

How can the Co-operative Sector Contribute to the Development of a Stakeholder Economy?

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I intend to argue that the co-operative sector now has the potential and the opportunity to make a significant and unique contribution to the formation and delivery of economic development policy in the United Kingdom. As part of the wider business sector, co-operatives can and do contribute directly to economic development and economic regeneration in our cities, towns and rural communities. Indeed, I will argue that their contribution, although relatively small, is particularly valuable because it is both *local* and *long-term* in nature. But the sector also has the potential to contribute indirectly - not only through its members' activities as successful businesses, but through the percolation of their co-operative *values*, and of the particular business *practices* which flow from those values. Taken together, these two elements of the co-operative contribution offer the opportunity to ground fine words about the creation of a stakeholder economy in the realities of actual needs, actual capacities, actual problems and actual opportunities - to inject a much-needed 'bottom-up' approach to the implementation of stakeholding, based on existing achievements.

What I plan to do is to review examples of co-operative practice in three areas, and to build my case from these. I cannot claim that the examples I will use are representative. You are probably aware of others, from other parts of the UK, and from different parts of the co-operative movement, which may support my argument - or may qualify or counter it.

My examples are drawn from three areas:

- a) co-operation between co-operatives at local level
- b) conversion to employee ownership as a promising alternative to the erosion of jobs, working conditions, union membership and service quality in situations of privatisation, contractualisation or failed business succession

- c) the political lobbying of the sector in the context of a Labour Government receptive to the recognition of other stakeholders - in businesses and in society - besides those who own the capital

Perhaps, before turning to my examples, I should quickly review the concept of stakeholding itself. By a stakeholder we simply mean someone who stands to gain or lose as a result of an organisation's action or inaction. Terry Thomas, the hugely successful retiring Managing Director of The Co-operative Bank, has identified seven groups of stakeholders in the Bank's case:

- shareholders
- employees
- customers
- suppliers
- the local community
- society at large
- past and future generations

A fundamental problem with the UK economy remains that it is run almost entirely by and on behalf of just one group of stakeholders - the investors. Consequently most business strategies are aimed at maximising benefits to shareholders, while other stakeholders - such as employees and customers - must rely on statutory protection of their interests through employment legislation, regulatory agencies such as Ofwat and Ofgas, the Monopolies and Mergers Commission, and so on.

This situation is reflected in company law, where those who risk their capital assume control. Votes in a conventional limited company are proportional to shareholdings. But it is not only investors who stand to lose in the event of non-performance by a business. Employees stand to lose their livelihoods, suppliers can face insolvency if bills are not paid on time, customers' lives may be seriously disrupted if goods or services provided are sub-standard, and whole communities can be impoverished when a major employer moves away in search of cheaper operating costs. Yet company law does not recognise the validity of any form of stakeholding other than investment of capital. Conventional business accounting practices treat employees as just another cost - on a par with the cost of energy, raw materials,

or advertising.

We are just beginning to emerge from a period in which the primacy of shareholders' interests had become a central tenet not just of business strategy and economic policy, but of Government policy for health, education, transport, and housing too. In the course of the 1980s, the stock market acquired the power to determine priorities not just in the areas of manufacture and trade, but for society as a whole. What Margaret Thatcher meant when she said that there is no such thing as society was that there was no area in which maximising the return to capital should not guide policy. The case is now being widely made that market forces alone are not even sufficient to deliver universally the highest possible quality at the lowest possible price. That debate is beyond the scope of this article. But I would certainly contend that 'shareholder value' has signally failed to deliver a socially, environmentally and financially sustainable economy. In order to achieve a more balanced economy, businesses must begin to benefit other stakeholder groups as well as investors, and co-operatives surely offer an ideal model for such enterprises. They are inherently geared towards the interests of other stakeholders - tenants in a housing co-operative, customers in a consumer co-operative, employees in a worker co-operative, and savers and borrowers in a credit union.

The past two decades have - despite fiercely competitive markets, and an unsympathetic or antagonistic policy environment - seen a spectacular growth in innovative applications of basic co-operative principles. The dragon of demutualisation is not yet slain. But mutuality is beginning to acquire supporters among the public, the press, and policy-makers. Both by operating successful businesses, and by demonstrating that they can do so without placing all the control - and all the rewards - in the hands of investors, co-operatives have much to contribute to the economic, social and intellectual fabric of a stakeholder society.

