

DEMOCRATIC CONTROL AND SUPPORTING CO-OPERATIVES

Background

Against the backdrop of a challenging economy, the UK co-operative sector has continued to grow¹. There are some 4,990 independent co-operatives nationwide – involved in everything from food retail, to housing, farming and education – contributing more than 237,000 jobs and £33.5bn in turnover to the UK economy². Worldwide, there are more than 800 million individual co-operators, and the 300 most successful co-operatives have an aggregate turnover of equivalent size to the tenth largest economy in the world³.

For just £1, anyone who is aged 16 or over and lives in the UK can become a member of The Co-operative⁴. Through trade, members earn a share of the profits of the business and can exercise their democratic control, with equal rights and benefits.

Materiality and strategy

The Co-operative stands apart from other major businesses in the UK as an organisation that is owned, not by investor shareholders but by six million members. Members are a vital contributor to financial performance, spending more 'per basket', and with greater potential for cross-trade across the family of businesses. The Co-operative is the world's largest consumer co-operative – owned by 12% of the adult population⁵ – and works with other co-operatives and the wider movement to promote the role of the co-operative model, within business, education and community interests.

The Co-operative seeks to both grow the total number of its members, and improve the level of spend, cross-trade, and non-trading engagement. A new Membership Engagement Strategy guides both trading and non-trading relationships. 'Democratic control and reward' and 'Supporting co-operatives' form core components of the new Ethical Operating Plan (page 13).

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Targets 2010	Progress	Targets 2011
Indicator: Member economic involvement		
Increase number of members trading with more than one Co-operative business by 10% in 2010.	✓ An increase of 115% was achieved (page 95).	EOP Continue a member profit sharing scheme that is amongst the broadest and most generous of any major UK business.
One million new membership cards to be activated in the former Somerfield estate in 2010.	← Some 1.8 million cards have been used in former Somerfield stores, including 600,000 cards activated for the first time. There were fewer activations than anticipated, reflecting the revised pace of the Somerfield refit programme (page 94).	EOP Build membership to 20m by 2020, with an interim target of 7m by the end of 2011.
Complete development of a consolidated membership scheme for the expanded business, following the recent mergers and acquisition.	✓ 1.4 million members have been added from the former Britannia membership reward scheme, and membership is now active in all former Somerfield stores (page 94).	EOP Subject to legislation, extend membership to under 16s ⁶ .
		EOP Encourage ethical consumerism through engagement with members and extra share of profit from 2012.
Indicator: Member democratic participation		
Increase participation in regional members' meetings by 5%.	✓ Attendance increased by 5.8% (page 96).	
Increase proportion of area committee elections that are contested by 10%.	✓ There were 39 (81%) contested elections, compared to 26 (57%) in 2009 (page 96).	Increase attendance at regional members' meetings by a further 5%, and increase proportion of area committee elections that are contested to 90%, and proportion of targeted members voting to 13%.
Engage with former Britannia members to encourage their participation in the 2010 area committee ballots.	✓ Former Britannia members were specifically targeted, with all those in receipt of a Britannia members' reward for 2009 (604,098) receiving a ballot paper automatically (page 96).	



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Targets 2010	Progress	Targets 2011
Indicator: Member engagement		
Implement new membership engagement strategy and develop an engagement index to measure progress.	 A new membership engagement index was developed and launched in 2010 (page 97).	EOP Engage on social goals with 500,000 members per annum.
Indicator: Member diversity		Increase the diversity of candidates in the 2011 membership elections, increasing female candidates from 35% to 38%, younger candidates from 4.8% to 6%, and BAME candidates from 2% to 5%.
Indicator: Supporting co-operatives		EOP Act as the primary funder of co-operative encouragement bodies such as the Co-operative College, and invest £11m to support the growth and development of co-operatives by 2013.
		EOP Invest £2m to celebrate 2012 as the United Nations Year of Co-operation.
		EOP Initiate a £20m International Co-operative Development Loan Fund.

