement of Co-operative principles. Since the present writer in the past few years has been mainly concerned in the Journal with contributions to the annual "Reflections" on Co-operative trading, these observations will be confined mainly to the same area.

The story is summed up in the graph on page 22 of the review where it can be seen that on the outbreak of war the number of retail societies was in excess of 1,000. The numbers remained fairly stable until 1951 when a decline set in which has continued without interruption at varying rates ever since. Membership, however, went on rising until the mid-1960s when that also declined, though in a far less spectacular manner than in the number of retail societies.

This decline Professor Sparks has set himself to explain. A writer in the May 1994 issue of the Journal comments on the capacity of the Co-operative movement for survival which, he notes quite correctly, is far superior to that of the top 200 British businesses. However, it seems to me that unless action is taken quite quickly, there is little satisfaction to be derived from the fact that Co-operative retailing is taking a long time to die.

### **Failure to Adjust**

Professor Sparks discusses the changes which occurred in retail markets and in the requirements of consumers in the post-war period to which the Co-operatives failed adequately to adjust. This is a failing which they share with many businesses in the private sector, some of which, however, have seen the threat in time and have taken action to meet it with varying degrees of success.

In the early post-war years the societies still occupied a dominant position in the retail trade. In the grocery and food trades a large amount of business was still in the hands of small retail shops, whilst their biggest competitors were the multiple shop groups which usually stocked only a limited range of products. As wartime austerities faded, a rising standard of living led

the multiples to stock a widening range of products, thereby transforming themselves into general grocers selling hundreds of lines and increasing their competitiveness with the Co-operatives. Possibly because of their strength the Co-operatives failed to react adequately to this growing threat.

### **End of RPM**

At this stage a further factor increased competition in the retail grocery trade - pressure to end resale price maintenance. This practice enabled manufacturers to dictate the prices at which branded products were sold in the shops. The introduction of self-service, pioneered by the Co-operatives, provided retailers with savings in labour costs and consumers began to press for some of this saving to be passed on to them in lower prices. There were spasmodic attempts at price cutting which for a time were suppressed by suppliers. By mid-1958, however, resale price maintenance had ended for most grocery goods, though the main benefits were at first felt mainly in and about London.

The sharp decline in the number of Co-operative societies, which became noticeably sharper about this period, was probably a result of this growing competition though the Co-operative movement had supported abolition. New multiples such as Tesco and Fine Fare appeared which in due course were to exploit the possibilities of supermarket development based on cut prices.

### **A Future of Regional Societies**

As competition developed the number of Co-operative casualties increased. There were endless discussions of the problem but a lack of any decisive action. Societies in difficulties struggled on until they either collapsed or were taken over. This has led to largely unplanned structural change. Discussions on the subject have ranged from the creation of a small number of large regional societies to the development of one large national organisation. On this question Professor Sparks comes down in favour of regional societies and I feel that he is right. It is a matter for regret that the proposal for a national society appears to have emerged once again at the Co-operative Congress this year. The formation of a small number of regional Co-operatives would create formidable problems which would multiply if a national society were created. Experience has shown that an important obstacle to fundamental change is the adverse reaction of senior managers. If obstructionism dons the cloak of democratic control, it is not easy to deal with it. It is true that James Wood in Journal 79 supports the formation of a single society but with an important caveat - if the movement has time. Time is running very short.

When fundamental changes of structure and procedure become necessary they call for leadership of high quality. Professor Sparks cites the case of Philip Thomas, recruited from outside the movement, who might have brought about such a change had he not been killed in a plane crash. He takes the view that no one of equal standing appears to be available in the movement at the present time. Even if one were to emerge, would the movement respond? Very sensitive changes would be necessary because of the number of societies involved.

### **Centralised Governance?**

Any drastic reorganisation of Co-operative trading activities must be hampered by the lack of centralised governance. As Professor Sparks observes, power rests with the constituent parts which can ignore any central guidance and decisions if they so wish. Governance is through consensus, the focus for which is the Co-operative Union which has played a role in all the principal changes which have taken place in the movement since the end of the war. The fact that majority decisions can be ignored by dissenting members provides ample explanation of the lack of progress in making changes necessary for restoring the fortunes of the movement.

One study of the Co-operative movement makes the point that its democratic organisation should make it possible for members to determine general policy and evaluate the quality of service offered. It admits that the first of these raises difficulties but that the second is important. If the management of a society fails to deliver a satisfactory standard of service, dissatisfied members can use their votes to change it. This, however, requires someone or a group of members to organise rival candidates for election to the board which calls for considerable public spirit. It is far easier to vote with one's feet and transfer custom to the supermarket.

