

Presentation to the MMCCU International Symposium

Nova Scotia – 16th & 17th June 2006

“Restructuring Co-operatively”

Background

The origins of the Co-operative Group in the UK were inspired by Robert Owen and the foundations of the Group were laid in Rochdale in 1844. From its early days, the rapid growth of the Movement led to the creation of a Co-operative Wholesale Society (CWS) as well as a bank and insurance provider. CWS fuelled the Movement's growth and by 1900 there were 1,400 independent Co-operative Societies across the UK. Co-operative Retail Services was formed in 1934 as an “ambulance” for failing co-operatives and the Co-operative Movement in the UK reached its high point in 1955, when there were over 30,000 retail shops and the Movement supplied some 20% of UK food sales.

The history of the Movement post-World War II, however, has been one of gradual decline, attributable to intense competition from other retailers, initially through “out of town” facilities but, more recently, these same competitors seeking entry into the local high street “convenience” sector, which has historically represented the heartland of Co-operative retailing within the UK. As a result, over the last 50 years, there has been increasing consolidation in

the Co-operative Movement, with large numbers of Societies either merging or transferring undertakings to both CWS and Co-operative Retail Services (CRS). Another result of this gradual profit decline and Movement consolidation has been the withdrawal of “member dividend”, a distribution to Consumer Members which reflected the profitability of the Society.

Over the last 10 years, the Co-operative Group in the UK has gone through momentous change. The Co-operative Bank launched ethical policies in 1991, the retailing arm of the Co-operative Group took an early lead in responsible retailing initiatives in the mid-1990's – encouraging honest labelling and a commitment to Fairtrade – Movement-wide Retail and Travel buying groups. In 1997 there was an attempt – through an external third-party – to demutualise CWS, but this was successfully resisted. This attempt, albeit unsuccessful, was a wake-up call to the Co-operative Group about the need to improve its commercial performance and the dramatic commercial failure of CRS in 2000 (TBC) led to its merger with CWS, thereby constituting over 50% of the Movement in one Society (called “the Co-operative Group”).

the Co-operative Group

Although the Co-operative Group Board oversees the entity known as Co-operative Financial Services (CFS, i.e. the Co-operative Bank and Co-operative Insurance Society), CFS is managed with a considerable degree of autonomy within the Group, with a separate Management Executive and

Board. What is today known as the Co-operative Group is effectively the Retail arm of the Society, constituting some 1,700 convenience stores/supermarkets, employing some 44,000 people, 360 travel agencies, 370 pharmacy outlets, shoe retailing in around 280 branches, the UK's largest funeral business – in some 650 funeral homes – and, more recently, a new venture Co-operative Legal Services to provide consumer legal services support. In the 2005 Report and Accounts, turnover was X and headcount was 65,000. In addition, the Group has a presence in other business activities, in particular Property (managing the Group's various property interests) and Farming, where the Group's presence in the UK is as its largest farmer, supplying fresh produce to the Group's convenience stores.

The Vision of the Co-operative Group is “to be the best Co-operative business in the world” and its Aims are to:

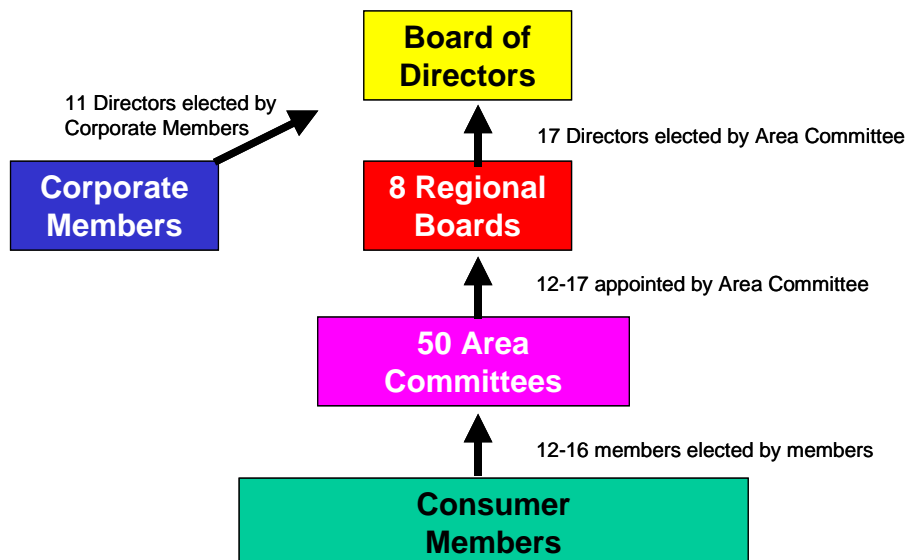
- strive for world class levels of business performance
- be open, responsible and rewarding, putting Co-operative Values & Principles into everyday practice
- enhance the lives of our people, members, customers and the communities in which we trade; and

- work for the long-term success of the Co-operative sector

the Co-operative Group : Democratic Structure

The table below sets out the democratic structure underpinning the Co-operative Group.

