J Bus Ethics (2016) 135:557–568
DOI 10.1007/s10551-014-2489-9

Retrieving the Co-operative Value-Based Leadership Model of Terry Thomas

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Received: 25 November 2014 / Accepted: 26 November 2014 / Published online: 9 December 2014

Abstract The paper documents the post-war retrenchment and failure of the post-war British Consumer Co-operative Movement. In contrast to the general failure one CEO, Terry Thomas stands out both for his success in co-operative rebranding and returning to profitability the UK Co-operative Bank and because he alone amongst the top echelons of the Co-operative Groups Management based his strategies on a clearly articulated philosophy based on his understanding of the values and purpose of the co-operative movement rooted in its historical traditions grounded in the writings and achievements of Robert Owen, The paper goes on to provide a case study of the bank's process of transformation from loss-making subsidiary to the first positive co-operative national brand in the post-war period of its history. The author argues that lack of appropriate vision based on the founding values and purposes of the Co-operative Movement is the principal reason for the management's and governance failures that have beset the UK Co-operative Group. Instead of using the past to help in understanding the present and planning for the future, the UK Co-operative Group Leadership ignored it or worse used the past successes to congratulate itself and disguise its manifest failures. In this, they were supported by an uncritical Co-operative Union (later renamed Co-operatives UK). Davis argues large co-operatives cannot be managed by a civil service responsible to an elected board. Co-operatives need a servant-leadership model of professional management dedicated to the transformational goals set by the founders of the co-operative movement. This needs a radical rethink and promotion of co-operative management education and a dedicated executive recruitment that seeks out value-based professionals whose attitudes and values are compatible with Co-operative values, ownership and purpose.

Keywords British Co-operative Bank · Ethical banking · Inclusive partnership · Co-operative value-based management · Leadership · UK Co-operative Group

Before and After Terry Thomas—A Short Summary Business History

The Co-operative Bank was founded in 1872 under the name of the Loan and Deposit Department for the Co-operative Wholesale Society.[1] For the most period of its history, it acted as the banker for the co-operative movement once the UK Industrial and Provident Society legislation was amended to permit this. It took on trade union accounts in the first quarter of the twentieth century and opened its first retail outlets. By the late 1940s and the 1950s, the Bank's growth accelerated as it attracted business from the local authority sector. In order to improve the creditability of the Bank, its owners, the Co-operative Wholesale Society Ltd (rebranded in 2007 as the UK Co-operative Group), agreed to incorporate the Bank under the Companies Act and the UK parliament passed the Co-operative Bank Act in 1971.[2] Accordingly, the Co-operative Bank never had direct individual members or an elected lay board. The Bank invested considerable resources in order to establish itself as a clearing bank and established a reputation for innovation by introducing the first commission-free banking in the UK and later bringing

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[1] Wilkinson (1991).

[2] Ibid., p. 5.

in an interest-bearing current account.[3] However, the big banks grudgingly followed suit so these innovations although very healthy for the retail banking consumer did little to improve the competitiveness of the Co-operative Bank.

The UK Co-operative Bank plc remained until 2014, when it was effectively demutualized, solely owned by the UK Co-operative Group which now owns only 20 % of the Bank's equity capital. The UK Co-operative Group includes the world's largest retail co-operative, the UK's largest independent funeral business and claimed until recently to be the world's largest co-operative. However, these facts often presented and 'celebrated' by officials from the Co-operative Union (also rebranded as Co-operative UK in 2007) obscure the reality that the British Co-operative Movement's retail business has been retrenching ever since the Gaitskell Report (1958).[4] All of the hundreds of local and regional society bankruptcies that followed the movement's failure to introduce the reforms proposed by the Gaitskell Report were presented as 'mergers' with what was known by insiders as the movement's 'ambulance service'—the Co-operative Retail Services Ltd. It was founded in 1933 to assist ailing societies. By the 1950s, the movement's growth was halted for the first time in its history, and by the1960s, the number of ailing societies was growing, and the co-operative brand was recognised as 'tired'.

From 30 %, the retail co-operatives' market share fell over the next 40 years to 5 %.[5] The Co-operative Permanent Building Society dropped the word Co-operative to become the Nationwide Building Society (1970), and the Co-operative Retail Services at this time used a variety of brands, including Leo's, Market Fresh and Stop & Shop. The Co-op Bank was also in difficulties financially when Terry Thomas became CEO following his struggle to save the bank from being sold off.[6] He bucked this trend to rebrand the Co-op Bank as the Co-operative Bank and introduced reforms that—it is no exaggeration to claim—turned the rebranded Bank into the first national positive co-operative brand the British Movement had in its post-war period.

