

# The Loss of the Co-operative Bank. A Symptom of the Systemic Misreading of Co-operative History, Purpose, Philosophy, and Economic Theory

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This paper will argue that the failure of the Co-operative Bank is not an isolated event but part of a pattern of systemic failure by the whole movement globally. This failure is rooted in the movement not developing an appropriate economics and in the misdirection of its original purpose to develop an alternative economy rather than simply presenting an alternative business model. These mistakes have been compounded the paper argues by a failure to focus on any definition of co-operative management or its development and to forget the early emphasis on character formation within the project of co-operative education.

## Introduction

How was the Co-operative Bank lost? There are many 'answers' to this question. The immediate ones focus on management failure in the conduct of due diligence, dishonesty, and lack of the right leadership, culture, structure and purpose within the Co-operative Group. In their own terms all such answers hold elements of truth. A good summary of these answers and a strong advocacy for a back to basics focus on membership and members needs can be found at Edgar Parnell's website (Parnell, 2013).

My own approach whilst recognising and agreeing with much of the analysis to be found in these answers calls for a more fundamental exploration of the philosophy and economics behind the contemporary model of co-operation to explain the structural and individual ethical and moral failures that has led to the Co-operative Bank's commercial failure. Edgar is right to argue that for a membership based organisation to be effective it needs to be engaged with its members through a leadership focused on their needs. But this requires, as it always has, a leadership that helps define what those needs really are. That is why we have a principle of education that was from the beginning seen to be a cardinal, central principle of co-operation. Edgar Parnell emphasises the importance of our use of language in defining the terms of the analysis. But in my view his definition of a 'co-operative enterprise model' as the bench mark for the purpose, structure and culture of a true co-operative repeats the existing mistaken view of co-operation as an alternative business model. It reduces the idea of a co-operative movement to the role of a promoter of this model. Because of this approach co-operatives can come to be seen as a palliative to an ad hoc range of socio economic problems or failures to be found in a marketplace dominated by investor led organisations. As such they attract support from sometime dubious sources and are often manipulated by groups and governments whose power base and motivation is far from the co-operative ideal. The revelations surrounding the Co-operative Bank illustrate the co-operative model can be as attractive to charlatans as it is to idealists (Boffey and Treanor, 2013).

*If we are to avoid the charlatans and encourage the idealists I argue below, contrary to Edgar Parnell that we must, if we want really to get back to basics, return to the original purpose of co-operation, which was to establish not an alternative business model but an alternative economy.*

## **A Failure to Recognise the Alternative Economy Implied in the Co-operative Model and in the Aspirations of its Founders**

In the loss of control of the Co-operative Bank we must recognise a pattern. It is merely the latest in a series of such demutualisations and failures that have taken place within not just the British Co-operative Group but globally. (1) These demutualisations and failures are the result of a managerial agenda rather than a co-operative agenda informing the content of the purpose and strategy of the given co-operative business. (2) The failure to see co-operativism as an alternative economy rather than simply as an alternative business model is at the root of the problem and explains the failed strategies and string of demutualisations that characterise the post war history of the British consumer movement and much of the world's co-operative movement.

To clarify how the movement went wrong we must see the mistaken turn its leadership made in interpreting the movements economic philosophy. We need to return to economic theory and the issue of supply side and demand side economics. The division of economic activity into these two fundamental approaches has its corollary in the division of economic processes into those of production and consumption. This approach prevents us finding a genuinely co-operative economic framework for analysis. It led to the misuse of the labour theory of value to focus on profit sharing to labour and to a war with an alternative profit sharing model based upon the consumer co-operative model. Neither option is a truly co-operative one. The two sides led respectively by Edward Vansittart Neale and J T W Mitchell — the latter supported by Beatrice Webb — (Backstrom, 1974) were in fact arguing over the wrong question.

Thus, we lacked the funds to support our Co-operative Bank today because over a hundred years earlier the idea of co-operation as a labour centred means to mobilise production was split into two warring factions one arguing for the right of workers to share in the profits and the other advocating consumer dividends as the most just and democratic philosophy. Both positions were misguided and failed to recognise the early emphasis on *accumulation not distribution* (Davis and Parker, 2007). Once William Pare's principle 4 that none of the co-operatives' surplus should be divided — passed at the third UK Co-operative Congress chaired by Robert Owen (Webb, 1904: 59) — was forgotten, co-operation divided into worker, producer and consumer wings, separate and mutually suspicious of each other, and all lacking capital to develop. The lack of funds hit the worker co-operatives hardest first but once resale price maintenance opened the way for discounters it was not long before the consumer dividend lost its appeal for the shopper whilst denying co-operatives sufficient funds to develop and respond to the competition.

