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# The Impact of Governance and Ownership Structures in the Swedish and UK Grocery Retail Market

Dr Mike Malmgren & Dr Steve Seymour





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Hult International Business School  
Ashridge House, Berkhamsted  
Hertfordshire, HP4 1NS, UK  
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# Introduction



# Introduction

## Purpose of the Report

The purpose of this report is to investigate, understand and compare the governance structure of three democratically governed grocery retail businesses. The businesses are John Lewis Partnership (JPL) in the UK and ICA and Coop in Sweden. The intriguing part is that all three businesses have significantly different ownership. In the case of JPL the business is owned by its 91,500 employees, ICA is majority owned by its independent retailers representing 1314 stores and Coop is owned by its 3.4 million members of Coop.

## Introduction of the Researchers

Mike Malmgren is an Associate Professor at Linköping University and Dean of Faculty at Ashridge Business School, UK. His interest is business strategy and Innovation. Prior to joining the academic community, Mike spent 15 years in an international career as Managing Director for technology companies and he has lived and worked in Sweden, the US, Australia and the UK.

Steve Seymour is Professor of Practice at Ashridge Business School and the discipline leader for Finance and Accounting. Prior to joining Ashridge, Steve spent 10 years working in finance and accounting roles in the energy and airline industries and in the public sector, together with 6 years as a management consultant in one of the Big 4 accounting and professional services firms.

## The Cooperative model of Corporate Governance

There is a rich literature all the way back to the early 1900s when academics and economists debated the benefits or otherwise of cooperatively owned enterprises (Storey et al, 2014). This paper is concerned with democratically managed Corporate Governance structures in enterprises involved in retailing. Ekberg (2012) provides a review of three retail cooperatives in Europe 1950–2008 which includes both successes and failures. In recent times the John Lewis Partnership, who is owned by its employees through the John Lewis Trust Company, has been debated in the academic literature (Cathcart, 2009, 2013a, 2013b, Paranque and Willmott,

2014; Purnell and Davies, 2012) and in detailed accounts of the origins and thoughts of the founding father Spedan Lewis (Cox, 2010; Lewis, 1948, 1954). The financial crisis 2008 and public outcry of the dark side of capitalism caused political figures, such as Prime Minister of the UK David Cameron, proposing that a “John Lewis economy” could be part of the answer. Although successful cooperative enterprises can be found the term “degeneration thesis” has been labelled on cooperative enterprises as these have a high likelihood to fail commercially or the democratic characteristic abandoned (Storey et al, 2012).

## Methodology

This study is the pilot study to inform further research into how Corporate Governance impact the performance of democratically managed organizations. It relies on desk research in the public domain such as company annual reports, research reports and the academic literature. The financial analysis is based on information in the public domain which has limited the depth of analysis since the structures of the democratic organizations are surprisingly opaque given the objective of being enterprises. A limited number of interviews with Partners of the John Lewis Partnership including observation at a JPL branch council meeting have been conducted.

# John Lewis Partnership

John Lewis

# John Lewis Partnership

The John Lewis Partnership has a fascinating history – from the origin of the first draper shop opened by John Lewis in Oxford Street, London in 1884. In 1885 John Spedan Lewis is born, son of John Lewis, the founder of the John Lewis Partnership (JPL), and a visionary that continue to influence and guide the spirit and evolution of the Partnership. Today JPL has 91,500 employees, a turnover of £ 9.7 billion from the John Lewis department stores and the Waitrose grocery stores.

The population of the England and Wales expanded rapidly in the 2nd half of the 19th century and the population increased from 20 to 32 million from 1861 to 1901. Improved communications and transport made possible for goods and products from around the world to be available at prices affordable for the general public. The retail model of department stores developed to cater for this new affluence.



*Figure 1*

John Spedan Lewis

Source: Peter Cox, 2010 – p123

By the age of 21 John Spedan Lewis had acquired 25% of the family business and was the new Director of the Peter Johns department store in Sloan Square west London. During the early years working in his father's business he discovered many aspects that he felt was unfair to the employees and in many ways reduced the potential for growth and success of the business. For instance John Spedan discovered that John Lewis, Spedan Lewis and his brother Oswald drew £10,000 in dividend on the capital and paid themselves £16,000 in salaries. Whilst the staff of 300 received £16,000 in salary in total. This to Spedan was not a fair distribution of the income from everyone's effort. Much debate of this was taking place between Spedan and his father. In an effort to move things forward John Lewis handed over the Chairmanship for the Peter Johns department store to Spedan in 1913. Peter Johns was losing money but Spedan felt he could now be his own master.

The Peter Johns store was run down and underinvested in. The chimneys were condemned by the district council and the drains leaked giving off a smell in the store. The stock was old and uninspiring and Spedan quickly fired five of the buyers. He began to rebuild the business through investments and a new approach to managing the business. He also invested in the staff quarters and amenities. Sales gradually began to grow and by 1916 revenue was £167,000 but debt had accumulated to £45,000 . The company needed more profits and cash to flow through the business and the Company secretary expressed concern for the viability of the store.

