Employee-Owned Cooperatives in U.K. Are Rich in History and Promise for the Future

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Editor's Note: This article was developed following a week's tour of worker owned cooperatives in England and Scotland in summer 2010. The tour was sponsored by the Cooperative Charitable Trust, headed by Bob Giel and Suellen Hershman-Tcherepnin.

In Britain, the first modern cooperatives nearly vanished after a struggle to be established and a century of success, but now they are flourishing once again. Dictatorial management and membership indifference were what nearly brought them down, but new laws, better organization, and a new generation of leaders and members set them on the path toward recovery after they passed their 150th year.

Where Co-ops Began: the Rochdale Pioneers

The Rochdale Pioneers Museum is located in the store at 31 Toad Lane where the Rochdale Equitable Pioneers Society, widely regarded as the first successful consumer cooperative, opened its doors for business on December 21, 1844. The Rochdale Pioneers studied the reasons for earlier cooperatives' failures and established policies that they hoped would help them succeed.

And succeed they did. The cooperative movement has grown from those initial 28 members and £28 in capital to more than 3 billion members in over 100 countries.

The original rules and recommended practices of the Rochdale Pioneers indicate concerns that were ahead of their time: ethical conduct, democratic governance, sharing of profits, equal treatment of the sexes, education, and open book management.

The Museum website (www.museum.co-op.ac.uk) sets forth the original rules of conduct from the Pioneers' annual almanac:

- Capital should be of their own providing and bear a fixed rate of interest.
- Only the purest provisions procurable should be supplied to members.
- Full weight and measure should be given.
- Market prices should be charged and no credit given nor asked.
- Profits should be divided pro rata upon the amount of purchases made by each member.
- The principle of 'one member one vote' should obtain in government and the equality of the sexes in membership.
- The management should be in the hands of officers and committee elected periodically.
- A definite percentage of profits should be allotted to education.
- Frequent statements and balance sheets should be presented to members.

CCT Tour Group members at the original Rochdale Pioneers store at 31 Toad Lane.

While modern principles for cooperatives are not the same as the original Rochdale Principles, the influence of the Rochdale Pioneers remains. The seven Cooperative Principles, adopted by the International Cooperative Alliance, the global organization for cooperatives, at the Centennial Congress in Manchester, England, in 1995, are:

- Voluntary and open membership.
- Democratic control – one member one vote.
- Fair distribution of surplus.
- Autonomy and independence.
- Provision of education and training.
- Cooperation with other cooperatives.
- Concern for the community.

Co-operatives UK

Conflicts among different types of cooperatives contributed to the weakening of the movement in the UK. Dr. John Butler, Past Secretary General of Co-operatives UK, reported that in the 1880s there was a schism between consumer co-ops and worker owned co-ops that lasted until the 2000s, when they joined to form the Co-operatives Union, now Co-operatives UK, the trade association for cooperatives in the UK.

In the last half of the 20th century, many cooperatives became overly dependent on their management. Members of the board of directors typically received no education about their responsibilities, employees were not involved in management decisions, and, as a result, many co-ops were demutualized (sold to conventional firms). The problem came to a head in the 1990s in the Lanica affair, when two co-op executives received £2.5 million ($4.1 million) for facilitating a private-sector takeover of the Co-operative Wholesale Society. Shortly thereafter, Parliament passed the Industrial and Provident Societies Act. Among other provisions, the Act caps at £20,000 ($32,800) the amount that an individual member can receive if a cooperative is sold. The demutualization of co-ops stopped, and their prospects for survival improved.

Guided by the principle that "good governance leads to trading success," Co-operatives UK now requires annual co-op reports to explain the education of the board of directors and the co-op's level of compliance with best practices. The report should also include business performance indicators and measures of environmental and social performance.

Butler observed that a big challenge for co-ops is succession planning. Previously, the process was informal and often based on seniority. Now, the search is expected to follow typical business practice, including the use of executive search consulting firms.

The UK (including Scotland) has about 5,000 co-ops with 12.9 million members and 238,000 employees, and generates £33.5 billion ($55 billion) in annual revenue. The 411 worker-owned cooperatives, with 2,050 members and employees, are only a small percentage of all, with annual revenue of £146 million ($239 million). On average, worker-owned cooperatives have about 50 employees, but the median is only two.

However, interest in worker-owned cooperatives is growing. In 2006-09, there were about 30 new worker co-ops in a year, and there were 30 in just the first quarter of 2010.

