

Demise of The Co-operative Group or “La Débâcle”

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1. La Débâcle

I am part owner of a very large co-operative corporation which in January 2013 was valued at £81,999 million. One year later, in January 2014, it was valued at £8,623 million.

What in the name of heaven could have gone so spectacularly wrong?

Where did £73,376 million go?

Who was being held responsible?

What recourse did I, as a part owner, have?

What were the implications for the future? What options were there for going forward?

In trying to grasp the enormity of the situation and to respond to these (and other) questions, I began to plod through the two sets of Accounts (2013, 2014), the Kelly Review, the Myners Report, and various other bits and pieces (all in the public domain) and tried to piece together a picture of what actually transpired and what options were left open to me as a co-operative shareholder.

What happened?

In essence, it breaks down more or less as follows:

The Co-operative Group is the co-operatively owned corporation in question. The flagship of the UK co-operative movement, like all co-ops it was democratically controlled on the basis of membership voting – no matter how many shares you might own, you still only get one vote. Standard model “speculator” corporations (the “normal” ones we hear of, daily, ravaging the world's ecosystems and unsettling economies) are owned and controlled on the basis of one share one vote - which allows super-rich individuals to buy up shares and control whenever the fancy takes them. For this reason alone, capitalist predators are not usually interested in co-operative corporations. (This is also why co-operative corporations tend to be more stable - and to have a more stabilising influence on economies - than speculator corporations.)

The Co-operative Group had enormous interests in a variety of trading areas, most notably Food, Farms, Pharmacies, Travel, Funeral care, Insurance, and, most notably, Banking.

The Co-operative Bank was not itself a co-op, but was a wholly owned subsidiary of The Co-operative Group. In 2009, the decision was taken to merge the Bank with the Britannia Building Society. Three years down the road, it became evident that The Group had been sold a pup. A £1.4 billion hole was discovered, belatedly, in the Britannia accounts. It

transpired that the Britannia had been speculating heavily in the commercial mortgage market and messed up badly.

In fact, though it was by far the major contributor, the Britannia merger wasn't the only factor. The 2014 Accounts showed where other major hits were taken and the Kelly Review provided some detailed background.

The Accounts show massive write off at “Discontinued Operations”. Operations were discontinued on several fronts for complex and inter-related reasons. Prior to the Britannia merger, a new IT platform - “Finacle” - was in the process of being developed for the Bank. This was in itself very ambitious, but the complexity was compounded by the then chief IT officer departing (?) for another job and then the prospect of the Britannia merger. The merger implied one of three IT options. First, adopt the Bank IT platform across both businesses. Second, adopt the Britannia platform across both businesses. Third, adopt Finacle across both businesses.

In the event, all this was thrown into disarray with the advent of yet a fourth option - the prospect of acquiring several hundred TSB Branches from the Lloyds banking group. Suddenly this fourth option – code named “Verde” - became the most likely candidate. This would involve the adoption of the Lloyds IT platform across all businesses. As a result, all the other options were put on hold. When Verde was eventually discontinued (due in no insignificant part to the discovery of the £1.4 billion hole in the Britannia accounts), the other options were effectively dead and yet another option presented itself – the default option of continuing with both the Britannia and the Co-op Bank platforms for the time being. This became the option settled upon in the absence of viable alternatives, costly in itself because of antiquity and lack of integration, but with the costs of all the other “discontinued” options lumped on to the accounts as write off.

Losses shown at “Total Assets” consisted primarily of the loss of 70% (as at Annual Report publication, later to rise to 80%) of the Bank arising out of the above débâcle. This included land and buildings which were at the time in the ownership of the Bank and which became assets of the separate entity eventually controlled by one or two of the specialist “stressed debt” hedge funds then circling with avaricious interest. The sale of further assets in the form of the Farms and the Pharmacies divisions was undertaken as The Group struggled to fill holes and re-establish its baseline. A previous acquisition – the Somerfield stores – also had to be massively devalued largely because, with all the other activity going on, there were insufficient resources (staff and finance) to capitalise on whatever opportunity was presented.

This loss of control and re-financing of the Bank plus the write-offs mentioned above were the primary elements of what amounted to, unsurprisingly and by far, the biggest loss in The Group's 150 year history.

2. The Accountability

Who has been held responsible?

Where does the blame lie? Who was responsible for driving these programmes forward? Who was overseeing the “Due Diligence”?

There can be no doubt as to the complexity of the situation. But, likewise, there can be no doubt as to the apparently unencumbered headlong drive towards this complexity, with new initiative after new initiative surfacing and being foisted upon a clearly (see Kelly Review) struggling middle management. What can have been in the minds of these drivers - among whom must surely be included then CEO Peter Marks (since gone off radar) - as they gambled our 150 year old organisation and its sound and historically built up asset base?

The various enquiries have thrown some light on what actually happened and where things went wrong, but no clear picture seems to be emerging as to who the drivers were and why the professional “Independent” “Professional” Non Executive Directors (IPNEDS) and the multiplicity of City accountants floating about, all paid extremely good money to warn of and

advise on just such things, didn't speak up. Nobody appears to be being held to account in any meaningful way.

In the standard model major-shareholder-controlled speculator corporation, of which many of our current "independent" advisers speak so highly, would such shareholders have abandoned legal investigation and recourse so passively? Wouldn't the very "type and calibre" of Board our "independent" advisers claim to espouse and wish to impose upon us be clamouring for justice and payback?

But no. There is a strange silence settled upon this entire area of concern.

In the absence of any clear information, we (my fellow co-operative owners and myself) are left, individually and over time, to draw our own conclusions, perhaps with only the application of common sense to assist us. Applying, at the very least, the first line of questioning in any television crime drama - who had "the motive, the means, and the opportunity" - where are we led?

With regard to the \$1.4 billion black hole in the Britannia accounts, using such simple logic I personally am drawn to the conclusion that, at the very least, the members of the Board of Britannia prior to the merger need to offer some answers or be investigated much more closely in terms of the above.