Spedan had for several year been thinking about how to make the reward of the effort of his staff fair. Peter Jones department store was a public company and in 1918 after a good year Spedan proposed a staff profit sharing scheme to his shareholders. He said he would take no salary and pay himself no dividend whilst writing down the ordinary share capital to 25% of nominal value and repaying arrears in Preference shares dividends. The shareholders where taken aback *“some shareholders clearly felt they were being taken for turkeys and asked to vote for Christmas”* (Quoted in Peter Cox, 2010). However, the proposal was approved and each employee of Peter Jones received 7,000 Preference shares representing 15% of their pay and with promises of dividend payments. This was the first Partnership Bonus however there were doubts among staff that the Preference shares was actually worth something. In response Spedan launched the weekly Gazette in an effort to communicate to and convince staff that they were genuinely owners of the business.

The Gazette was open to anyone to write letters and comments to the Chairman or any manager for that matter. The Chairman and manager must respond to all letters. The Gazette is today one of the main channels through which staff and management communicate regularly with each other.

The following 100 years has been a journey of ups and downs. The stock market crash of 1929 followed by the second world war 1939–1945 provided a tough economic environment to run departments stores. On the 18th September, 1940 the flagship stores in Oxford Street was destroyed by German bombers. The economic effect of the war lasted into the mid 1950’s and capital controls introduced to manage the large war debt of the nation. Food was rationed until 1948. Gradually the economy recovered and the shops began grow sales and recover profitability. The figure below (fig 2) show the sales and profit growth for years when information is available.

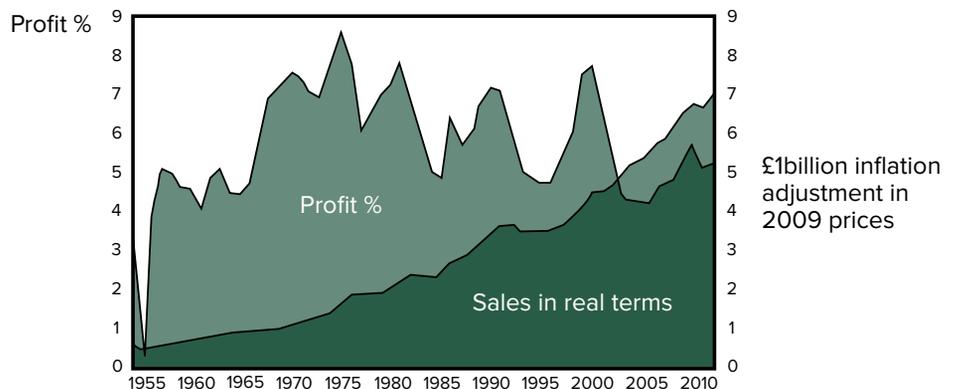


Figure 2

The food retailing part of JPL was developed through the acquisition in 1937 of the food retailer Waite, Rose & Taylor. It was 10 small retail shops established in 1891 by Wallace Waite, Arthur Rose and David Taylor, Taylor soon left the business and the shop name was established as Waitrose.



Waitrose is today an admired grocery chain in the UK however, it has not always been seen this way.

In the early years Waitrose was the poor cousin of the John Lewis department store business, the margins were low, competition fierce from unscrupulous competitors, and little had been invested in the business after its purchase. The 1950s grocery trade was changing from a counter service to self-service supermarkets throughout the grocery industry. Although Waitrose was one of the first grocers to introduce self-service the shops were generally too small or in the wrong locations for supermarkets. The chain was rationalised during the 1960s and was now representing 20% of the Partnerships sales. Profits had improved but still provided less than 10% of overall profits. Thus £1 spent in a John Lewis store was worth twice as much in profit as a £1 spent in Waitrose. Sales

in the late 1960s and early 70s showed improvements with sales increasing three-fold in real terms and with profit increasing four-fold.

Winding the clock forward Waitrose now has 305 Waitrose grocery retailing stores. In 2015 revenue was £6.1 billion (SEK 66.7b), £310m (SEK 3.5b) in profit and 59,300 Partners (employees). Waitrose has today larger revenues than John Lewis department stores however, operating profitability is higher for John Lewis (6.8%) compared with Waitrose (5.3%). Waitrose today command 5% market share in the UK and is seen as the premium brand for everyday grocery shopping.

ICA



ICA Sweden is a leading grocery retail group and the Swedish part of the ICA Gruppen AB. ICA Gruppen also owns retail operations in the Baltic countries, ICA Bank, ICA Real Estate, ICA Norway and a group of portfolio companies. ICA Sweden represents 61% of revenue of the ICA Gruppen and will be the focus of this report.

