Text of Edgar Parnell Email of 12.05.13:

"Many will have been shocked by Friday's news that the Co-op Bank chief had resigned following the downgrade of the bank's debt, this as a sequel to the abortion of the Bank's plan to takeover 632 branches from Lloyds Bank. Ostensibly, the cause of these events have their origins in the financial downturn, problematic loans and the increases in the sums of capital that will be required to be held to meet new regulations in the banking sector. However, the underlying issues run much deeper than this.

The management of the Co-operative Group appear to believe that they are running a conventional business, with the aim of profit maximization, that just happens to be owned by members rather than by investors. Whereas they need to be clear that the function of all co-operatives and mutuals is to intervene within the marketplace in the best interests of their members. The Group's management either do not fully understand, or choose not to adhere to, the underlying essentials of the model of enterprise required for any form of co-operative or mutual to be successful.

Chasing growth to the detriment of the real interests of the membership has proved to be the downfall of major consumer co-ops in many countries in Europe*. Executives often seek to pursue a growth strategy because it means a bigger empire, more status and higher pay for them. The correct response to expansion proposals, including merger proposals, should always be to focus upon what is best for the membership and most likely to result in the achievement of the purpose of the enterprise. When co-operatives grow, in terms of the number of members and/or turnover, they are frequently beset by multiple problems. They lose sight of their original purpose, are prone to switch towards serving the interests of senior executives or cliques rather than those of the bulk of their members. As a consequence, they come to be regarded as irrelevant to the lives of their members and in the worst case they are hijacked by self-interested groups.

If co-operatives and mutuals are to carry out their function and achieve their purpose then it is vital that all involved have a clear understanding of:

- The member-controlled enterprise model
- The organizational risks inherent within the model
- Their economic basis
- The specific requirements of MCEs in terms of their leadership, organization & governance, management & accounting, financing, human relationships, and the public policy framework required

A video (12 minutes) explaining the 'Member-controlled Enterprise model' can be viewed at: http://s.coop/1myuo

More information is available at the Member-controlled Enterprise website at: http://s.coop/1bcyi

* Examples: two European consumer co-operatives that failed to understand the nature of the risks involved in following inappropriate growth strategies

Dortmund-Kassel, Germany: Coop Dortmund started in 1902 with 349 members, one shop and two employees; following successive mergers it became Dortmund-Kassel, an enterprise with 500,000 members, 350 supermarkets, 16 department stores and 74 business centres, employing 15,000 staff and with a total turnover of DM 2.5 billion. In 1989 approximately DM 45 million was invested in shop modernisation, 31 new shops with a surface of 25,000 sq. m., and the expansion of 12 shops. In 1998 Coop Dortmund-Kassel collapsed and was eventually liquidated. The reasons for this failure are attributed to the management seeking to follow practices and methods more appropriate in investor-driven organisations, i.e. the exclusion of members from goal-setting and policy decisions; full autonomy of the professional board; measurement of success by growth, market share, volume of turnover, profit and shareholder value; and corporate methods of fundraising to attract investor-members (promising high return on invested capital in the form of share dividends). One result of this strategy was to reduce members simply to passive shareholders and ordinary customers.

Konsum Austria: In 1995 Konsum Austria became bankrupt. It had slipped from being known as the ‘Red Giant’ on the retail scene and having 25% of the Austrian population as members. In 1978 the process of merging all of Austria’s consumer co-operatives into a single national society commenced. Unfortunately, the management was left to run the new super-co-op, which began chasing market share with little regard for its position as a member-controlled enterprise.

Please feel free to forward this information to any of your contacts”