Democratic Structure



the Co-operative Group

In 2006, the Group had some 2.2 million members on its share register, 1.5 million of these contactable. 800,000 members traded to some extent with the Group, 500,000 members traded significantly. 25,000 of the membership voted in elections and 300,000 attended members' meetings; 600 members played an active part in the democratic structure as elected representatives.

Programme “In Shape for the Future”

As described elsewhere in this paper, the Co-operative Group had been in gradual decline for almost five decades by 2005, primarily due to intense external competition in the Retail sector. Alerted to the possibility of commercial failure by the attempt to demutualise of 1997 and the Report of the Co-operative Commission of 2002, the Group Board in 2002 appointed Martin Beaumont as Group Chief Executive, with a mandate to modernise the organisation through a combination of selective acquisition and divestment, improving the performance of the core businesses, developing a more modern Co-operative culture within the Group and modernising systems and processes.

2002 to 2005 witnessed the disposal of the Group's milk processing, department & home store and motor vehicle businesses, together with significant HR activity to improve communications within the Group in order to promote employee engagement on the challenges ahead.

Disappointing financial performance in 2004 followed an encouraging 2003 profit performance and this was followed in 2005 by the Co-operative Group experiencing further pressure on profits and a slump in retail sales. Competitive pressure across all the Group's markets was intense and in early 2005 profit and sales trends witnessed a return to the unacceptable

performance levels of previous years. The Group's Management Executive, supported by the Group Board, decided that significant action to reduce costs was required and a project later named "In Shape for the Future" was initiated to address this.

Project "In Shape for the Future"

The purpose behind the project was to achieve a minimum of £50 million – maximum of £80 million – of cost savings in those parts of the organisation above store level, this to be achieved by end 2007. It was envisaged that some 600 jobs might be lost as a result of this cost-saving exercise.

Reflecting its ownership structure, the Group Board acknowledged that the financial savings to be achieved across the various business operations and Group departments would have to be supported by savings in the democratic structure and a separate project (Project Exchequer) was established to achieve this. This paper concentrates on "In Shape for the Future", as opposed to Project Exchequer.

Clearly, the cost structure of the business had to be addressed as a matter of urgency, if acceptable levels of profit performance were to be achieved. In addition, however, these savings had to be achieved without significant disruption to "business as usual" and, given the significant effort which had gone into modernising the culture and values of the organisation, the

Management Executive agreed that the savings to be achieved had to be delivered in a manner consistent with the Group's Values and Principles.

“In Shape for the Future” : A Change Programme

The success of the Project was critical to the viability of the Group into the future and an early decision was taken to establish “In Shape for the Future” as a Programme, with strong programme governance to underpin this, including project definition documents, regular reviews of performance and deliverables and consistency of approach across the various sub-projects and specific workstreams (such as HR) to provide support. “In Shape for the Future” was broken-up into some 24 separate projects, managed by local project managers, employing a common Project Management methodology and approach.

A Programme Office managed and supported project tracking and status reporting, programme planning and identification of project inter-dependencies, issue and risk management and change management. Financial disciplines around capturing project-related costs and benefits were also installed. From the outset, therefore, “In Shape for the Future” was set-up to enable a small number of managers to focus on project delivery, leaving the balance to concentrate on delivering “business as usual activity” in other areas.

Four supporting workstreams were created to support the various sub-project teams, namely: Organisational Change and Redundancy, Communications, Finance/Benefits Tracking and IS. In addition, specialist consultancy expertise was hired in areas such as Business Process Improvement and Organisational Design, although such support was intentionally kept lean in order to avoid the project becoming consultancy-led.

The Programme was initiated in June 2005 and detailed plans were developed over the Summer, with a view to sign-off on the various project proposals in October, with implementation against these by December 2007.

HR Support for the Programme

The Co-operative Group had no real track record in successfully delivering organisational change, in fact the internal culture could best be described as change-averse and internally focused. The Group had suffered from gradual – almost imperceptible to many employees – decline over a number of decades and the recognition of a “burning platform” and the need to change and change rapidly was not present among many staff.

Previous cost-reduction exercises had been on a relatively small scale and these “one-off” approaches had been underpinned by inconsistent HR practice, a mixed quality of business rationale for change and HR Business

Partners supporting projects using their discretion to resolve problems, causing inconsistency of treatment amongst staff.

Over 2005, the prevailing internal climate was one of employees becoming increasingly apprehensive about the business results and, related to this, a growing awareness of the impact on the Group's performance of competitor activity. There was a critical need for employees at all levels to understand the competitive pressures and the associated need to reduce costs, including headcount, and generally for the organisation to change. Regular monthly business briefings had been instigated in 2004 in order to build the case for change and the in-house intranet was used to supply regular business performance updates. Thus, prior to "In Shape for the Future" and its constituent projects sub-being communicated to staff, much of 2004 and early 2005 was spent seeking to win the commitment of staff at all levels to the need for change.

As a Co-operative, the Group had strong and long-standing relationships with its trades unions, in particular the National Association of Co-operative Officials (NACO) and the Union of Shop, Distributive and Allied Workers (USDAW). The trades unions had been kept updated on the developing business climate over 2005 and there was a recognition that radical change might be called for, if the Co-operative Group were to create firm financial and profit foundations for the future.

