

The Lanica Affair - A Perspective From the CWS

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In contrast to the vision offered by exponents of Co-operative enterprise, modern corporate business is most frequently typified by metaphors of war and the cut and thrust of the battlefield. My experience at the centre of events in early 1997 demonstrated how apposite such images can be as the CWS fought for its survival in a campaign of early skirmishes, enemy spies, fifth columnists and a propaganda war before the ultimate emergence over the horizon of the big battalions in the form of City and international bankers.

At the outset, there was the unease of a phony war as we sought to gather intelligence. During the first week in February 1997, I learnt of City rumours that Andrew Regan aspired to tilt at the Co-op through an investment vehicle "Lanica Trust". CWS had dealt with Regan previously (although I had personally never met him) when he had purchased the last of the CWS food factories. But his ability to assemble City backing of real substance seemed doubtful. It soon emerged, however, that he had Hambros as advisers and high level public relations and political lobbying experts to enable him to bend ears in the corridors of power.

On Sunday, 9th February, Regan's plans were leaked to the Sunday Times which made a big splash about the Co-op being the target for a City bid. Regan took the trouble to ring Alan Prescott, now CWS Deputy Chief Executive, to apologise that a version of his proposals had leaked before he had had the chance to discuss them with us. We did not have to wait long. Next day, over the fax came a letter from Regan addressed jointly to me and Harry Moore, Chief Executive of CRS, seeking talks. That was followed up by a conciliatory phone call to me from Regan seeking to know in general terms if CWS wished to realise the value of any of its assets.

Having taken over as Chief Executive only the previous November and being engrossed in the early stages of a major strategy review, I was not at all inclined to contemplate disposals

and I wrote to CWS Board members and employees immediately saying as much. Unequivocal statements from CWS counted little, however, with the media whose appetite had been whetted and cranked by the lobbyists. The fourth estate began to stir the pot more vigorously, adding in some spicy morsels on Co-op performance and prospects.

The CWS continued to talk down the stories and at a dinner marking the 150th anniversary of the Leeds Society on 1st March, I emphasised again that nothing was for sale. But privately we were now taking the threat very seriously. The small internal team formed to co-ordinate the resistance discussed strategies with SBC Warburg, which had advised the CWS over many years in its dealings with the City. The tough public stance was reinforced by a firm press statement on 5th March from the CWS Board making it clear that the CWS had had no discussions with Regan and had no intention of entering any. A similar release was made to the Stock Exchange.

Again, to no avail. The following Sunday, 9th March, the Sunday "heavies" talked up the story once more, enlivening the text with the first of a number of cartoons which became a feature of the campaign and usually represented CWS repelling boarders with myself in quaint, naval uniform or adopting a similar combative stance on the playing fields of England! The phony war was over. Given that attack is often the best form of defence, the CWS then mobilised its own specialist mercenaries, formally signing up SBC Warburg, City solicitors Linklaters & Paines and public relations consultants Keith McDowall Associates. With their assistance, the CWS view of life was expressed with some force to opinion formers and the following weekend saw the press turning its attention more critically to the mixed bag of financial interests that were priming the Lanica vehicle. The ownership structure of the Lanica and Galileo group was analysed back to offshore funds from Monaco to the British Virgin Islands. I reinforced this message with an appearance on Radio 4's Today programme.

By the following weekend, 22nd/23rd March, the Regan camp increased its own invective and by now had three public relations outfits working full time - G W Associates, Financial Dynamics and Lowe Bell & Co, this last being a significant addition to the Regan armoury having fashioned Mrs Thatcher's

image! It also emerged more publicly that The Co-operative Bank and the CIS were takeover targets as stories circulated of Regan's associates seeing the Bank of England and the Department of Trade and Industry about changes of ownership.

Added to these internal pressures was an arguably much more worrying threat as the press took up suggestions that a bid would be accompanied by £1,000 windfalls for all Co-op members. Buoyed by recent rich pickings from building societies, carpetbaggers inundated the CWS with member applications. The CWS was not alone. Many societies saw applications increase dramatically as speculators sought to claim their prize of £1,000 for every £1 spent on membership! In turn, the CWS applied more rigorously its right to scrutinise applications and regional committees were asked to take on the major burden of closer evaluation of each applicant. Application forms were revised to state more clearly the Co-operative nature of CWS and the basis of participation on which Co-operative membership rested. Unsurprisingly, innocent application form questions such as which Co-operative shop the applicant currently used, provoked irate correspondence from some applicants! The Co-operative Union gave similar guidance to other retail societies as close co-operation continued between the Union and CWS.

These pressures made for an uncomfortable two or three weeks leading up to the CWS press conference on its 1996 results on 14th April but that event proved to be a turning point. It became clear that details in CWS accounts had been leaked and dissected well before the conference. This confirmed the impression that had been growing on the CWS team and its advisers that Lanica must have "inside" information. We were faced with the appalling prospect that there was a mole deep within the CWS and - if it is not a contradiction for a mole - it was working at a high level.

