COMPANIES

Co-op is shaken, not the mutuals' model

GENERAL FINANCIAL

News analysis

Review finds that it is governance at the group that needs reforming, writes **Andrew Bounds**

The near-collapse of the Co-Operative Group has given critics plenty of ammunition to claim that the politically popular mutual sector in the UK is broken.

Yet with other mutuals such as retailer John Lewis and building society Nationwide continuing to enjoy record levels of success, it looks unlikely to be the structure of the sector that needs reforming.

That was the conclusion drawn by Paul Myners, the Co-op's senior independent director, who has been charged with overhauling the boardroom. In his review of the retail, farming and banking mutual, published last week, the Labour peer made clear it was the group's governance rather than the co-operative model itself that was its weakness.

To join the Co-op's board, members must be elected through a series of regional committees, but they do not have to prove their ability to do the job. Another five come from independent societies.

Lord Myners' recommended that the board be slimmed down from 21 members to no more than 10 – with at least six or seven independent non-executives that have similar skills to directors at listed companies.

> 'The best models are designed to put the right mix of people and skills onto the board'

Many of his suggestions for reform mirror those of successful co-ops around the world, according to research by Co-operatives UK, the umbrella body for the sector, which is worth £37bn in the UK.

About half the 6,000 plus co-operatives in the UK are consumer co-ops, owned by those people that shop with them, as the Co-op group. Almost 1,000 are producer owned, often by farmers to pool buying power. Another 500 are staff-owned while the rest are a mix.

Johnston Birchall, from the University of Stirling, studied 60 of the 1,465 large and successful co-operatives worldwide that have annual turnover of at least $100m, and found that few had more than 15 members on the board.

"The best models of co-operative governance, such as the Desjardins Group [a financial services provider in Canada] and Fonterra in New Zealand, the world's largest dairy exporter, are designed to put the right mix of people and skills on to the board, with a very clear line of accountability to the ultimate owners. You get it wrong if you don't have the right skills, or, you have the right skills but are not accountable to the membership," Mr Birchall said.

Consumer co-operatives can be the hardest to manage as, shoppers have little at stake. In the 1980s and 90s those in Germany, Belgium, Austria and France collapsed, because of supermarket competition and complacent directors. Failing societies in the UK were absorbed by the Co-operative Group, leaving it with a cumbersome board.

Lord Myners has recommended a smaller board with two executives – for the first time – and 7-8 non-executives plus chairman. The non-executives could be members but must have relevant experience.

He wants to convert the regional committees that provide and vote for board members with a 100-strong elected body that would set values but not scrutinise day-to-day decisions. Big mergers would have to be approved by a vote of all members.

Ed Mayo, general secretary of Co-ops UK, welcomed the Myners review. "It is a call to wake up fast and smell the Fairtrade coffee. In terms of detail, the national membership council Myners proposes has some parallels with a number of consumer co-operatives, such as in Finland, that have supervisory boards."

Mondragon, the world's biggest group of worker-owned co-operatives based in northern Spain, provides another model.

The conglomerate, which stretches from banking to supermarkets, decided to let Fagor Electrodomésticos, Europe's fifth-biggest white goods maker and Mondragon's oldest member, file for protection against its creditors in November after attempts to recapitalise it failed.

Because each of Mondragon's companies are autonomous, self-managed co-operatives and are insulated from each other via a holding company, closing Fagor had no effect on the viability of the group's other units. "Solidarity has a limit," said a representative at the time.

But two months later, Mondragon's president Txema Gisasola resigned, opening a "period of collective analysis, reflection and debate" for the mutual, but stressed there was no possibility of changing the co-operative model.

