

# **The Lanica affair: an attempted takeover of a consumer co-operative society**

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Early in 1997 a series of events occurred which sent a seismic shock wave through the UK co-operative sector, whose ripples reached throughout the co-operative 'world' and are still being felt today. We had got used to the idea of 'demutualisation' of the UK building society sector (which is now down to around 30 percent of its former size), but the prospect of a hostile attempt to 'deco-operativise' a consumer co-operative had been thought unlikely. It is the sort of event that, when it comes, leaves one wondering why one had been so complacent, and determined never again to take the existence of the co-operative form of business for granted. To paraphrase a well known saying, there is nothing so concentrates the mind than the prospect of one's own (organisation's) death. In this article, the story is told of how the takeover bid came about, how it was overcome, and where this leaves the UK co-operative sector. The subject is so controversial, and the memory of it so recent, that the article concentrates on providing an accurate account of what happened and when (though towards the end some more personal views are given about the implications of the bid for the co-operative sector as a whole). It is important that we have as accurate and unbiased an account as possible, as an archive on which to build.

## **Background to the takeover bid**

Co-operative Wholesale Society Ltd (CWS) is the biggest consumer co-operative in Europe. Founded in 1863 as the wholesaler and manufacturing arm of the British retail co-operative movement<sup>1</sup>, it is now really a group of businesses, engaged in food and non-food retailing, funerals, milk production, travel agency, optical services, car sales and garage services, agriculture, engineering and property investment. Amongst its subsidiaries it has two which are themselves big businesses: The Co-operative Bank and the Co-operative

Insurance Society (CIS). Although it sold its food manufacturing arm in 1994, and is no longer a traditional wholesaler, it coordinates a buying group of 16 retail co-operative societies called the Co-operative Retail Trading Group (CRTG), and is responsible for negotiating with manufacturers to produce 'Co-op Brand' products. Its activities as a retailer began in 1973, when CWS merged with Scottish Co-op. In 1984, the movement's 'rescue' co-op, the Co-operative Retail Services (CRS) became unable on its own to absorb any more loss-making retail societies, and CWS accepted the transfer of South Suburban Society. Since then it has absorbed, rationalised and invested in over 50 societies, many of which were making a loss (the merger, from a position of strength, of the North Eastern Co-operative Society, was an exception). As a result, its ownership structure is a complicated hybrid of corporate and individual members. Its corporate shareholders include 50 retail co-operative societies and 120 other co-operatives, and half a million individual members who join through the Society's stores. Its position in the co-operative sector is crucial. In the words of its current chief executive, Graham Melmoth, 'A strong, broadly-based CWS is the rock on which the consumer co-operative proposition stands'<sup>2</sup>.

The scale of CWS operations is impressive. Taking 1997 as the base line<sup>3</sup>, it has consolidated sales of £3.1bn (plus £1.1bn of inter-group trade on behalf of the CRTG). It has 38,300 employees (including 3,900 in the Banking Group, but excluding those working for CIS). Its outlets include 342 grocery-based convenience stores, 302 supermarkets and 30 superstores (of more than 20,000 square feet), plus 36 non-food stores. It farms over 80,000 acres of land throughout Britain (of which it owns nearly 28,000 acres). It has a property investment portfolio worth over £104m (as well as, in 1997, disposing of property for £70m). Co-op Travelcare is the fifth largest UK travel agency, but also the largest chain of independent tour operators, with around 250 branches. CWS Funeral Services has over 10 per cent of the UK market, making it the second largest funeral business (and the largest UK owned). It has 10 distribution centres, supplying 48 societies as well as its own retail outlets. The Co-operative Bank is one of the fastest-growing banks in the UK, and now has over two million customer accounts. It is one of the most innovative banks, being at the forefront of the new technology

in developing telephone and now internet banking, and it has an extensive network of outlets, utilising the 'Link' network of cash machines and now the Post Office Counters network as well as its own in-store banking facilities, cashpoints and branches. It is also very profitable, with an operating profit of £55.3m (up from £44.4m in 1996), that accounts for well over half of the £91.7m operating profit of the entire CWS Group. The CIS has the second largest customer base in the UK, with over 35 million customers, and a premium income of £1.3bn per year. In 1997 it returned £677m in surpluses from life assurance and pensions business directly to the policy-holders, along with £27m in premium discounts to house and motor policy holders and as dividend to co-operative societies.

