Way Forward 2 Conference, Friday 16 May 2014 – Sir Graham Melmoth

Introduction

In 45 years of paid employment I spent the last 27 years of them in the service of the CWS/Co-operative Group. This compares with 18 years as a middle to senior manager in three public companies, leading up to my appointment as CWS Secretary in 1975.

I remember a rather voluble CWS Director during my interview with the whole of the then 35 strong Board of Directors in August 1975 asking whether I was not rather promiscuous in the number of jobs I had held down to date. How long did I expect to stick with CWS? Well, the rest is history, as they say, but The Times on 11 April this year took a swipe at co-operative critics of the "plc brigade" by pointing out my own hybrid job portfolio, replete with public company service, (though in that era, not with stratospheric salaries!). It is a nonsense – which no sensible co-operator should indulge in – to categorise managers reaching us from public companies as being from another planet. We need good managerial talent from wherever we can attract it and historically have done so fairly successfully. The Co-operative Group was not led into the morass in which it finds itself today by a sharp elbowed public company recruit. The fundamental point surely is to be able to weld a top team together effectively with the right mix of skills, drawn from both sides of the blanket, and indeed from the public and voluntary sectors as well, if they fit the bill, and hopefully we shall see such a balance in the Co-operative Group team again in time.

Co-operative Group has just celebrated its 150th Anniversary as a Manchester run business and leases a state of the art Head Office in this City to show off the fact. I remain to be convinced that the Group's Executive team should be based full time in London for long. It's a separation from the mainstream that gives the impression of an imported elite and that needs to be corrected. By the same token we have to recognise currently that the Society's lending banks in the City are feeling the Group's collar. They need to be satisfied that the Executive has a firm grip on a massive debt repayment schedule and that means having a regular interface with the banks. Richard Pennycook has had a baptism of fire as CFO and now Acting CEO; clearly as tough an assignment to be found in any British business currently whether plc or co-operative, and he has shown himself to be cool and effective in the face of such a demanding situation.

The Co-operative Ethos

The Rule Book I left behind me in 2002 declared unambiguously in its preface that the Society's Purpose was to be "A Successful Co-operative Business". It set down our core objective as "optimising profits from businesses where our co-operative values give us a positive marketing advantage, allowing us to serve our members and to deliver our social goals as a successful co-operative while making a reasonable return to our member owners, both corporate and individual." The preface of that rule book goes on, naturally enough, to endorse the values and principles of Co-operation, as defined by the ICA.

I suggest there's not much wrong with these aspirations, as stated; Board and Management should be wary of rewriting the Magna Carta from another standpoint. The failure has been to fall so woefully short of those aspirations. I do not think myself that the present Executive should be spending any of its time trying to re-write co-operative values.

Likewise any move towards cutting back support for the Co-operative Party needs careful evaluation: a reduction in funding may perhaps be inevitable given the scale of the Group's predicament but the principle of the link with the Party ought not to be disposed of without wider debate.

Takeovers from within?

I am making a contribution to this Conference against the publication a month ago of the Group's annual results showing a loss of £2.5 billion, of which £2.1 billion derives from our then 100 per cent ownership of the Co-operative Bank.

It makes the write down of the Somerfield acquisition in the Group's books of £226 million look positively modest by comparison, although the intention of the Group also to exit some 60% of the Society's Somerfield acquisitions has a rather doleful ring about it, does it not?

Over the years the CWS had relatively painlessly absorbed large numbers of retail societies, many of them in trading or financial difficulty, but the transfer of the heavily loss making CRS in 2000 proved quite a tough nut to crack. Apart from the need to integrate its widespread trading operations and a variety of systems, the problems of fusing together the two rule book traditions, needed particular care and sensitivity. A constitutional Review Board comprising Directors from each Society was set up with Alf Morris MP as Chair and Nick Eyre as Secretary and its recommendations were adopted by the Membership as a whole and a new combined rule book produced.