In 1997, the CWS Ltd foiled an attempted predatory attack aimed at privatising the CWS Ltd, with involvement by the Lloyds Banking Group. The attempt was orchestrated by Andrew Regan's Galileo Company whose £1.2 billion bid for the CWS ran into the sands when it was shown to be based on the acquisition of confidential documents provided by two senior CWS Executives Alan Green and David Chambers.[7] Earlier in 1994, CWS had sold off most of its manufacturing operations to this same entrepreneur Andrew Regan for £111 million. Regan shut down a number of the CWS factories, restored the remainder to profitability. He then sold them again for £120 million.[8]

Regan justified his attacks by pointing to the very poor financial performance of the CWS Ltd. Regan's criticisms where confirmed when the CRS Ltd itself went under in 2000 with huge losses. Again this was presented as being a 'merger' with the then CWS retail arm. In 2000, CRS Ltd had published losses of around £60 m.[9] The huge undisclosed losses arising from management failure and poor governance was born primarily from the rising profitability of the Co-operative Bank. The crisis triggered in the same year the expensive and largely cosmetic report of the *Co-operative Commission* chaired by TUC General Secretary John Monks and endorsed by the then PM Tony Blair. Any independent observer reading the report would have to conclude that it was light on facts, empty of vision and lacking a strategy. The Commission failed to address the problems of poor leadership and management development and the crisis in membership engagement.[10] Davis and Donaldson in their 2000 survey of 17 UK Co-operative Societies found there was less than 2 % participation in elections to Boards in the 17 Co-operative Societies surveyed. They found very few management education or development programmes in the values and principles of co-operation or in quality management in general.[11]

In place of strategy and a major reappraisal of organisational vision and mission came more reorganisation and, in April 2002, CFS was formed as a new Industrial and Provident Society to bring the Co-operative Bank and the Co-operative Insurance Society (CIS) together under "common strategic leadership". By 2007, the CWS Ltd went in for a major rebranding, and the CWS Ltd became the Co-operative Group. However, the demutualization and retrenchment continued, with Shoefayre—the retail shoe chain—owned by the Co-operative Group being sold to a private sector rival in 2007.[12] This was followed in 2010

[3] Ibid., p. 6.

[4] *Co-operative Independent Commission*, Chair Hugh Gaitskell MP. http://discovery.nationalarchives.gov.uk/details/rd/faec6671-73df-4700-97f1-2af28869fb4d.

[5] Voinea (2014).

[6] http://en.wikipedia.org/wiki/Co-operative_News—the *Co-operative News* have subsequently deleted this site.

[7] Bowers (2002).

[8] Co-operative Group (CWS) Ltd. History http://www.fundinguniverse.com/company-histories/co-operative-group-cws-ltd-history.

[9] 'Co-op finally puts survival on agenda.' http://www.theguardian.com/business/2000/mar/03/8.

[10] *The Co-operative Advantage. Report of the Co-operative Commission*. January, 2001

[11] Davis and Donaldson (2000), see Table 4.3, p. 160.

[12] Shoefayre sold by the Co-op. *Manchester Evening News*, Sept 13, 2007. http://www.manchestereveningnews.co.uk/business/business-news/shoefayre-sold-by-co-op-1003882.

with the Co-operative Group merging, as a minority partner (30 %), its travel businesses with the Thomas Cook travel company. In November 2011, the new group lost about three quarters of its share value on the London Stock Exchange after the company announced that it was in talks with its banks about increasing the borrowing by some £100 million. Subsequent profitability appears to be based on financial manipulation of assets rather than travel, with the group travel still posting substantial operating losses.[13]

> "Interestingly, the Mid-Counties Co-operative's travel division that did not enter the "merger" with Thomas Cook has just reported record profits. Press reports indicated that these were produced by selling travel services, not by financial manipulation." (William Read, Friday 11th April, 2014 Readers Comment)[14]

In the same year, Dame Pauline Green, CEO of Co-operatives UK and President of the ICA, made a presentation on the 10 years since the Commission at the Co-operative Congress 2011. During her up-beat presentation, she noted amongst the 'achievements' during the 10 years since the Commission one to be that of a "Strong professional and lay leadership in the movement" (Slide 20).[15] In 2013, the Co-operative Group sold its life insurance to Axa Insurance and its insurance fund and asset management businesses to Royal London following losses by the Group of over £600 million.[16]

In 2014, the Bank got into serious trouble following a merger with the Britannia Building Society. The large level of Britannia's potentially toxic debt was 'overlooked' completely by the external consultants, and the Co-operative Banks owners board, and management the Co-operative Group, and by the Banks' own executive management when the merger went through. No sooner had the CEO of Britannia Building Society Neville Richardson taken over as the Head of the Co-operative Bank than he embarked upon another expansive proposal to take over a large number of Lloyds Bank branches. The level of this unnoticed Britannia toxic debt was un-fundable within the capital resources of the Bank and the Co-operative Group, but it was pointed out later by financial commentators that

> All this raises questions of how much the execs knew about Britannia's bad loans when they merged, and how much they knew of their own financial problems when embarking on the Lloyds expansion…, it seems entirely feasible that those bad loans had been kept off the records or downplayed for the time being so as not to jeopardise the Co-op bid for the Lloyds branches. Had the deal gone through, existing bad debts would have been less significant because the bank would have been well capitalised with a larger balance sheet. But the deal did not go through, and the bank had to come clean. (http://www.redpepper.org.uk/co-op-bank-the-david-that-wanted-to-be-a-goliath/).