In 2009, the Britannia Board consisted of the following: Bill Gordon (FCIB), Bridget Rosewell (MA, MPhil), Chris Jones (LLB), David McCarthy (BSc, ACA, AMCT), Francis Gugen, (FCA), Keith Cameron (BSc), Neville Richardson (BA, FCA), (Peter Harvey (ACIB, Dip FS), Phil Lee (BSc, CA), Rodney Baker-Bates (MA, FCA, AIMC, FCIB), Stephen Kingsley (FCA), Tim Franklin (ACIB), and Tom Sawyer (Lord). Neville Richardson was also the Society's Chief Executive.

The Britannia Cessation Accounts of July 2009 were prepared by the Cessation Accounts Committee which consisted of Rodney Baker-Bates, Neville Richardson, Phil Lee, Tim Franklin, Chris Jones, and Stephen Kingsley. David Roper, on behalf of PriceWaterhouseCoopers LLP, signed off the auditor's report.

On August 1st that year, Tim Franklin, Phil Lee, and Neville Richardson were appointed as Directors at Co-operative Financial Services, whilst Rodney Baker-Bates, Peter Harvey, Chris Jones, and Stephen Kingsley were appointed as IPNEDs. Neville Richardson even became Chief Exec of the Bank!

It is difficult (for me) to believe that this particular accumulation of would-be knights, millionaires, and City accountants did not know of the £1.4 billion hole in their accounts. Surely, must they not have been either spectacularly incompetent or consciously and cynically fraudulent? The fact that many of them followed through to serve on the Co-op Bank executive and Board suggests stupefying extremes on both counts. Did we really manage to recruit (and handsomely remunerate) such incompetents, or were we defrauded on the recruitment score as well? Was the wool pulled so completely over the eyes of our weak-kneed Nomination Committee?

The list of City accounting firms involved at Britannia is very impressive. The majority of the Britannia Board worked previously for City giants the likes of Touche Ross, Ernst Young, Arthur Anderson, Price Waterhouse, and for investment banks like Barclays, JP Morgan, and Chase Manhattan. Given all that glittering accumulated knowledge and "professional" expertise, anybody might think that there was a plot hatched to dump their badly flawed gamble in the toxic mortgage market on an unsuspecting co-operative Board rife with incompetent "professional" advisers and a rampantly ambitious CEO. If so, they must have seen us coming from miles away. Perhaps they were all in cahoots, who knows? In City circles they are probably being feted as hedging tacticians of the very highest order. They appear to have successfully written off their black hole and got 80% of our bank in one fell swoop. They'll all probably get knighthoods!

In the matter of Due Diligence, there seems to be some confusion. Apart from internal teams from the Bank and The Group, KPMG and JP Morgan Cazenove were engaged to examine the

merger. The Kelly Review was meticulously cautious in not meting out blame unsubstantially, but it did note that KPMG's "high level analysis of Britannia's commercial loan portfolio identified no substantial arrears or impairments" (P 22, para 3.44) and that JPMC advised that "the transaction was "fair" and described its commercial and strategic logic as "compelling"" (P 23, para 3.51).

At the time, apart from our own senior executives, with the enthusiastic Peter Marks firmly in the driver's seat as CEO, we had a multiplicity of "independent professional" advisers on hand. In addition to the aforementioned Britannia refugees - Rodney Baker-Bates, Peter Harvey, Chris Jones, and Stephen Kingsley – we the Members were also blessed with the "independent professional" advice and guidance of IPNEDs Bob Newton, David Davies, Paul Hewitt, Piers Williamson, and Stuart Ramsey. And of course we had our own big city accountants and auditors.

Where all this leaves us, the Member owners, is still wide open to question. There is still talk of further reviews and even occasional timid muted mutterings of legal recourse.

But the upshot to date has been that, somehow, extraordinarily, it was The Group's democracy which was ultimately at fault.

Am I the only one staggered by the sheer bare-faced audacity of this?

And not only that, but the very kind and "calibre" of people identified on the likes of the Britannia Board (would-be knights, millionaires, and city accountants) is the very kind and "calibre" of people we were now being told we needed more of for The Group's Board!

Am I the only one who sees astonishingly grotesque irony in this?

We, the Member owners, were then subjected to the insufferable indignity of having a pompous stuffed shirt by the name of Paul "Lord" Myners ride roughshod through our governing instruments to pronounce his ennobled view on the state of our democracy. Our betters clearly had to step in and provide some adult direction. Instead of going through the legal niceties of suing the pants off professional miscreants, we were led by the nose through the legal niceties of completely revising our democratic co-operative structures.

And all this was incurring untold costs (many of us asked to have these costs quantified but they never were) at a time of extremely high organisational risk (see Risk Management in Part 3). If any other form of corporation was facing this kind of melt down, the last thing on the minds of its shareholders and executives or any observing "professionals" would have been a review of its constitution.

Nevertheless, our post-debacle executive team appeared to be hell bent upon spending time, money, and legal fees on constitutional reviews instead of on pursuing the likes of individual members of the old Britannia Board and/or our expert advisers, accountants, and executives. Why was this?

Was it a diversionary tactic? Was our attention meant to be focused on all this constitutional trivia (in the context of the débâcle as a whole) whilst something else was going on? Could it be that, irked by the Co-operative Bank's stability (winning international recognition for sustainability) and growing market share during the banking crises of the previous years, other players hatched a plan not only to save the former Directors of Britannia, nor simply to wrest control of the Bank from its silly democracy, but also to acquire the entire asset base of The Co-operative Group from its demoralised, confused, disorganised, and undeserving membership - either to flog its assets or to float it as a standard model plc on the open market?

Was our democracy at fault?

No. There can be no question that we always need to re-consider the way we handle business – from Area Committees up. Democracy is a clumsy instrument at best, and being less than efficient in the way we prioritise and deliver our workloads will always cost co-operative corporations in terms of squandered time and resources and of dysfunctional checks and

balances. We should be exemplary in running our meetings, an example to democratic organisations everywhere. We should be taking our monitoring activities much more seriously and pressing harder for full and proper explanations of issues we identify. This should have involved more Member education, more staff and elected rep induction, more training, and much more self-discipline - but not the wholesale deliverance of our history and our governance into the hands of cynical opportunists. Fundamentally, the democracy functioned and continued to function within reasonable democratic organisational parameters.