The trades unions, however, had significant concerns that:

- jobs would be eliminated but not work (resulting in fewer people doing the same work)
- employee morale would be adversely affected in any large-scale change programme
- consultation about proposed changes may not adequately take into account trade union or member concerns
- current redundancy arrangements may not be adequate; and
- inconsistent HR practice across the various projects could result in employee grievances

Against this background, the HR agenda became one of:

- recognising the significant scale of the change being planned (reducing Group overhead headcount by 20%)

- recognising multiple projects gave room for inconsistency/ confusion
- removing work, not just the people
- carrying colleagues with you – the critical nature of communication/consultation
- HR establishing high-quality HR processes which were consistent

Given the complex environment, the HR strategy assumed a simple set of governing principles, namely:

- true partnership to be established with the trades unions
- creating a single set of HR policies and processes to support the Programme
- simplifying organisational structures in order to remove work
- outplacement facilities to support displaced staff
- try and make changes as painless as possible

- high quality of communications at all times

Taking each of these in turn.

True Partnership with Trades Unions : formal meetings to overview the change Programme and its constituent sub-projects were arranged at an early date and agreement reached on the key approaches to the Programme. It was agreed that each sub-project business case prepared for discussion with the trades unions would comprise:

- background to the change proposed
- vision of the future
- existing organisational structure
- proposed organisational structure
- impact of proposed changes
- selection pools
- selection criteria and method
- when the changes would take effect

In addition, in order to support the increased level of consultation on the multiple sub-projects, the Co-operative Group funded additional local trade

union resource and agreed the trades unions full access to all internal announcements by e-mail link. In addition, all announcements relating to the Programme were pre-agreed with the trades unions. Regular business briefings to staff at all levels on business performance were also upgraded in order to support the business case for change.

Single Set of HR Policies and Processes : in order to ensure consistency of approach, an on-line redundancy payment calculator was created, guidance was made available on job descriptions, job evaluation and fair selection methods for managers and modern organisational design principles were created through the support of an external consultancy. Business cases for sub-projects, once developed, were “stress tested” with the dedicated central HR team so that they were of a consistent quality standard and addressed the known concerns of the trades unions. Common HR policies were agreed to apply Group-wide, such policies as redundancy terms, payment in lieu of notice, treatment of Society cars, payment for untaken holidays at the point of leaving etc. An outplacement centre was established in Co-operative Group premises in order to provide guidance on writing resumes, interview skills training and access to external job opportunities.

Changing Structures to Remove Work : existing organisational structures had developed in a confused way over many years, with multiple levels of management, unclear job accountabilities and inefficient work processes. In

summary, the organisation had developed too many organisational levels. It was chastening to recognise that employees and managers – even those affected by proposed changes – recognised that this was the case!

Although the HR Function could offer some limited support and expertise in the area of organisational design and development, this was not an HR strength and it was decided at an early stage to draw upon external support to advise on organisational design. As a result, a small consultancy specialising in organisational design was retained to help the HR community and Business Case authors remove organisational layers and remove workload, by improving work processes and define clearly new job accountabilities. This approach also enabled consistent organisational design principles to be established across all the various sub-projects and feedback from the HR community, managers and staff alike was that this represented a significant step forward, as compared to reorganisations over previous years.

Achievements to Date

At the point of writing this paper, annualised savings for the Programme are ahead of plan and of the 28 sub-projects initiated since Summer 2005, 18 have now been completed. In particular, the organisational change/organisational structure sub-projects which entailed headcount reductions for managers and staff are almost complete.

Of the employees who lost their jobs as a result of the various restructuring activities, only around 40% of redundancies were compulsory, support for displaced employees through the Opportunities Centre was highly successful and there were no legal challenges referred to Employment Tribunals by employees who had left.

The HR template established for “In Shape for the Future”, now established, can be employed to support other change projects across the Group. There is positive feedback from staff on the new organisational structures implemented and, due to the quality of communications during the exercise, a significantly raised awareness of the need to continue to change into the future.

Most importantly, trade union relationships have been strengthened during a period when it might have been anticipated that such relationships would have been tested and become adversarial.

In terms of learning, there are five key messages:

1. complex change needs to be organised – project management disciplines are important
2. open and regular communications are essential

3. the HR Function needs to establish a dedicated team to manage the HR aspects of the programme and its sub-projects to ensure consistency of approach
4. the quality of the business cases for change is critical – helps to speed agreement
5. all HR policies and processes were agreed with the trades unions resulting in no contention

To finish. The National Officer of USDAW said “From the outset of the Programme, the consultation process was unique. It was noticeably different from consultation processes I have previously been involved in, processes with the Co-operative Group and other companies. The information provided to, and shared with, the unions by the Co-operative Group was extensive and more involved than I had experienced in previous consultation exercises. Unlike other consultations, the Co-operative Group included the unions and their employees as partners in the process. This, I believe, resulted in transparent outcomes, so that all partners were aware how decisions had been reached.”