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Why Consumer Co-operative Societies Fail

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When the Society for Co-operative Studies asked me to speak at their Fringe Meeting on this subject, I made it clear that the talk was based on an analysis of why consumer co-operative societies had failed in the past and was not, in any way, a prediction about the future. I make that clear again in relation to this article.

I think we must first define what we mean by failure. Strictly speaking, only NORCO (Northern Co-operative Society based in Aberdeen) has failed in recent years, but for the purpose of this exercise I have included those who went into 'involuntary' merger, pushed into it as an alternative to liquidation and taking huge borrowings and trading losses or in one case an actual terminal loss into the receiving society often CWS or CRS.

I must start in the area of finance. If we are to have any future we must generate sufficient profits to finance our developments, as our competitors do. We cannot borrow our way out of trouble. It is a complete myth that our competitors have access to a cheap and inexhaustible supply of capital. The bulk of their development is funded from retained surpluses, as ours must be. There is no capital problem in the Co-op, the main problem is our poor trading performance. We can only borrow on the scale we do because of our substantial asset base, but borrowing is no long term solution. So I put excessive borrowing down as my number one reason for failure.

Next, and linked, I put over ambitious developments using other peoples money. Many failed former societies have built too big for their realistic achievements. If your development is too big, it also costs too much. If you build too small you can make it a bit bigger and you have already made the money to do it. If you build too big - yes you can make it smaller, but you do not get the money back which you have overspent. Some of these over ambitious schemes smack of arrogance, some of incompetence but all were unrealistic. If you do that with your own money, you can say, "Oh that was a mistake", if you do it with other people's money, they still want paying back. So we need a realistic assessment of our development plans based on what we have done, not what we know competitors have done.

There have been some disastrous acquisitions of private food or non-food businesses over the years and these must have contributed to the demise of some former societies. The first question I would want to ask if a Chief Executive was trying to persuade me to buy a chain of shops from some other group is this, "Why do they want to get rid of them". The answer is unlikely to be, "because they are too profitable". And then remember this; if the competition cannot make them pay, we certainly will not, because for the most part they are better at it than us by almost any measure. The vendors of some of these businesses must have thought it was Christmas when they saw the Co-op coming, a pity we didn't see them coming.

Also, is this a coincidence, many former Co-operative societies have either ceased to have, or have substantially reduced, their trading relationship with CWS, not very long before their demise.

Successful consumer Co-operatives were born out of the communities they served. Members identified with their Co-operative. Although membership has taken a bit of a back seat in recent years it has still been an important factor in those societies who have remained or become successful, look at Lincoln, Channel Islands or Oxford, Swindon & Gloucester. So I believe that there is a link between abandoning membership issues and failed societies. Take that a step further and consider those societies who have bought or developed trading units outside their traditional trading area where they have no membership base. Where is the evidence of success and what is the possible rationale? Is there a link with membership?

One of the features of the more successful societies has been diversification, moving out of businesses whose time has come and gone - like coal and milling and into new activities like travel and motors. As with so many things in life, timing has been the secret to these changes. Moving out and in at the right time and at the right pace has been vital. Launching into massive developments where the society has no track record of profitable operation has proved disastrous for some. Often these adventures have been in leasehold premises which has added to the problems of failure. The secret to this and any other developments is to reduce the risk. Try it out in a small way, if it works move on, but move on at a sensible pace.

One of the features I have identified as being present in many former societies has been sale and lease-back. That is selling an asset to a property company or a pension fund and then entering into a leasehold agreement to become tenants of the new landlord. It is of course a way of raising some cash in the short term but it is not, in my view, an appropriate way forward for a Co-operative. It has certainly not proved to be so in the past. Indeed there are numerous examples of societies having to buy their way, at great expense out of onerous leasehold commitments. It is not a long term solution.

Other features include banking arrangements being moved away from The Co-operative Bank and in the case of at least one former society, the building of a grandiose office block.

Perhaps the saddest sign of forthcoming failure has been the Directors who did not actually know that the society was making a loss. Directors who were not able, or not willing, or not prepared to strip out the surplus on sale of assets, tax credits etc to get at the real bottom line results. Were they not capable of doing this, or perhaps they dare not for fear of what they would find. I have heard Directors say things like, "Well it was only a paper loss". What does that mean? We know who was feeding them this line but were the Directors really so gullible. Its hard to believe but it may have been so.

What we have done in so many of those cases is to move the lines on the governance game plan, ie the Board and management on one side and the members on the other. The good governance of Co-operatives is dependent upon there being two effective teams, the Board on one side representing the members and the management on the other led by the Chief Executive. So many of the problems in former Co-operative societies have occurred where Boards and particularly Presidents, have crossed the line into the Executive Camp.

There is nothing wrong with the Co-operative philosophy and never was, it is the people who have failed the concept. Many early Co-operators would feel betrayed if they could see what has happened to their great Co-operative ideal. Betrayed by both Directors and executives who nevertheless still had time to attend champagne receptions. Directors and executives who enjoyed the trappings of success whilst running their societies into the ground. They would feel betrayed by those executives who were paid premiership salaries for Vauxhall conference performances and betrayed by those Directors who have gloried in the title and the lavish entertaining, but were not prepared to do what they were paid for - DIRECTING.

Directors should set objectives, agree policies, appoint a Chief Executive Officer to manage the business and monitor his or her performance.

Where did the Directors fail? Well they either did not realise the seriousness of the situation identified as a result of that monitoring or if they did, they failed to do anything about it.

I have always said that the success of failure of an organisation is down to the people who are managing the thing. In a Co-operative it is also about the Directors holding them to account and acting if they do not perform.

Alan Middleton is President of the 1998 UK Co-operative Congress