Can lords, millionaires, and City accountants advise us on democracy?

I think not. Lots of them were, after all, on hand throughout the whole débâcle and did precious little to forewarn elected Members. Evidence of their experience of democracies and their grasp of the underlying Values & Principles and history of the organisation is sparse in the extreme. We need to look elsewhere for “independent” reviewers. Why not the wider national and international co-operative movement were co-operative corporations on the same scale continue to thrive?

Where democracy failed us was in our collective response to all this. We the Membership acquiesced to the processes and the indignities primarily because we didn't have good enough information (commercial confidentiality had to be observed) in good enough time. It wasn't until the 2013 Accounts and the Kelly Review were published that we had a chance of any significant insight into what had been taking place, and by then the railroading towards constitutional review was already well underway. The fact that this information wasn't available didn't, of course, stop that clown, Myners, from trumpeting his pronouncements. Even before the evidence was presented, he, presumably by virtue of his lordship, “knew” it was The Group's democracy – us, the Membership – that was at fault.

3. The Urgency

Not only were the Members being told that their democracy was at fault and had to be rectified. We were also being told this had to be done within a very tight time frame – effectively, less than a year.

For most of us, the earliest indication in the public domain of trouble at the Bank was the withdrawal from project Verde (the acquisition of Lloyds branches) in April 2013. In May the announcement of the Bank's highly publicised downgrades from Moody's and Standard & Poor (the illustrious US ratings agencies who entirely missed the “comodified” mortgage collapse). In June the Bank announced the £1.5 billion “requirement for re-capitalisation”.

In July Kelly was appointed to look into what happened. In December, Paul “Lord” Myners was appointed to look into our democratic failings.

On the 14th March 2014, Myners issued an interim progress report which preceded the Kelly Report by two weeks. The fact that it preceded the Kelly Report, which was meant to explain to everybody what went wrong, didn't seem to deter the good Lord from laying the blame squarely on The Group's democracy. It readily forewarned of what was to come in his final report

On 30th April, the Kelly report was released and several days later, on 7th May, Myners released his final report recommending, unsurprisingly, wholesale restructuring of The Group's democracy.

On 17th May, only 17 days after supposedly seeing the Kelly report and only 10 days after supposedly seeing Myners', Members convened at a very peculiar General Meeting in Manchester. Under procedurally questionable circumstances, they “approved” Myners' recommendations.

This was an incredibly tight schedule by any standards. Even top-down speculator corporations would have a tough time achieving this level of efficiency. For a democratic organisation the size of The Group, it was nothing short of miraculous.

What was the case for this urgency? Why was it necessary to stampede the Membership into such profound changes within such a ludicrously narrow schedule?

The case for "urgency" appears to have arisen out of alleged stipulations of "the Banking Syndicate" (the assortment of lending bodies who provide The Group's loans). Having looked through copious video clips and documentation of the time, all I could see were phrases such as "we (senior Group personages) are working very closely with them (the Banking Syndicate)" and "they are very supportive of what we are trying to do".

What I and not a few other Members wanted to see was, chapter and verse, what this Syndicate was saying about our democracy and, specifically, how it affected their view of their loans to us. If we could not see such chapter and verse because we were not the right "calibre" of person - ie not a Lord or a city accountant or an investment banker - and could not therefore be expected to understand or be trusted, we would like to have seen a few (certainly more than one) sworn *affidavits* from suitably calibrated people who did have sight of such chapter and verse. The *affidavits* should have stated that, yes indeed, categorically, the Syndicate did (listing and dating the various documents and items of correspondence) threaten to and would have withdrawn loans if this democratic review did not take place within the prescribed time frame.

The reason for this is not simple petty-mindedness. It is part of the search for accountability. In the fullness of time, when appeals for commercial confidentiality have eased, a judicial review might wish to revisit what had been taking place. As we know only too well, such accountability is extremely difficult to nail down retrospectively. It always turns out that no identifiable person or body took any crucial decisions at any point in time and whatever we might have learned from the experience is lost in a mire of carefully neutral paperwork. In my view, what we needed was a few heads, formally and irrevocably, above the parapet at the time to give us the confidence that this stampede was absolutely and undeniably necessary.

Such *affidavits* or any other concrete evidence of the case for urgency has, so far as I'm aware, never materialised.

This alone would suggest to me that the stampeding was not necessary. However, sufficient numbers of my fellow Members were rattled enough to carry the day. The constitutional review was launched and a significantly less democratic structure put in place.

Risk Management

One area not obviously touched upon by anyone in the upper echelons of The Co-operative Group at the time, so far as I could see, was the management of risk. When any sensible organisation is faced with significant risk in any area of activity, it's first priority should always be to minimise risk elsewhere. The constitutional review into which we were being stampeded was expensive and risky at a time when we should have been minimising both costs and risk.

So, who was driving this high risk strategy at a time when we should have been focusing on core business? Why did we have senior management, with their entirely questionable expertise in this area, swarming all over the constitutional review process when they were being handsomely paid as our Agents to get on with the job of sorting out our commercial operations.

Among others, Nick Eyre, the former Group Secretary, warned against being stampeded by this regularly referenced underlying menace of "the banking syndicate". Seen by many to be the major driver for immediate and hasty constitutional review, precious few in the organisation seemed to have any first-hand knowledge of the detail. As mentioned above, the story line went that unless we re-organised our selves damn quick, the banks would call in their loans. From his considerable experience in banking, Nick, at a National Federation of Progressive Co-operators meeting at the time, was saying he couldn't believe that the Banking Syndicate could or would be exerting such pressure on The Group to demand Governance changes.

If the bank menace was being exaggerated, especially at a time when risk should have been being minimised, one has to think about who was contributing to the exaggeration and who's best interests this exaggeration and this gamble served.