However, when the media spotlight was turned on the CWS early in 1997, as a result of the rumours of an imminent takeover bid, financial journalists were quick to point to the Group's underperformance when compared with conventional investor-owned companies. The figures for 1996 had shown an operating profit of only £85.9m on sales of over £3bn. The Retail Group's performance was particularly disappointing when compared to the dynamic growth of competitors such as Tesco and Sainsbury's (though it was not true that CWS was losing market share: its share of the packaged grocery market was 1.5 per cent in both 1996 and 1997, while that of the next largest co-operative, Co-operative Retail Services (CRS), had slipped from 1.7 to 1.5 per cent<sup>4</sup>). The new CWS Chief Executive, Graham Melmoth, admitted that 'a significant advance in our bottom line' was needed to ensure the long term future<sup>5</sup>.

Media criticism also focused on the failure of attempts to merge CWS and CRS. CRS has a turnover of around half that of CWS (£1.54bn in 1996), it has 25,000 employees, and a similar number of retail outlets - around 700 - operating largely in the same markets: food and non-food, travel, funerals, and the motor trade. CRS is also part of a trading group of five societies known as the Consortium of Independent Co-operatives, which, in the opinion of market analysts, is under-performing. CWS and CRS have the two largest co-operative food businesses, and buying terms could undoubtedly be improved if the Movement's buying and marketing were brought together. However, in May 1995 the latest attempt at merger with CRS was called off, owing to

difficulties over matching two quite complex democratic structures. To outsiders, the decision was not easily understandable; until 1993 CWS had been a major shareholder in the CRS and had had representatives on its board of directors. But, encouraged by the Registrar of Friendly Societies, the CRS link with CWS had been severed and the Board had come to be made up entirely of lay members. Partly in consequence, CRS had become engaged in a drive to assert a separate, distinct image of its own, independent of the influence of CWS. The CWS Chairman, Len Fyfe, was quoted as saying merger was not an immediate priority and would not come about as a response to the attempted takeover, though it was thought inevitable in the medium term<sup>6</sup>.

With hindsight, we can see that there is no direct link between the calling off of the merger plans and the takeover bid. In fact, had the merger gone ahead it would not necessarily have prevented the bid, and might have proved distracting to CWS management. It would certainly not have brought about a dramatic improvement in the profitability of CWS in the short-term. Arguments about the benefits of merger are essentially long-term ones, and they are certain to re-emerge as part of the discussion about how both organisations, and the co-operative sector in general, can strengthen their businesses and offer members enough benefits to enable them to fight off takeover bids in the future.

With Graham Melmoth's appointment late in 1996, CWS embarked on a strategic review of its business. The Co-operative Bank had been growing rapidly, partly due to the development of bold ethical and environmental policies which had caught the imagination of existing customers and had encouraged many new ones. It was embarking on yet another venture called 'Inclusive Partnership', which emphasised its honesty and sense of responsibility towards all those affected by its business. The Bank had proved that the co-operative form, if defined concretely in terms of an ethical business and backed by a vigorous advertising campaign, could prove a positive advantage in the competition with conventional investor-owned banks<sup>7</sup>. Other parts of the CWS Group had lacked such a positive image. The Co-op in general is seen as having a strong community presence, and building on these perceived strengths in the 1990s CWS had

positioned itself as 'the responsible retailer', launching campaigns for instance on the honest labelling of foods, the customer's 'Right to Know', and healthy eating. On Graham Melmoth's appointment, he identified five important themes: performance, planning, people, communications and costs. A statement of CWS Aims was issued to all managers and the methods by which these were to be achieved, stressing CWS's co-operative nature and how this could be used to advantage. A dividend card was developed, a new version of the old 'co-op dividend' which would use the Society's computer system to record member discounts every time they bought from a CWS store. In 1997, pilots began in Northern Ireland and then Scotland. However, CWS's search for a new corporate image was interrupted by the need to fight an unexpected battle for its very survival.

### **Origins of the Lanica bid**

It is only in the last two decades that food retailing has come to be increasingly important to CWS. On the other hand, CWS has always been the Co-operative Movement's main supplier, hence CWS developed a large manufacturing base. Food manufacturing has been undergoing significant restructuring and consolidation. At the same time the utilisation of CWS's food factories had fallen in line with a reduction in Co-op market share. Therefore, CWS had been looking to divest these factories as a matter of Board policy. Negotiations had not been able to draw a satisfactory offer from Hilldown, and no further progress was made until, in 1994, Andrew Regan, a 28 year old entrepreneur who had already made his name in the City, bought CWS's food manufacturing arm for £111m. The following year, Regan sold the holding company, Hobson, for a sum thought to net him a profit of £3m.