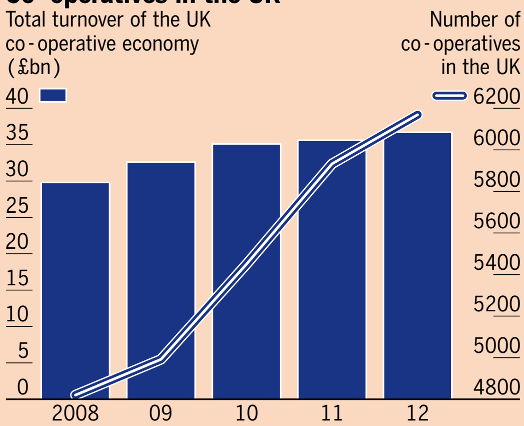
Likewise, over at the Co-op, Lord Myners has admitted that the fate of his reforms lies in the hands of less than 100 of the active "democrats" since any constitutional change requires a two-thirds majority.

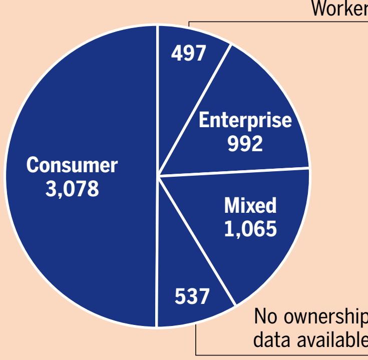
Some activists fear the real intention of the new management is to demutualise the group, echoing a failed attempt by financier Andrew Regan in the 1990s.

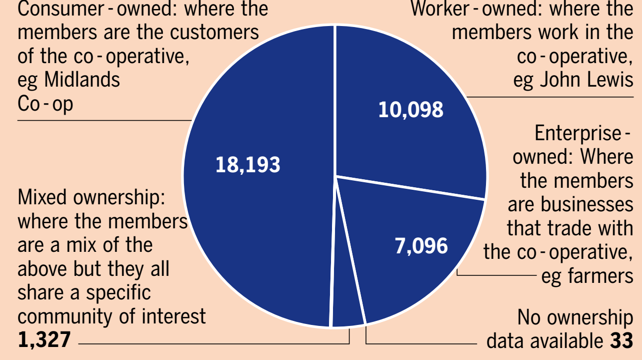
One person opposing the changes, said: "We won't let that happen."

To join the Co-op board, members must be elected through a series of regional committees, but they do not have to prove their ability to do the job Reuters

Co-operatives in the UK







Source: Co-operatives UK

Caring capitalism

When it comes to the mutual model, one of the most successful examples is in retail, **writes Andrea Felsted**. The John Lewis Partnership, which owns John Lewis stores and Waitrose supermarkets, has been lauded as a successful retailer and a model for caring capitalism.

The John Lewis Partnership is owned by its more than 90,000 staff – or partners, as they are known. Each year they receive an annual bonus, paid as a percentage of salary. This is decided by the board, based on the surplus after investment is subtracted from the final profit for the year.

While the partnership has been praised, it is not without its issues. Over the past couple of years it has also been forced to take difficult decisions, for example cutting management jobs at John Lewis and moving from a final salary scheme to a hybrid between a defined benefit and defined contribution scheme. This year's bonus was 15 per cent, compared with 17 per cent last time, while the partnership took a £47.3m charge for compensating staff underpaid for holidays.

Questioned on whether the group had the right checks and balances after the holiday pay charge and the Co-op's issues, Sir Charlie Mayfield, chairman, said: "Our governance structure is very, very different to that of the Co-op. We are owned by our partners. We have partner representatives on our board, also [we have] non-executive directors on our board. I am very confident that our governance is in good shape and prudent shape and we are not taking undue risk of any further exposures."

'Havens' exposed by financial crisis

Mutually owned building societies convey a glow of inclusivity, a haven for those who want to avoid the cynical world of modern banking and become part of an organisation that shares its gains between members, **writes Elaine Moore**.

But the financial crisis has uncovered uncomfortable truths about how closely mutuals can cleave to the business model of commercial banks, engaging in high-risk lending and mis-selling as keenly as any financial services provider.