At that meeting, Nick apparently also specifically warned against "Management Capture". I took this to mean that there was a strong possibility that senior executives and "independent" advisers might not be serving our Membership or our constitutional Values and Principles at all, but were serving capital interventionists who could see considerable scope for speculation as the struggling co-op teetered on the brink.

Is this, at last, what we are watching unfold before our gentle trusting bovine eyes?

4. The Recourse

Do I, as a part owner, have any recourse?

Apparently not.

Legal recourse?

I happen not to be a millionaire. Nor do I have access to the bottomless pockets of a corporate legal department. So I, personally, don't have a hope in heaven of purchasing justice through the market-driven UK retail legal system. There are others better placed than myself to be exploring this option and one lives in hope that they are (please don't hesitate to give me a shout if you think I can help), but in the mean time, on this front, I am stuck in stasis.

Democratic recourse?

With a democratic structure narrowed down from 600 elected local reps to a 100 Member national Council set up primarily to listen to speeches from executive luminaries; with a Board full of non-co-operators determined not to let the Council "interfere"; and with the side-lining of the democratic voice generally, there seems less scope for democratic recourse now than ever before.

Furthermore, it is important to note that a process of marginalisation of "active" Members is taking place. The newly appointed (not elected) Chair of The Group Board (no more elections – too democratic), Allan Leighton (cost - £250k per annum, whilst concurrently holding down jobs as Chairman (sic) of Matalan Limited, Office Limited, Entertainment One plc, Pace plc and Deputy Chair of Pandora A/S) didn't waste any time in setting out his stall with regard to "active" Members. Utilising the full force of his corporate intelligence, he took the trouble to point out, in the Co-operative News, that the blame for The Group's recent troubles can be placed firmly at the feet of "people".

Not accountants, not professional consultants, not senior executives, not knights and lords, but "people".

And not just ordinary people, but people engaged in "politicking". By this one is led to assume he means anybody who engages with the Group's supposed democratic processes or speaks out at Group meetings or puts together any ideas (apart from filling in online consumer surveys) on how the organisation might be improved.

By trying to isolate the active Membership as being "those with a vested self interest" (unlike his good self with no such "vested self-interest") he has been endeavouring to do what disgraced US president Richard Nixon did so successfully last century - define and appeal to "the silent majority". This means that anybody who speaks up is immediately not of that righteous majority and, worse, may even be "politickal". It also means that all those who never say a thing are magically tapped into and faithfully represented only by the likes of Mr Leighton/Nixon himself.

This shallow grasp of democracy is hardly surprising considering his background, steeped as it is in the culture of "appointments" - a process whereby buddies and old boys conspire to keep themselves in the gravy. But the message to me, a concerned part owner, is clear. "Put up

and shut up. The “big swinging dicks” (courtesy Michael Lewis, “The Big Short”) are here now.”

So, the first thing I have to acknowledge is that, by speaking up at all, I am marginalising myself. I am already the sort of Member the current Chief Executive has, post the most recent AGM, patronisingly branded as “rowdy”. The only good Member is a shut-forever-up Member.

“Member Engagement”

Apart from flying in the face of the history and orientation and values of the organisation and the entire co-operative movement, the marginalisation contradicts The Group's own “Member Engagement Strategy 2014-2016”. This defines its Membership in terms of a gradient, up which, it is supposedly hoped, Members will slowly move; up which they will even, supposedly, be encouraged to move. The stages in this gradient are defined as:

1. Aware,
2. Enrolled,
3. Involved,
4. Interacting, and
5. Influencing.

I considered myself at least at stage 4 of this gradient. I have many friends and associates who are at this stage; some of whom may even have been influencing. But it seems clear to me that this new regime has no interest in such people, nor in this gradient, and certainly no interest in encouraging Members to progress up it. The new regime's notion of democratic involvement is consumer surveys. Their notion of community engagement is feedback on what charities to support. Their notion of interaction is passive listening to executive speeches from glorious platforms.

Members off the above gradient remain largely unperturbed. By and large they see no distinction between their Co-operative membership card and their Tesco loyalty card (a huge failing on the part of us, The Group, historically) and continue to shop wherever is nearest and/or cheapest. (And it seems it is more and more to these Members that the new exec and Board are turning for silently expressed approval of their non-co-operative agendas.)

But Members on the gradient have, to varying degrees, more or less in relation to their placement on it, been horrified and traumatised by 2013's revelations and results. The litany of bad executive decisions compounded by pathetic “professional” advice followed by announcements of severe “austerity” measures (sound familiar?) coupled with enormous executive pay outs have left many incredulous and angry.

With 2013 officially acknowledged as “the worst year in The Group's trading history” and with “independent” examiner after “independent” examiner pointing the finger at The Group's democracy it is, by obvious inference, the Involved, Interacting, and Influencing Membership who are to blame. The fact that executive strategic and tactical decisions were supported by the elected Board on the advice of highly paid senior executives, “independent” City accountants, and “Independent” “Professional” Non-Executive Directors (IPNEDs) seems largely to have been lost in the frenzy of blaming democracy.

This has left much of the Involved, Interacting, and Influencing Membership feeling not just angry, but also confused, demoralised, and vaguely guilty.

Involved, Interacting, and Influencing Members are very much aware of and committed to The Group Values & Principles. For the bulk of them, these will figure more urgently in their thinking than the niceties of business decisions because their reasons for being active are precisely those V&Ps. They will be more attuned to The Group's historical and ethical origins than much of the executive management team and will want assurances that these origins won't be disrespected or the V&Ps diluted. They, of course, must also, without let, demand

assurances about business performance, but, being lay representatives, their primary interest and their primary responsibility is ethical direction.

What is evident from much of the feedback via Co-op News, the various online fora, and the countless meetings which took place up and down the nation, is that the Involved, Interacting, and Influencing Members don't simply want to "out-Tesco Tesco". They don't want just another soulless corporation pandering to executive career aspirations and trading exclusively for dominance, market share, and executive bonuses. They want to see the founding principles, "the co-operative difference", the commitment to equality and fair trading, the partnership with the wider national and international co-operative movement articulated and put into action as never before.

