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# A rather civil partnership

Can store provide macroeconomic model?

Andrew Hill JANUARY 20 2012

For nearly 150 years, John Lewis has had a shop on London's Oxford Street. Customer "footfall" is steady. The department store group's carefully nurtured and increasingly well-marketed reputation for dependable quality and value for money, from picnicware in the basement up to personalised stationery on the fifth floor, remains intact even as other UK retailers are failing.

But while the group's commercial success and enduring hold on middle-class Middle Britain are clear, the retailer also has a growing – and somewhat unlikely – role as a political talisman. Like unhappy couples seeking to make the home they cannot afford to leave more liveable, UK politicians are drawn to the John Lewis Partnership – owned by its staff and managed on democratic principles – as a model for economic and organisational reform.

From the US, where California has just enshrined in law new forms of socially aware "flexible purpose" and "benefit" corporations, to Spain, where the UN year of the co-operative has refocused attention on the Mondragon network of worker-led businesses, the leaders of crisis-hit economies are on a global shopping expedition. They are hunting for successful businesses run outside listed-company lines to help reinvent, rebalance and revive capitalism.

Nowhere does this urge to refurbish the economy seem more urgent than in the UK, where the influence of the shareholder-owned joint stock company is stronger and the dominance of financial capitalism greater than almost anywhere else. Speaking this week, Nick Clegg, deputy prime minister, told an audience at the Mansion House, in the heart of the City of London: "We don't believe our problem is too much capitalism. We think it's that too few people have capital. We need more individuals to have a real stake in their firms. More of a John Lewis economy, if you like."

The location was telling. The ornate banqueting hall of the Lord Mayor's official home was where in 2007, on the eve of the crisis, Gordon Brown – then chancellor of the exchequer, later Labour prime minister – laid out a quite different economic vision. He told a gathering of bankers and financiers that: "Britain needs more of the vigour, ingenuity and aspiration.... that is the hallmark of your success."

From local council services to the Royal Mail, UK politicians have settled on John Lewis as the model for reorganisation. It seems an odd choice of political touchstone and an idiosyncratic model for modern management. In retailing terms, the shops fall somewhere between Bloomingdale's and Macy's in the US, and have parallels with Spain's El Corte Inglés or La Rinascente in Italy. But the partnership operates barely three-dozen department stores, in the UK only, as well as Waitrose, a high-end supermarket chain, and a successful online arm.

In other respects, however, John Lewis represents a Utopia encapsulating the ambitions of the main political parties. It is a haven for middle-class inhabitants of Britain's heartland. Its sugary commercials have captured the public imagination better than most election advertising campaigns.

But does it make sense for Britain to fetch a new economic model off the shelf, in the same way a consumer would drop into a department store to replace a faulty coffee-maker, a threadbare rug or a worn-out jacket? Even if it does, is John Lewis the right choice?

There is a strong tradition of lofty idealism in the retailing sector. In 1900, Bradford Peck, owner of a successful department store in the US state of Maine, even published a novel – *The World a Department Store: A Story of Life Under a Co-operative System* – to promote the wider application of the co-operative model.

In his novel, *Au Bonheur des Dames*, Emile Zola also used the glittering microcosm of a Parisian *grand magasin* to chart the 19th-century transformation of commerce from family business to dog-eat-dog capitalism – and to suggest how the new system could be tempered with humanity.

However, John Spedan Lewis, son of the retailer's original founder, put his idealism into lasting action, pioneering a model of co-ownership that was, and remains, radical. In two chunks, in 1929 and 1950, he transferred his shares in the business to a trust. The company has an executive chairman and is governed under a set of principles and a constitution, with policy influenced by an elected council that represents the staff or "partners". Spedan Lewis ensured that all staff would benefit from an annual share of profits, and that pay would be regulated according to a ratio. The highest paid staff member cannot earn more than 75 times the average wage of the shop-floor salesperson. Staff are encouraged to air their concerns in the weekly Gazette, and senior managers are expected to respond. Generous pensions and holiday amenities are available for partners.

"Spedan's 'big idea' was a simple one – employees work better if they feel they have a stake in their company," says Peter Cox, who wrote a history of the group after retiring from Waitrose in 2003. "In the John Lewis case, they know that no nameless shareholders are taking a cut before they get their bonus. Unless a business distributes its profits to its employees, that subliminal motivational benefit is not replicable. But the knowledge that they can appoint their own representatives, that they can complain and be listened to, is still a major advantage."

It helps, of course, that John Lewis and Waitrose continue to demonstrate commercial success. This month the group reported an "outstanding" Christmas. Its total sales increased 9.3 per cent in the five weeks to New Year's eve compared with the same period of 2010. Waitrose pushed up its December sales by 9.5 per cent. Meanwhile, the UK's biggest retailer, Tesco – whose relentless expansion, like that of Walmart in the US, has attracted fierce criticism – registered a rise in total UK sales, excluding petrol, of only 1.7 per cent in the six weeks to January 7 and issued a profits warning.

**Cinematic celebration for the founding fathers of a billion-strong movement**

After *The Iron Lady*, another film about British economic revolutionaries is about to hit the big screen: *The Rochdale Pioneers*, writes **Andrew Bounds**

There is no Oscar-winning leading lady, such as Meryl Streep playing Margaret Thatcher, but that suits the tale of how 28 cloth weavers, shoemakers and joiners created what is hailed as the world's first successful retail co-operative.