Nevertheless, Regan was able to find elements in the City prepared to back him with around £1.2bn in a bid to seize and asset strip CWS itself, the value of the holdings being thought to be between £1.8bn and £2bn<sup>8</sup>. He took over the company called New Guernsey Securities for £4m, and turned it into an investment company, Lanica Trust Ltd (of which Regan was a director), whose shares then rocketed with the prospect of a

deal. By early February 1997, news of his intended bid was prematurely leaked to the Sunday Times. Regan then approached CWS and CRS offering to buy some of their non-food businesses for £500m. He had set up a subsidiary of Lanica called Galileo to take the opticians, travel, garages, agriculture and funeral businesses. Immediately following the leak, Regan informed the Stock Exchange and shares in the quoted Lanica were suspended.

This time Regan met with no interest at all. Graham Melmoth was quoted as saying 'The day we get rid of the farming and funeral businesses is the day we turn off the lights', and 'Should CWS wish to divest of non-core businesses then it could maximise the value for shareholders by negotiating on its terms without the help, and cut taken, by a third party'<sup>9</sup>. Regan's public relations machine then put it about in the press that Lanica might have been preparing a hostile bid and was given coverage in the Sunday Telegraph<sup>10</sup>. An offer to members of around £1bn was rumoured. Regan's strategy was reported as being to make an offer for the CWS to its Board, which could only be accepted if the organisation were converted to a company. The Board would then call a general meeting of members to vote on the proposal, then if they backed it a formal bid would be made.

Press speculation had it that Regan planned to appoint a Retail Controller at a salary of around £6m, and that he had agreed to sell The Co-operative Bank (reputedly to the Allied Irish Bank for a figure speculated to have been between £250m and £400m). Furthermore, he planned to do likewise with CIS. Advice had been sought from the Bank of England and the central government Department of Trade and Industry.

However, neither Regan nor his advisers understood how the CWS representative process functions. As a co-operative, the rules and governance of CWS differ from private limited companies and building societies. (Graham Melmoth was to comment later that Regan had made a fundamental error in recruiting a 'mole' within CWS who did not understand the Co-operative Movement). CWS has corporate as well as individual members. In accordance with co-operative principles, voting is weighted according to the value of purchases made and not on the value of members' shareholdings. In order to balance participation, individual members are organised into branches which have elected branch committees. (For the ease

of administration, branches and corporate members are organised into geographically based sections). The important point is that branch committees and corporate members exercise their votes in general meetings on behalf of their individual members. Unlike building societies, individual members do not vote themselves in CWS federal general meetings, only in their Branch and Regional meetings.

This leads to another important distinction, in that where building societies have failed to foster an active democratic base, their ability to defend their mutual status has been compromised. Where a call for conversion has been made as a prelude to a hostile acquisition by default, they have had to put their case through media channels often not unsympathetic to the arguments of the aggressors. This may explain Regan's motivation in trying to lever pressure through the media. Regan came to recognise, even if he did not understand, the importance of the corporate members as evidenced by his choosing to make telephone calls to co-operative retail societies putting his case. Indeed, his plans were longstanding. A small agricultural co-operative society, named County Produce, was apparently set up by Regan's partner, David Lyons, and registered by the Registrar of Friendly Societies on 19th December 1995, and an application for CWS membership was formally accepted by the Board on 3rd April 1996. It is not clear what use Regan intended to make of County Produce, and indeed should he have wanted to force the CWS Board to call a general meeting he would have needed to muster the support of other corporate members.

The Board of CWS comprises 30 non-executive directors elected according to a formula whereby the majority are representatives of corporate members, and Regan sought to influence those directors by writing to them directly. On 5th March 1997, in the absence of a concrete proposal, the CWS Board decided there was little to be gained by replying positively to Regan's original invitation to meet to discuss the acquisition of any businesses. A press statement by the Board was released in order to make the position absolutely clear. The Grocer on 26th April 1998 quoted the Chairman, Len Fyfe, as saying

We are quite prepared to defend our co-operative status.  
Regan gravely underestimated the strength of our resolve -

as did the City - to fight this kind of nonsense. They seemed to totally misinterpret the standing of the co-operative movement in this country<sup>11</sup>.