Just prior to the failure of Project Verde, as the expansion proposal was known, Neville Richardson left the Co-operative group's employment along with a number of other senior executives. His personal pay was estimated to be in total worth £4.6 million.[17] It is surprising, to say the least, that the one man who—as CEO of two large mutual/co-operative financial services' organisations engaged in failed property deals and mergers that led to their collapse was subsequently, upon departing from the Co-operative Bank, given a board appointment to JSSH, a new commercial holding company and a part of the Seddon property empire.[18]

The UK Co-operative Group failed to call upon the International Co-operative Bankers Association (ICBA) for capital investment to help save its Bank; instead, it found investor equity funding that led to its demutualisation with the Co-operative Group Management and Governance structure being severely criticised in two independent reports. The Co-operatives Groups holdings in the Bank have been diluted from 100 to 20 % share ownership. In the same year, The Co-operative Pharmacy division has been sold off to *Bestway* for £620 million. In August 2014, the Group announced the biggest land sale in a century by selling the Co-operative Fames to the Welcome Trust. This action had sparked a nationwide campaign amongst ethical farming groups and community co-operators with a petition of over 9000 signatures urging the Group to hold off the sale.

The petitioners claim that a unique opportunity is being lost

> "to make a major contribution to sustainable UK food production and help young new farmers to access land. Like minded groups interested in buying the land (such as co-operatives and Community Farmland Trusts) will require time to put the necessary finances in place, to arrange a sale, and to find suitable tenants. The Co-operative Group board should allow time for initiatives to be planned and organised so that the co-operative management of the Co-op's

[13] White (2014).

[14] Ibid.

[15] Green (2011).

[16] Turner (2013).

[17] Hawkes (2013).

[18] http://www.thisismoney.co.uk/money/markets/article-2479030/Former-Co-op-Bank-boss-Neville-Richardson-new-job.html.

farmland can continue. The founding values of the Co-operative are at stake here, and the Group will lose all credibility if it simply sells its farms to the highest bidder." (https://you.38degrees.org.uk/petitions/sale-of-co-operative-group-farms).

In November 2014, the Co-operative Group announced that it had completed the deal to sell its Sunwin Services business to Cardtronics for a total consideration of up to £41.5 m, payable in cash. The Sunwin Services Group includes the following services: Cash & Valuables in Transit: ATM Support: Sunwin Managed Security including the Head Office in Bradford and 14 regional depots.

Only the failure of the Bank has been independently scrutinized in both the *Miners Report* and in Sir Christopher Kelly's *Independent Review*. Both are strongly critical of the Banks and Co-operative Groups leadership, governance, management and culture. The Independent Review concluded that

"2.3 A number of factors contributed to the debacle of the capital shortfall and the subsequent restructuring

(i) The economic environment.
(ii) Increasing capital requirements imposed on banks in general following the financial crisis, and on the Co-operative Bank in particular as a consequence of specific issues that it needed to address.
(iii) The merger with the Britannia Building Society in 2009.
(iv) Failure by the Bank after the merger to plan and manage capital adequately.
(v) Fundamental weaknesses in the governance and management of risk.
(vi) Material capability gaps, leading to a serious mismatch between aspirations and ability to deliver.
(vii) Past miss-selling of payment protection insurance (PPI).
(viii) A flawed culture.
(ix) A system of governance which led to serious failures of oversight.

2.4 Only the first of these, and to some extent the second, were outside the Co-operative Bank or Group's control".[19]

The Miners review came to similar conclusions that focused on three areas:

(1) A reformed Group Board that possesses the skills and experience, as well as the commitment to co-operative values, that will enable it to match in quality the boards of its primary competitors.
(2) The establishment of a National Membership Council to provide a powerful representative forum of elected members for holding the Group Board and Executive to account, and for acting as the guardian of co-operative values.
(3) The extension of full membership rights to all individual members, consistent with the fundamental co-operative principle of "one member, one vote" and substantially increasing the scope for genuine participatory democracy.[20]

In this overview before and after our case study, we have outlined a co-operative catastrophe which must rate as one of the biggest series of demutualizations in co-operative history. Yet need it have been this way? The following case study is an example of turning around a failing, and in competitive terms tiny, national co-operative bank operating in a globalised financial services environment and turning it into a success that for a time put the private sector banking industry operating in the UK on the defensive. The question we need to critically evaluate is was this turn around due to the nature of the co-operative leadership vision and if so how do we characterise the nature of this leadership and apply it more widely?

The Case Study

The case study covers a part of the 9 years of office by Terry Thomas as CEO of The Co-operative Bank. Terry joined the bank as Head of Marketing in 1973 and prior to his appointment as CEO had fought successfully against its privatization by the CWS Ltd. During his term and following it, the Bank has pioneered ethical banking in the UK and has won many awards and commendations from independent bodies for its social responsibility programmes, equal opportunities programmes, and its world-class independently audited business ethics standards. Under his leadership, the Bank consistently improved profitability at record breaking levels since the introduction of the values-based development programme championed by Terry Thomas.[21]

The development and continuity of the programme was managed throughout by Simon Williams then the Bank's Director of Corporate Affairs. The overall success of the programme depended however on the enthusiastic support of

[19] Kelly (2014).

[20] Myners (2014).

