

10-1-2008

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Recommended Citation

Jahdi, K., & Cockburn, T. (2009). Learning to Co-operate: A Case Study in Ethical Banking. In J. Barlow (ed.). *Interface: The Journal of Education, Community and Values* (vol. 8, pp.237-250). Forest Grove, OR: The Berglund Center for Internet Studies. (Original work published online in 2008).

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by Khosro S. Jahdi and Tom Cockburn

Introduction

There are many different types of co-operatives; some are producer co-operatives producing goods and services ranging from farm produce to washing machines. Others are consumer cooperatives, set up using the capital of founding members to retail goods and provide a dividend to members. The largest consumer co-operative in the USA is REI, started in 1938 and with 3 million members currently [1]. REI specialises in outdoor pursuits and recreational goods. REI charges a once-only fee and also pays a dividend of about 10% based on members' purchases in the previous year. REI's website declares: At REI, "We inspire, educate and outfit for a lifetime of outdoor adventure and stewardship." [2].

The title of largest consumer co-operative in the world goes to the Co-operative Group in the UK which now also provides financial and banking as well as retailing goods. The UK-based Co-operative Bank, which is the focus of this article, began life as a small consumer co-operative in the nineteenth century. In 1844, 28 working men - the 'Rochdale Pioneers' - opened a small grocer's shop in Toad Lane. The 1844 cooperative principles were as follows:

1. Membership was open to all.
2. Governance was democratic ie. one person, one vote.
3. Profits were distributed amongst members and customers in proportion to purchases made from the cooperative as a member's 'dividend'.
4. Limited interest paid on capital.

5. Political and religious neutrality.
6. Cash trading only.
7. Education and personal 'betterment' was encouraged.

The initial pioneers collaborated with other cooperatives and diversified into other businesses. The original set of principles were also extended and updated in the twentieth century to cover wider social concerns such as anti-racism and anti-sexism. However, they still retain their aim to educate and advocate for their principles whilst operating responsibly and ethically.

In 1872 the Co-operative Wholesale Society opened a Loan and Deposit Department, which became the CWS Bank four years later. Almost one hundred years later, in 1971 the bank was registered under the UK Companies' Act as Co-operative Bank Limited. In 1974 it became the first UK bank to offer free banking for those in credit. The mission statement was drawn up in 1988 to reflect Co-operative principles. Following customer consultation, in 1992 the Bank's Ethical policy was launched—a world first. In 1994 it was the first UK bank to offer Customer Service Guarantees.

Two years later, in 1996 the Bank announced its Ecological Mission Statement. 1997 saw the launch of the Bank's Partnership Approach. The first published Partnership Report and the audit of the Bank's operations was carried out in 1998. In 1998 the bank was the first in the world to issue an independently-audited sustainability report [3]. The Bank's Ecological Statement reads:

"We the Co-operative Bank, will continue to develop our business taking into account the impact our activities have on the environment and society at large. The nature of our activities are such that our indirect impact, by being selective in terms of the provision of finance and banking arrangements, is more ecologically significant than the direct impact of our trading operations". [4]

In the period covering 2001-2003, the bank concentrated on its commitment to assess the secondary impact of its products and services. For instance, calculating how many miles Co-op bank customers travelled as a result of the manner by which the Bank delivers services as well as how many miles staff travel on bank business. When initially asked if the organisation considered itself "green", the response by J. Middleton, 1999, was that "it is not a term we would use. We would use 'ethical', but we are trying to stay away from that as well...we would use 'socially and environmentally responsible'".

Perhaps more than anything else the historical background of the organisation and the basic principles of co-operation shaped its socially and environmentally responsible marketing. Press reports in 2003 referred to the massive loss of funds due to its vetting of 'unethical customers'. Indeed, the costs were £6.9 million and £8.7million for the years 2003 and 2004 respectively. Over half of the £10 M turned away in 2005 were refused because of environmental concerns about their polluting business processes. A further £1.9M or 20 percent of companies applying for loans were refused because of poor animal welfare. Another 20 per cent were turned away because of human rights abuses- this also cost them £1.9M.

Prudent but principled bankers

The Bank's is required to make a profit but in an ethical manner, according to its revised set of principles. Since it is also selective with respect to its customers as we have indicated, financial gains appear as important as ethics, but not necessarily an overriding objective. Profit is needed for survival of the Co-operative bank; however, making profits is not the Bank's 'raison d'etre'. Thus, although the Co-op bank refers to '*profiting from our principles*', since 1998 it has annually reiterated that '*business should have a purpose beyond profit*', it was also delighted to note that '*our shareholder has decided not to take a dividend but to allow us to reinvest profits in building an even better bank*' [5].