However, at the time, in consequence of the heightened City interest, Graham Melmoth, following consultation with the Chairman, had set up an internal team to co-ordinate the response to any hostile bid.

### **CWS fights back**

The CWS was advised by Warburgs, who considered that the threat was real, and allocated Brian Keelan, a senior corporate financier, to the project. Briefed by Keelan, Melmoth hired heavyweight City lawyers Linklaters. The Warburg campaign sought to undermine Regan's ability to fund the bid, since he was relying on support from banks. Melmoth wrote to fund managers and banks, with the result that Lloyds failed to give their backing to Lanica, while others became defensive. Fifty members of Parliament signed an early day motion condemning Regan's approach.

The CWS team and Warburgs were becoming increasingly concerned at the leaking of information to the press. Much of the information was known only to CWS advisors and a handful of senior management, and pointed to a leak at senior level. Accordingly, the Society's security staff were asked to monitor telephone calls. They found that one particular telephone extension had been used to telephone Regan twice in November 1996 on his private phone and at his office. This led to a review of expense claims, with a claim in February 1997 for a stay at a London hotel bearing the address of Regan's head office. The evidence pointed in particular to Allan Green (Controller Retailing). This evidence was important, but not conclusive. It was considered to be even more important when coupled with the concerns in the minds of CWS officials over an extension to a supply agreement between CWS and Hobsons. The terms of that agreement were considered to be particularly favourable to Hobsons. Accordingly, on the advice of Warburgs, CWS sought to hire Kroll Associates, an investigating agency, to investigate Regan but, ironically, it had already undertaken work in

connection with the outside interest in The Co-operative Bank. The CWS contract was delayed, and ultimately went to another firm of private investigators, 'Control Risks', who started work on the 9th April.

A few days later, on 14th April, Green was videotaped meeting Regan and his associate David Lyons (an ex-financial adviser to CWS) in a hotel car park in Beaconsfield. Green handed over what appeared to be CWS Board papers, and Regan and Lyons were seen reading them. On Thursday 17th April, Green was interviewed by Melmoth at CWS headquarters (and simultaneously Green's number two, David Chambers, by other CWS managers). He was not told about the video. He protested his innocence, and was then suspended. More evidence emerged. Green had asked for a computer disc with the CWS membership listed on it. One source said 'the minute that people became aware of what had been going on with Green, it opened a flood of inquiry in their minds'.

The CWS team moved quickly. On the morning of the following day (Friday 18th April), with the Lanica bid about to be launched at midday, CWS applied for, and was granted, a High Court injunction preventing use of the information provided by Green, and requiring affidavits saying what information had been obtained and agreeing to return it. (Indeed, Allan Green's affidavit confirmed he had been supplying Regan, and Regan returned seven boxes of confidential documents to the CWS). The video evidence was conclusive; the injunction was granted minutes before the bid was to be announced. The judge said the bid was 'clearly dishonest' and 'a serious, gross and wilful breach of confidence'. Lanica's financial advisers, Hambros, had information on the bid ready to give out, and Lloyds Bank registrars were ready to communicate the offer<sup>12</sup>.

CWS had begun to investigate further the extension to the Hobson supply contract. In May 1994, when Hobson Holdings had bought the CWS food manufacturing business, a three year commitment had been given to continue to supply Co-op Brand goods, and this was quickly extended in January 1995 by a further three years, with a payment of £2.85m to CWS. The deal was negotiated by Green and Chambers on behalf of CWS. It came to light that a further £2.4m had been paid to a company called Trellis International (whose principal was Ronald Zimet) into a

Cayman Islands account. Regan denied that there was anything underhand about the payment, declaring that it was a performance fee paid to a middle man. The suspended CWS manager said he had not heard of Zimet, yet Regan insisted that Green had met Zimet in January 1995, with the fee going to Zimet for his work in brokering the deal. Graham Melmoth, CWS Chief Executive, asked 'What did Mr Zimet do to earn £2.4m in three days? Why did Green lie about Zimet's involvement?'

