

# Member-Owners

## *A Guide to Societies based on the principle of Mutuality*

**Malcolm Hornsby and Mervyn Wilson**

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In this article the authors describe the main characteristics of a range of cooperative organisations: *mutuals, cooperatives, clubs and associations*. They briefly outline the varying levels of member participation in these organisational forms. A section on de-mutualisation shows how two decades of free market fundamentalism has created a culture of privatisation of mutual organisations. The article concludes by calling upon the cooperative movement and others to safeguard the mutual ownership form. Recommendations are made for the introduction of rules that lock assets into the organisation and make them indivisible; the updating and enhancement of member services; and strengthening internal democracy and accountability.

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*Question: When does a friendly society need to be user-friendly?*

*Answer: When it is mutually confused.*

### **What is a mutual organisation?**

A Mutual organisation can be described as a voluntary association formed for the purpose of raising, by subscriptions of members, funds out of which common services can be provided to members. In the UK they are usually registered under the Industrial and Provident Societies (IPS) Acts.

Mutual organisations were formed out of the common needs of working-class communities during the Industrial revolution for protection against the insecurities of life. They were usually funded by many small contributions, since only by aggregating the small savings of many people could a capital fund be created. Membership was a mechanism to ensure that the organisation continued to serve the needs of all its contributors. People did not create Mutuals to derive a profit, or to seek a capital gain, but in order to benefit from a service.

### **Friendly Benefit Societies**

Friendly Societies provided a mechanism for saving by members, from which such benefits as sickness and retirement incomes, widow's pension and funeral grants

could be paid. The position of Friendly Societies was totally undermined by the terms of the 1948 National Insurance Act, and the organisations either would-up or continued, fitfully, as convivial social organisations.

### **Trade Unions**

Trade Unions had a similar experience to Friendly Societies in that independent local unions became branches in larger, centralised organisations to consolidate funds and obtain better management. Until the last half-century Trade Unions also paid sickness, unemployment and injury benefits and retirement pensions out of ring-fenced funds, but this role was made largely redundant by the 1948 National Insurance Act. Trade Unions today have few assets which would invite de-mutualisation.

### **Permanent Building Societies**

Building Societies are friendly societies whose purpose is to make housing loans to members. They began as terminating societies which would wind-up after the original members had been housed. In the 1840's a new form, the permanent building society was created, which kept its membership list open permanently, admitting new savers and granting new mortgages. The link between saver and borrower was broken and the societies became very strong with a rich asset base. A number of the larger and wealthier societies de-mutualised in the 1990s and converted to banks – Abbey National and Halifax.

### **Assurance Mutuals**

Assurance Mutuals began as collecting societies employing professional collectors to sell life policies to poor families, to serve the overwhelming desire of working-class families to avoid a pauper funeral by making one-off payments on death.

### **Cooperatives**

The Cooperative form of organisation is an umbrella under which a number of different activities are carried on. What they have in common is a democratic constitution, an assumption that all shares carry a single vote, and that the profits are returned to members in an equitable way. They are mutual organisations in all respects except one. The exception is that cooperatives are allowed by rule to trade with non-members – technically they are mutuality organisations rather than Mutuals. The main groupings are:

- Distributive cooperatives which sell consumer goods (*e.g.* the High Street Coop)
- Housing cooperatives which provide domestic accommodation
- Workers cooperatives which provide employment
- Credit unions which provide a vehicle for savings and loans
- Agricultural cooperatives which provide services for farmers and horticulturalists
- Multi-purpose or community cooperatives which carry out more than one of these functions.

### **Clubs and Associations**

Working Men's clubs were the outcome of radical Christian philanthropy. Their purpose was to contribute to self-emancipation through education and temperance. Each club was (and is) independent and run by its members, under the umbrella of a National Federal body. Temperance has long since disappeared from the rules and large clubs are rich organisations providing high quality professional entertainment.

Allotment Associations developed out of the Parliamentary concern about urban poverty and squalor. Many associations purchased their land on favourable terms, or acquired title to land left for the support of the poor. Today, after decades of asset-stripping, some surviving allotment associations are sitting on very valuable land assets.

### **Other Mutual Organisations**

Other Mutuals include the AA (Automobile Association) and BUPA (British United Provident Association) – the residuary organisation set up to administer the assets of liquidated Friendly Societies.

### **Why did they adopt a mutual form?**

Prior to the provision of widespread limited liability in 1855, one of the few ways in which an organisation could raise large funds for business purposes was as a mutual organisation. This would allow highly diversified share-holding and the building up of large central funds, but it required that the organisation traded exclusively with its own members. This implied that new users of the service were to be admitted as members on the same terms as their predecessors, not that they received all the rights of members.