Consumption and production are misleading categories for explaining the real human centered economy of labour. For consumption first commences in production. A co-operative economics should focus on the *Processes of Creation and Realisation*. The idea that none of the surplus should be divided was not an act of denial but a method of ensuring continued development of the popular ownership at the heart of an *alternative co-operative economy*. A co-operative economic theory unites the labour in the creation of wealth with the labour contained in the realisation of wealth. Realisation being about *accumulation* (through popular ownership) and consumption.

*This failure to develop an alternative economics and an alternative economic system as was originally proposed by our movement's founders is a principal reason the movement lacks the reserves it needed leading to the Co-operative Bank failure.*

## **A Failure to Understand and Report Honestly on Co-operative History**

It is interesting to recognise the role of management in this misdirection of the movement's true purpose. The truth is that the Rochdale Co-operative Society originally saw itself as a labour focused organisation aiming to construct gradually an alternative economy. As a step in this

direction the Society went into a partnership with workers in a Flour Mill for the production of flour. Profits were shared and lacking a secure ownership framework outside investors who were able to join and gain control and then abolish worker profit sharing. The Manager of this operation was the same J T W Mitchell who later became the general manager of the CWS and who set about abolishing profit sharing with workers and to strongly advocate consumer co-operation (Davis, 1996). In historical terms the choice of retailing by the Rochdale Pioneers was not about consumer co-operation but about the accumulation through consumption and savings to achieve ownership and control of the resources and processes enabling wealth creation. Loyalty payments to consumers and a profit sharing incentive to employees was a means to ensure the commercial success enabling the progression of the bigger project of accumulation.

## **Failure of Co-operative Human and Management Development to Focus on Character Formation**

The failure of understanding co-operative economics and history has produced structural imperfections which in turn has enabled a hostile managerialism to emerge endorsed by an essentially tamed and manipulated governance process. This is the context in which the human frailties and vanities some of which are so clearly exhibited in the debacle at the Co-operative Bank, could flourish with such very destructive consequences. The co-operative economy of establishing the opportunity for the processes of creation and realisation to be human centered is an economics that also facilitates individual character formation. It was of course Robert Owen himself who emphasised character formation (Davis, 2008). Character is at root formed by the choice each person makes in the application of the individual's Will. The choice comes down to two fundamental options — willing to love and willing to power. The Fascist film *The Triumph of the Will* was a celebration of the latter choice. The reason the will to love is ultimately stronger than the will to power lies in the results that flow from these respective choices. For however often the will to power wins it can only ever result in negation — in the destruction and depletion of all the creative elements it seeks to subdue and control. Such depletion can only lead to the desert both literally and spiritually. We are witnessing this today in the labour market failure to employ people, species depletion, resources depletion and climate change.

The will to love takes us metaphorically to the garden and to creation. It unites the economic processes based on the market and money transaction with the domestic economy based on barter and gifting as the two dimensions of human centred economic processes. In both of which the creativity of all human labour can flourish and be realised both in domestic and money economies. These would in a co-operative economy mutually reinforce each other rather than as at present where the domestic economy and its principle structures in family and informal community are being drained of content (Braverman, 1974; Davis, 2000). Today a woman's *right* to engage in paid work has in practice become her necessity whilst the domestic terrain itself becomes commoditised and commercialised.

*The co-operative movement's failure to focus on character formation connected to management development as a key aspect of its human capital development strategy under the principle of Education (not just training) is thus another key dimension of the Co-operative Bank failure.*

## **Systemic Failure**

The movement's failure is therefore systemic and general not just a particular issue of this of that business / management failure. The failure to build an alternative economy is why credit unions and consumer co-operative and worker co-operative and all the other co-operative silos have collectively and spectacularly failed to democratise economic processes or to eliminate poverty in the global economy. Operating as they do in an economic and social order dominated by the will to power they all too frequently end up merely reflecting their environment rather than

operating to transform it. The ICA boasts of three quarters of a billion affiliated members today in a world-wide affiliated membership. Other impressive statistics can be generated for the Credit Union Movement by the World Council of Credit Unions. Amidst the regular celebratory global Congresses one hardly hears a mention of failure or of the increasing polarisation of wealth and poverty and of the increasing monopolisation and concentration of power and technology in the hands of investor based organisations. There has been little genuine soul searching discussion of co-operative failure to co-operate with each other or to invest seriously in co-operative management education and organisational development since the late Ian Macpherson led the development of the latest set of co-operative principles adopted in 1995. I see no sign of any coherent co-operative global strategy and given the silos we operate in this is hardly surprising.