If the timely review provided by Professor Sparks stimulates decisive action, there may be no need for an obituary.

### **The Author**

EMERITUS PROFESSOR BRANTON is a former Dean of the School of Business and Administration of the University of Strathclyde where he was, for many years, Professor of Commerce. He has written extensively on commerce and business management.

## CRS and CWS Merger?

by Desmond Hopwood

Many retail pundits have written off the Co-op as a major competitive player in the present frantic race to divide up the UK grocery market between the big national superstore chains and the new breed of limited range discount stores, leaving only a diminishing "slice" for the rest.

The authors of the 1994 CRS pamphlet *The Time is Right* seem well aware of the problem. They note: "Compared to a decade ago when the movement enjoyed a position of relative market strength, it has lost out as the major supermarket chains have continued to invest in store development, marketing, promotion, and their own growth and performance. The truth is that, since 1990, the comparative performance of the two societies (CWS and CRS) versus our major competitors has become even poorer. Not only have we fallen behind in sales, market share and profitability, there is no tangible evidence that this downward trend has bottomed".

### Case for Merger -

Hence the understandable pressure to combine the CWS and CRS into one organisational group as soon as possible. Factors in its favour include a combination of buying power to get better terms from suppliers, the elimination of excess administrative costs, and greater financial stability. The opportunity to present better and more consistent marketing and promotional campaigns is another important aim.

The merger, if these negotiations are successful, must not be seen as an end in itself. Whether the merged organisation succeeds in halting the downward trend in market share will depend on a number of issues.

In particular there will need to be a sea change in attitudes. Gareth Morgan in *Imaginization* (p. 267; Sage Publications; 1993) has written with understanding how "creative insights and breakthrough ideas often run into problems if they encounter hostile power structures or are interpreted within the context of old values and old 'cultures' that limit their impact to a variation on the status quo". Many major regional society groupings failed in essence in the 1970s and 1980s because they totally neglected this aspect of the situation. "United" was the classic example to note but there were other instances as well. On the technical level, the attractiveness and location of the remaining stores (some closures seem inevitable), the quality and appeal of the merchandise available inside them, the strength

of the relationship between senior management and the rest of the staff, and the impact of the marketing and promotional spend upon existing and prospective customers are all equally important.

### **- and Conditions of Success**

Large retail organisations by themselves are not necessarily effective in a competitive market. The problems encountered by Woolworth in the 1970s and Gateway in the last 5 years provide good examples here. In recent years Asda, Burton, and Sears have all had their problems until rejuvenated by new senior external appointments.

### *Differences of Organisational Culture*

Care will have to be taken to study the appropriate pattern of organisation at the top. At present the CWS and CRS seem to have very different organisational cultures. The latter is a tightly disciplined retail organisation. The former is still in a state of organisational hiatus as major change follows major change. They have just sold off their chain of relatively small-scale low-margin food factories for approximately £100 million. In recent years they have been embracing a range of incoming retail societies of all sizes and in varying degrees of efficiency. The acquisition of the Greater Nottingham Society was an especial burden on their resources.

With the addition of extensive financial and farming interests it is clear that the CWS is a very different animal from CRS. That is not to say that a merger cannot be brought about but merely to counsel caution on its implementation. It is important to take time to get it right.

### *Definition of Senior Roles*

The existing personalities of the senior executives at both CRS and CWS are also crucial. Since 1990, when previous merger talks foundered, David Skinner has replaced Sir Dennis Landau at the CWS and they are very different personalities. Harry Moore, Chief Executive at CRS, and Graham Melmouth, CWS Secretary are also key personalities involved. Other senior figures may also need to be considered here. Unless their future roles are clearly sorted out and understood in advance, it could be that "a merger" goes ahead without everybody singing the same hymns together and off the same songsheet.

The recent merger of Reed (UK) and Elsevier (Holland) in publishing provides an instructive example. A key architect of the merger was Peter Davis, previously a senior figure at Sainsbury. He was a very dynamic chief executive at Reed being both pugnacious and shrewd in his approach.

Without his tenacity the Reed/Elsevier merger might not have taken place. However, a few months into its execution he has resigned. Apparently he was expected to confine himself to strategy and external relations while others operated in the "chief executive" role instead. This state of affairs did not suit Peter Davis so he left.