Horace Walpole, that great man of letters, who died exactly 200 years before the attempted Lanica bid, once wrote that "*No great country was ever saved by good men, because good men will not go to the lengths that may be necessary*". In this case, it was clear to us both that the CWS was a great country that had to be saved and that it was no time for niceties. Extraordinary steps had to be taken. The result of those steps was that by the evening of the 14th April, I had in my possession a video of an exchange

that had taken place on 13th (unlucky for some) April in a car park in a pub at Beaconsfield. The then Retail Controller of CWS in a scene subsequently replayed on national TV, passed over papers to Regan and his partner, David Lyons, as they sat in the Controller's large Society car.

On the following Thursday, 17th April when I was believed to be at an International Co-operative Alliance Board meeting in Uganda, I gave our team a private showing of the video in the Co-operative Union building in Manchester and forward action was agreed. Concerns about links between Regan and CWS senior management were also by then heightened by scrutiny of prior dealings with Regan over the purchase of the factories and in particular the extension of the supply agreement. These concerns ultimately became the subject of an investigation by the Serious Fraud Office which is still continuing.

With the bid by the Galileo Group now imminent, action had to be swift and that Thursday saw the CWS team move into overdrive. Action was taken to close off any further damage and investigating accountants were called in to examine past dealings with Regan. The 12th floor of New Century House hummed with activity as injunctions and letters (some a little immoderate) to the City were drafted and faxed.

The details of the next day's events as the injunction, which effectively stopped the bid was secured, and the blistering words of Mr Justice Lightman at the subsequent hearing are detailed elsewhere in the Journal and I will not repeat them.

It is of interest, however, that we remained concerned that some sort of unwelcome bid might yet emerge and indeed, a sealed document arrived from Galileo requesting the CWS Chairman to put a proposal (the details of which are still unknown) to the membership. This, of course, ran counter to the firm policy the Board had held throughout the affair that nothing was for sale. It was clear that the offer was based on information illegally obtained and the box containing the alleged bid was, as reported, returned "unopened and unread". That a bid should arrive after the court hearing did, however, suggest a fundamental difference of approach between the normal City takeover and the operation of a Co-operative. There seemed to be some presumption that the CWS Directors should in some way be bound by the practice of plcs and the City Code on

Takeovers requiring them to put any bid to the members. The CWS advisers took the firm view that this was not the case. Rather, the CWS view was that the Board had a positive duty to operate the Society as a Co-operative and that pursuing an action that would prejudice that status would be a breach of duty. This position has, I believe, been further reinforced by the subsequent amendments to Rules agreed by CWS members later in October 1997.

It is probably still too early to draw final conclusions from the Lanica affair but some lessons are clear. First, was the salutary confirmation that the City does not understand Co-operatives - how they work and what their aspirations are. In this case, it was perhaps an advantage in that Lanica - presumably on advice from an insider who himself did not understand the organisation for which he worked - made fundamental errors. But that advantage must be regarded as short-lived. The power of press and public relations campaigns allied to the promise of windfalls might well make it increasingly difficult to maintain arguments on purely constitutional and philosophical grounds as genuine supporters of former mutual building societies have learnt to their cost. The Co-operative Movement has to make its philosophy better understood and more meaningful - to its members and to its employees. It is a process on which the CWS is seriously embarked with employee training in Co-operation and the renewed emphasis on Dividend.

Within that general lack of knowledge, there is also the specific misunderstanding about the nature of Co-operative "shares". It is a principle of Co-operation that shares carry no capital gain. As an individual, a member does not accumulate a rateable proportion of the reserves, which are held collectively by the members for the time being. So far as the CWS is concerned, this applies both to individual and corporate members. Again, this message has been well reinforced by subsequent modifications to CWS Rules. But the point is still not well understood and at the least we need to make it clear to members that Co-operatives do not offer any real prospect of one generation of members cashing in all the benefits built up by previous generations. It is a point also to be emphasised to our regulators following the Labour government's reform of financial institutions.

It will also come as no surprise that I believe that public and City understanding of Co-operatives would be greatly enhanced if the law was clearer and up-to-date. This is not the place at which to go over the familiar arguments in support of a new and relevant Co-operatives Act. But quite clearly reform of the law is long overdue.

Finally, I point to one very positive lesson. At the outset, I drew upon the metaphors of war to describe modern business. An arch-exponent of warfare, Bismarck, once observed of his interests that "*Prussia needs only one ally: the German people*". I believe that the Lanica experience proved that for the CWS we ultimately relied on one ally - the rest of the Co-operative Movement! In other words, solidarity within the Movement was critical. The abiding feature throughout the campaign was the support the CWS received from its retail society members, employees and active members on our regional committees.

If the Movement is to survive future predatory attempts - and it would be foolish to think that it will not happen again to the CWS or to another society - the links within the Movement must be welded together more firmly in terms of trade and understanding. No constitutional or legal defences - however carefully crafted - will hold if we do not have solidarity. This must be the case not only when under threat but on a day-to-day commercial basis. With that practical solidarity, I see no reason why we should not put the experience of Lanica firmly behind us and work together for a more secure future.

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