[21] Thomas (1997).

the whole management and staff working at the Bank. This support has never been taken for granted but rather was the result of detailed and continuing development programmes communicating the Bank's leadership vision, strategy and policies. The Bank conducted regular and detailed surveys of staff opinion. In this case study we also provide an overview of the Bank's holistic approach to its measures of performance, which covers reporting on its seven partnerships. The Bank's performance is measured and independently audited. The Bank's Partnership report was rated as one the world's most advanced examples of the impact of co-operative financial and social value added.[22]

Co-operative Banking in the 1980s

By the 1980s, conditions in retail banking had become more competitive for the Co-operative Bank. Deregulation had enabled Building Societies to offer personal bank accounts with check books and a range of other facilities. The Bank conducted a successful campaign with the Nationwide Building Society against the big four UK commercial banks' drive to charge for the use of ATMs. The big retail banks had re-focused their business back to the domestic retail market to try to recoup losses arising from bad debt abroad. They were able to match the free banking offered by the Co-operative Bank and retreated on their ATM charging strategy which of course denied the Co-operative Bank its main differentiation in the retail banking market.

The Bank went into a period of stagnation and falling profitability as the large clearing bank overheads and heavy payroll costs arising from the period of growth coinciding with a period of high inflation led to losses in some parts of the bank's operations.[23] The big four retail banking giants had a far greater market presence than the Co-operative Bank which still only had a minuscule share of the retail banking market. The Bank was caught between the big banks and the big building societies. It did not have the outlets to mark a significant presence in the high street, or the capital to innovate, and its cost structure meant that it could not compete on price.[24]

> "…the Bank could no longer compete across all fronts and be all things to all men; secondly…a rapid growth in the customer base was necessary to ensure long term survival; thirdly…the Bank needed to find itself a niche or secure a long term positioning strategy."[25]

[22] Davis (1999). This case study is an updated version of an original.

[23] Wilkinson (1991, op. cit., p. 7).

[24] Ibid., p. 8.

[25] Ibid., p. 7.

The Bank did have some strength. It had become the second largest provider of banking services to the local authority sector.[26] It had an extensive network of retail-based banking facilities in the larger co-operative stores.[27] But the consumer co-operative movement itself was on the decline, and indeed, the co-operative content of the Banks business had shrunk to 10 % of the total business—this despite the fact that the bank's lending to the co-operative movement stood at record levels. The co-operative deposits with the Bank represented only 4 % of the Bank's liabilities portfolio.[28] The Bank could have been seen as ripe for a take-over bid and become another area of co-operative retreat.

Customer Survey

Instead, in the face of even tougher competitive pressure at the beginning of the 1990s, the bank took the opportunity to develop its strategic profile, a three-year rolling strategy based on a continuous review of the market in which the Bank operates.

the Bank's basic strategy is to

- to focus on its core business activities.
- enhance the quality of its customer relationships and service.
- improve the economics of its business.[29]

In looking to find a basis for differentiation in it's positioning in the marketplace, the Bank asked the question "What makes the Co-operative Bank unique in the financial services market?"[30] In answering this question, the Bank bucked the trend in British Co-operative Financial Services and sought to incorporate and emphasise its co-operative values into its commercial strategy and practice.

Its new Mission and Ethical Statements was the result of one of the largest and the most detailed market surveys of customer attitudes and opinions ever undertaken by a British co-operative organization. The survey found that 84.2 % agreed that the Bank should have an ethical policy with only 5 % surveyed feeling that ethics had nothing to do with Banking. The broad social and environmental questions that concerned the Bank's customers were human rights (90 %), the arms trade (87 %), animal experimentation (80 %); the fur trade was opposed by (66 %), and tobacco manufacture (60 %). There was considerable

[26] Davis and Worthington (1993).

[27] Ibid., p. 65.

[28] Ibid.

[29] Ibid., p. 66.

[30] Ibid.

customer concern with environmental issues including pollution, energy conservation and recycling.[31]

Financial and social value added in the community context: profiting through partnership

The Bank's commitment to serve all its stakeholders is effectively the recognition that co-operatives are rooted in community and should never simply adopt a narrow focus on "primary stakeholders". Such an approach misses the point. The *interdependence* of the various stakeholders ensures that the primary stakeholders' interests (in the co-operative context of members and/or customers) are best served by integration of the business on the basis of a broad recognition of social responsiveness to all stakeholder communities and the wider society. This does not mean a dilution of focus on the customer. The later certainly is the Bank's focus. Rather this broader perspective leads to an enhancement of that focus by bringing into the picture the customers' environmental context and relationships.

Mervyn Pedelty, (formerly with Lloyds Bank) Terry Thomas' immediate successor following the Groups refusal to let Terry continue after his retirement age, in the Introduction to the Co-operative Bank's 2000 Partnership Report writes of "…our firmly held business philosophy that sustainable success is best achieved by those organizations who take the broadest view of their responsibilities".[32]

The extent of this breadth in the Co-operative Bank's approach can be demonstrated by listing its seven partners.