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But even advocates of the John Lewis model point out that the form is no guarantee of success. A periodic accusation is that the management system tends towards bureaucracy, while employee-ownership impedes expansion and hinders productivity improvements. Charlie Mayfield, a suave former McKinsey consultant who is the group's executive chairman, says managers have to demonstrate their accountability to staff – the council can dismiss him if he fails in his duties – because the trust structure means employees cannot sell their shares. Low staff turnover improves the return on investment in training and encourages better service. But it takes work: "It doesn't just happen. You don't have to go back that many years to find a time when this ownership model wasn't performing as well as it is now."

The men who founded the Rochdale Pioneers Society in 1844 had a vision of self-help to free their communities from the rent-seeking merchants who adulterated flour with chalk and tilted scales in their favour. Profits were shared among members as dividends.

The film includes a famous incident where they pushed wheelbarrows from Rochdale, a town in the Pennine foothills of north-west England, to Manchester 14km away to buy wholesale goods that the local grocers refused to sell them. Much action takes place on cobbled streets among the red brick mill chimneys that still dominate Rochdale's skyline – these days without their accompanying plumes of smoke.

In the 1840s the town was expanding fast as labourers poured in from the countryside to work in the steam-powered cotton mills. But this workforce was reliant on overpriced foodstuffs: while US cotton was freely imported for spinning, aristocratic farming interests kept out American corn.

Failed experiments in employee control – notably the bankruptcy of America's United Airlines nine years ago – continue to colour discussion of the model. But Professor Jonathan Michie of Oxford university, an expert in employee motivation, says: "The insights and model [of Spedan Lewis] could indeed be applied more widely, with more expectation of success given the track record today than could reasonably have been held at the time."

This is far more easily said than done – and not just because few companies have a visionary such as Spedan Lewis at the helm. One reason is that the elements of the formula – participative management style, employee ownership and profit-sharing – work best when applied together. David Erdal, author of *Beyond the Corporation: Humanity Working*, about employee-owned companies, says productivity can be increased by applying any of those approaches, but "if you do all three, you have a knockout".

Manchester itself was seized by "Manchester liberalism", which pushed for the deregulation of markets and succeeded in abolishing the corn laws and their import quotas in 1846.

That doctrine of free trade, as embraced by the Iron Lady herself 130 years or so later, may have been more influential but the co-operative movement has 12m members in the UK. Manchester remains home to the Co-operative Group, a business with £13bn ($20bn) in annual revenues spanning supermarkets, banking, insurance and farming, which grew out of the Pioneers Society and has made the film to mark the UN's International Year of Co-operatives.

*The Rochdale Pioneers* will premiere in Manchester in October and is to be shown in cinemas worldwide. The first retail store, at 31 Toad Lane, is now a museum but it became a tourist attraction as early as the 1860s, with people from across Europe signing a visitors' book.

Mr Mayfield, too, says John Lewis principles cannot be cherry-picked. The constitution states that the purpose of the group is to ensure "the happiness of all its members, through their worthwhile and satisfying employment in a successful business". But he sometimes has to explain that this does not mean managers should avoid action – such as job reductions – that upset members but help sustain commercial success. Mr Cox, the company historian, adds that the ownership structure is nothing without consistent application of Spedan Lewis's trading principles – value, assortment, service and honesty – that keep customers coming back, as embodied in the enduring slogan he devised: Never knowingly undersold.

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Politicians' good intentions could still founder on the reefs of tax codes and the UK's engrained corporate culture. A change in the tax code to make it easier for entrepreneurs to transfer shares to staff would run up against the Treasury, traditionally a staunch backer of the shareholder-owned publicly listed company model, according to critics of the existing system. As one politician puts it: "The Treasury's full of very clever, neoclassical economists who think the PLC was divinely created and handed down on tablets of stone to Moses."

Northern England, long subject to the boom and decline of great industries such as textiles, steel and shipbuilding, has been a rich source of films featuring working-class characters fighting adversity through family ties, trust and friendship forged at the coalface, and, above all, with humour.

*The Full Monty*, the 1997 story of unemployed steelworkers from Sheffield who turned to striptease, is one of most successful ever British films. *Brassed Off* in 1996 depicted a colliery band playing on while they lost their livelihoods during the 1984-85 miners' strike. *Billy Elliot*, made in 2000 and now a musical, focused more on loner than community: a boy growing up in a dying mining village who escapes through his love of ballet.

So *The Rochdale Pioneers* has a lot to live up to. But the potential audience is large. The legacy of the 28 is more than 1bn co-operative members around the world today.

The fact that the financial sector is geared towards serving the stock markets and listed companies is a further obstacle to change, Prof Michie says. "If you want to sell your family firm, and go to your bank or financial adviser for advice, they will tell you that you can sell it in a trade sale, or float it on a stock market. End of story," he says. "They won't tell you that you can sell it to an employee trust. If you ask whether you can sell it to an employee trust, they will probably say 'no'."

What is clear is that politicians' idealistic rhetoric about alternative models will not on its own dismantle barriers to wider employee ownership. But for those who believe capitalism should foster a more diverse range of ownership models, this has been a good week, with David Cameron, UK prime minister, weighing in three days after Mr Clegg with a proposal to make it simpler to establish worker co-operatives. "I do think a more plural approach would be a good thing for the economy," says Mr Mayfield, who – unlike many fans of co-op or employee-owned businesses – even has a good word for private equity, which he says can, in some cases, be a useful form of ownership.

Nobody is counting out shareholder-owned companies, which, despite the blow to their reputation inflicted during the crisis, have proved their adaptability over time. But Tomorrow's Company, a London-based think-tank, points out that equity market capitalisation as a proportion of gross domestic product has fluctuated in developed countries in the past century.

In other words, even the listed company model goes in and out of economic fashion. As political leaders survey the racks of options for capitalism's next season, it is hardly surprising that the electable virtues of John Lewis – popular, durable, reliable and middle-of-the-road – should catch their eye.