CWS attacked merchant Bank Hambros for its continued support of Regan after Regan, Green and Lyons had admitted that documents circulating on Regan's behalf by Hambros had been stolen. In fact, a number of organisations had received the stolen documents<sup>13</sup>. CWS advisors, Linklaters, suggested to Lanica's backers, Hambros Bank, that they close the bid down. Melmoth then wrote to the organisations that had been sent the information regarding the nature of its acquisition, and asking for the documents' return. The withdrawal of Nomura's backing (a reputed £1.2bns) put an end to further speculation. At this point, Regan had to give up, but not before Lyons had written to CWS Chairman Len Fyfe. That letter said that Galileo could not, because of the High Court ruling, put the intended bid to CWS members. It invited the Board to do so. Fyfe's reply was short and to the point. The bid was not capable of being put to members because it was based on stolen information. The bid was returned 'unopened and unread'. CWS launched private criminal prosecutions against Regan, Lyons, and Green. It was reported that Melmoth had said at a press conference on 25th April, 1997:

It was mammon that enticed people down a very dangerous road. Some people in the City clearly decided that these people from Manchester were just a bunch of hicks. We proved them wrong. And now some City institutions have ended up with a lavatory seat hanging around their necks<sup>14</sup>.

In an interview for the BBC on the same day, he said 'We have justice. Justice has been done.' A week later, at an inter-parties hearing the injunction was made permanent, with Hambros giving an undertaking not to use information or documents

obtained. The High Court judge, Mr Justice Lightman, said the conduct of Regan and Lyons, and of Allan Green who fed them the information, was 'the clearest case of a gross, wilful and disgraceful breach of confidence'<sup>15</sup>. Green admitted handing over huge amounts of information on six or seven occasions: management accounts, drafts of group accounts for 1997, a list of CWS stores and their market values, membership details, minutes of board and branch committee meetings, the 1996 voting rights of corporate members. Green was quoted as saying he did it in what he believed to be the CWS's best commercial interests. Price Waterhouse returned the disc of members to CWS<sup>16</sup>. CWS was awarded costs.

Green faced a theft charge. A CWS spokesperson said 'We have been the victims of a carefully planned and executed conspiracy'. The Serious Fraud Office had commenced an investigation into a number of matters. Lanica's SE listing remained frozen with no prospect of shareholders getting their money out<sup>17</sup>. CWS called for an investigation into insider share dealing at Lanica, asking if any of its backers knew of the takeover plan in advance. Hambros and Travers Smith both made an 'abject apology', with compensation given to cover CWS costs in defending against the bid. The Crown Prosecution Service took over the prosecution for alleged theft of documents. Following an internal inquiry at Hambros Bank, three directors resigned and a number of other staff were disciplined. The lawyer who had advised Regan resigned from Travers Smith Braithwaite, who also paid compensation. By August, the police probe into Lanica was reported as going much deeper and taking far longer, than envisaged, and the Crown Prosecution Service dropped the prosecutions, allowing the three men to be further questioned by police. A heavy price was paid by those associated with the takeover bid. The financial performance of Hambros having been exposed, it has since gone into foreign ownership.

### **After the Lanica crisis**

Before the takeover bid, CWS managers and directors had been reviewing all their operations, and were now even more determined to improve profitability and restore some direction

to the business. As Len Fyfe, CWS Chairman, put it, they had a 'single minded determination to renew (their) credentials in the eyes of consumers'<sup>18</sup>. Graham Melmoth declared: 'If 1997 was about seeing off Lanica, next year will create the foundations of a Co-operative solidarity and performance rendering impossible anyone else trying anything like it again'<sup>19</sup>.

By the end of 1997 they had largely completed the strategic review which had commenced on Graham Melmoth's appointment. It set out to achieve sustainable growth through investment rather than retrenchment, investing in the Group's strengths. The strategy for the 'family of businesses' that make up CWS was underpinned by a 'Co-operative Approach' defined as: effective, responsible and rewarding:

- all businesses had to be effective within their own trading environment, meeting the needs and expectations of target customers
- businesses should be responsible, operating in a way which was open, honest and demonstrated social responsibility
- they should, increasingly, reward customers for their loyalty, with the new dividend scheme having an important role to play.