(1) *Shareholders* The Co-operative Group (CWS) Ltd. Owned by around 8 million British consumers.
(2) *Customers* Around 2.5 million personal accounts and 88,000 corporate accounts are held by the Bank
(3) *Staff and their families* Over 4000 employees of the bank and their families.
(4) *Suppliers* Around 480 different businesses
(5) *Local communities* The Bank has a special commitment to the Skelmersdale, Stockport and Salford and the Greater Manchester area where its headquarters and key administrative functions are located as well as the localities in which the Bank's 100 branches are situated.
(6) *National and International Society* "At the heart of the partnership approach lays recognition of interdependence: the understanding that the Bank's activities rely for their success, and have an impact upon, the natural world and the six billion people who inhabit it."
(7) *Past and future generations of co-operators* 700 million co-operators worldwide.[33]

This last partner is the most innovative and the one that clearly recognizes that the Co-operative Bank was more than just a co-operative business but rather part of a social movement. The historical roots and future aspirations of the Co-operative Movement speaks of co-operation as a different order, a different economy and an aspiration for popular ownership of the economy, distributive justice, democracy, community and humanistic development/education. This ethical stance was further strengthened when the Bank announced its commitment to take what it called a "balanced position with all stakeholders"[34]

During Terry Thomas's period of leadership, the Co-operative Bank's programme went beyond good intentions and presented an impressive account of independently audited assessments of its achievements measured against targets covering each one of its seven stakeholders. The Bank published its failures as well as its successes in a frank assessment of performance. In terms of the partner identified as 'the wider international society', the Co-operative Bank campaigned in partnership with Greenpeace, Royal Society for the Protection of Birds, Christian Aid, and Fairtrade, on landmines, third world debt, and refugees. All these campaigns have been independently evaluated.

For example, Richard Evans of *Ethics* etc. wrote in the partnership report 2000 of the Banks' campaign on refugees:

> My aim in analyzing the campaign is to establish whether the Bank's primary interest is in marketing benefit or the campaign issues and whether its involvements are effective.[35]

This open and critical tone illustrates the critical and independent content of all the audit reports on the Banks relations and activities with its seven partners.

Measuring success in the Co-operative Bank

I give a flavor of some of the measures used in the British Co-operative Bank's Partnership Reports to indicate the success or failure of the Bank's performance: *Financial bottom line*: profit before taxes, return on equity, operating income, operating costs, cost/income ratio, average retail balances. *Social bottom line*: Financial contribution and numbers of community programmes and the numbers of people involved in programmes. Customer and other stakeholder's opinions and perceptions also form important

[31] *The Co-operative Bank Puts Ethics into Banking*, The Co-operative Bank Press Statement, May 1, 1992.

[32] Pedelty (2000).

[33] Seven Partners (1998).

[34] Ibid.

[35] Evans (2000).

measures which the Bank reports on. On the *environmental bottom line* the Co-operative Bank measures among other things its waste disposal, energy use, paper and other materials consumption, levels of recycling including cans paper and donations of furniture the Bank made to charitable causes. In its 2000 report the Bank itemized 28 environmental measures and 13 social responsibility measures with 21 indicators for measuring the Bank's success in delivering value.[36]

The Banks Mission Statement[37]

"We, The Co-operative bank Group, will continue to develop a successful and innovative financial institution by providing our customers with high quality financial and related services whilst promoting the underlying principles of co-operation which are…

Quality and Excellence

To offer all our customers consistent high quality and good services and strive for excellence in all that we do.

Participation

To introduce and promote the concept of full participation by welcoming the views and concerns of our customers and by encouraging our staff to take an active role within the local community.

Freedom of Association

To be non-partisan in all social, political, racial and religious matters.

Education and Training

To act as a caring and responsible employer encouraging the development and training of all our staff and encouraging commitment and pride in each other and the Group.

Co-operation

To develop a close affinity with organizations which promote fellowship between workers, customers, members and employers.

Quality of Life

To be a responsible member of society by promoting an environment where the needs of local communities can be met now and in the future.

Retentions

To manage the business effectively and efficiently attracting investment and maintaining sufficient surplus funds within the business to ensure the continued development of the Group.

Integrity

To act at all times with honesty and integrity and within legislative and regulatory requirements."

The Banks Ethical Policy

It was in the light of the banks research that the bank codified its ethical stance in its Ethical Policy in 1992.[38]

The Bank's position is that:

(1) It will not invest in or supply financial services to any regimes or organization that oppresses the human spirit, takes away the rights of individuals or manufactures any instrument of torture.
(2) It will not finance or in any way facilitate the manufacture or sale of weapons to any country which has an oppressive regime.
(3) It will encourage business customers to take a proactive stance on the environmental impact of their own activities.
(4) It will actively seek out individuals, commercial enterprises and non commercial organizations which have a complimentary ethical stance.
(5) It will not speculate against the pound using either its own money or that of its customers. It believes it is inappropriate for a British clearing bank to speculate against the British currency and the British economy using deposits provided by British customers and at the expense of the British tax payer.
(6) It will try to ensure its financial services are not exploited for the purposes of money laundering, drug trafficking or tax evasion by the continued application and development of its successful internal monitoring and control procedures.
(7) It will not provide financial services to tobacco manufacturers.

[36] Indicators (2000).

[37] Davis and Worthington (1993, op. cit.).

[38] Ibid.