But, with

- a) legal recourse out, and
- b) democratic representation at an all-time heavily compromised (if not terminally damaged) low,

all that seems left, for what it's worth, is belly-aching via the written word and the trivial social media.

From within the lonely confines of my home/office this looks bleak indeed.

However, I try to convince myself that I can detect a socio-technological swing (see Part 8 - Finale) which may yet emerge as our best hope.

5. The Trust

Throughout all of the foregoing, there is a constant, mollifying sub-text being trotted out and re-emphasised at every opportunity by our newly non-elected leaders and betters.

"Trust us..." "We know what we're doing (better than you ever did)." "We have the organisation's and your best interests at heart." "You may not understand what we're doing, but you needn't trouble your pretty little heads." "All your fears and concerns are safe with us."

The fact that trusting senior executives and "professional" "independent" advisers was what got us into this insufferable mire in the first place doesn't appear to figure in this sub-textual messaging. The very type and "calibre" of person being foisted upon us now is, at one and the same time, castigating and condemning us for having trusted their ilk previously and for not trusting their ilk now.

We shouldn't have to trust them.

We should have contracts in place which require them to do their jobs (including not exceeding their competence and authority by interfering with our democracy) and require us to sue them if they don't.

Toshiba has just announced enormous losses arising out of an accounting black hole of \$1.3 billion accumulated over several years of senior management subterfuge. Is anyone suggesting the shareholders are to blame?

Glencore's CEO misinterpreted the company's debt to the extent that dividends are suspended and more than \$7 billion in recapitalisation is required. Have the shareholders been pilloried?

Even closer to home, Tesco has been selling off assets left right and centre to "restore the balance sheet". Nobody is talking about "trust us".

In all these situations, executives are being fully and properly held to account.

Why are we not doing the same?

6. The Implications

Does any of this matter?

Will the loss of the flagship of the UK co-operative movement impact anybody but a few Involved, Interacting, and Influencing Members?

Well, none of this really matters if neither co-operation nor the co-operative economy matter.

So, do they matter?

The co-operative economy only makes sense if co-operation itself makes sense. So, what, in a few short words, is the essence of co-operation?

For people within the co-operative movement, co-operation offers a dignified and equitable working relationship among peers. It offers the opportunity to do away with the standard, undignified, "do as you're told" hierarchical mechanisms which continue to drive us towards oblivion.

Western society claims to be the hotbed of democracy, but the bulk of our institutions, from educational establishments to places of employment, from public service to private enterprise, are "one way" hierarchical in nature – decisions flow down from the top. The bulk of our citizens fully expect to be told what to do for most of their working lives, each and every day. This is not a healthy basis for sustaining a full blown democracy.

Co-operation offers the facility to engage, on an ongoing basis, in constructive dialogue between all ranks and stations in an organisation. This is not to say, as many detractors would have it, that each and every decision is pored over by every member of the organisation. In fact, co-operation allows for and encourages delegation of authority/responsibility for specific task areas. In fact, good co-operation relies and thrives upon such delegation. The essential difference between co-operative organisations and "one way" hierarchical ones is that such decisions are reviewable, and that those wielding authority and responsibility are ultimately accountable, at regular intervals, to the broad base of those over whom they have been delegated such authority. If they are found wanting, their authority can be revoked.

If political democracy is not supplemented with economic democracy, the quality of the political democracy is substantially undermined. Only a body public confident and familiar, on a daily basis, with the intricate workings of collective responsibility and decision making can be expected to take up the responsibilities of democratic citizenship in the fullest sense.

Good thing?

Assuming, therefore, that co-operation may be a "good thing", it follows that co-operative enterprises may also be a "good thing". For all its failings, The Co-operative Group, long the flagship of the UK and global co-operative movement, has stood the test of time. It hasn't ravaged third world economies; it hasn't blighted local communities; it hasn't systematically destroyed fragile eco-systems; it hasn't (to date) accommodated unsettling speculation in its ownership which in turn hasn't created or contributed to boom and bust cycles.

The only "bad" thing you could say about it is that it has been slow in its decision making and ponderous in its execution of strategic initiatives. But in a world dominated by fast reacting, top-down driven standard-model speculator corporations, where has all that fast acting left us? A quick look around the planet will show you that taking a little longer over some of their decision making might have benefited us all. It will show you devastated third world coast lines and starving populations. It will show you clandestine dumps and dumping processes. It will show you bursting "bottom lines" as everything else collapses. It will show you that much of what they have achieved has been the result of fast acting strong arm tactics – including interference in the processes of national government, mostly abroad but, increasingly, on the home front as well (google "TTIP"). Co-operative corporations are simply not well-placed or constitutionally capable of acting in these ways - which was precisely the intention of their founders.

Good thing?

Assuming therefore that co-operative enterprises may be a "good thing", it follows that the co-operative economy may also be a "good thing". For people without the co-operative movement, co-operation offers, through a more stable corporate model, a more stable economy. In general, co-operative ownership counters the western economy's "natural" centralisation of wealth which, in turn, marginalises the influence of speculation. This may not be of interest to billionaire speculators, their CEOs, and the political representatives they have bought and paid for, all of whom are forever under the cosh of chasing ever increasing profitability to the detriment of all other considerations. But it should be of profound and central interest to ordinary citizens who are not forever looking for opportunities to de-stabilise and speculate.

And it should be of fundamental interest to economic development practitioners and strategists in both local and national government who are, or should be, serving the interests of ordinary citizens. For these people, the interests of their common rate payers should be paramount, and their rate payers will have a greater interest in local economic stability than in forever increasing profitability which, in any event, usually flows directly out of their communities and into the coffers of distant, largely indifferent, off shore shareholders.

