

# Profits with Principles: Developing Co-operation for Sustainable Stakeholding

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Co-operation has always been about mutual and collective benefit. So it comes as no surprise to co-operators that the rest of the world has finally started to move towards a 'third way' of operating, with leading politicians espousing the principles of mutuality we are so familiar with. A central feature of the third way, which is illustrated clearly in many of the recent political and social developments in Britain, is the concept of stakeholding; a drive to improve service provision and show the wider society - as customers, employees and stakeholders - that they have an active role to play. Ultimately a more participatory society will lead to a more co-operative, democratic and sustainable society, as individuals come to feel more empowered and integral. This is the vision we hold at The Co-operative Bank and this paper outlines a model to take us there.

## Challenging business ethics

Some business leaders still operate with a mentality dominated by the belief that success can, and should, be measured solely by financial return for the shareholders. They ignore the reality that customers can boycott, activists demonstrate and business partners shun - and that newspapers love it all! Luckily, the more enlightened of the business community are recognising that stakeholding and developing mutual benefit *are* profitable, and there is growing recognition that business must be more accountable for its actions in both the short and the longer term, and must be transparent in its operations. These wiser counterparts have realised:

The companies which will sustain competitive success in the future are those which focus less exclusively on shareholders and on financial measures of success - and instead include all their stakeholder relationships ... in the way they think and talk about their purpose and performance (Tomorrow's Company).

At the Bank our co-operative roots gave us a firm foundation from which to examine our purpose and performance. The Co-operative Bank was formed in 1872 as the loan and deposit department of the CWS and has always held true to the principles of mutual benefit. It holds assets of over £5 billion and has over two million customers. With pre-tax profits of £55.5 million in 1997, the Bank has enjoyed record profits for four consecutive years. This success is largely put down to the 'rebirth' of the Bank in the early 1990s, which has seen us turn around from being the 'dowdy co-op' operating at a loss, to *the* ethical bank of the nineties and the next millennium. The Bank's new image was formalised with the launch of our Ethical Policy in 1992, outlining who we will and will not do business with. As ethical issues are many and varied, we decided to let our customers define the precise ethical stance we should adopt, as it is their money we are investing. Customers are now regularly balloted to update the Policy, and we have just completed the most recent review. The past decade has seen an increasing awareness of the ecological and ethical problems caused by certain business practices, and a growing body of penalising legislation has emerged in response, covering issues as diverse as bio-accumulative waste and socially responsible employment practice. We ask our customers which of these issues matter most to them, and have developed an ethical stance accordingly.

In 1996 we launched our Ecological Mission Statement. Priorities for improving ecological performance are also varied and open to challenge. Therefore the Bank turned to the experts and adopted a clear set of scientifically proven truths; the Natural Step system. Natural Step originated in Sweden and defines sustainability in four simple rules:

- nature cannot withstand a progressive build up of waste derived from the Earth's crust
- nature cannot withstand a progressive build up of society's waste, particularly artificial persistent substances
- the productive area of nature must not be diminished in quality (diversity) or quantity (volume) and must be enabled to grow

- society must utilise energy and resources in a sustainable, equitable and efficient manner.

In 1997 we introduced our Partnership Approach; a coming together of the Bank's core values and policy statements into one basic model for business. The Partnership Approach recognises that a careful balance is required between the sometimes conflicting needs of stakeholders in order to ensure long term business success. In short, our policy is to deliver value to all the Bank's partners in a socially responsible and ecologically sustainable manner - staff and their families, customers, suppliers, community, society, past and future generations of co-operators, shareholders (Thomas, 1997).

### **The process**

By operating with greater mutual awareness and understanding the Bank can co-ordinate its efforts to minimise conflict and maximise value for all. For example, we have created a forum to explain to partners when decisions seem to go against them. Thus, even when harmony cannot be achieved, the simple act of engaging honestly with customers, suppliers, staff and the wider community, pays off by creating a greater sense of trust, as the good name of the Bank demonstrates. This is not simply the imposition of the latest model of business management on unsuspecting stakeholders identified at random. Qualitative research was conducted with all stakeholders in order to fine-tune the model and terminology. In particular our customers gave us a clear mandate to develop along these lines, with 100,000 responding to a Partnership Ballot in 1997 and 97 per cent saying that the Partnership Approach was a good idea. But how do we make the Partnership Approach *happen*? How do we find out what our partners need from us and how do we tell them what we are doing? The main tool to make the Partnership Approach work is a regular audit and report. This is a unique synthesis of social, ecological and financial reporting, externally verified by independent experts to provide proof of a genuine commitment to accountability. The decision to conduct a regular audit of the Bank's relationship with its Partners was based upon the recognition that there is always room for improvement, and the

Bank sets itself new targets accordingly. We were fully aware that having committed to this we would have to admit to doing some things wrong. However, we knew that in the long run it is better to know *now*, so that we can pre-empt any problems which might arise in the future if we were to carry on operating in ignorance. This is a lesson some businesses have had to learn the hard way.