*' . . . ask to see the distant scene'*

The final shape of the organisation urgently needs careful consideration. More and more big companies are trying to emulate the advantages of smaller concerns in order to survive in future. For example ABB Asea Brown Boveri is the largest power engineering company. They claim to be a series of local companies with a strong global co-ordination. In order for the new unified society successfully to exist with semi-autonomous, regional societies like United Norwest and Central Midlands a federal structure of organisation will have to evolve gradually from Manchester.

### **Valuable - but Not Enough**

To conclude. There are very real pressures leading to an active consideration of the case for a merger between CRS and CWS. The position has deteriorated rapidly for both parties since 1990. It is not likely to improve in the next few years. However, merging the two organisations together is not going to be an easy task. A £3.4 billion retail turnover organisation should be better able to stem the tide of competition than two separate entities. However, there is a real danger that the merger once established is seen as an end in itself. Discussions with several managers and board members at the NACO conference earlier this year in Harrogate suggested that some supposed this to be the case. Fortunately there were others who took a different viewpoint. They tended to be the younger managers present. Once the merger goes through there will be a sprawling conglomerate of different retail and service activities. The need to create a strong financial balance sheet will make some rationalisation inevitable. There is a need for bold thinking and perhaps an infusion of experienced managerial talent from outside is also necessary in this context.

### **The Author**

DESMOND HOPWOOD is a lecturer in Retail Marketing at the University of Lancaster and has closely followed the fortunes of the Co-operative movement over the past 30 years.

## Lines for Development

by Roger Spear

The 79th Journal on consumer Co-operation in the UK contains some excellent material, full of insight, information and not a little wit. There was a public invitation to respond but I find it difficult to put pen to paper, since the analysis seems very comprehensive, there is no shortage of suggestions for change, and this is not my field. However I have conducted research on the related field of worker Co-operatives and other democratic enterprises for 15 years and I share a concern for the future of consumer Co-operation in the UK.

I have decided to submit this contribution because experience in a related field of Co-operation might offer interesting parallels that illustrate certain aspects of the analysis.

The main points that stand out for me are concerned with different aspects of democratic management and governance, particularly the relationships between customers/members, the board and managers.

### Empowerment of Staff?

Modern management ideas frequently extol the virtues of empowerment - for customers, staff and managers. It is not always clear what is meant by empowerment or even how to do it, clearly part of its charm is its rhetoric. It is rare for this to be seen as its only virtue, and even rarer for it to go to the other extreme and take the form of a hand over of control to staff and customers. Management theorists usually advocate something in between: they argue that in rapidly changing environments flexibility and efficiency are achieved by having flatter hierarchies, more decentralisation and more participation. To them empowerment means involving staff and junior managers, using a participative managerial style, and giving them the power to take initiative within higher level guidelines. In many ways it is the only decent way to treat staff, and one would expect Co-operatives to pioneer such approaches, but it is also excellent business practice.

This seems to be one of the important experiences of worker Co-ops, though their staff have considerably more power because they are also owners.

### Human Resource Management?

This leads on to the second point about human resource management -

valuing and investing in people is vital. If, as was suggested by a few authors in Journal 79, part of the problem is that consumer Co-ops are trapped in a vicious circle of poor performance and unexceptional management and staff (p 41 & 53), one way of breaking the circle is to focus on improving human resource management (HRM) practices. Management development and staff training are important both to develop staff and to make the business thrive. Improving recruitment, promotion, appraisal and reward systems will not only have a direct impact, but they will eventually make it attractive for the best staff and managers to be retained or recruited. It would be interesting to compare such practices in the best management societies with the less good.

It may be that the idea of franchising mentioned briefly by Professor Leigh Sparks in relation to recent growth in retailing could be studied more closely for lessons. There are many similarities between Co-ops and some loose franchises - not just for marketing but also for other business functions such as HRM. The franchising model could be adapted to the Co-operative context as a way of passing on good management and retailing practice, for example by identifying models of good practice in successful societies, and buying in training and consultancy services i.e. purchased by a society or centrally at a cost effective rate. Similarly where well known business recipes (eg Quality Circles, or Total Quality Management) have been adapted to the Co-op context and used successfully, they could be actively promoted to other societies by a central unit. A task force or team of Co-op consultants for improving the performance of Co-ops on a regular basis or at the first signs of trouble might be more welcome than predatory mergers of a declining business!