Apart from the SCWS/CWS merger of 1973 when the Scottish Bank hit financial trouble, the CRS transfer was the first of hundreds of transfers to make a substantial difference to the constitution of CWS – hence the care which both parties lavished on it: 17 Directors elected from 8 retail regions were provided for and 11 Directors elected by the Corporate Membership, making 28 in all – so clearly a diminution in the share which independent retail societies had of Board seats but still a substantial bloc in its own right and therefore not unduly adversely impacting on Governance. I do not believe that the rot set in until the United Society merger with the Group in 2007. This was led by Peter Marks as Co-operative Group CEO Designate. It tipped the balance significantly in favour of the elected Regional Board representatives, with United in effect dissolving as an independent society. The eventual upshot was 15 Regional Board Directors, 5 Corporate Directors plus provision for one independent Director, 21 in all. A Regional Board Director emerges from the tortuous process of having been elected to the main Board by way of election to an Area Committee, thence to the Regional Board, and thence by election to the Main Board and thus we have the three tier constitutional marathon which is one of Lord Myners' criticisms – a never ending merry-go-round of meetings. Clearly, not the best way to determine the best man or woman for the job.

Thus the United transfer of July 2007 was a watershed: the incoming cohorts took over the regiment. Peter Marks brought with him his key executive colleagues; the proportion of Board members from Retail Regions almost doubled. The character and personnel of the Co-operative Group changed virtually overnight with various senior CWS managers going or taking a back seat. At the time, apparently, no one actually noticed!

Down the road, at the Co-operative Bank, where a merger with the Britannia Building Society was brewing, the object of the takeover, ie Britannia, was to provide the next CEO of the Bank – Neville Richardson, boss of Britannia. The then CEO of the Co-operative Bank, David Anderson, took the opportunity at that point to retire. These two financial services businesses thus came together in August 2009.

Thus two takeovers with the Co-operative Group itself on the back foot, so perhaps not a surprise that neither have so far turned out to be a tremendous success? And thirdly of course, the Co-operative Group completed the acquisition of Somerfield in January 2010 and took on a mountain of debt to do so, ne'er a freehold in sight!

It is a temptation to look at Co-operative Bank/Britannia Building Society merger of 2009 as a side issue – a distraction from what had been going on at the Co-operative Group which tends to catch the attention of most lay co-operators and that of the Movement at large. But this badly managed banking merger, with its feast of bad lending, with a crisis in systems management playing out, showing a massive falling off of the standards that used to be the byword of the Co-operative Bank in the eras of Lewis Lee and Terry Thomas for example, inexorably holed the parent Group massively below the water line, such that it could never be the same again and certainly no longer the owner of the Co-operative Bank. Since I framed these words, Sir Christopher Kelly's report, commissioned by the Board, has been published and provides chapter and verse of this shipwreck and he minces not his words!.   And Project Verde, and Project Unity, and vaulting ambition and a Methodist minister from Bradford, all add to the mix and confect a shameful tale; with the Group's equity stake evidently coming down from the 30% tidemark to not a great deal more than 20%, it seems.

Co-operative Cussedness

We take pride in our Co-operative Values and most Co-operators try to live by them but I have always been aware – particularly from a CWS/Co-operative Group point of view - of how tough it can be to reach an agreement with a fellow chief officer. It's the nature of the beast and it takes time for new kids on the block to learn the language. That doesn't mean to say that those concerned are "ungovernable" but they can on occasion be a touch intractable. Let me illustrate: I retired as CEO after six years in the top spot in September 2002 and Martin Beaumont, then Chief of United Co-operatives, had been appointed to succeed me. Martin had been remarkably slow to see the merits of membership of the Co-operative Retail Trading Group (CRTG) and had indeed flirted with membership instead of the rival buying and marketing group, led originally by Harry Moore of CRS. But as the taking up of the appointment of CEO of the Co-operative Group loomed large, a latter day conversion by Martin brought him rapidly into the CRTG fold.

And then, a year or two later some might think justice was served when Peter Marks, then in the top job at United, could not be persuaded by his predecessor, Martin Beaumont, when he was Co-operative Group CEO, to adopt the new and impressive Co-operative Group brand policy. Indeed, he proved a strong critic of it. But curiously enough, however, Marks was swift to subscribe to it once he had himself gravitated to the Co-operative Group number one spot.

That's what I might describe as Co-operative cussedness which gets in the way sometimes of rational thought and thus it can on occasion be difficult for a co-operative CEO to uphold co-operative values.....

Lord Myners' Review of Governance

Before we have a look at the contents of his Report, I must say - before I give due credit to him - that Lord Myners in press conferences and on the radio last week was hardly restrained, ratcheting up the tension and putting pressure on the Board - all designed to get the leader writers to declare in unison that Members should vote for his governance reforms as they stand and most of them duly obliged! His Report is a substantial and professional piece of work. There is much to admire in it including a Foreword, an Introduction, 7 Chapters, 10 Appendices, 29 Exhibits, and an Implementation Plan!