## The results

In our first report (April 1998), the external auditor Richard Evans of *ethicsetc ...*, stated:

The Co-operative Bank's Partnership Report ... is significant because many public companies regard this type of disclosure as risky and unnecessary and avoid it.

So what did our first audit reveal that is considered so risky by others? The results of the audit of 1997's operations were published in a ninety-page report, detailing how each partner was defined, how indicators were selected and what performance was measured. For each measurement there was also detailed comment and new targets set. The sheer size of the report precludes a full summary here. However, a flavour of the findings can be given by selecting a sample.

During 1997 £1.95 million was channelled into society and local communities as part of our charitable aid programme. This represents 3.5 per cent of pre-tax profits, which was heralded as 'exceptional' by our independent auditor, Business in the Community. On the other side of the coin, the Bank also closed 8 outlets during the year, which were no longer attracting enough custom from the surrounding community. In a survey of these communities, 40 per cent said they believed the closure had a negative impact on the area. Responding to this concern, the Bank will continue to be mindful of the impact of restructuring on local communities and is commissioning a study to look at the balance of impact of all delivery channels from individual branches to our Internet service.

The Bank also invests heavily in its employees and this was reflected in us achieving the Investors In People award during

1997, the first bank to achieve this across all operations. However, although 3.9 per cent of the community in the districts where we operate is made up of ethnic minority groups, these groups are represented by only 1.8 per cent of our staff. This is clearly a fundamental problem which needs to be addressed and the Bank has committed to developing a diversity policy during 1998 to address the situation.

The Report also provided a detailed analysis of the way in which the Bank developed its Ethical Policy and Ecological Mission Statement, and provided independently verified evidence to show that both were being implemented without being compromised in the interests of profit making. Not only did we risk disclosure on these issues and many more; we actively encouraged all our partners to read the report. All staff received a copy, every customer was provided with a summary and offered a freephone number to receive the full report, key suppliers, MPs, co-operative societies and leading social commentators were sent a copy. All were asked for their comments, good and bad, and if anyone has missed out on this consultation exercise, they can access the report on the Bank's website. The response has been overwhelmingly positive, with even well known cynics admitting that the Bank has made a significant step towards an increasingly popular new way of doing business; and moreover proved it is successful!

### **The future in partnership**

It is our belief that as more organisations adopt such models, we will see the development of a stronger and fairer economy based on the balanced interests of all stakeholders. However this may be some time in coming; as Mark Goyder of Tomorrow's Company commented in our 1998 Report "While it is easy to use fine words, it is much harder to establish a consistent discipline of measuring and publicly reporting against these targets". He adds, reassuringly, "It is clear ... that inclusivity to The Co-operative Bank is not simply about fine words". We were not afraid to wear our principles on our sleeve when others were taking a backseat because they could not work out what stakeholding should look like. We are often asked if it is practical to promise so much to so many. We say the question is not 'is

it practical?', but 'is it possible to operate successfully in any other way?' The way in which the Bank's success has been turned around is directly attributable to the chance we took in making the Bank stand out as a model sustainable business. The success of the first Partnership Report, and the record profits which continue to be enjoyed at the Bank, demonstrate that looking beyond the shareholder reaps rewards. The Co-operative Bank's Partnership Approach is a model of stakeholding which brings together the social and the economic in a vision of sustainable development:

As people continue to wrestle with what sustainable development really means, the Co-operative Bank's Partnership Report gives an innovative and significant insight into that reality (Jonathon Porritt).

Clearly each business will have its own set of partners or stakeholders, depending upon its operations. However, the overall goal of partnership, of delivering value in a responsible and sustainable manner, can form the basis of corporate stakeholding for any organisation. Developing a workable model has been a lengthy process. We hope that our work at The Co-operative Bank can now serve as a stepping stone to help others on their way to proving that profits *can* be made with principles.

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## **Reference**

Thomas, T (1997) *Inclusive Partnership: the key to business success in the 21st century*. Journal of Co-operative Studies 30(1) No. 89, pp11-21.

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