Co-operation between co-operatives

In the 1970s and 1980s, rapid growth in the number of worker co-operatives was supported by specialist development agencies (CDAs) funded predominantly by Labour-controlled Local

Authorities, as a job creation strategy. At their peak in the late 1980s, there were over 100 CDAs. The job creation caravan has since moved on, and only 30 remain, but in their own areas these continue to provide a largely free business development service for co-operatives, financed by a mix of local authority grants and contracts with Training and Enterprise Councils, Business Links and European Union funding programmes. As we shall see, the Industrial Common Ownership Movement (ICOM) is lobbying hard for the extension of this service to cover all UK regions. But my first example is taken from one of the four or five local groups of worker co-operatives in the UK which, faced with the partial withdrawal of their local service, have taken the responsibility for co-operative development into their own hands - and are starting to achieve the 'critical mass' of co-operation between co-operatives which is at the heart of Europe's most successful co-operative movements, in Italy, the Basque region of Spain, and France.

The activities of a local co-operative network can include:

- mutual support
- close supplier chain relationships
- the spread of management good practice through co-consultancy
- shared-cost training
- joint purchasing of goods and business services.

The Southampton Co-operative Network is a dynamic grouping of successful young businesses from a number of sectors, but with a high proportion involved in professional services - graphic design, computer consultancy and corporate marketing. In the short time since it was formalised, the Network has:

- launched a regular newsletter as a promotional tool for the network and its member businesses, which is mailed direct to key local individuals and others around the country and in Europe
- established an annual survey of the local co-operative sector, to provide a clear and detailed analysis of its place in Southampton's economy
- made a successful £50,000 funding bid to the Department of

Trade and Industry for specialised training for network members, in part delivered by network members

- hosted a number of local events aimed at bringing together local worker co-operatives, in order to create an environment in which to develop joint initiatives
- established an up-to-date database of local, regional and national Social Economy contacts for use by the network and its members
- launched an email listserver as a forum for discussion and inter-trading between co-operatives, and a pilot World Wide Web site to promote network members - these two initiatives have already brought benefits in terms of new trading and partnership opportunities.

The network's plans for the future include:

- media profile-raising, to achieve wider public recognition of the co-operative sector
- involvement with the local Single Regeneration Budget programme
- contribution to local education, by promoting the values and principles of co-operation in partnership with schools, colleges, and Chambers of Commerce
- bringing the wider co-operative movement together, by creating opportunities for real linkage between the local consumer movement and the growing number of housing co-ops, credit unions and employee-owned co-operative businesses in the area

What the Southampton Co-operative Network shares with similar local groupings in Essex, Northumberland, central Scotland and perhaps elsewhere - and what distinguishes it from conventional local business networks - is its concern with development. This concern is not only directed at the members of the network itself. It is applied to the co-operative sector, and to the local community, *as a whole*. The potential for interchange and collaboration between the consumer and worker co-operative sectors is especially exciting.

Conversion to employee ownership

The second set of examples is the phenomenon of conversion to employee ownership. Of the 1500 or so surviving worker co-operatives created 'since records began' in 1973 - around the time at which the sector's national bodies, ICOM and Industrial Common Ownership Finance (ICOF), were formed - the vast majority were created as new-start enterprises. Many of them are now, of course, substantial and well-established businesses. In recent years, however, attention has increasingly turned to the conversion to employee ownership of existing, conventionally structured businesses. The spectacular success of some of the largest conversions has finally given the worker co-operative sector positive examples with which to chase away the spectre of Triumph Meriden and the other failed 'phoenix' initiatives of the 1970s - though that spectre still lingers, apparently, in the corridors of Westminster and of Trade Union Congress House.

The rescue of failing companies apart - and inevitably, this will always be incredibly hard to sustain - conversion to employee ownership is increasingly recognised as a real option in situations of privatisation, contractualisation and divestment. The co-operative movement still has much to do to promote the option to local authorities, trade unions, owner-managers, solicitors, accountants and other business advisers, and to workers themselves. Even in recent years there have been mistakes and setbacks. The bus industry has seen a number of examples where employee ownership was not sufficiently entrenched to resist the predatory advances of competitors, which offered workers significant cash payments to 'demutualise' the company assets. But the success stories are stacking up - and the big ones are regularly featured in the business pages, so the issues, and the potential, are increasingly well understood, by policy-makers, employers and trade unions.

- Tullis Russell, a Scottish specialist paper manufacturer employing 1,200 people and owned by a family which wished to disinvest, made use of tax reliefs available on certain types of conversion to employee ownership to maximise the tax benefits to owners and employees. The nature of these tax reliefs means that Tullis Russell has had to adopt an intermediary structure as an 'employee share ownership plan'

or ESOP - but progress towards its goal of 100 per cent employee ownership is on target.