This is where the co-operative economy offers such profound attractions. Generally speaking, co-operative ownership is local ownership, and if decisions about enterprise and economic activity are being taken locally, it is more likely that greater account will be taken of local circumstance. Job losses or environmental degradation, public transport or access to facilities, all are as important for the shareholders of (co-operative) enterprise as for their neighbours. This sort of merging of interest between commerce and community, between public and private is unique to co-operative enterprise. It is built into their constitutions, and into the international principles to which all co-operatives seek to adhere.

William Ophuls ("Ecology and the Politics of Scarcity ") points out that planning and design both attempt to achieve real world outcomes by influencing nature. The subtle but important distinction is that: "...planning refers to the attempt to produce the outcome by actively managing the process, whereas design refers to the attempt to produce the outcome by establishing criteria to govern the process such that the desired result will occur more or less automatically without further human intervention."

The co-operative economy represents an attempt to influence outcomes by design.

In so doing, it can take into consideration, through its Membership and its distributed ownership, all the shifting elements which constitute an economy and an eco-system. Standard-model speculator corporations simply cannot do this. They are vehicles specifically constructed for one sole and fixed purpose. They are blindly committed to eternally driving down costs (especially labour) and eternally maximising profit – the infamous "bottom line" (see "Bottom Liners", same author). And this is to the complete exclusion of every other consideration under the sun.

So, does the co-operative economy matter?

Well, only if you happen to be looking for a tried, tested (for 150 years), and proven corporate model that doesn't ravage everything that stands in the way of exponentially increasing "growth" and insatiable profitability which funnels wealth to an ever diminishing proportion of the human race and gifts them with the ever increasing power to manipulate the lives and eco-systems of everyone else.

7. Where do we go from here?

The Future - if we have not yet lost The Group

Assuming we have not already lost The Group, what should we be doing?

Do we wish simply to outperform Tesco? In fact we have, to a large extent, become the victims of our own success. Our unique selling point (USP) used to be fairness. But things have moved on and, over time, Tesco and the like have been forced into fairness by progressive legislation and trading standards based largely on the examples we and the wider co-operative movement set. So we are no longer the only traders who don't add chalk to the flour. And on exemplars like Fair Trade and organic produce, many of our competitors are catching up and even surpassing us. So does it now come down to a price (and bonus) war, or do we need to look farther afield for new challenges on the moral high ground?

There can be no doubt that we have to face the music and consider some of the implications of the various reviews (whilst bearing in mind that they have been sourced largely through lords, millionaires, and other stuffed shirts).

In terms of the core food retailing business, there is already a focus on “convenience” which seems to have given us a jump on our competitors. This focus looks to being usefully extended into the foreseeable future and the prospects seem promising. We need to build on this and to expand our Membership offer through these up-beat outlets.

Executive decisions have been and continue to be made about disposals and contractions of other aspects of the business and it seems these will have to be weathered in the short to medium term. Our debts have to be serviced and our credit rating (however crookedly cooked up) protected.

In the longer term, we need to monitor our executive much more closely and, as touched upon above, we need to re-visit how we source our IPNEDS, accountants, and reviewers. It is difficult to imagine how we might do this more successfully than in the past given the innate clumsiness of democracies combined with the even greater strictures recently applied. But it is also clear that any dilution or diminution of our democracy flies in the face of everything we stand for, to wit:

- the intentions of the founding Pioneers
- The Group Values & Principles
- the seven internationally recognised Co-operative Principles, most specifically Principle 2
- our marketing of “the co-operative difference”
- and, not least, The Group's own Member Engagement Strategy and the entirety of our Elected Members' induction training

There is still much talk of the need for “reform”, but most of the rationale and drive for this seems to be coming from the curiously merged Board and executive team and its hand picked “professional” “independent” advisers and is couched in terms of keeping the democratic apparatus at arm's length so that they, the Board/executive, can “get on with the job”, unfettered by interfering amateurs.

I say curiously merged because there seems to be some confusion over the term “agent”. Experts like the ludicrous Cliff Mills (also known for his limited understanding of “mutuals”), have publicly opined that the Board is our (the Members') “agent”. In fact, of course, the Executive is our Agent. The Board is supposed to be our representative body in keeping our “agent” in order and working to remit. Interpreting the Board as our agent simply increases the distance between the Executive and our elected representation and allows the Board further to cosy up with its ilk in the Executive.

What is actually needed is a clearer demarcation (not distancing) between the roles of the Executive and of the elected Membership. And what appears to have been lost in all the furore is that, throughout the débâcle, that distinction became blurred to the complete disadvantage of the elected representatives. They, the elected reps, were there to assure that the direction of the organisation was consistent with its Values & Principles. They were not there to assess, in isolation, complex business decisions and manoeuvres. They had

highly paid executives, IPNEDs, and City accountants to advise them on these. They were stupendously failed by these advisers, but nowhere, in all the reviewing, has anybody accused the elected reps, anywhere in the process, of not trying to protect the V&P.

The threats to V&P have all come about since, as we cast about for solutions to the deplorable executive business decisions whilst successions of “independent” lords, millionaires, and City accountants advise us that our V&Ps need to be compromised in order to preserve the business.

The answer is, of course, not to diminish the roles of elected reps, but to clarify those roles and to give them the status not of supplicants but of informed corporate owners with the teeth to properly hold the Executive fully to account.

7.1. Select Committees

To assist them in this, some of the now dissolved Area Committees had mooted the idea of ad hoc scrutiny or Select Committees.

Rather than existing permanently (I believe there are already two permanent Standing Committees) to add to the clumsiness of the democratic apparatus, Select Committees would rise and fall with demand as different aspects of the business are deemed worthy of closer study. They could be called by, say, a minimum of ten individual Council Members with carefully selected Chairs and made up of short-listed, interested/concerned, Involved, Interacting, and Influencing Members and resourced sufficiently to call for expert researchers, investigators, and witnesses as required. They wouldn't be encumbered with volumes of routine business. They would focus exclusively within the parameters of their Council specified remit. A suitably resourced Select Committee looking into the scope for legal redress *vis a vis* the Britannia débâcle would be a good start!