Member economic involvement

As a consumer co-operative, The Co-operative is run for the benefit of members, who share in profits in proportion to how much they trade. The membership scheme is available across The Co-operative's 13 main businesses, within over 5,000 high-street outlets across the UK.

In the course of 2010, membership grew from 5.1 million to 5.8 million⁷, representing a 14% increase, and by early 2011, exceeded 6 million.  Growth in membership has benefited from the consolidation of the membership scheme following recent mergers and acquisitions.  Membership is now active in former Somerfield stores, and some 1.8 million cards have been used in these stores, including 600,000 cards activated for the first time. There were fewer activations than anticipated, reflecting the revised pace of the Somerfield refit programme.



Members 2011

6m+

members, 12% of the UK adult population

In 2010, Midlands Co-operative became the fifth independent society to accept The Co-operative membership scheme cards within their stores, joining Chelmsford Star, Southern, Midcounties and Anglia Co-operatives⁸.

Share of profits

The Co-operative pays out a share of its profits to members twice a year, via an interim dividend payment in November and a final dividend payment in June. Members earn 'points' through transactions with the family of businesses; the more trade undertaken with The Co-operative, the greater their share of the profits. Uniquely amongst UK high-street retailers, members can receive their reward in cash, paid in store or into their bank account.

In 2010, the total number of points earned across the family of businesses was 3,437 million (2009: 2,465 million). The total dividend payment, and therefore the financial value of a membership point, varies depending on financial performance. In respect of trade undertaken during 2010, members earned £70.5m through the membership scheme (2009: £50.4m)⁹. Of the £70.5m earned, £3.2m (2009: £1.6m) was donated by members to The Co-operative Membership Community Fund (page 20)¹⁰. The significant increase in donations can be accounted for by the transfer of former Britannia members to The Co-operative membership scheme.

Additional payments made to and on behalf of members in respect of 2010 profits were: an employee-member dividend of £41.0m, an independent society dividend of £21.8m, and a community dividend of £10.0m.

Cross-trading

🎯 In 2010, The Co-operative significantly exceeded its target to increase by 10% the number of members trading with more than one business, achieving an increase of 115%, and an increase of 700% since the relaunch of the membership scheme in 2006. This sizeable increase reflects the movement of 1.4 million Britannia customers to the membership scheme, alongside increased marketing activity.

Members earning a share of profits ¹¹				
2006	2007	2008	2009	2010
2.0m	2.2m	2.5m	3.4m	5.5m

Members trading with more than one business				
2006	2007	2008	2009	2010
231,900 (n/a)	359,800 (n/a)	548,100 (n/a)	783,500 (15%)	1,680,900 (29%)

Membership democratic participation

The degree to which members are active in The Co-operative's ethical and democratic affairs is a key indicator of co-operative well-being, and is measured via the active members' network¹²; participation in elections (including the number of elections that are contested); attendance at members' meetings; and the flow of motions and questions to the annual general meeting (AGM) and half-yearly meeting.

Democratically elected governance structure 2010

587 members within the democratically elected governance structure

Democratic structure

The Co-operative's democratically elected governance structure consists of a Group Board, seven regional boards and 48 area committees (including a members' council for Northern Ireland¹³). Members who wish to be involved in governance can stand for election, and, if successful, can progress through each tier. As such, it is possible to progress from being a customer to a Board Director.

Regional boards have a broad remit¹⁴, which extends across The Co-operative's regional commercial interests. This includes: reviewing management proposals in respect of regional revenue and capital expenditure; receiving and monitoring the sales and

Democratic structure

Group Board
(20 members)
Three principal subsidiary Boards ¹⁵
Co-operative Financial Services (CFS) Board (20 members)
Food Board (15 members)
Specialist Businesses Board (14 members)
Additional Group Committees
Group Audit & Risk Committee (5 members)
Group Remuneration & Appointments Committee (6 members)
Group Governance Working Party (5 members)
Group Chair's Committee (4 members)
Group Values & Principles Committee (15 members)
7 Regional Boards (107 members)
48 Area Committees (587 members)
Regional Values & Principles Committees (95 members)
Customer Members (6 million members)

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profitability of the region's core trading operations; and making recommendations concerning the development of the region in line with core Co-operative Group Board objectives. Each regional board has a Values & Principles Committee, which is tasked with ensuring that The Co-operative's values and principles are pursued at a regional level.