Paraphrasing Crane (2000), this is not ethical marketing as such; rather, it is 'marketing ethics'. Ethics is a Unique Selling Proposition (USP) in the case of the Bank. It appears that the Bank is adhering to its core ethical policies, by encompassing green issues and environmental considerations- despite the financial costs to the business. For other co-operatives, a green agenda might be seen as less unexpected. For instance, REI who also espouse an environmental agenda, and claim on their webpage:

"Each year, REI donates millions of dollars to support conservation efforts nationwide, and sends scores of volunteers to build trails, clean up beaches, and teach outdoor ethics to kids." [6]

However, banks have generally had a bad press with respect to their business practices. Susan George, a respected author on Third World debt, likened bankers to bomber pilots suggesting that bankers hide behind the smokescreen of 'neutral lending decisions' [7]. In the post-sub-prime lending crisis, this reputation is reinforced for many people with rising interest rates on housing mortgages adding to their cost of living, if not actually causing people to lose their homes.

Principled practice and organisational learning

The Co-operative bank has sought to learn what the public at large and customers seek from a bank since its founding in the early 19th century. An early 1990s survey of the Bank's customers revealed that 20 percent had joined it for ethical reasons. A 1997 QCL market research survey based on interviews with 500 members of the UK public revealed that 70 percent thought it important for banks to have a clear ethical policy. Of the Bank's customers, 90 percent supported its Ethical Policy [8]. In a 2006 report the bank noted the trend in ethical consumer spending meant that it had reached a new milestone by overtaking tobacco and alcohol expenditure in the UK as mentioned. However, they also noted that "Overall, spend on ethical foods still only accounts for 5 percent of the typical UK shopping basket" [9]. In reference to the role of consumer and society at large in shaping the Bank's green/ethical policies:

"We, the Co-operative Bank, will continue to develop our business taking into account the impact our activities have on the environment and society at large. The nature of our activities are such that our indirect impact, by being selective in terms of the provision of finance and banking arrangements, is more ecologically significant than the direct impact of our trading operations." (The Co-op Bank's Ecological Mission Statement)

The Bank's ethical stance has been *"well received by the general public, leading to business growth in the personal and corporate sectors"*. [10]. The fact that in 2005 the Bank attributed one third of its £132 million profits to its sustainability and ethical policies launched in 1992 is a clear testimony to its successful organisational learning related to implementing socially responsible policies based on listening to customers. There has also been an increase of 29 percent in the number of loans and savings account customers joining for the ethical/green reasons. [11]. In 2007, Williams indicated that a third of new customers came to it for its ethical stance [12].

It appears that the Bank has inherited a USP in the shape of its historical background and has built on this legacy of ethical good-standing as a competitive tool. On the other hand, Devinney, *et al* (2006), suggest that often consumers say they want to be socially responsible but when it comes to 'ethical' purchasing, their actions belie their noble intentions, so perhaps the Co-op Bank customers are a niche market. However, despite the principled stand the bank has taken on investments it is not immune from being criticised by some for not going far enough.

Shadows between the principles

In 2006 the bank was criticised for investing in GlaxoSmithKline (GSK) and Vodaphone because of drug discounts for developing countries and Vodaphone's environment research [13]. A couple of weeks later the bank is attacked for using 'weasel words' to 'greenwash' disreputable activities by default such as general lab testing of animals or neglect of

'poor country' disease research at GSK and GSK and Vodafone's links to arms companies [14].

The Bank's record on employee relations is somewhat mixed. In 1997, the bank employed 3983 all nine redundancies [15] were on a voluntary basis. For bank contracted staff there were no involuntary redundancies in 2003 and in 2005 there were 3911. The figures exclude the 100 or so employed at offshoot Unity Trust Bank. However, at CIS such staffing changes "...are managed in consultation with affected staff and trades unions. For CIS contracted staff, there were 140 redundancies during 2003, the majority of which were involuntary." [16].

In 2004, however, 2500 staff were culled from the Co-operative group as a whole [17]. In May 2005, the parent company the Co-op Group announced 600 redundancies at its Manchester head office. However, in July 2007, the group cooperative financial services announced plans to cut staff 10% by 2008 from its current 10,000 staff, located in the 11 corporate and 90 retail branches [18].

