When Big Co-ops Fail

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DECEMBER 2015

UNIVERSITY OF SASKATCHEWAN

Centre for the Study of Co-operatives

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Plunkett Foundation
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Editing, design, and layout by Nora Russell

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This article was originally a presentation at the International Co-operative Alliance's Global Conference and General Assembly titled "Towards 2020: What Will Your Co-operative Look Like?"and held in Antalya, Turkey, 10–13 November 2015.

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- to publish co-operative research, both that of Centre staff and of other researchers

Our publications are designed to disseminate and encourage the discussion of research conducted at, or under the auspices of, the Centre for the Study of Co-operatives. The views expressed here constitute the opinions of the authors.

About the authors

Peter Couchman is the chief executive of the UK-based Plunkett Foundation, which supports people, mainly in rural areas, to tackle issues by forming community co-operatives. In 2013, it was awarded the Rochdale Pioneers Award, the co-operative movement's highest honour, for contributions to co-operative development.

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Abstract

The international co-operative movement has seen a series of catastrophic failures of large-scale co-operatives in recent decades — the Saskatchewan Wheat Pool in Canada, retail co-ops in Germany, France, and Atlantic Canada, co-op banks in Austria, and the near meltdown of the Co-operative Group in the UK. Despite this, co-op culture has not encouraged us to either identify or analyze the common factors in these events, which, if understood, might prevent such collapses in the future.

We have discovered five common factors. Since each builds upon the one below prior to a collapse, the process is more easily understood if we examine the factors in reverse order, as shown here:

- the final roll of the dice
- overconfidence
- lack of board oversight
- the wrong people
- seeing co-operation as the problem

Our research suggests that recognizing these factors and acting on the early warning signs outlined below can dramatically increase the chance of survival for individual co-ops.

The Elephant in the Room

When co-operatives gather from around the world, it tends to be a time of celebration. They celebrate their trading success and the impact they've had on people's lives across the globe. All this is to be admired, but there is also a missed opportunity. Not all co-ops will have thrived between gatherings. Sadly, some will have hit major crises and no longer exist. When this happens, the major unspoken issue is not so much the elephant in the room, but the elephants that are no longer there.

A Common Problem

At the beginning of this paper, we mentioned the similarity between the crisis experienced by the Co-operative Group in the UK and the collapse of the Saskatchewan Wheat Pool — two very different forms of co-ops in two different cultures. But the analysis of why one failed gave significant insights into the failings of the other. To prepare this paper, we looked at a wide range of failures — French retail co-ops, Austrian banking co-ops, German retails, Canadian wholesales, Belgian retails, British dairies, and Austrian retails to name but a few. It is not the intention of this paper to provide a detailed history of each, but to ask two simple questions:

1. What are the common factors among these failures?
2. What are the warning signs that will help prevent similar failures in the future?

Big co-ops do not always end up the same way when they fail. Some collapse completely, some are demutualized, while others survive in a reduced form. Yet in most cases, the failure results in a massive loss of member assets and job losses for large numbers of people.

As noted above, we believe there are five common factors and that these are best understood working backwards from the moment of collapse rather than working forward. Let's look at them more closely.

Factor Five: The Final Roll of the Dice

When major co-ops go down, their final gasps for breath are a violent attempt to put off what is seen as inevitable by outsiders. Their final years are spent on a series of acquisitions, mergers, and restructuring. Which form this takes varies, but in all cases there is a final move, portrayed as bold and groundbreaking by management at the time, with the bravado in the language suggesting to other co-operatives that this is how it should be done. All of these fail to solve the problems and hasten the end of the co-op. Why, when other co-operatives and businesses adopt these approaches and thrive, do these fail? It is not the tactics that are at fault, but the mindset already in place identified in Factor Four.

Factor Four: Overconfidence

Hindsight allows us to see that these final acts were doomed. They put too high a value on mergers and acquisitions and significantly underestimated the challenges to be overcome. Fulton and Larson's analysis of the Saskatchewan Wheat Pool's problems places the blame for this firmly on CEO hubris — excessive pride or self-confidence: "Hubris means that CEOs have an overwhelming presumption that their high valuation of a takeover target is correct, even when it is not.… CEOs will tend to overpay for these acquisitions, and so the investments will often be unsuccessful."[1]

The managers of these co-operatives exhibit significant overconfidence in their ability to turn the situation around. They overvalue acquisitions and underestimate the complexity of the tasks required. They regard their thinking as superior to their peers and to the members of their own co- operative. Overconfidence is thus combined with a culture that dismisses any voices that might challenge the wisdom of their decisions.