Nationwide, Co-operative Bank (which is not a mutual but is owned by a co-operative group) and Norwich & Peterborough building society were found to have mis-sold products such as payment protection insurance and unsuitably risky investments.

The segment also likes to say it emerged from the crisis in a better shape than the rest of the banking sector, but this is not entirely true. Between 2008 and 2011 there were a large number of takeovers, euphemistically dubbed "mergers".

Dunfermline building society was shored up with taxpayer money and then taken over by Nationwide, which also rescued Derbyshire and Cheshire.

Chelsea, Norwich & Peterborough and Barnsley were taken over by Yorkshire, while Skipton took over Scarborough and Chesham.

Co-op Bank's merger with Britannia building society in 2009 left the bank with a capital hole of more than £1bn that it was forced to call on bondholders to fill.

However the sector has enjoyed strong recovery, in spite of its problems. Three building societies, Yorkshire, Skipton and Leeds, lent 50 per cent more year on year to homeowners in 2013.

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JEANRICHARD Men's Super FIS/PRO Champion	Juergen Blumberg	BlackRock Asset Management
JEANRICHARD Women's Super FIS/PRO Champion	Hetty Lowndes	Performance Verbier
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Men's Snowboard Medal	Vassily Kuzmin	BCS, Broker Credit Services
Women's Snowboard Medal	Audrey Faveeuw	BCS, Broker Credit Services
Men's Radar Trap	Wolfgang Maier	TAO Capital
Women's Radar Trap	Claire Yates	Accenture
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Just Eat hopes for £100m takeaway

FOOD & DRUG RETAILERS

By Andy Sharman and Sally Davies

Just Eat has confirmed its intention to join the swelling ranks of companies lining up to float in London.

The online takeaway food service, which is expected to achieve a valuation in the range of £700m to £900m, yesterday said it planned to raise £100m and list on either the main market or the London Stock Exchange's High Growth Segment, designed to lure entrants from the capital's flourishing start-up scene.

The initial public offering would mark the biggest local exit for a company from London's "Tech City" hub, which has been dogged by its failure to produce successes to rival the likes of Facebook and Twitter.

Just Eat would be following in the footsteps of a rush of companies listing in London this year – from fridge seller AO World to rabbit retailer Pets at Home – as groups seek to tap investor demand for IPOs.

Founded in Denmark in 2001, Just Eat is the leading online delivery service in the UK's takeaway food market, which is thought to be worth £4bn-£5bn a year. Its platform processed 40m orders last year and churns through 900 orders a minute, said David Buttress, chief executive.

He added that Just Eat's technology platform did not contain any legally protected proprietary innovations. "We consider our IP to be our brand and how we execute as our brand."

The company plans to open up the platform to restaurants that do not offer delivery, so that customers can place and collect orders, Mr Buttress said.

"We believe collection will become a growing part of our business," he said, adding that Just Eat would add higher quality restaurants to the small takeaway groups that dominate its service. "We want to give consumers the full choice of restaurants." Mr Buttress also said the company was looking to expand through "potential acquisitions".

Just Eat generated £96.8m revenues in 2013, up 60 per cent on the year before, and underlying earnings before interest, tax, depreciation and amortisation of £14.1m, compared with £2.3m in 2012. The company said that online takeaway orders had been found to be on average 30 per cent higher in value than traditional over-the-telephone orders.

Mr Buttress said that this was because consumers decided on an order before making a call, whereas shopping online gave them the option to "shop the entire menu".

Goldman Sachs and JPMorgan Cazenove are joint global co-ordinators, joint bookrunners and, in the event the company acquires a main listing, joint sponsors on the IPO.

JPMorgan Cazenove will be key adviser if a listing on the High Growth Segment is pursued. Oakley Capital is co-lead manager.

Just Eat said yesterday it had added Andrew Griffith, chief financial officer of BSkyB, and Gwyn Burr, a former customer services director at Asda, to its board as independent non-executive directors.

The UK takeaway food market is worth £4bn-£5bn a year

See Lombard