- In 1993 the seven swimming pools and leisure centres in the London Borough of Greenwich were privatised as a 'not-for-profit' worker co-operative, with 80 per cent of workers taking up membership of the co-operative as an alternative to closures and redundancies, following budget cuts. A highly visible model of successful employee-owned enterprise has been created, producing efficiency gains which have preserved jobs and services, as well as saving the Local Authority money.
- Tower Colliery, in South Wales, was closed as being 'uneconomic' while in the public sector, but was subsequently bought by the miners and is now making substantial profits as a co-operative. Much of its coal is exported, although the original reason given for closing the mine was the competition from imported coal.
- Shropshire Social Services has since 1991 helped to establish five care co-operatives, which today deliver some 40 per cent of the total social services domiciliary care hours in the county and together represent its largest independent provider. In addition, the co-ops supply an increasing volume of care services purchased not through Social Services but directly by clients, using the benefits system. Despite particular problems associated with servicing a predominantly rural area with a widely dispersed population, the co-operatives have repaid their start-up loans and achieved sustainable trading surpluses within 4-5 years. They now offer training, qualification and paid employment to over 300 carers, many of whom were previously unqualified informal carers. There are now 49 care co-operatives across the country, delivering domiciliary, respite and residential care to the elderly, to children, and to people with disabilities.

I have offered four examples, representative of the four most significant types of conversion to employee ownership - disinvestment by private owners, municipal privatisation, national privatisation and contractualisation. What all four contribute to economic development - in marked contrast to the commoner alternatives of management buy out or business sale - is *sustainable local* employment and wealth creation. Many

corporate and small business owners realise profits by selling their companies, or by breaking them up in order to dispose of valuable components. The business is viewed primarily as an asset, to be sold without reference to the employment consequences. Workforces are seen as incidental to profit maximisation, and are happily discarded or passed on to new owners, who may dispense with their services at a later date. The profits of a co-operative business are not exported to distant shareholders - they are re-invested in the area. And because continuity of employment is a central goal of the co-operators who own the business, investment in its long-term future is far more certain than if it were run on behalf of shareholders. Co-operatives are inherently more responsive to the communities from which they draw their members.

Political lobbying

Lastly, I would like to give you an overview of the political lobbying work undertaken in the past year or so by ICOM and ICOF, in anticipation of a change of government in May, and in response to the new opportunities which have emerged since the election. I believe that this work is producing results which show that the sector now has both the opportunity and the ability to contribute to economic development at policy level.

A major change in the political environment has of course taken place with the election of the first Labour government for nearly 20 years. Given the historic links between the Labour and Co-operative Parties, and the election of a record number of Co-operative Party-sponsored MPs, we were surely right to anticipate a more constructive attitude from central government towards the co-operative sector. As a starting-point, a special joint committee, after extensive consultation with the sector, drew up in 1996 an 8-point proposal for policies to encourage the growth of co-operative enterprises - 'Towards a Stakeholder Economy'. In summary, the eight proposals were for:

1. Recognition

Co-operatives currently adopt various different forms of legal status. This makes it extremely difficult to identify, support or measure the performance of the co-operative sector. A

Co-operatives Act which is 'friendly' towards all forms of co-operative would help to resolve this difficulty. What we need is a statutory basis, of equal status to the Companies Act, for championing and protecting the primacy of other stakeholder groups where this is appropriate. The current legislative and fiscal environment is far from supportive. And sadly, the choice of a co-operative structure imposes additional financial and tax costs on a new business, which makes it difficult to promote this option to anyone who is not ideologically committed to the principle in the first place. The Legal Working Group of the cross-sectoral United Kingdom Co-operative Council, including strong representation from ICOM, has now prepared a draft Bill for a new Co-operatives Act. This draft has been presented to the Treasury and is now under discussion with civil servants. We are moving closer to the creation of a level playing-field for co-operation.

2. Entrenchment of common ownership

The principle of collective ownership of co-operative assets - as opposed to individual shareholding - is well established in other countries. Common ownership prevents the reserves built up by one generation of members from being stripped by their successors. But although the principle is also accepted by a majority of the UK's worker co-operatives, its basis in British law is weak. We hope to see the full entrenchment of common ownership made possible both within the new Co-operatives Act and by amendment to the Companies Acts.

3. Investment

If the sector is going to grow at any speed, investment capital must be available, tailored to its needs. We would like ICOF to be refinanced with public money in order to build on its twenty-three years' experience of supporting co-operative enterprises. We propose that consideration should be given to a UK equivalent of the Italian Marcora law, where the capitalisation of future unemployment benefit payments has helped numerous failing private enterprises to be transformed into successful co-operative enterprises. We also propose the creation of a special fund to provide rapid loan finance to employees considering a worker buyout, such loans to be repayable only if the enterprise succeeds.