## **The Co-operative Bank Case**

The Co-operative Bank under the leadership of Terry Thomas may not have transformed the banking world but it did put commercial banks on the defensive and presented the consumer with a real choice. When Terry Thomas advocated and practiced so effectively his *Inclusive Partnership plus Sustainability* model of management (Thomas, 1997: 11-21) he was effectively presenting an exemplar model of a co-operative value based management that was realistic in its recognition of its context and starting point and transformational in its potential to regenerate a business model into a strategy for an alternative economics. His philosophy focused on membership as a key stakeholder certainly and reported record surpluses to the co-operative federal that owned the Bank. These record surpluses after years of marginal or negative returns saved the whole group from being bankrupted by the huge losses resulting from the failure of its retail arm — the Co-operative Retail Services (informally known as the movement's ambulance absorbing a string of failed consumer societies which had been occurring since the 1960s). But Thomas' approach to management recognised the broader social mission at the heart of what could be called the *Co-operative Movement* and demonstrated how with real socially led market research the social mission could be interpreted in its contemporary relevance to relate this to the specific marketplace and provide a co-operative difference. In doing so the banks advertising and branding did not simply reflect member needs but also educated an entire market and its *value chain about what those needs really are*.

What Thomas' success did was give the movement its first positive national brand in the post war period. However to continue it needed a management that understood and was sympathetic to Thomas's values and strategies. Why was the most successful Co-operative CEO in the post war period denied the top job in the Co-operative Group and not even allowed, despite his wishes, to continue at the Bank?

One of the first things to happen once his replacement the late Mervin Pedelty was in post was the removal from the Bank's seven partners (or stakeholders) of the innovative partnering of the Bank with "Past and Future Generations" and this removal came the gradual watering down of the social auditing and reporting to all the stakeholder groups. The reference to the past and future generations was perhaps the clearest recognition that co-operation was more than an alternative business model but rather a coherent social movement seeking the development of an alternative economic system. In the end the Co-operative Bank was destroyed by a management blind or possibly even hostile to its social purpose and the alternative economy that could give that purpose a true foundation and expression.

## **Can this Situation be Reversed as Far as the UK is Concerned?**

The co-operative movement had once proudly boasted a service so all embracing that it was able to serve its members needs from the cradle to the grave. The movement has been selling off the family silver to staunch losses and to raise capital for investment for the last half century whilst completely failing to prevent decline. Many on the political wing of the co-operative and labour movement bear a heavy responsibility for the lack of challenge to managerialism. They

saw consumer co-operatives as a means to finance their ambitions for a parliamentary career where statist not co-operative solutions regulating rather than transforming the economic order was emphasised. The Co-operative Party could, had it had the vision, understanding and moral courage, acted to mobilise the membership to both reinforce true governance and ensure the selection of managers who were also co-operators. Instead of focusing on seats in Parliament the Co-operative Party should have been focusing on mobilising the research community and with this evidence gone forward to mobilise public opinion for an alternative economics.

It may be that the institutional barriers within the British co-operative and labour movement and the institutional frameworks at the international level are too entrenched to accept such a radical change in emphasis and direction back to the movement's roots. But the crisis for humanity as capitalism continues to triumph remains. All the science tells us the model of economic activity currently being pursued is unsustainable if the alternative is not to be the Co-operative Commonwealth our forebears dreamed of the question remains what is the alternative? If necessity is the mother of invention we will find a way to turn the course of co-operative and world history. Failure to establish an alternative co-operative economy will have results too horrible to contemplate.

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## Notes

- (1) In 1994 the CWS sold most of its manufacturing to Andrew Regan who after closing some resold others at a profit of around £9 million and who in 1996 induced senior co-operative managers to hand over confidential papers in a failed hostile take-over bid supported by Lloyds TSB. Co-operative Opticians, Shoe Fayre, and Co-operative Travel have all been subsequently lost. But the biggest collapses in co-operative retailing were hidden by mergers — the Scottish CWS in 1973 and CRS Ltd in 2000 — which resulted in the CRS case in a virtual co-operative desert in London and the south east at the time. In Germany and Austria there have been spectacular collapses (See Munkner, 2000). In North America perhaps the largest management led demutualisation was the Canadian Wheat Pool.
- (2) I and my co-author John Donaldson have argued, and been so far largely ignored, that the movement needs a principle of Co-operative Management. We argue this should not be seen as an operational principle but as an integral element in the co-operative identity itself (see Davis, 1995; Davis and Donaldson, 1998; Davis and Donaldson, 2005). Until we focus more on management rather than governance the movement will not ever be free of the risks of managerialism and a management culture which remains sceptical of the co-operative business model let alone its wider goals. Co-operative Value Based Management needs a principal definition guiding personal specifications for recruitment and selection and an integrated management and organisational development methodology which adapts management theory to co-operative purpose rather than, as at present, co-operative purpose adapts to management theory.

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