The Co-operative Group

The Co-operative Group (CG) is the largest member of Co-operatives UK. Its website (www.co-operative.coop) states that it is the UK's fifth largest food retailer, third largest retail pharmacy chain, number one in funeral services, and the largest independent travel business. Its 5.5 million consumer members employ 120,000 people in about 4,800 retail outlets.

According to Martin Hulme, Director of Strategic Planning for CG, market share of cooperatives in the grocery industry declined from 30% in 1960 to 5% by 2005. By that time, however, recovery efforts were already in motion.

From 2000, CG acquired or merged with additional co-ops and conventional firms, including Somerfield, a general merchandiser and food store, Britannia Building Supplies, and co-operative societies in Lothian and Plymouth. A re-branding campaign developed internal and external similarities among all its outlets. "The Co-operative" stores today are immediately evident by their consistent and unique external signs.

The results have been impressive: 17 consecutive quarters of sales increase, with sales doubling every 2 years, and market share climbing past 8%. And the Co-operative brand is now one of the UK's most trusted brands.

Brad Hill, CG's Fairtrade Strategic Manager, cited the objectives of "responsible retailing" and having a "leading position on all things ethical" for 4,500 products under the fair trade umbrella. Kristian Mills, Head of Brand Governance and Standards, reported that in 2005, its brand value was zero. In 2009, brand value had grown to £2.2 billion ($3.6 billion).

Five pillars of branding for CG are:

1) Consistent Quality – "as good as" name brand products
2) Rewarding – the Co-operative members' rewards card is used across all its businesses
3) Trustworthy – honest, open and fair
4) Community – close relationship of the cooperatives and their community
5) Championing –Recycling, solar power, etc.

Profits of CG are 60% reinvested in the business, with 28% distributed to members, 8% to employees and 4% to the community and campaign teams.

John Lewis Partnership

The John Lewis Partnership (JLP), founded in the early 20th Century, is more like an ESOP than a cooperative. JLP shares are held in trust, and the beneficiaries of the trust are the Partners, the 76,500 permanent employees of the company in 2010. Through the Trust, the Partners own 32 John Lewis department stores and 255 Waitrose supermarkets. The Partners share the profit and have oversight of management decisions through several democratic bodies.

In the just-released financial report for the year ending in January 2011, JLP had profits (before paying taxes and the annual partnership bonus) of £368 million ($603 million) on sales of £8,206 million ($13.452 billion). The average partnership bonus was about £2,500 ($4,100). The Partner bonus is calculated solely on the overall performance of JLP. There are no department, store, division or company bonuses. In 2009, it amounted to 15% of pay, and about 17% in 2010.

The JLP Constitution resembles the U.S. Constitution in creating a representative government with checks and balances. Partners elect the 64 members of the Partnership Council, which recommends overall policy and can remove the Chairman with a 2/3 vote. The Partnership Council appoints five members of the 14-member Partnership Board. Other members of the Partnership Board are the Chairman and Deputy Chairman, along with five JLP members and two outside members appointed by the Chairman. The Chairman of JLP is nominated by the outgoing Chairman, and approved by the Partnership Board. The entire JLP Constitution as well as recent financial reports can be downloaded from http://www.johnlewispartners.co.uk.

JLP's Counsellor and Registrars are responsible for maintaining the partnership constitution and its culture, explained Registrar Marcus Safadis. Registrars are appointed by the Partners' Counsellor, who is a member of the Partnership Council and appointed to the Partnership Board by the Chairman. The Registrars educate new members, serve as local representatives of the Counsellor, function as channels of communication between Partners and Partnership authorities, and approve sales of units and divisions. In effect, they act as ombudsmen, investigating problems that may violate the Constitution or harm JLP, and facilitating solutions. Safadis explained that Partners rotate through the position of Registrar, to spread the culture as widely as possible.

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A John Lewis Partnership store in Trafford, UK.

To maintain employee ownership, the JLP Constitution, established by founder John Spedan Lewis, states that the business cannot be sold without approval of the Queen, and she is under instructions to never approve a sale!

Co-operative Development Scotland

Scotland has 485 co-ops with 28,600 employees and £4 billion ($6.6 billion) revenue, reported Sarah Deas, Chief Executive of Co-operative Development Scotland (CDS). Fifty of the co-ops are worker-owned, with 4,270 employees and £708 million ($1.2 billion) revenue.

CDS assists companies with prefeasibility studies, learning visits, legal structures, funding options and sources, and member participation and education for both startup ventures and conversions of existing companies into worker co-ops. For smaller companies, they provide a standard template to help reduce service provider fees.