4. Taxation: general

Worker co-operatives should not be taxed more heavily than other forms of small business. There should also be special tax reliefs available to common ownership co-operatives which plough profits back into indivisible reserves, thus enhancing and safeguarding future employment potential.

5. Taxation: investment incentives

Investment incentives should be at least as readily available to co-operatives as to other forms of business. In particular, the tax reliefs afforded to ESOPs and to owners transferring their enterprises into ESOPs should also be available to other, more democratic forms of employee-owned enterprise. (If these reliefs had been available, the employee owned bus companies might have chosen structures which enabled them to resist subsequent acquisition by large private sector competitors.) Tax reliefs on investments in employee-owned businesses should be made available to collective funds such as pensions. Institutional investors should be encouraged to adopt a long-term view, and to invest in the future jobs of their contributing members.

6. Pension funds

The fiduciary duty of pension fund trustees should be redefined to allow them to take account of potential benefits other than dividends and capital gains.

7. Externalisation of public services

Preference should be given to employee-owned co-operatives in cases of privatisation or contracting out, to protect levels and standards of service, as well as working conditions.

8. A national co-operative development strategy

Local authorities should be empowered and encouraged to provide increased resources to local co-operative development agencies, within a national strategy which ensures that all areas of the country have access to professional support for co-operative businesses. ICOM - which has been entirely self-financing for the past fifteen years - should be provided with development capital to enable it to increase the range and quality of the services it can offer. TECs and LECs, Business Links, and the new Regional

Development Agencies should be required to demonstrate a proactive policy on support for co-operatives.

Apart from the preparation of the Co-operatives Bill, it is the last of these eight points, concerning the implementation of a national co-operative development strategy, which has taken up most of our energies, and our extremely limited budget, during the past year. We have further developed coherent and realistic proposals for central government core funding of ICOM and ICOF as national support organisations for the worker co-operative sector, and are engaged in a programme of lobbying meetings with Ministers and MPs in support of these plans. More specifically, we have focused on attempting to secure recognition and support for co-operative development by the new Regional Development Agencies, and have submitted our response to the government's consultation document at national and at regional levels. I want to emphasise that although these proposals primarily concern the worker co-operative sector, their importance has been widely recognised by our colleagues in other parts of the co-operative movement, and in particular by the consumer sector. The UKCC has publicly and wholeheartedly endorsed the plans. The Co-operative Party has offered invaluable advice and practical help. And, with co-ordination from the UKCC, cross-sectoral co-operative representation has been organised in each region, in order to bring together consumer, worker and other co-operative sectors to address the Regional Development Agencies with a single voice. We are hopeful that the successful promotion of these plans in the coming years will bring about significant expansion of the co-operative sector and take us some way further down the road towards a true stakeholder economy.

Conclusion

Let me summarise the points which I have tried to make:

- Co-operatives contribute to economic development locally by operating successful businesses, responsive to the long-term needs of their employees, their host communities and their customers. They can do so more effectively when they co-operate with one another.

- The co-operative business form constitutes the ideal vehicle for local economic development in situations in which viable private or public concerns are threatened with closure or sale to distant corporate interests. The involvement of local stakeholders, whether employees, consumers or service users, maximises the long-term benefits to the local economy.
- The co-operative sector at national and regional levels can make a positive contribution to economic development policy. By securing a level playing-field for co-operation, and by seeking opportunities for co-operatives to contribute to local economic development, the sector can 'export' co-operative values and practices to the wider business and political community. Again, maximum impact can be achieved through co-operation between co-operative sectors.

I started by quoting Terry Thomas's definition of the Co-op Bank's stakeholders. I can think of no more heartening way of bringing to a close a consideration of the co-operative sector's contribution to the development of a stakeholder economy than to quote from last Thursday's Financial Times. The paper was commenting on the last set of results presented by Terry before his retirement - results which showed a 32 per cent rise in pre-tax profits.

"Co-op Bank's post-tax return on equity of 24 per cent would be respectable even by the demanding standards now set for more ruthlessly capitalist banks. Mr Thomas says the bank has succeeded because it returned to its roots, and it appears unarguable that some, at least, of its growth in market share is linked to its "ethical" positioning. That sort of corporate identity would be difficult to emulate for the bigger commercial banks from which Co-op has been winning professional-class customers, but it might provide an outline of the business model the rest of the co-operative movement has been looking for."

(Financial Times, September 11, 1997)