Book Review

The Fall of the Ethical Bank

By Paul Gosling
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This short book marks a new publishing initiative by the Co-operative Press, the Manchester based co-operative that publishes the *Co-operative News* magazine. It is a worthy first edition to what will be an interesting series of monographs on subjects important to the movement. Paul Gosling is a reputable financial journalist who covered the crisis and ultimate demutualisation of the UK's Co-operative Bank for the *Co-operative News* (see, for example, Gosling, 2013).

Journalism is the first draft of history and whilst doubtless in time there will be much larger, more detailed versions of this disastrous piece of co-operative history, this short version gives us all the key events. It is said, also, that that we learn more from our failures than from our successes so, despite its brevity, this book shows we have indeed a great deal to learn.

Gosling sets the context for the collapse of the Bank within the structure and practice of the UK retail co-operative sector; a sector which had been the largest grocery retailer in the 1950s with some 20% market share and with an official membership of 13 million representing almost half of UK households. Failure to adapt to changing customer expectations, the perceived poor quality of stores and an inability to get the advantages out of collective purchasing had led fifty years later to a steady decline in market share to around 7%. This slow but steady contraction and poor profitability meant that poor quality directors had recruited poor quality managers who had failed to take the necessary decisions to arrest this process. In some years the profits of the Co-operative Bank had kept the whole retail movement afloat.

There is no doubt that the Co-operative Bank in terms of branding, offer and performance was for many years the jewel in the crown of the post-war UK co-operative sector. Ironically despite never actually being a co-operative! The entity we know as the Co-operative Bank began life as the Loan and Deposit Department of the Co-operative Wholesale Society back in 1872, ninety-nine years later it became a plc and a whole owned subsidiary of the Co-operative Group.

The fact that this fairly dull organisation became an exciting symbol of co-operative enterprise was pretty much down to one man. That man was Terry Thomas who joined the bank as the first marketing manager of a UK bank in 1973, rose to managing director in 1988 and in a twenty-five year career completely changed UK personal banking culture. Much to the chagrin of the other banks it was he who first introduced free banking to individual customers.

Coming from a marketing background, Thomas did something with the Bank that was quite remarkable: he introduced a 'Partnership plus sustainability model' of management (see Thomas's 1997 article in this *Journal*). Offering, in effect, a model of co-operative value-based management, he recognised what the social mission at the heart of being a co-operative really meant and, what is more, with good market research how it could be reinterpreted for the modern age. As a consequence, he developed the Bank's advertising and branding to not only reflect what customers and members wanted, and this is the key point — it enlarged what they wanted — it educated them!

All the surveys at this time which put the Co-op at the top in terms of ethics are thanks to this output from the Bank. Some of us will never forget the Bank's hard hitting cinema advertising on the subject of land mines (Co-operative Bank, 1996). Not only did this approach raise the ethical standards of the whole co-operative retail sector by attracting a large number of ethically minded affluent customers to the Bank, it generated huge surpluses for the Co-operative Group.

Gosling does a good job in explaining the Bank's decline from the moment on 9 May 2013 when ratings agency Moody's downgraded the Bank's debt rating to "junk" status saying the bank was vulnerable to losses and in epic understatement said it may need "external support" (Peston, 2013). More importantly however, and this is the crucial lesson from this tragedy, he explains how it came about from a flawed policy of growth by acquisition.

In a short report, Couchman and Fulton (2015) give five key factors as to why large co-operatives get into trouble: seeing co-operation as a problem; the wrong people; lack of board oversight; overconfidence; and last ditch attempts for survival through acquisitions, mergers and restructuring (pp. 1-5). The process of the merger between the Britannia Building Society and the Co-operative Bank displays all five of these characteristics and should have set off alarm bells at the time. The cost of this failure, both in terms of value destruction and in terms of the damage to the image of the sector, is indeed huge. What Gosling demonstrates, however, is that there were points at which different choices could have been made. He also shows that Paul Flowers — chair of the Bank at the time of this disaster and vilified in the popular press, portrayed as the "crystal methodist" (p. 9) because of having a taste for drugs and rent boys whilst being a Methodist lay preacher — may well be found a long way down the list when blame is apportioned.

It is worth remembering that the Directors of the Bank had never been elected. In the 2012 Financial Statement, the Directors report that of "11 non-executive directors four are elected members of the Co-operative Group Board, two are Co-operative Group Executives and five are independent and recruited for their specific financial services experience and expertise" (Co-operative Bank, 2012, p. 14). All the key roles on the sub-committees of the board were taken by banking professionals of some standing. This was, of course, not unusual at this time. The reckless growth strategies pursued by banks was not unique to the Co-op, but the Co-op was meant to be different.

Gosling (pp. 13-14) indicates that the process of the merger of failing retail societies was seen as a route to revival of failing retail societies. Central to this, was Peter Marks who was "to imprint himself firmly on the future of the co-operative movement, including the Co-operative Bank" (p. 14). Marks believed that the Bank had to achieve scale and Gosling points to the false assumption that the financial sector would keep growing, as an "error of judgement … of a similar scale to that of Gordon Brown when he boasted that his economic policies had brought to an end the economic cycles of boom and bust" (p. 25). In a similar vein, Gosling points to Flowers's downplaying of the significance of the losses of 2012 as "a stunning piece of understatement" (p. 53) promoting a continued emphasis of "clearing the decks" to create a platform for future growth. Today the Co-operative Group has been forced to dispose of a significant number of co-operative assets and to exit key sectors yet despite this it is still carrying a significant amount of debt from the failed acquisitions of both Somerfield and Britannia and a series of internal reorganisations continues to leave it vulnerable and struggling to pursue a meaningful growth strategy.

Like Couchman and Fulton, Gosling (2018) summarises key failings related to overreach, weak corporate governance, lack of accountability, and poor regulatory oversight. Added to this he highlights losing sight of ethical values and "failing to act like co-operatives". When they had it, the wider Co-op retail sector did not really learn the lessons of the Bank's success — let us hope they learn the lessons of its failure. They could begin by reading this book.

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The Reviewer

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