All area committees¹⁶ have similar commercial responsibilities, but at a more local level. Their role is to: monitor trading performance in the locality; make recommendations regarding the development of the business in the area; be consulted regarding intended store disposals and new developments; and provide management and regional boards with local intelligence and knowledge. Additionally, area committees allocate Community Fund (page 20) awards, and work in partnership with local Co-operative employees on membership activity and community initiatives.



Member democratic participation

	2006	2007	2008	2009	2010
Attendance at regional AGMs and half-yearly meetings	3,922	3,390	3,044	4,386	4,640
Contested area committee elections	62%	n/a	57%	57%	81%

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2010 elections

A record number of members took part in the 2010 elections with 266,500 votes cast (2009: 130,000). There were 39 (81%) contested elections, compared to 26 (57%) in 2009, with 332 members standing for a total of 238 vacancies. Of the 2.4 million ballot papers distributed to members (2009: 1.2 million), 11% (2009: 10.7%) were returned.

Of the successful candidates, 44% (2009: 54%) were newly elected. Former Britannia members voted for the first time, yielding some 56,124 votes, a response rate of 9.3%.

A total of 4,640 members attended the regional members' meetings (2009: 4,386)¹⁷. Of those completing an evaluation, 85% considered the meetings worthwhile¹⁸.



AGM motions

At the AGM and half-yearly general meetings, regional boards have the formal opportunity to table motions and questions, and examples of these can be found below. The number of regional delegates is determined by the amount of trade undertaken in the region in the prior year, with at least one representative of each area committee in each delegation.

Independent Society Members can also table motions and questions. The voting strength of these members at the meetings is determined by the value of trade conducted with The Co-operative in the preceding year.

Motions approved by the AGM are not binding upon management; however, the Board and/or management undertakes to consider the issues raised and provides a response on the day and an update at the next general meeting.

Votes cast 2010

266,500 votes cast in area committee elections.
2009: 130,000

AGM (May 2010) resolutions

Region	Motion	Response
North West and North Midlands Region	Called for a review of the policy to award members points for purchases of tobacco products.	The Board agreed with the proposal, and from February 2011 membership points are no longer awarded for tobacco and cigarettes.
Scotland and Northern Ireland	Called for a switch to 100% Fairtrade bananas in all stores.	The Board welcomed the suggestion, but added that careful consideration must be given to current banana suppliers, and the price sensitivity of some customers. Subsequently, as part of the new Ethical Operating Plan, the Board agreed that all bananas sold should be Fairtrade by the end of 2013.

Half-yearly meeting (November 2010) resolutions

Region	Motion	Response
North Region	In respect of underperforming stores, called upon the Group Board to allocate money for community consultations, and implementation of recommendations, ahead of consideration of store closure.	The Board agreed that management would examine fully the practicality of the motion, and resources would be allocated to pilot the proposal in a number of locations, in order to evaluate whether a suitable model could be developed. The pilot activity is to be undertaken jointly between The Co-operative Food and the relevant regional membership team, and overseen by the relevant regional board.

Member engagement

Engagement refers to interaction with members who may not be actively involved in the democratic process, but who can still be encouraged to engage on co-operative and ethical issues. Engagement includes communications and regional events and activities that have a co-operative or ethical focus. This activity is directed by a Membership Engagement Strategy, and during 2010, a total of £4.8m (2009: £3.8m) was made available for member engagement.