Factor Three: Lack of Board Oversight

None of this would be possible without a lack of board oversight. As Fulton and Larson wrote: "The relationship between CEO hubris and acquisition premium is greater when board vigilance is lacking — i.e., the less oversight by the board, the greater the overpayment."[2]

Boards in these failed co-ops did not develop a relationship with their management that gave a strong values base to the organization, a clear strategic direction linked to the needs of their members, or a proper evaluation system of mergers, acquisitions, and investments.

Lord Myners, in his report on the failings of the Co-operative Group in the UK, was scathing of the quality of its board system: "It places individuals who do not possess the requisite skills and experience into positions where their lack of understanding prevents them from exercising the necessary oversight of the Executive."[3] Situations like this will often

1. Murray E. Fulton and Kathy A. Larson, "The Restructuring of the Saskatchewan Wheat Pool: Overconfidence and Agency," in *Cooperative Conversions, Failures and Restructurings: Case Studies and Lessons from U.S. and Canadian Agriculture*, ed. Murray Fulton and Brent Hueth (Saskatoon: Centre for the Study of Co-operatives, University of Saskatchewan, and Madison: University of Wisconsin Center for Cooperatives, 2009), 8.
2. Ibid.
3. "Ex minister Myners tears into stewardship of UK's Co-op," online at https://uk.news.yahoo.com/co-op-must-reform-survive-independent-reviewer-myners-060246266—finance.html#W9BhRhL.

be described as a governance failure, but it is important to see them as a failure of governance culture. In most cases, the governance system was in place in these organizations, but directors failed to use it to exercise the proper levels of oversight.

Factor Two: The Wrong People

This fatal combination of management hubris and lack of board oversight develops when the co-op elects and recruits the wrong people. Put simply, board members who fail to understand their role in a co-operative appoint managers who have thinly concealed contempt for co-operative values.

Recent failures, most notably in the UK, have resulted in greater discussion about the competence of elected representatives. While this debate is to be welcomed, it is only useful if it includes competence in the commercial, co-operative, and social needs of the organization.

It is easy to point fingers at the directors of failed co-ops, but far more difficult to come up with ideas about how to improve the selection process. The solution will likely be a combination of more rigorous election processes, greater access to co-operative education, more attention to drawing from a wider pool of members, and stronger support for elected officials.

The same can be said of the recruitment of managers. Directors who espouse co-operative values seem all too willing, at times, to appoint people who don't and who demonstrate little appetite for building solutions through the co-operative identity of their organization rather than importing mainstream solutions.

A close examination of the failures also challenges the perception that it is "outsiders" who bring co-ops down. Many of the managers rose through the ranks but remain untouched by co-operative thinking, while some from outside grasped the need for distinctive co-operative solutions.

Factor One: Seeing Co-operation as the Problem

The root of the other four factors is a failure to believe in and understand the nature of a co-operative. The earliest sign is a co-operative that sees being a co-op as a problem, not a solution. Feeling that their co-operative identity is a burden rather than a source of pride appears to precede the other four factors. Cynicism about co-operative democracy and member engagement can develop long before the actions that cause the eventual collapse. In many ways, this is the canary in the coalmine. If not rooted out by active co-operative promotion and education, it will fester and eventually grow into the other factors.

The Early Warning Signs

The most depressing part of these collapses is not that they follow similar paths, but that the warning signs were there for all to see. The signs are as follows:

- a co-operative that falls silent on its co-operative identity and its need to engage with its members
- board members who exhibit little understanding of the nature of a co-operative business
- managers appointed, either externally or internally, who have no interest or belief in the co-operative model
- a board that is unable to explain how the major changes it is pursuing will help add value for their members
- a management that conducts mergers, acquisitions, and investments that lack clarity and business logic, and are valued much higher than the market can justify
- a shift in power and authority to a small group within the co-operative — a group that is increasingly isolated from both the membership and the employees, both senior and junior

- a board and management that shifts focus from what is good for the members to what is good for them personally

It is never too late to act, but acting on the earlier signs rather than waiting for the inevitable can dramatically reduce the loss of member value and increase the chance of survival. It can also reduce the damage to the co-operative movement of yet another co-op going down in flames. This is why it is everyone's business to raise the alarm when these signs are visible. Co-ops do fail, and we need to acknowledge this and talk about it in a serious and thought-provoking way, and to do so in everything from global conferences to day-to-day conversations. The antidote to the problem is to ensure that there is a conversation about the value of co-operation and the role we can all play in unlocking it.

Further Reading

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