I have touched already on the tiered electoral system of the retail elected Directors whose sheer impenetrability has lent itself to criticism by Lord Myners. Its origins probably lie in the desire of the late 1990s and the Regan era to guard against ease of entryism by would be takeover artists. Times move on and it seems an opportunity was missed in 2007 to pause and redesign the structure ahead of the United merger and to cull back the democratic undergrowth which surely deters aspirant Directors from sitting in on endless committee meetings whilst at the same time perhaps fostering the “jobsworth” candidate – neither good for democratic accountability!

By any measure, members of the Group Board have shown little appetite to challenge Management effectively during a period when arguably there was much to challenge them about. That is the most serious indictment to be laid at their door.

The £40k Directors’ stipend - a product evidently of the United merger - could well have served also as an antidote to forensic enquiry on the part of Board Members. Ultimately it is the Board that is accountable and which has been found wanting on their watch.

The Myners’ proposals envisage a newly constituted Board with an independent Chair, 6 or 7 non-execs plus 2 executive directors drawn from the Co-operative Group Executive and provide for their Annual Election by the Membership as a whole, plus a Nominations Committee process to vet Board applicants, so there is democracy writ large in the package. Furthermore, there is a clear intention in future to recruit Directors of calibre, having a commercial track record. But where is the link in the new proposed Board structure between Board and Membership? While the National Members Council concept embodies some attractive and important features, the offer of 2 seats to Corporate Members on the Executive Committee of the NMC is sensible but it clearly falls short of Board representation. And remember, the Corporate Members are the founders of the CWS, now the Co-operative Group. In themselves, these are grounds for requiring a further look at this particular proposal and considering a place on the Board for a Corporate Member representative. And as regards the place of the CEO in the hierarchy I have no doubt that he must be regarded as a Shadow Director anyway, as the biggest mover and shaker on the block. That would have been true of me; and true of the elephant in the room, Peter Marks, likewise. The defence that “it weren’t me, Gov” simply won’t wash!

As regards the incoming 6/7 non-exec Directors whilst, importantly, they will be, or become, individual CG members and their careers should show commercial and business success I think it should not be beyond the wit of HR specialists to design a filter to show candidates' record of involvement in voluntary/community engagement and/or - dare I say it? - co-operative or social enterprise activity to illustrate their hinterland beyond the plc sector.

A Way Forward?

I have argued the case with Lord Myners for a small group of Co-operative Group members to be commissioned by the Board to review these reform proposals, reflect upon them, receive submissions, hold 3 or 4 public meetings around the UK and produce a blue print for final approval by Board & Membership in the shortest possible time. I see that as the Co-operative way – rather than "take it or leave it", with the possible consequences of deciding, by default, "to leave it." Paul Myners has suggested that the time constraints imposed by the stringent financial strait jacket we are in would simply preclude giving members such a chance to reflect some more on what has been put before them and to propose sensible changes to what is on offer. The proposal being submitted to the Special General Meeting tomorrow seems, however, to be couched in somewhat preliminary terms hopefully to permit a degree of "wriggle" room. I hope that's the case.

It is also fair to say that the world and his wife have piled in with mutually contradictory commentary so it won't be easy to drill down to the essence of what needs particular scrutiny. I have heard proposals recently for re-organising the Group which were being argued ten or fifteen years ago when we weren't in the dire state of today. If you are looking for the paradigm Utopian co-operative which some of us hold to our hearts, this is probably not the place to start!

In April 1997 the Independent Newspaper had this to say about the CWS, and indeed the Movement as a whole, which still rings true and it is worth reminding ourselves of it, even though the Group's situation is infinitely worse now than it was then:

"The Co-operative Wholesale Society is being stalked. There will be many people who, unsympathetic both to the aims and style of the break-up

specialist Andrew Regan, will be wondering if Co-operative Commerce has had its day. After all, the Rochdale Pioneers went into business a long time ago, and big time retailing is no playground these days. But our institutional landscape would be severely diminished by the disappearance of the Co-operative Movement, just as there surely must be a place, still, for the mutual principle in financial services and housing finance. The CWS could perform better – but its members ought to keep their nerve."

Thank you.

Graham Melmoth

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