7.2. “questions from the floor”

Questions from the floor in large plenary sessions are a complete and utter waste of time.

The current Board/executive pandering to open General Meetings where “any Member can raise any question” is a cynical attempt to create an appearance of democracy where a serious reduction of democratic recourse has actually been put in place. Asking a single question of a gloriously staged panel is nerve wracking and intimidating enough, but it is also futile and frustrating because any half competent stuffed shirt worth his salt can handle any single question any Member could ever come up with. The strength in questioning comes from supplementary questions. Weaselling and shirking and missing the point and general smart-arsing cannot be sustained where informed questioners are able to pursue their points.

Questions should be posed of specific Board members/executives by panels of three or four selected Members (perhaps serving Select Committee members) with specialised interests and expertise. These panels should be up on the glorious stage alongside the Board/executive respondent(s) and be seen by the assembled Membership to be pursuing the detailed and unequivocal answers to which they, the Members, have a constitutional right.

7.3. Education

In addition, we should focus our educative initiatives more widely. Rather than waiting for Members to be elected to office before offering training, such training should be made available much more widely to ordinary Members who may wish simply to know more about the organisation and about co-operative history. This could even be funded through shopping incentives such as vouchers and/or accumulated points and/or treated perfectly legitimately as “marketing”.

Clearly, many of these newly trained Members might still prefer not to be involved in the democratic process, but they would begin at least to form a significant proportion of a more informed and aware wider Membership. Over time we would inevitably see a more

pronounced drive from Aware upwards through Enrolled, Involved, Interacting, and Influencing.

7.4. Return to the Moral High Ground

As mentioned above, we have become the victims of our own success insofar as society generally has caught up with us in terms of fair trading. Is it time to look elsewhere for trend leading moral high ground?

Why not look at wage disparity?

Copious research shows that the wider the gap between the higher and lower paid, the more stagnant an economy becomes. Higher earnings tend to be saved or invested “off shore” which doesn't benefit the host economy at all. Lower earnings are what actually fuel the economy because lower earners tend to spend locally and cannot save significantly, let alone invest off shore.

Wage disparity also creates distortions in the economy. It affects things as fundamental as house prices, driving the lower paid completely out of the market.

In any event, can we buy expertise from high ranking corporate executives? Clearly not. Former CEO Peter Marks was costing the organisation in the order of £4.5k per day but seemed capable of little more than jumping on more and more band wagons to enhance his “executive” status. His replacement, the ridiculous Euan Sutherland, was costing us in excess of £7k per day and was actually on hand, as a fully paid “professional” IPNED, throughout the period immediately following the ill-fated merger with Britannia.

Can we buy loyalty from high ranking executives? Clearly not. Despite the huge payments, Euan Sutherland stomped off in an infantile huff (because details of what he was actually costing us were prematurely revealed) with the parting insult that the organisation was “ungovernable”. What kind of commitment and loyalty, let alone understanding, does that suggest? And who knows when the next high ranking executive will stomp off (or threaten to) in a similar fashion? Our recruitment and remuneration policies need substantial reviewing in the light of this.

In 2011, at the behest of the Involved, Interacting, and Influencing Membership, the Annual Accounts included a multiplier to show the CEO's salary as a multiple of the The Group's lowest paid workers. At it's lowest, this multiple was x70 (ie, the CEO was paid 70 times what the lowest paid staff were paid). It is currently at x109 (although the current Accounts seem to be paving the way for x140 to x145 (page 73) because that's what other Tesco's are paying!). It is worth noting that Warren Buffet, the legendary speculator, is on record as saying he never invests in a corporation where the CEO/lowest paid multiple is greater than 50. Perhaps we can lead the way here and take this (rather than bloated FTSE corporate “norms”) as some form of guidance.

The High Pay Centre (<http://highpaycentre.org/>) reports increasingly run away inflation in top executive pay and bonuses. The average for UK CEOs in 2014 was £4.2 million, whereas the average worker was receiving £27,200. The top CEO received £43 million.

Are these the norms with which we are supposed to be competing? They are, plain and simple, obscene. (To see just how obscene, have a play with: <http://highpaycentre.org/counter>)

The co-operative movement should be setting new standards in all this. We should be rigorously training our own people to move up through the ranks. At senior level, they and elected representatives - already highly imbued with co-operative values and principles - should be receiving insider training, coaching, and mentoring of the very highest order from “independent” corporate sharks and wide boys who do know the shenanigans and realities of the corporate world. If we train them so well that they get sucked into the mainstream private sector, so be it. We'll just keep producing CEOs and Board members of the highest calibre until the market is saturated and the pay scales begin to drop back to within the bounds of reason.

7.5. “sunset clause”

In his initial progress report (Progress Update of Independent Governance Review - 14th March, 2014), the noble lord Paul Myners listed “Key Recommendations” which included reference to a “sunset clause”. This, the last of his Key Recommendations, stated:

“All rule changes would contain a so-called “sunset clause”, under which the constitution of The Co-operative Group would return to the current status quo after a period of four to five years without a member vote to retain the new structure.”

Mysteriously, I could find no reference to this in his final edition (I would be very pleased to stand corrected). The closest thing I could find was a supine reference to “Demutualisation Protection” (Recommendation 21, P 89) clothed in his standard twaddle for anything to do with the mechanics of preserving Values and Principles.

I would urge current Council members to dig this out and appoint a Select Committee to study the detail and implications. If there is any grist to this particular mill, it may represent the last chance to restore balance to our sadly listing ship.

8. Finale

The Future - if we have already lost The Group.

Should the loss of The Group trigger a mass exodus?

Should we all, on a chosen day, abandon it to the stuffed shirts, hedge funders, and banksters and proceed to generate the resources to sue them for the mis-use of the term “co-operative”?

Perhaps. I'm not sure myself. I'm probably more inclined to hang in there to the bitter end in the forlorn hope that the opportunity may yet arise to prise it back from their greed-frozen fingers when they suddenly awake to the fact that even more money can be made for less hassle elsewhere in the speculator economy.