### **Goals and Incentives for Managers?**

Finally there may be some interesting lessons to be drawn from a paper in the Administrative Science Quarterly# (possibly the top journal in the field). The authors of the paper made a study of 900 US savings and loans agencies (SLAs - the equivalent of our building societies) founded between 1960 and 1987. They were interested in comparing the effects of different governance arrangements and capital structures arising out of different ownership structures - mutual and joint stock SLAs.

The conceptual basis for the paper is an analysis of agency relationships - where principals contract with agents to carry out certain tasks: eg members contract with managers to run a mutual SLA, or shareholders

# H. Rao and E.H. Neilsen, (1992) An Ecology of Agency Arrangements: Mortality of Savings and Loan Associations, 1960-1987. Administrative Science Quarterly, 37.

contract with managers to run a stock SLA. Monitoring and incentive systems are used by principals to maintain reliable performance from agents. Agency theory, property rights theory and transaction cost economics all hold that efficient monitoring and incentive systems are central to organisational survival.

The analysis is quite complex and rather rationalistic and economic. Incentives are financial and are considered effective if the rewards are linked to key performance measures such as profit or growth. Monitoring includes not just the formal and informal processes whereby members or shareholders check what's going on, but also the means by which they exert pressure and influence if required. For example the tradeability of shares is seen to offer a visible measure of performance (through their price) and the conditions of their sale will influence the extent to which share ownership can become concentrated and be used to "displace incumbent managers".

#### *Adapting to Present and Future Conditions*

The authors argue that in the early days the mutual was built by a network of friends and acquaintances. It was embedded in a community giving it access to resources and low cost informal monitoring. Nowadays it has "acquired fieflike characteristics". Mutuals' members' rights are very weak; their desire to monitor managers is low because deposits have state guarantees and the prevailing rate of interest is paid; members' meetings are poorly attended and ritualistic; consequently managers enjoy enormous control over the mutual enterprise, but have little incentive to act entrepreneurially.

The paper is quite complex and makes many other points. It proposes and tests a number of hypotheses, and the following findings are of interest.

"Mutuals had higher mortality rates than stocks because of their weaker monitoring, incentives, and capital structure", but deregulation of the sector created new opportunities which led to some stock SLAs taking too many risks, and this moderated the difference. They also note the important role that regulatory agencies can play in compensating for differences by exerting a monitoring influence themselves.

The analysis may be criticised for being overly rational and economic. For example most Co-ops and their managers would want non-financial as well as financial goals and incentives. Similarly the lack of democracy and the autonomy of mutual managers is clearly extreme. But this makes the

lessons more stark. The important points are to link goals and incentives in a rational and clear manner so that managers are rewarded for achieving the Co-op's goals, and to strengthen monitoring arrangements. This emphasis on incentive systems and monitoring (in the broader sense of keeping informed of performance and exerting influence on managers) sharpens debates about Co-operative management and governance through its focus on the processes linking members, the board and management. By reformulating and improving these processes, it may be that Co-op performance will be regenerated.

### **The Author**

ROGER SPEAR is an academic member of the Co-operatives Research Unit and Lecturer in Systems at the Open University. In the latter field, he has worked on a range of courses in Organisation Studies and Management Science. In the CRU, his research has focused on development issues for worker Co-operatives, including a three year externally funded project which resulted in a book published by Sage in 1988 - *Developing Successful Worker Co-ops* by Cornforth, Thomas, Spear and Lewis.

# **'Heed the Past, Prepare for the Future'**

**by Professor Steve Worthington**

So then 'the deed is done, the die is cast: the CWS has sold off its manufacturing food group and has bet its future on its ability to prosper as a retail Co-operative. At the same time we read of renewed interest in the prospects of a merger between the now re-focused CWS and Co-operative Retail Services (CRS), to form a dominant single society, that would for many represent the face of Co-operative retailing in the United Kingdom. The question is: what form should that face take and will it be a sufficiently attractive face to retain existing customers and attract new ones? This article considers retailers as brands (faces) in their own right, the polarisation of grocery retailing in the United Kingdom, recent research on the profit impact of customer retention and thoughts on the challenges facing the Co-operative retailers in keeping their customers loyal to their outlets and their members involved in the activities of their societies.