📊 In 2010, an annual membership engagement index was launched to measure how engaged members feel with membership¹⁹, and to track progress year-on-year. The index is based on perception arising from the membership brand; communications, activities and events; understanding of membership; and membership rewards, and is expressed on a 10-point scale. The first engagement index yielded a score of 6.99 (scored out of 10). The highest-scoring statements were for willingness to recommend membership, enjoyment of membership and satisfaction with rewards associated with membership. Online engagement was identified as a key area for improvement.

Members and ethical campaigning

Members are encouraged to get involved with The Co-operative's campaigning work (page 14). In 2011, a method of accurately accounting for this involvement is to be developed, and a target has been set to engage 500,000 members per year.

Membership communications

The Co-operative uses a variety of channels to communicate with members, including a website, a blog, online discussions and webcasts. All members listed on the active members' network receive a biannual mailing containing Re:act – a national magazine with articles that focus on co-operative values and ethical leadership – and Re:action, a newsletter containing regional news and business performance. In 2010, The Co-operative relaunched its membership website with a greater focus on interactive content.



Member training and education

The Co-operative supports a varied and diverse training programme for elected members and the wider membership base.

There are currently three levels of learning for elected members:

- **Induction training** introduces new elected members to the diverse aspects of the role, and the skills and knowledge required. Induction sessions held in 2010 involved 96 committee members.

- **The Learning Framework** allows area committee members to pursue a Certificate in Co-operation, and regional board members to pursue a Diploma in Co-operation. In 2010, 443 attendees participated in Certificate and Diploma workshops and a week-long Summer School. In 2010 a Group Board Development Centre qualification was introduced to support and prepare members wishing to stand for election from 2011 onwards.

- **The Director Induction Programme** is designed to develop knowledge of The Co-operative, the role of director, matters reserved for board level, and corporate governance practices and procedures. In 2010, six new directors undertook the training.

Learning among the wider membership is delivered online, via printed material, and at events.

Member diversity

A Diversity Working Group (DWG) was established in 2001 to oversee the implementation of diversity initiatives in connection with membership. Regional representatives are elected from the following groups: women; members with disabilities; black, Asian and ethnic minority members (BAME); and lesbian, gay and transgender members. In 2010, the DWG agreed an interim Diversity Working Action Plan, and commissioned research into barriers to participation, which will inform a new three-year diversity strategy.

Diversity of elected members (gender and ethnicity)

	2006	2007 ²⁰	2008	2009	2010
Total number of area committee members	532	567	579	556	587
% female elected members in area committees	38%	37%	36%	35%	38%
% BAME elected members in area committees	2%	2%	2%	3%	2%

Diversity of elected members (age)²¹

	2009	2010
30 and under	4%	5%
31–50	25%	26%
51–69	60%	59%
70+	7%	8%
Unknown	4%	2%

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Supporting co-operatives

The Co-operative works for the long-term success of the co-operative movement. Between 2011 and 2013, £11m is to be invested to support the growth and development of co-operatives, as well as a further £2m to celebrate 2012 as the United Nations Year of Co-operation. Investment is driven by The Enterprise Hub, and through support for organisations including Co-operativesUK, The Co-operative Party, and the Association of British Credit Unions. Contributions are detailed on pages 122 and 123, and further detail on support for credit unions is outlined on page 51.

The Co-operative Enterprise Hub

The Co-operative Enterprise Hub²² is The Co-operative's flagship programme for the promotion of the co-operative business model. In the UK, the Hub's activity focuses on the provision of advice, training and finance to new and existing co-operatives, and the provision of grants to Regional Co-operative Councils. In line with the objectives of The Co-operative Ethical Operating Plan (page 13), additional support is also available to renewable energy co-operatives in the UK and overseas co-operatives addressing poverty alleviation (page 29). Policy and strategy are overseen by a Board, which ratifies grants up to £49,999 and makes decisions on grants over £50,000.