In so doing, I'm reminded of Tony Benn's 5 questions to put to democratic leaders, to wit: “What power have you got? Where did you get it from? In whose interests do you exercise it? To whom are you accountable? How can we get rid of you?” He goes on to say, “Only democracy gives us the right to ask these (and expect answers). That is why no-one in power likes democracy and that is why every generation must struggle to win it and keep it; including you and me, here and now.”

But whether we abandon the ship or not, what is abundantly clear from the broader history of our species is that it is much too early to give up on democracy. For all its shortcomings, it has been shown to be the nearest to a sane way of managing human activity. What has been lacking has been ongoing and systematic education in democracy.

Insofar as “a democracy is only as good as its education system”, ask yourself if democracy has ever really been given a proper chance. Do our schools prepare students for a fully participative democracy? Do our work places encourage collective decision-making and shared responsibility? Has any human society ever fully committed to democracy by assuring that democracy is at the very centre of the educational experience? The Scandinavians are beginning to take this on board, and results are already beginning to show, but elsewhere?

The Group has actually had, to date, a fairly exemplary record in trying to train and educate elected Members, but, really, such Members should have access to all this before they run for office. Learning “on the job”, in the context of an organisation as complex as The Group is simply not acceptable. Ongoing and specialised training sure, but the basics should be well in place among the wider Membership if the democratic apparatus is to be given a fighting chance.

But it is also clearer than ever before too that democracy needs a lot more work. Having sat through a lifetime of dreary political, trade union, voluntary sector, Local Government, and

Group meetings I can attest, first hand, to the extravagant amounts of collective time squandered. Poor chairing is rife. Wider misunderstanding of the role of the chair and the support required for the role is also rife. Self discipline is hapless. Focus is poor. Decisions are fuzzy and very rarely lead to concrete actions or outcomes. It is no surprise that, when seriously urgent problems arise, we are hopelessly inadequate in responding.

A good democracy requires a very determined effort to train and inform its members; to prepare them for leadership and leadership support roles. As mentioned previously, in organisations the size and nature of The Group this could be funded through marketing and through shopping incentives. It is only through an enhanced broader base of informed membership that the fragility of democracy is protected.

Our illustrious unelected Chair (pull-ease, a co-op?), the lamentable Allan Leighton (£250k/year and rising for two days a week) opines that “people” are the problem. People, properly informed, are, of course, our only hope.

In the brave new world of global economics, we must also pay closer attention to the plights of our cousins in the third world. One of the great failings of the Trade Union movement in its heyday was the sporadic interest it took in third world developments. Apart from some lip service and a few high profile exceptions, we tended to turn our backs on struggling third world labour organisers because we were too blinkered; too caught up in protecting our own demarcations and T&Cs. But the chickens came home to roost in the form of collapsing job markets at home as capital went abroad to fully exploit those unprotected masses. Of course labour is cheaper abroad when no one gives a toss about health & safety or environment or fair wages for fair hours. Because of that lapse in our collective concentration, we find ourselves competing for jobs with people still trapped in the kind of desperation unmatched by us since the early industrial revolution.

The co-operative movement did better than that. The Co-operative College in particular was exemplary in this regard. But much more still needs to be done. We must do more to assist and to protect other co-ops and other co-operators, at home and abroad. We might need them to help us in the not too distant future.

In spite of this magnificent dearth of preparation for participative democracy, encouragement for “the wisdom of crowds” can be found through a variety of sources. Though citizens may not be well versed in the mechanisms and procedures of formal collective decision making, when asked to respond *en masse* to specific questions they are shown, time and time again, to be unnervingly correct. Don't believe me? Have a look at:

http://www.amazon.co.uk/Wisdom-Crowds-Many-Smarter-Than/dp/0349116059/ref=sr_1_1?s=books&ie=UTF8&qid=1441953817&sr=1-1&keywords=wisdom+of+crowds

For another source of encouragement, have look at “crowd funding”. This is a means of raising cash from other than just the “bottom liners” (people who adhere slavishly to the “bottom line”). Ordinary people with a few quid to spare are investing in ideas that look useful or hopeful or sensible rather than simply in ideas that look like they might generate a massive short term profit. And it makes a change from simply giving to “charity”, which, like its counterpart “social work”, is itself simply a way of apologising for the excesses of unadulterated capitalism.

In Part 4, I referred to a socio-technological swing. Many of us have recently witnessed the rapidly agenda-setting capabilities of the social media. The “drain stream” media is increasingly derided and undermined as it tries to retain control of prioritising the day's or the week's events. The Corbyn and (in the US) Bernie Sanders phenomena have seen this manifested in very tangible terms. Despite early write-offs and later character assassination attempts by the drains, the real and meaningful discussion and news-spread was taking place on line where intelligent people were able to exchange directly without corporate intervention and “interpretation”.

In addition to the Corbyn/Sanders example, there have been many many instances of people reporting demonstrations and committee ripostes and police brutality which the drains were simply ignoring. In many cases the drains have had to take up the stories because there has been so much interest generated on line. In my view, this represents a cusp; a turning point. In much the same way as the printing press side-stepped the church's stranglehold on interpreting the bible and radio ignited mass movements and television brought wars into our living rooms, this aspect of the internet is levelling the ground for opinion formers of all kinds.

Rupert Murdoch can tweet and FB to his heart's content, but he will find it difficult to command the kind of guaranteed attention he has through his drain stream outlets. On line, he's just another crumpled face in a sea of faces.

Does this bode well (or better) for the future? Well, there are so many races against time in place now. Can we save our eco-systems before they die? Can we wrest power from the psychopathic speculator corporations and their lackeys before they destroy us?

I'm guessing much will depend on whether or not we can retain a relatively open internet before corporate psychopathy regains control.

And much will depend on whether we can support and nurture and enhance and improve and export democracy in and to all settings and all walks of life before it disappears altogether.

And much will depend on whether we can support and nurture and enhance and improve democracy in all walks of life and export it to all settings before it disappears altogether.

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