Have competitive forces 'greened' the Co-operative Bank?

The Bank acknowledges the notion that throughout the business world there appears to be a greater awareness that organisations should not exist merely to generate profits for shareholders. It refers to a MORI survey [19] of consumers which suggests that they "... are making it very clear they want to deal with companies that take a much broader view of what their role should be ' The UN has also suggested: ...Corporate citizenship does not oppose the doctrine of profit maximization. Rather, a socially responsible organisation stands to be more profitable in the long run. [20]

These findings were subsequently confirmed elsewhere. A Millennium poll of 1000 consumers from each of 23 nations on 6 continents found 49 per cent cited corporate citizenship factors such as business ethics, environmental practice and labour management issues as the most significant determinant of their impressions of companies [21]. Only 32

per cent were most influenced by basic business investment factors such as finance, management or size of enterprise.

Marlin supported the data from United States trends in investment spending, where well over *one trillion* dollars, or one in every eight investment dollars, was at that time managed in social responsibility investment vehicles [22]. In Europe, too, three of the four scenarios outlined by the corporate consulting giant PricewaterhouseCoopers in the late 1990s, suggested that ethical issues, especially those relating to the environment and genetics, will have a major influence on the future economic as well as social prosperity [23] and governance of Europe [24]. Twenty-first century, hard-nosed business perspectives, rather than nostalgia about sustainability and public good, inform current corporate brand image and profitability projections of CEOs [25].

In the light of the above, many organisations have begun to reconsider their priorities. Measures such as Environmental Auditing have gained prominence. At an interview with the Bank's Ethics representative Jack(ie) Middleton, she said: *"We had a look at what our USP was and what came through, through consulting our customers was that we were an ethical organisation....What we had never done was to look at ourselves and realise who we actually were, and our customers told us that"*. At the same interview competition was referred to as a driving force towards green marketing. A further driver was the historical and political background of the UK Co-operative Movement and one of its offshoots, the Bank. The UK Co-operative movement (though not necessarily the Bank) has traditionally been left-of-centre, politically, and closely associated with the UK Labour party.

The Co-op Bank decided through its evolving Partnership Approach, to address green issues and perhaps by so doing, gain a competitive advantage. Amongst its Unique Selling Propositions (USPs) and perhaps the most important is its Ethical Policy (encompassing environmental issues). In order to accomplish this policy, three areas of assessment were considered by the Bank as follows:

- Delivering Value - by delivering real value to its partners the Bank can ensure survival. The bank still has to be able to successfully compete in a financial services marketplace.
- Social Responsibility - delivering value with ethical integrity in a socially responsible way will also act as a differentiating feature in the market.
- Ecological Sustainability - the critical value of this to the bank's future success has been recognised and incorporated into the Bank's business strategy.

Such endeavours have attracted a third of their new customers and helped retain existing ones [26]. However, they also place the organisation in the gaze of public scrutiny. As indicated above, any activities that may be perceived as contradicting the Bank's espoused ethical stance will be highlighted and publicised. Damage to corporate image could either take a long time to repair or may indeed be irreparable.

The Bank regards itself as socially responsible to all its Partners whether they are shareholders, customers, staff and their families, suppliers, Local communities, National and international society, or past and future generations of co-operators. However, the Bank admits that unlike ecological sustainability, there appears to be little consensus as to what constitutes a socially responsible business. It appears that the organisation's social responsibility has been, as might logically be expected, subsumed into its Ethical Policy. The Bank also recognises that its ethical and social responsibility policies have to be reviewed, modified, updated and re-considered. For this purpose, it is in regular consultation with independent organisations such as Amnesty International, the National Council for Civil Liberties, RSPB, the World-Wide Fund for nature and the New Consumer [27].

The Bank was also aware of its possible impact on communities as the quote below suggests.

"Central to the Bank's Partnership Approach is an appreciation of the manner in which the Bank's future is linked to a whole variety of Partners. This includes a recognition of the special commitment in which we are based...(as well as) its charitable aid programme...we look at the other side of the coin - what is the impact on the community of the Bank withdrawing its presence and services. More specifically, what effect has the closure of a number of our branches made on communities in which it had previously operated." [28]

The bank has thereby established communication channels with organisations that broadly represent its core retail customers' social, political and environmental profiles. However, the 1997 quote from Gribben looks somewhat compromised by the recent decision to make 1000 staff redundant [29] which, once again, illustrates how such pronouncements can become a 'hostage to fortune' for the organisation concerned.