Training and advice in the UK is delivered by co-operative development professionals based throughout the country, and typically addresses issues such as business planning, employment and staffing, finance, legal matters and governance. During 2010, the Enterprise Hub continued to extend its geographical reach, such that, in early 2011, it became available to existing and emerging co-operatives located anywhere in the UK. Of the 256 projects receiving Hub services in 2010, 241 were supported with advice and training in the UK – more than double the previous year. The cost of this training, coupled with the co-operative development programme's management costs, totalled £551,000. A further £297,500 was awarded to 15 co-operatives in grant funding. Over the next three years, a further £7.5m is to be invested in the work of The Enterprise Hub.

With Enterprise Hub support, Rochdale's Play, Education and Reusable Lending Service became PEARLS worker's co-operative. For more on this and other Hub case studies visit www.co-operative.coop/enterprisehub



Co-operative Enterprise Hub 2010

256

projects supported by The Co-operative Enterprise Hub, including consultancy and grants
2009: 112

The Co-operative Enterprise Hub: financial support by funding stream, 2010

Funding stream		Number of projects supported		Financial contribution (£)	
		2009	2010	2009	2010
Co-operative development		95	241	287,000	551,000
Grants	Regional Co-operative Councils	12	11	132,000	137,500
	Renewable Energy Grants	2	2	98,000	99,000
	Co-operatives overseas	3	2	186,000	61,000
Total		112	256	703,000	848,500

The Co-operative Enterprise Hub support for FC United

FC United is a supporter-owned club in Greater Manchester, investing in community projects to involve socially excluded groups in coaching sessions. The Co-operative Enterprise Hub worked with FC United to develop a volunteer information pack, and trained

members and Board directors on how to run the club as a co-operative enterprise. Club and company secretary, Lindsay Robertson, said: "It was a great opportunity to receive help from an outside body, and it provided us with an objective point of view."



Image © 2010 Mick Dean Photography

The Co-operative Loan Fund

The Co-operative, together with Midcounties and East of England co-operative societies, finances The Co-operative Loan Fund. It supports co-operatives in the UK through the provision of accessible, ethical loan finance. A contribution of £30,000 was made to The Co-operative Loan Fund in 2010. As at the end of 2010, total funds stood at £1.3m. The Fund is managed by Co-operative and Community Finance, which is authorised and regulated by the Financial Services Authority.

UK co-operative buying groups

The Co-operative Retail Trading Group (CRTG) was set up in 1993 to centralise the buying power of member co-operative societies in the UK. The CRTG controls buying for retail co-operative societies, including The Co-operative Food, and represents £7.3bn of buying power (2009: £7.1bn). All products procured on behalf of member societies through CRTG are sourced in line with relevant Co-operative policies.

In addition, a co-operative buying group operates in the travel industry, whilst co-operative funeral, pharmacy and property groups meet to discuss legislative issues and best practice.

Financial services

The Co-operative Bank offers a bespoke banking package – Co-operatives Directplus – to member organisations of Co-operatives^{UK}. In 2010, some £198m of lending was provided to co-operatives and mutuals (2009: £204m).

Additionally, the bank offers a bespoke savings account and credit card for Co-operative members.

Representation

The Co-operative seeks to actively promote national and international co-operation through its support for and involvement with representative bodies, including the International Co-operative Alliance, Co-operatives^{UK}, Mutuo, European Association of Co-operative Banks, The International Co-operative and Mutual Insurance Federation, Euro-Coop, The International Co-operative Banking Association and The Co-operative Party. Some of The Co-operative's work with such bodies in 2010 is detailed below, with financial support outlined on pages 122 and 123.

- **International Co-operative Alliance (ICA)** The Co-operative is a board member of the ICA, the world's largest non-governmental organisation, representing and supporting co-operatives and mutuals worldwide through its regional institutions. In 2010, £100,000 was provided to fund the cost of the ICA Global President, Dame Pauline Green, and a secondee was provided to develop proposals for the 2012 United Nations Year of Co-operatives.
- **Co-operatives^{UK}** promotes the interests of co-operatives, increases awareness and understanding of co-operative values and principles, and supports the growth and development of new and existing co-operatives. Each year, The Co-operative reports against the Co-operatives^{UK} Co-operative, Environmental and Social Performance Indicators²³. In 2010, seven representatives of The Co-operative served on the Co-operatives^{UK} Board.