(8) It will continue to strengthen its Customer charter, which has already established new standards of banking practice through adopting innovative procedures on status enquiries and customer confidentiality ahead of any other British bank.
(9) It will not invest in any business involved in animal experimentation for cosmetic purposes.
(10) It will not support any person or company using exploitative factory farming methods.
(11) It will not engage in business with any farm or other organization engaged in the production of animal fur.
(12) It will not support any organization involved in blood sports, which it defines as sports which involve the training of animals or birds to catch and destroy or to fight and kill, other animals or birds.[39]

The Bank is committed to the regular re-appraisal of its customers' views on these and other issues and has undertaken to develop its ethical stance accordingly. This was followed up by an Ethical Unit Trust in 1993.[40] By 1994 the Banks ethical involvement with its customers had enabled them to support charities through their credit card. Each quarter the Bank asks its credit card customers to vote for which national charities should share in the pay-out and also to nominate some of their local charities for support from the fund.

> …5p of every £100 spent on the Bank's Visa cards will go to national charities and local good causes. With 700,000 credit card customers, the Bank is confident that it will raise over half a million pounds in the next twelve months.[41]

The Co-operative Bank Customer Charter

The Bank's customer surveys, however, included a very clear analysis of customer needs in terms of hard banking services. It took a strong stance on customer confidentiality and introduced the first charge-free Visa Gold card in 1991 (which was in the tradition of its earlier leadership with charge-free current accounts in 1973 and interest on current accounts in 1982). The important point to bear in mind here is that these economistic incentives could easily, if reluctantly, be matched by the oligopoly of big banks dominating the UK Retail Banking Market. Terry's success lay in the fact that the ethical banking policy led into places that the big banks could not match, such as the banks refusal to invest with repressive regimes and its refusal to invest in the arms industry.[42]

[39] Co-operative Bank (1993).

[40] Ibid., 1994.

[41] Ibid.

[42] Davis (1999, op. cit., p. 116)

The Banks personal savings deposits rose by 49 % between May 92 and December 93, and corporate current accounts rose by 116 % and their deposits by 161 %.[43] These increases were achieved at a time when the Banks retail outlets were contracting with 200 retail-based Handy Banks closed reflecting the contraction of the consumer co-operatives. Most significant of all, the Bank bucked the overall market trend by increasing its new personal current account holders when the market as a whole was declining. *Market research showed that The Ethical Policy was joint first among the reasons given for opening a current account with the Bank.*

Outsourcing[44]

Costs remained a problem to be addressed, and here the Bank did not flinch from taking decisions to manage its business in the most cost-effective way possible commensurate with its ethical programme. In order to be competitive on costs, it needed outside expertise to manage some aspects of its operations more effectively than could be achieved in-house. Too often, co-operatives do not seek to identify and distinguish between core business and peripheral activities even when these peripheral activities can bite heavily into the bottom line. John Folwer Head of Technology Services at the Co-operative Bank at the time of change spelt out the criteria for outplacement as being based on the desire to leverage the investment of other companies in terms of either technology, human resources or process efficiencies. The bank identified 22 process that might be suitable for outsourcing. The Bank's analysis of its Business processes placed them under three headings:

Supportive processes

Better performance is unlikely to contribute to the Banks competitive position. Here the Bank would search for the least-cost option both internally and externally. Supplier relations would be managed mainly on cost criteria with some qualitative requirements

Strategic processes

Here were identified those processes that the Bank recognized would affect its competitive position. Yet for the reason of priorities and/or lack of resources, the Bank may not wish or be able to allocate sufficient resources to manage the process. In these cases, the Bank sought leverage on the investment of other companies in that particular market area. Supplier relationships handling

[43] Ibid., pp. 117–118.

[44] Fowler (1995).

strategic processes are developed over longer time scales and require a real partnership approach. Short horizon contracts offer neither value nor security in these situations.

Core processes

The third and final category are primary activities of the business and priority areas of investment for competitive leadership over which the Bank needs to retain complete control of direction, resource and operation.

Supplier Relationships[45]

The key principles in relationship management are according to the Bank are

(a) Understand and retain focus on the rational for outsourcing.
(b) Acknowledge the Mutuality of interests between client and supplier, for example:

- improved focus on respective core competencies
- increased market shares
- joint development opportunities
- joint leverage of industry skills and economies of scale.

(c) Do not outsource strategic competencies.
(d) Do not expect the cost case to be the sole justification.
(e) Have single-point accountabilities for the key components of the deal.
(f) The management challenges in managing an outsourced supply are at least equal to that involving the in-house operation.
(g) Effective project management is the key to successful tracking and drawing to a conclusion the multiple elements of any outsourcing deal.
(h) The expectations of the parties need detailed specification in the Annual Operating Plane Reporting on the delivery should be largely automatic through the agreed management information system.
(i) Annual operating plans need to cover all the likely events during each operating period. The AOP needs to clearly state volumes and developments etc.
(j) Operating Procedure Manuals must be in place that are jointly audited, signed off and published in a quality form. They must be maintained, and staff must be trained and retrained where necessary.
(k) In conditions of extended (multi-party) supply relationships, it is vital that the client has a Prime mover contractor to take the strain of management.
(1) There needs to be review structures with meetings that alternate between the clients' and suppliers' offices.
(m) Proper management information systems based on agreed sources and proper presentation of that information.
(n) Proper executive control. This should be managed by executive management making an occasional visit to a relationship-steering group following the proper circulation of reports and minutes.
(o) Benchmarking. It is essential to begin and maintain benchmarking as soon as possible based on internally driven standards and tested against business plan assumptions over time.
(p) Transparency. The client owns the responsibility for service standards.