Martin Meteyard, a consultant for CDS, lamented the difficulty in obtaining external investments for worker co-ops.

Edinburgh Bicycle Cooperative

Edinburgh Bicycle Cooperative (EBC) was founded in 1977 and currently has 200 employees, of whom 130 are co-op members. After one year of employment, acceptance by existing members, and payment of £2.94 ($4.76), employees can become members. The board of directors is elected by members on a one-person one vote basis. Management style is open and consultative.

Michael Sweatman, Finance Director and former Managing Director, stated the attitude of EBC as "we like business, we like competing in markets, we like globalization … we're just not convinced about capitalism." Later, he also commented, "We're not passionate about cooperatives. What we're passionate about is bicycles!"

EBC has grown partially by acquisition. Said Sweatman of a bicycle store they bought in Newcastle: "Several months after EBC took over the store, a customer commented, 'The best thing you did was get rid of the grumpy bastards who worked here and replace them with employees who are happy to work here and are excited about the product.' But EBC had not replaced the staff. It was exactly the same staff. EBC gave them a reason to care and a quality product to sell."

Democratic governance is the rule at EBC. A simple majority rules, even for major decisions. "We make no attempt to achieve consensus," said Sweatman, "but 90% of the decisions do achieve consensus." Co-op members share an annual bonus equal to 50% of profit above a target figure. The bonus is allocated based on hours worked. There is a maximum allowed ratio of 8:1 between the highest and lowest paid employees.

An employee benefits trust owns the shares. After an auditor values the company each year, shares are issued to members free of charge, based on hours worked. The annual distribution of shares is limited to a maximum of £3,000 per member, the maximum amount members can receive and not be taxed. Only members or former members can own shares, and former members cannot vote their shares. Once a year, shares can be traded internally among members. Members can get the cash value of their shares after three years, but they must pay income taxes if they do so. If members hold the shares for five years, they can cash them out tax free.

EBC's rules include provisions to discourage a sale. A 75% vote of members is required to change the rules. The employee benefit trust has a "golden share" that the trustee can use to veto any change to the rules. Jeremy Miles, the Managing Director, is the current trustee. However, after 6 months, members can vote to change the trustee. The net impact is that EBC's rules can slow down a sale of the business but not prevent it altogether.

Tullis-Russell

Tullis-Russell (T-R) is a paper mill outside Edinburgh with 750 employees. David Erdal, as the then chairman, led the transfer into employee-ownership between 1985 and 1994. Since then the employee benefit trust (EBT) has owned around 60% and a family-owned charitable trust 28%, with the employees owning the rest as individuals. Voting is one person, one vote. There are nine trustees: four elected by employees, four appointed by the board, and one independent trustee appointed by agreement of both groups. Each year, 7.5% of profits are given to employee owners in the form of shares and a further 15% of profits in cash.

Largely due to higher productivity because of its employee ownership and involvement, T-R survived a brutal shakeout in its industry, as 40 mills dwindled to four.

The constitution and governance structures are designed to foster long-term sustainable employee ownership. So, for example, the charitable trust is specifically released from any need to diversify investments; the main block of shares in the EBT never has to be sold again, which allows them to keep the share market liquid. If it ever is sold then the trustees have to give the proceeds to charity, not distribute them to the employees, which greatly reduces the attraction of selling. The elected council has the right of veto over major strategic decisions, including any acquisition or investment equal to more than 10% of assets.

And above all there is a culture of informing, consulting and involving employees—who in the end are the ones who re-elect the directors every three years. Or don't. The philosophy is that each person is not an employee but a partner, sharing in the information, influence, profit and capital of the company. Being treated as a partner can release commitment and creativity and great happiness. So the business performs better.

Overall Impression

The Cameron government in the UK has proposed converting many public services to private ownership, mostly through the formation of cooperatives. This renewed government interest in creating cooperatives might move the model into the mainstream of business instead of its being viewed as an alternate "movement" outside ordinary business practice. They might even become the dominant force in the UK economy.

Co-operatives UK favors a multi-stakeholder model (combination consumer, producer, and/or employee) for the conversions. Some advise that cooperative leaders should seize the opportunity even if the resulting enterprises are not purely worker-owned cooperatives. After all, most of the companies described here, with various ownership structures and practices, have prospered, benefited their employee owners, and accomplished good things for society, too.

For U.S. co-ops and ESOPs, the idea of the golden share might be a way to sustain them for their employee owners and the communities where they are located. **OAW**