### **Member Participation**

Member rights have not necessarily been very extensive:

*Friendly Societies'* branch members could and did elect branch officers and exercised a high degree of control over the fund disbursed by the branch – although little over funds dispersed at district level.

*Trade Union* members have a similar branch structure to Friendly Societies. Members vote for local regional and national Council members and other officers. The survival of democracy has been greatly aided by the fact that Trade unions have been a political battleground for generations.

*Permanent Building Societies* were nominally democratic, but really oligarchic organisations (governed by a few) with negligible member participation after their inception period.

*Assurance Mutuals* were managed and controlled by a Board made up of senior employees. Members' rights were largely notional, based upon the concept of a service at minimal cost, provided by a non-profit organisation.

*Retail Cooperatives* have long cherished a conscious membership ideology which kept power in the hands of members, including the election of the Board of Directors. In recent years, retail cooperatives have been working hard to create wider active membership base, as a step to improve their governance.

## **Why has demutualization become an issue?**

### **The Privatisation culture**

During the past two decades, a political culture has grown up which has been single-mindedly committed to a narrow ideological view of economic life (free market fundamentalism). The private sector – exemplified by privately owned business, joint stock companies and the profit motive, has been promoted as the only acceptable model. Communal ownership of economic assets, whether state, municipal or community enterprise, trustee savings banks or mutual organisation have been seen as at best anachronistic, and at worst morally obnoxious.

One face of this process is well known – the divestment of State property and the sale of the public services – the all too familiar privatisation. The new face of this culture is de-mutualisation.

De-mutualisation is an outcome of the privatisation mind set. Mutual organisations, with their indivisible, communally held assets, concept of membership and values about solidarity, equality and service, rather than profit exploitation and competitiveness suffer, in the eyes of the ideologists of today's enterprise culture, from an '*ownership*' vacuum. To them, identifying members, not as beneficiaries of services provided by mutuals, but the owners of their historically accumulated asset base, is a prerequisite for attack. In particular, those mutuals in the Building Society and Mutual Assurers which, over generations, had built up large asset bases and property portfolios are especially vulnerable, since present-day members have no concept of membership with its implied responsibility of stewardship.

This process was aided by the active connivance of their Boards and senior managers, who stood to make substantial financial gains from de-mutualisation. To date, successful de-mutualisations have all been led by their Boards. The only hostile attempt, by the Lanica Trust at the Cooperative Wholesale Society, has been resoundingly defeated by a united Board, management and active membership determined to defend the status of the Society.

### **Member-Owners or Trustees of Assets**

For cooperatives and other mutuals to be safeguarded in the future, it is critical that a modern market-based economy recognises and accepts that mutual forms of ownership are still relevant. Any narrow concept of ownership, which allows the current members to be identified as the sole '*owners*' of assets that have been built up by the contributions, loyalty and sacrifices of many generations of previous members, is entirely inappropriate. Today's members, should be seen merely as the trustees of those assets, whose responsibility is to safeguard the organisation, to continue to nurture and develop the services provided to members, and to hand the Society on to the next generation of beneficiaries of those services.

Enshrining the principles of the indivisibility of assets into the rules of Societies will not only assist this process, but also make it clear that the predators – whether they be City sharks who see organisations as ripe for asset stripping, greedy Directors and Executives, who see the potential rewards in collaborating to carve up their organisation, or external carpet-baggers fed on a sickening culture (encouraged by

parts of the financial press) of ‘*windfalls*’ and a right to benefit for doing nothing – can be defeated.

To be successful, though, cooperatives and other mutuals must ensure that they are updated, made relevant to today’s needs of existing and potential members, and revitalised by strengthening their internal democratic processes and accountability.

The final ingredient must be training, training for members of organisations, training for managers of organisations, and training for employees of organisations to ensure they all have a common sense of purpose and fully understand the role and the aspirations of organisations today.

It remains a dangerous and hostile environment for mutual organisations, but we can draw confidence not only in the proof that attacks will not inevitably succeed, but that more and more people have started to recognise the value and importance of mutual forms of organisation in the process.

### **Further Information**

*New Sector magazine* seeks to promote the principles and practice of collective enterprise, common ownership, co-operation and community control. In particular it promotes enterprises whose governance, management and ownership are characterised by democratic and participative structures at worker, community and member levels. For further information contact the editor at: [editor@newsector.co.uk](mailto:editor@newsector.co.uk) or visit: [www.newsector.co.uk](http://www.newsector.co.uk)