Employee Relationships[46]

The Bank's HRM programme has made major strides in a number of areas. The Bank's Full Time Equivalent numbers of staff was brought down from 4,200 in 1989 to 3,534 by 1995. The Number of women in management has risen from 9.1 to 16.3 % in the same period. The Bank has a much flatter structure with just five levels of management and much greater emphasis on team working. The Bank has moved from Monday to Friday to working seven 24 h days. Part-time staff numbers have risen from 12.7 to 21.4 % in six years. Remuneration has moved away from cost of living increases to performance-related pay with an annual group bonus and profit sharing. TQM, Training and Equal Opportunities have been especially emphasized.[47]

The Bank's pioneering values programmes has made a major impact on staff perceptions. The Bank won a national training award in 1991.[48] The trade union is fully recognized. The TQM project involved three stages: (a) A quality survey; (b) A senior management workshop to develop a quality policy; and, (c) Improvement programme involving education and training in quality improvement to all staff and the setting up of quality-improvement groups varying in size from eight to fifteen people. There was a strong emphasis on improving internal relationships through a system of secondments and temporary staff swaps to improve awareness of the requirements in other departments. Service level agreements were established between centres to agree response times, and

45 Fowler (1995).

46 Everest (1995).

47 Ibid., op. cit.

48 Ibid.

communications and the setting up of contact people at either end of the relationship.

Overall, 88 % agreed they understood the mission and core values of the Bank; 80 % agreed that they had developed valuable skills and behaviours, whilst working for the Bank; 80 % agreed that they enjoyed a good working relationship with their line manager; and 95 % agreed they had good working relationships with their colleagues. Considering all factors, 69 % agreed they were satisfied with the Bank as a place to work, 65 % were proud to work for the Bank and 58 % felt their work gave them a sense of personal accomplishment.[49]

These results indicate the benefits the Bank has gained with its emphasis on team working and general relationship management through its partnership approach. The Bank's employees are integrated into an HRM strategy focused on performance which seeks to identify soft as well as hard aspects of employee performance. The United Kingdom's Co-operative Bank (in the year 2002) was ranked within in the Sunday Times' top 100 British employers and achieved record profits for the seventh year running.

The Co-operative Banks Achievements During Terry Thomas' Leadership

The Co-operative Bank's achievement during this period can be measured by a number of different criteria. First, it had put the word "co-operative" back into the co-operative movement in the United Kingdom with the CIS Ltd re-instating the word in their logos. The Bank had given the co-operative movement a brand image that is modern and socially relevant, based on traditional co-operative values. It had rung a cord with the consumer as can be seen by increased numbers of customers, and the positive public image it had achieved.

The Bank had successfully integrated co-operative values into modern management methods and as a result has been able to withstand and prosper in a competitive environment that was as tough as can be expected to be experienced in any co-operative context. In so doing, the Bank did not just have a positive message of hope for the standards of Retail Banking. It had given a concrete lead to the whole co-operative movement not to turn its back on the Co-operative Identity. Co-operative Values when used positively as part of a management philosophy and in support of and indeed developing, established management methodologies can gain added customer value and competitive advantage for the co-operative.

In addition, the Bank had succeeded commercially beyond anything that could have been predicted given its resources and competitive environment. Its retained profits, after plummeting between 1989 and 1990 continued to make outstanding progress. This led to headlines announcing record breaking profits in 1997 and 1998.[50] Pre-tax profits doubled between 1994 and 1996 to £55 million giving a return on capital of 23 % to its owner the Co-operative Wholesale Society.[51] Profitability continued to rise. The mixture of customer social value plus customer care policies; astute business process re-engineering supported by careful development and management of supplier relationships; innovative products and services supported by excellent market research, professional public relations and a coherent HRM strategy makes the Bank a case study worthy of careful attention by all those concerned to develop excellence in the practice of co-operative management. Above all, it points to the importance of having value-based co-operative professional managers at the helm of big co-operatives and illustrates the organizational and market impacts such leadership can generate giving a unique competitive advantage to the co-operative.[52]

Co-operative values underpinning the management strategy adopted by Terry Thomas

Terry saw co-operative values informing how the co-operative defined its social responsibilities in general which he articulated in his paper to the Fabian Society defined as 'an inclusive partnership plus sustainability'.[53] This new business model was culture based in so far as it had to be through inclusion of all partners in building a consensus in the organization to meet fairly all partners' legitimate expectations of the organization in a balanced manner. Co-operation between partners had, however, to accept the disciplines imposed by the limitations of natural resources and habitat and the need to respect nature and work toward avoiding their depletion and pollution.[54] Terry saw Robert Owens 'middle way' as he saw it being available to companies and co-operatives. All businesses he thought could and should adopt it at least in theory. But in reality, the joint stock company operating in a global

[49] Ibid.

[50] "The £33 million goodbye present", *The Co-operative News*, Manchester, Sept. 16, 1997. Front page.

[51] "Co-op Bank announce record results again", *The Co-operative News*, April 21, 1998. Front page.