Retailing is one of the few industries that the United Kingdom can claim to have a distinctive competence in, when compared to our world competitors. Companies such as Marks and Spencer and Sainsbury are often referred to by management 'experts' as well run, consistently profitable and cultural icons of the "Best of British". Part of their success lies in their strong corporate cultures and the value systems by which they relate to the various stake holders that have an involvement with them. Other retail success stories include Tesco, a classic case study of how to reposition a brand from 'pile it high, sell it cheap' to be now a worthy competitor to Sainsbury; Argyl for its takeover and assimilation of the Safeway brand; and Kwik Save as an effective exponent of the art of discounting.

## **Retailers as Brands**

The success of some United Kingdom retailers has elevated them to the position of being a brand in their own right, a feature best demonstrated by their 'own brand' products. This bemuses many overseas observers for elsewhere in the world 'own brand' is often a cheap (and occasionally nasty) substitute for manufacturer brands. In the United Kingdom however 'own brand', as personified by Co-op brand products, is at least equal to, if not better than, manufacturer brands, in quality, presentation and cost to the consumer.

The recent 'amicable discussions' between Sainsbury and Coca-Cola demonstrate perfectly the power of the retailer as a brand in the United Kingdom. Despite claims from Coca-Cola that Sainsbury had been persuaded to change the design of its own brand 'Classic Cola' to make it look less like Coca-Cola, research conducted in the three weeks since the launch of Sainsbury's Classic showed that it had achieved a significant market share, at the direct expense of Coca-Cola and to a lesser extent Pepsi-Cola. A spokesperson for Coca-Cola said: "Clearly Sainsbury has complete control over the environment in their own stores" and indeed channel power now lies more with the retailer than the manufacturer and with a 12 percent share of the total grocery market, Sainsbury is a customer Coca-Cola cannot afford to lose. The power of the retailer as a brand is also demonstrated by Sainsbury's launch of sub-own brands, such as Novon washing powder and Gio soft drink, both advertised as brands in their own right, although they are brands owned by a retailer and not a manufacturer.

With the five major multiple retail groups (Sainsbury, Tesco, Argyll, Asda and Gateway) holding nearly 40 percent of the total retail grocery market in the United Kingdom, traditional manufacturers' brands often have to take a subservient position to the retailers' own brands, as the retailers both dominate the channel of distribution and have aspirations to be brands in their own right. Even Kwik Save, the leading United Kingdom discounter, has recently introduced a 'No-Frills' own brand to develop its brand in the face of heightened competition.

### **Polarising of Grocery Market**

This competition is the result both of increased activity by the existing market players as they struggle for rank and share and of the entry of new players into what they see as a high margin business, certainly when compared with operations in Continental Europe. Verdict, the retail market research consultancy, describes the grocery market as polarising between the 860 superstores which account for 60 per cent of total grocery sales and the 1,500 discounters who now enjoy 10 percent of all sales. Verdict predicts that food discounting will account for 14 per cent of the total grocery market by 1997. The impact of the discounters is already being seen in reduced prices and hence margins for other retailers. Verdict estimated that prices in the major multiples were 8.6 per cent lower in April 1994 than in April 1993, whilst discounter prices were 6 per cent lower over the same time period.

So - the competition is tough. Well, that's the good news; the bad news is that it's going to get even tougher. As Iain Williamson wrote in Journal

80 page 64, the Co-operative societies' major food competitors have recently felt some discomfort. To return to growth, one of the options that they have is to take away from Co-operatives the not insubstantial 7 per cent of the grocery trade which societies still collectively hold. Devouring each other is less likely, especially when the prime candidate, Gateway, is so much in debt that its backers literally cannot afford to see it go to the wall and nobody else would surely be able to take over that much debt?

### **Retaining and Gaining Customers**

Undoubtedly the key to survival of each and every player lies in retaining existing customers and, whenever possible, recruiting new customers from competitors. Whilst absolute customer loyalty at the store level is not a realistic proposition, nevertheless the challenge for the retailer lies in raising the degree of customer loyalty. Recent research by Tim Denison and Simon Knox of Cranfield University has produced evidence to substantiate what they have termed the 'double indemnity effect'. Their findings are that loyal shoppers in grocery retailing spend twice as much as do the so-called promiscuous shoppers. This loyalty benefit is further leveraged due to the fact that loyal shoppers tend to have larger grocery budgets than fellow shoppers in the first instance. This is the double indemnity effect and it signifies that customers loyal to a particular grocery store tend to spend up to four times as much in their first-choice store as promiscuous shoppers spend in theirs.