The Review produced a fundamental restructuring of the business, a new retail trading strategy and a new focus on the CWS as a family of businesses, emphasising the potential synergies between them. The restructuring of the business included the creation of a new Commercial Division, bringing together CWS businesses in funerals, farming, travel, optical, property and engineering. The milk, distribution and manufacturing businesses were also brought together in one Division, called 'ACC and Supply Chain'. Other, smaller reorganisations also helped to tighten the organisational structure and cut costs. The motor business was brought under one heading, managed from the North Eastern Region. The retail finance function, and the management of non-food retailing, were brought from Glasgow and Handforth respectively, and relocated in Manchester. Responsibility for the retail development function

was transferred to the Property and Development Group.

The new retail trading strategy began with the segmenting of stores into three types: grocery-based convenience stores, medium-sized supermarkets based mainly in market towns, and superstores of over 20,000 square feet. Previously, there had been a recognition within the co-operative sector that the last category, very large superstores, were needed in order to compete with the Movement's main competitors, but there had also been a reluctant recognition that the Co-op was not as good at running them. Now, CWS made the bold decision to focus in future on the first two categories of convenience stores and supermarkets, and to give up trying to be excellent at all store formats. This meant concentrating investment on refurbishments and acquisitions of the smaller stores, while reviewing the future of superstores on a site by site basis, and not expecting to develop any new ones<sup>20</sup>. The roll-out of the Dividend Card to all stores in the UK was achieved early in 1998, and this was seen as a major marketing advantage, being at least 50 percent more generous than competitors' loyalty cards.

The emphasis on CWS as a family of businesses entailed working on a corporate marketing strategy to make better use of synergies within the CWS Group, and bringing closer together the decision-makers from each Group: the Deputy Chief Executive of CWS became Chairman of The Co-operative Bank; the Chief Executive of the Bank became the first head of the Bank to join the CWS Executive with a responsibility for financial services; the chairmen and chief executives of the Bank and CIS joined each others' boards<sup>21</sup>.

There was also an ongoing commitment to changing the organisational culture. On his appointment, Graham Melmoth had instigated a process of educating managers in the 'Co-operative Values, Principles and Future' (Allan Green had attended one of the first courses at the Co-operative College, Stanford Hall). Gradually, all 35,000 staff are being given such inductions, as part of a staff training programme called a 'People Plan' which aims to achieve 'Investors in People' accreditation for the whole of the CWS (some groups have it already). There is a determination to change the management style from one of command and control to one of empowerment, releasing the latent potential of the staff.

In October 1997, the CWS Board introduced some rule changes which would make it more difficult for a hostile takeover to succeed. The aims were:

- To make more apparent the co-operative status of the society and of its active corporate members.
- To require, expressly by rule, card votes to be used for changes of rules and transfers
- To allow for a more active registered corporate and individual membership base, with the facility for removing members who no longer trade with the Society
- To prevent the admittance into CWS of bogus co-ops set up to influence voting among other corporate members.
- To tighten general meeting procedures so as to require higher thresholds for the numbers required to call a special meeting, or constitute a quorum.
- To introduce a rule on solvent dissolution in line with the Co-operative Union's Corporate Governance Code of Best Practice recommendation.

At the CWS half yearly meeting of October 1997 these rule changes were agreed. It was accepted that an active membership was the best defence and a commitment was made to keep the membership list up to date.

The ethical stance was re-emphasised, when in November CWS launched a campaign on food labelling<sup>22</sup>. After working closely with the Consumers' Association, the Society published a report calling on the Food Standards Agency to create a new code of practice aimed at protecting the interests of consumers against inadequate or misleading information<sup>23</sup>. A consumer jury was set up to adjudicate if there were complaints from shoppers about misleading labels on Co-op Brand goods. The effect was somewhat marred, though, by some negative publicity about another CWS business. Unlike The Co-operative Bank, the CIS had never claimed to have an ethical investment policy, but

when it was revealed that it had a one per cent share in one of the UK's largest animal testing companies, it gained some unwanted media publicity. The need to pull the disparate CWS businesses together was underlined by the reasonable criticism of animal rights protestors that people did not know how to distinguish between different parts of the same co-op; Animal Aid was reported to be considering whether it would continue to have a Co-operative Bank account, and CIS was forced to review its stake in the company<sup>24</sup>.