[52] I would like to acknowledge the help of Simon Williams, David Smith and Keith Girling, John Folwer and Shelagh Everett who generously gave of their time to assist my understanding of the Banks policies. I remain solely responsible, however, for any errors, omissions or misleading presentation of data that may appear in this case study.

[53] Thomas (1997).

[54] Ibid.

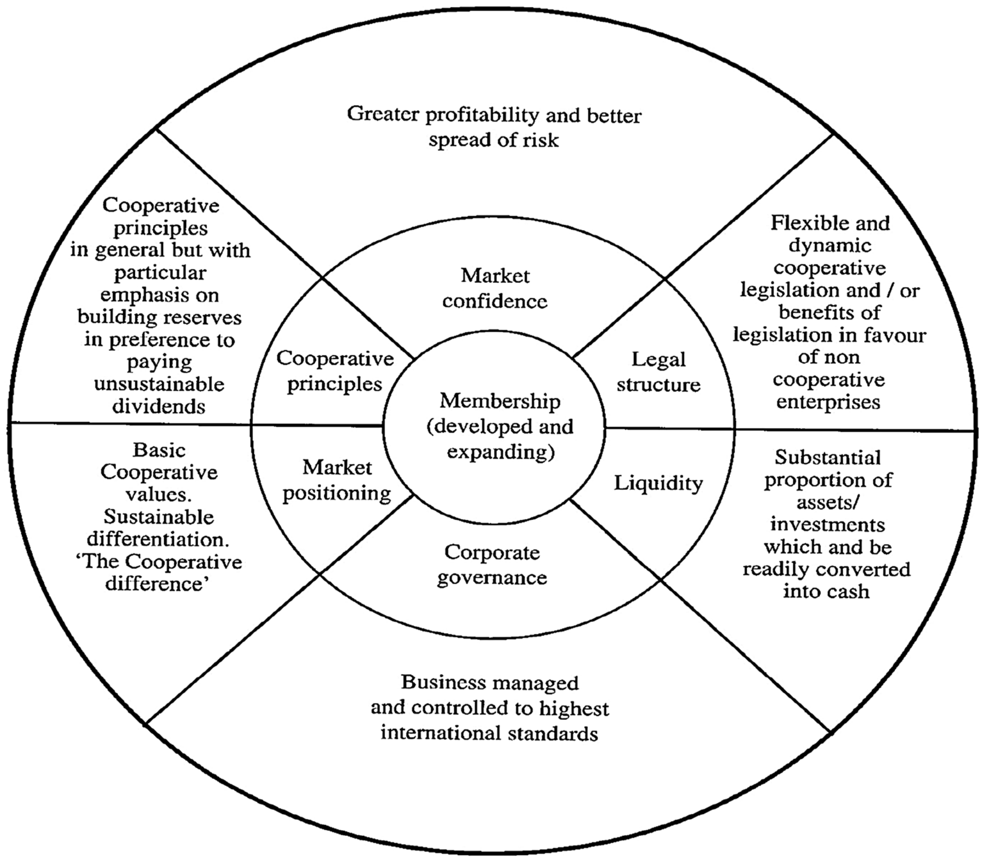

Fig. 1 Factors involved in capital formation for Co-operative financial institutions. Terry Thomas 'Capital formation' p93, in *ICBA Omnibus Edition* 1995

capital mark will find such a transition harder. The explanation for this is what gives the co-operative its competitive advantage arising from having no transferable share in the capital market and in having its success measured not by ROCE but by the quality of the services it delivers to its members and other stakeholders (or partners in Terrys terminology).

Another interesting application of co-operative values is how he applied it to the concept of capital formation.[55] Terry saw it as fundamental that as far as possible Co-operatives should be self-funding and that if a Co-operative Bank did need to get greater capital, it should use preference shares as these did not involve diluting the members' ownership. He harked back to the 1930 ICA Commission on values to remind us that the principle of equity should be to pay the market expectation of the value of money. Interest should be limited to the market rate but should not be paid below it, he insisted.[56] Co-operative banks could not meet the Basle Concordat on the risk—asset ratio without trading outside the co-operative sector. [57] Indeed, by the time Terry became CEO of the Co-operative Bank in the UK, the Co-operative movements' business was a small minority of the Bank's overall business (Fig. 1).

Terry writing in his capacity as chair of the ICBA in the organisations journal offered this as a starting point in a debate not its conclusion but as one reviews the failed due diligence of his successors at the Bank, the inflated salaries and expenses and contemptuous attitudes towards co-operative values and membership by the Executive Management of the Co-operative Group with their huge salaries and expensive lunches, while the movement was collapsing all round them, one can only wonder whether this all could have been avoided had Terry Thomas had a more sympathetic hearing by the top leadership at the Co-operative Group.[58]

55 Thomas (1995a).

56 Ibid., 1995b.

57 Ibid.

58 Kevin Magiure reported in the *Daily Mirror* Newspaper that Euan Sutherland then CEO at the height of the Co-operative Groups crisis over its collapsing bank was entertaining two others—the dinner bill came to £802.24p. Magiure noted caustically that the price of one of Sutherland's cocktails cost more than the average member's dividend paid by the Co-operative Group in a year. Article reproduced in full (Magiure 2013).

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