• **International Co-operative and Mutual Insurance Federation (ICMIF)**

The Co-operative Insurance is a member of ICMIF, which supports new, or growing, co-operative and mutual insurance companies in the developing world. CFS is also one of over 30 shareholders in ICMIF's Allnations fund, which provides financial support for new and growing co-operative and mutual insurers around the world. The Co-operative is represented on the board, and the intelligence and reinsurance committee.

In addition, The Co-operative is a board member of the European Association of Co-operative Banks, and a chair of the Co-operative Identity Working Group at Euro-Coop.

Accompanying notes

1	The UK Co-operative Economy 2010, Co-operatives ^{UK} .	12	The active members' network is a list of members who have actively made a request to receive information on membership over a number of years. The list was updated in 2010, in order to ensure that members are only listed if they are currently active. As well as having opted to receive information, they must additionally have fulfilled one of several criteria, including voting in recent elections, attendance at recent members' meetings, and participation in recent ethical consultations. 254,360 members are currently listed on this network. Going forward, the list will grow based on additional members who request to receive information on membership.
2	Ibid.	13	The Northern Ireland Members' Council has representation on the Scotland and Northern Ireland Regional Board. The Council is larger than an area committee, and has enhanced roles and responsibilities.
3	www.ica.coop	14	The full responsibilities of the regional boards are detailed at: www.co-operative.coop/membership/have-your-say/regional-boards
4	In addition, The Co-operative has 122 Independent Society members, who represent other co-operative societies to whom The Co-operative provides services. Independent Society members must demonstrate a commitment to co-operative values in their business practice and buy at least one share (costing £5) in The Co-operative. They have the right to participate in the Society's democratic affairs – a right that can be exercised at the AGM and in the nomination and election of Independent Society members to The Co-operative Group Board. As such, the interests of the co-operative businesses with whom The Co-operative trades are represented on its Board.	15	Subsidiary Boards have a number of independent, professional, non-executive directors, in addition to Executive and Group Board Directors.
5	Based on an adult population of 49.4 million (Office for National Statistics, 2009).	16	The full responsibilities of the area committees are detailed at: www.co-operative.coop/membership/have-your-say/area-committees/
6	In line with Industrial and Provident Act legislation, The Co-operative's membership scheme has only been open to UK citizens aged 16 and over. A potential change to the Industrial and Provident Act would enable citizens under the age of 16 to become members. Restrictions would, however, preclude these members becoming elected to committees or boards.	17	Members' meetings refer to regional AGMs and regional half-yearly meetings. Members' meetings are timed to take place in advance of The Co-operative Group's AGM and half-yearly meeting.
7	Based on members who have either undertaken trade with The Co-operative in the last 12 months, or have opened a new membership account within the last 12 months.	18	Questionnaires were completed by 63% of attendees.
8	All five independent societies retain control of their respective membership schemes, including share of the profit payments and voting rights.	19	Excludes employee members.
9	Figure includes interim dividend of £16.4m paid in November 2010. In 2010, 100 points were required by a member to achieve a final payment.	20	Percentages exclude former United Region data.
10	Members can opt to donate some, or all, of their share of profits.	21	Due to a change in the method of data gathering, only one year's comparable data is available.
11	The stated number of members earning a share of profits includes members that, whilst having traded with The Co-operative, do not accrue sufficient points during the year to trigger a dividend payment for that year. In these circumstances, points are rolled over to the following year.	22	The Co-operative Enterprise Hub is a working name for Co-operative Action Limited. The Enterprise Hub replaced the activity of two former co-operative encouragement bodies, The Co-operative Development Fund and C-Change programme.
		23	offline.cooperatives-uk.coop/Home/miniwebs/miniwebsA-z/cespis

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