Critics have suggested that the new Dividend Card follows too long after the launch of loyalty cards by the Society's main competitors. They also worry that it may be too generous and depress the profits further. They point to the launch of in-store banking services by the multiple retailers, and to the lack of synergy between the banking and insurance arms and between them and CWS food stores. Some critics argue that CWS Retail should become an independent co-operative, like CRS a shareholder in CWS but with its own democratic structure. The CWS would then become the central purchasing and marketing organisation for the whole sector<sup>25</sup>. Others go even further, arguing that every one of the CWS divisions should become a consumer co-op in its own right. They remain to be convinced that the Society has learned the lessons from the Lanica bid, and will be in a fit state to fend off another bid if it comes. On the other hand, one of the strengths of the CWS in the face of the takeover bid was that its various businesses could not be picked off one by one.

### **Impact of the bid on the wider co-operative sector**

The CWS defence succeeded because of a resolute Board and management, effective corporate financial advisers and lawyers, and a complex ownership structure. Any hopes Regan had of launching a bid ended with the discovery that information for the bid had been obtained illegally. In comparison, other consumer co-operative societies looked even more vulnerable. The initial reaction was to change the rules. At a special general meeting, CRS members increased the number of regional committees required to requisition a special meeting for the

purposes of considering a transfer or conversion. Another change ensured any surpluses or assets made available on winding up would remain within the co-operative movement. When looking at new member applications, they decided they would take into account likely participation in the business, and adherence to co-operative principles. Frank Dent, the then CRS Member Relations Manager, said 'These rule changes will maintain a balance between protecting the society's future as a mutual organisation and protecting the rights of members'<sup>26</sup>. Other societies made similar rule changes, restricted membership to people who lived in their trading area, and made them sign a declaration of support for co-operative principles or prove their loyalty to a particular store before allowing them to join. Some co-operators began to investigate the possibility of becoming a common ownership co-operative if the Co-operatives Bill being prepared by the UK Co-operative Council were to be adopted by the current Labour Government and enacted.

The legal barriers to conversion do have their limitations. The Co-operatives Bill has been delayed by the lack of Parliamentary time. Even when it is passed, it is unlikely that even a Labour Government sympathetic to the co-operative sector will allow it to shelter behind an absolute legal prohibition on conversion, because this would interfere with the rights of members<sup>27</sup>. The most that can be hoped for is that the Co-operatives Act will promote the special identity of co-ops, give them a 'level playing field' on which to compete, and provide some protection by requiring a clear majority of members to vote in favour of conversion<sup>28</sup>.

In the future, the continued existence of co-operatives will depend on their ability to compete effectively in the markets in which they operate and to provide benefits to members which they cannot get from conventional companies. These will include both material rewards and the satisfaction that comes from ethical trading. Co-operatives have to have faith in the loyalty and commitment of their members. This is, of course, how it should be.

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## Notes

- <sup>1</sup> See Birchall J (1994) *'Co-op: the People's Business'*, Manchester: Manchester University Press
- <sup>2</sup> *CWS Annual Report (1996)* p7
- <sup>3</sup> *CWS Annual Report (1997)* 'Delivering Co-operative Values'
- <sup>4</sup> Information supplied by CWS, 23 April 1998
- <sup>5</sup> Quoted in *Wolverhampton Express and Star*, 14 April 1997
- <sup>6</sup> Quoted in *Supermarketing*, 25 April 1997
- <sup>7</sup> See Birchall, J (1998) *'A history of the UK Co-operative Bank'* unpublished paper
- <sup>8</sup> Neil Bennett and Patrick Weever writing in the *Sunday Telegraph*, 27 April 1997
- <sup>9</sup> *Ibid*
- <sup>10</sup> *Wolverhampton Express and Star*, 14 April 1997
- <sup>11</sup> *The Grocer*, 26 April, 1997
- <sup>12</sup> *Observer* 27 April 1997
- <sup>13</sup> *Observer* 27 April 1997
- <sup>14</sup> *Observer*, 27 April 1997, 'Business section' p8
- <sup>15</sup> *Daily Telegraph*, 26 April 1997
- <sup>16</sup> *Daily Telegraph*, 26 April 1997
- <sup>17</sup> 25 April 1997
- <sup>18</sup> *Co-operative News*, 7 October 1997

- 19 *Co-operative News* 28 October 1997
- 20 CWS (1998) *Turning Strategy into Action*
- 21 CWS (1998) *News Release*, 27 April 1998
- 22 *Co-operative News* 11 November 1997
- 23 CWS Report (1997) *The Lie of the Label*, Manchester
- 24 *Co-operative News* 16 December 1997
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