Nevertheless the Co-op group is now breaking new ground by encouraging partners to lobby MPs on climate change and initiating crime-reduction projects [30]. This move into direct action is still controversial [31]. The aims are to mainstream social responsibility and lead from the front in the financial services sector. This is another bold educational gamble likely to attract the derision of the purists as well as potentially risking a 'muddying of the waters' in terms of the market. Even if partners are loyal and don't succumb to a form of 'activism fatigue' as seen in other organisations such as NGOs will a new government seek to constrain the bank's role in the future?

There is also the danger of activism becoming a form of radical populism or being perceived as interfering in the democratic process and thus potentially alienating some current supporters and investors. Alternatively, will it simply become the financial arm of the political left and find that the bank's fortunes are inseparable in the public's eyes from the fortunes of specific parties or movements? The same movements may evolve in less agreeable ways in future. Thus the current icon could end up with feet of clay.

Concluding observations

The Bank has employed a fairly sophisticated marketing strategy, based on learning about and from customers thus creating and sustaining a niche in the market place as a socially responsible, ethical, and ecologically-aware organisation. Due to the nature of its customers' attitude and ethical/green perceptions, the Bank, like other retail banking organisations is partially acting in a consumer driven manner but can't be accused of simply 'surfing' a wave of consumer eco-fashion. The bank is a learning organisation in more than name; it practices what it preaches and as can be seen in the latest endeavour to mainstream social responsibility and green issues, it also takes some risks.

However, the Co-op bank is still not a mainstream bank and thus the majority of the UK population are not currently aligned with its values to the extent that they wish to put their money into the Co-op rather than the so-called 'Big four' global Banks. Thus its educative mission still has many hurdles to overcome before it can attain the same financial status as its mainstream banking peers in the UK, let alone elsewhere .As a financial institution it is in the business of making money whilst adhering to strict ethical and environmental codes of practice. Thus it has carved out a unique niche market that provides a healthy financial return for partners. There are some signs of a convergence on ethical values by consumers but there are also signs that suggest some hypocrisy amongst consumers as Devinney et al suggest. So, the jury is still out on the question of whether (or not) a majority of the next set of consumers i.e. Gen Y, will adopt the principled stance of many of the current customers of the Bank.

End Notes

[1] see: http://www.rei.com/aboutrei/about_rei.html, last accessed on August 23rd, 2008

[2] http://www.rei.com/aboutrei/about_rei.html

- [3] see webpage: <http://www.cfs.Co.uk/images/pdf/Overview311006.pdf> last accessed 18-09-07
- [4] The Partnership Report 1998, p 51
- [5] the Partnership Report, 1998, 2003, 2004, 2005, 2006 sustainability reports on bank's webpage
- [6] http://www.rei.com/aboutrei/about_rei.html
- [7] Williams, 1996
- [8] the Partnership Report, 1997, p66
- [9] see: <http://www.co-operativebank.co.uk/servlet/Satellite?c=Page&cid=1170748475331&pagename=CB%2FPage%2FtplStandard&loc=l> last accessed 09-18-07
- [10] Williams,1999, p 65, O'Hara, 2007
- [11] The Observer, May 22, 2005
- [12] O'Hara, 2007
- [13] see: <http://www.schnews.org.uk/archive/news537.htm#8>, last accessed 18-09-07
- [14] see: <http://www.schnews.org.uk/archive/news539.htm> and <http://www.foe.co.uk/factorywatch>,last accessed 18-09-07
- [15] 2002 report, p 24

- [16] see:
<http://www.cfs.co.uk/sustainability2003/deliveringvalue/staff.htm>,
last accessed 18-09-07
- [17] Costello, 2007
- [18] Vorster, 2007, Costello, 2007
- [19] Partnership Report, 1998, p2
- [20] UN Global compact report, 2005, p7
- [21] Marlin, 2000
- [22] Marlin, 2000
- [23] McKie & Cockburn, 1999
- [24] Pedler, 2002
- [25] The McKinsey Quarterly, 2006, January, p. 4
- [26] O'Hara, 2007
- [27] Williams, 1999
- [28] Gribben, 1997 p 61
- [29] Vorster, 2007, Costello, 2007
- [30] O'Hara, 2007
- [31] O'Hara, 2007

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