The findings of this research have not been lost on grocery retailers and a number of loyalty schemes have already been tested with more to come. Sainsbury and Tesco already have plastic card-based loyalty schemes, but so far these have only been used as localised sales promotion tools. A more major assault on customer loyalty is to take place this autumn when a new multi-retailer loyalty scheme is launched by AT&T Istel, the software and services company. The scheme will offer points for pounds spent at any one of 30 major retailers and the points earned will be redeemable against any of the participating companies' products. AT&T estimate that customers will be able to save between £100-£200 a year, if they hold and use the card.

#### *A Star to Steer By?*

The key difference between loyalty programmes and sales promotion, is that the former are long-term and usually card-based, whilst the latter have a finite life. To work well, loyalty schemes must be simple and flexible and increasingly they use the latest technology to store details electronically on a plastic card, about a customer's buying habits and the number of incentive 'points' he or she has accumulated. The Co-operative movement

has first hand experience of such card-based loyalty schemes, via the Chelmsford Star Society. They have just completed the first stage in the design and implementation of a member loyalty scheme using a smart-card and called the Chelmsford Starcard. Initially used in a pilot scheme by employees and their families in the society's non-food department stores, the trial use of the card would be extended to food centres, travel centres and petrol stations, before being issued to members. The Chelmsford society claims that this scheme "will be the modern equivalent of the tried and trusted Co-op dividend" and that "it should attract new generations of shoppers seeking the benefits of the Co-operative difference and lead to increased member participation, which was part of the vision for the future of Chelmsford Star".

### **The Challenge for Co-operatives**

The challenge facing the wider Co-operative movement, and in particular the large national and regional societies, is how to survive, if not prosper, in such a turbulent environment. What is going to be the shape of their face to the consumer? What will their retail brand personify? Which position do they want to occupy in an increasingly polarised marketplace? How will they seek to retain customer loyalty in the face of rival schemes from other retailers? How to keep their members involved in the issues of corporate governance that characterise a Co-operative society and which give it a distinctive place within the social economy?

There is no quick fix solution to these questions and the road to a distinctive and sustainable competitive advantage over the competition, will be a long and difficult one. Still every journey must begin with the first step and with a clear sense of direction. The 150 years of heritage that the movement enjoys is an untapped asset and can act as a rudder in charting the way forward. An organisation with such longevity must have some basic principles that have proved enduringly attractive to its customers, employees and suppliers. The Co-operative brand should therefore major on the integrity of its products and services but these must be professionally delivered, with buying, merchandising and pricing disciplines akin to the competition. The position in the market place has to be as an efficient, effective retailer that nevertheless has a view of how society could be improved and is not afraid to put its money where its mouth is. Customer loyalty and recruitment of new converts can be achieved by a re-interpretation of the dividend and its delivery via an electronic system of storing points on a plastic card. Member involvement can be simultaneously improved by offering members real information on the society's fortunes and a real choice in decision making as to the distribution of the surplus.

## **Clear Vision, Positive Action**

Implementation of the above will involve hard work and difficult decisions but having chosen to compete in the retail industry did anyone expect it to be otherwise? The alternative to action is atrophy, where the decline of the movement continues unabated. Here the face that the retail Co-operatives present to the customer is blurred, the brand neither distinctive nor able to maximise its power potential. Co-operative fascias and products appear along the entire spectrum of grocery retailing to the confusion of the customer and competitor loyalty schemes blatantly steal the concept of the dividend, without any of the underlying philosophy that originally accompanied it. Member involvement continues to decline and the governance of societies becomes a self-perpetuating oligarchy, denying the movement the moral high ground that its status as a mutual organisation once earned it. This doomsday scenario will be complete if a private sector predator seeks to emulate Lloyds Bank in its takeover of Cheltenham and Gloucester Building Society and offers all members of a Co-operative society a substantial sweetener if they will vote for a merger with them. The trading locations, local market share and reserves of many societies would make them attractive propositions, if such a scenario became a reality.

To prevent this happening, a clear vision of the future face of Co-operative retailing is required and action plans set in motion to deliver the vision. Never has there been a more appropriate moment to "Heed the Past, whilst Preparing for the Future".

## **The Author**

STEVE WORTHINGTON is the Britannia Building Society Professor of Marketing of Financial Services at Staffordshire University. He has a long pedigree of involvement in the Co-operative movement: through his family - his father was General Manager of the old Ashton-under-Lyme Society; and through his own career - he has worked in management positions in both the Co-operative Bank and the CWS. He is particularly interested in bringing together the different constituencies of the social economy, such as the Co-operative societies and the building societies to promote the values embedded in their ownership structures.