The origins of ICA goes back to 1917 when Hakon Swenson started Hakon Bolaget as a wholesaler to achieve economies of scale in purchasing and distribution and invited other food retailers to buy into the business.



Hakon Swenson, 1937



Advertising in 1980s

In 1938 ICA was established through the merger of four wholesalers including Hakon Bolaget to further consolidate the purchasing power

for the retailers. To manage this relationship the Association of ICA Retailers is established. In 1972 ICA further consolidated its governance and the independent retailers became majority shareholders in ICA. The same year the so called ICA agreement sets out the relationship between the independent retailers and ICA where the founding principle is for independent retail entrepreneurs to access finance and support to become owners of their own business. In 2013 the corporate structure was streamlined and ICA Gruppen AB was listed on the Stockholm stock exchange.

A feature of ICA Gruppen AB is its majority shareholder, the Association of ICA retailers – hereafter referred to as the Association. The Association describes its governance process as a “democratic” process of Governance. Whilst ICA Gruppen AB is a publicly listed shareholder based Governance structure, the Association consists of independent grocery retailers that have elected to work under the ICA brand name and therefore belong to the Association. Each retailer has one membership vote independent of size, profile or location of the shop. The Association is divided into seven District with a board which then meet at the Annual Council meeting. The Council elects members for the Executive Board.

In 2015 ICA Sweden had revenue of SEK 72.6 billion, operating profit of SEK 3.4 billion and 50% market share in the grocery market. It had 1,306 grocery stores and 8242 employees. This compares to revenue of SEK 69.2 billion and operating profit of SEK 3.2 billion in 2014.

Coop



The cooperative movement in Sweden can trace its roots to the turn of the 20th century when KF was established in 1899. Over the past 100 year it has evolved and developed in tune with changes in society as well as the type of activities that have a cooperative ownership model. Nearly 3.4 million people are members of one of Sweden's 31 Cooperative Associations under the umbrella of Kooperativa Förbundet (KF). Through the individual Associations membership in KF the members own KF-koncernen where the largest business is the retailer Coop Sverige with 243 shops. In addition the shops owned by the individual 31 cooperative organizations add a further 416 shops bringing the total to 659 Coop shops in Sweden. KF also owns business in media, bank and finance, and some other business. These are not included in this report. A new structure was established in 2014 in response to several years of losses and an unwieldy and sometimes inefficient structure.

In 2015 Coop Sverige had revenues of SEK 32.2 billion, operating profit of SEK 158 million and market share of 20% in the grocery market. It had 5218 FTEs working in the 243 stores owned by Coop Sverige. In 2014 revenues was SEK 32.6 billion and loss was SEK -104 million.

### **Comparing Governance structures**

In the next section we will provide an overview of the Governance structure of the three businesses and the most important levers the organization use to manage the business.



John Lewis  
Partnership  
Governance  
Structure

# John Lewis Partnership Governance Structure

It is worthwhile to begin by describing of the purpose and aim of the John Lewis Partnership. In the words of the current Chairman Charlie Mayfield “*The purpose of the Partnership is – the happiness of its members, providing satisfying employment in a successful business, and unlocking the full potential of Partners*”, quoted in O’Regan & Ghobadian, (2012). This is the same expression that Spedan Lewis established when the Partnership was established in 1929 and have stood the test of time. What stands out is the purpose of the *happiness of its Partners*, which of course in the case of JPL is the employees.

The Partnership is owned in Trust for its members, they share the responsibilities of ownership as well as its rewards – Profit, Knowledge and Power. The principles of this is set out in the Constitution.

The Settlement in 1929 required a legally water tight agreement. It was based on selling the two operating businesses, the Peter Jones and John Lewis departments’ stores to the Partnership, who would pay Spedan back gradually from profits. Spedan believed that no one should own more than they needed for their personal welfare and declared “*My wife and I have decided that for the rest of our lives we would limit our private expenditure to a certain rate. If we held to that programme then the money we already have would cover the whole of that expenditure no matter how long we live*”. Through this declaration Spedan decided to sell his fortune to the Partnership, current and prospective, and be repaid out of future profits. He did not give his fortune away but in effect received payment through an interest-free loan for the rest of his life.

## **The Constitution**

**Purpose:** The Ultimate purpose of the Partnership is the happiness of its Partners

**Power:** Power in the Partnership is shared between three governing authorities, the Partnership Council, the Partnership Board and the Chairman

**Profit:** The Partnership aims to make sufficient profit from its trading operations to sustain its vitality, to finance its continued development, to distribute a share of those profit each year to its members, and to enable it to undertake other activities consistent with its ultimate purpose

The legal structure that achieves this was developed in two stages. Partly through the legal frameworks in place at the time but also from the perspective of Spedan Lewis vision. In 1929 the first formal agreement set out the governance structure that still remain today and in 1950 the remaining parts of the shareholding was transferred to the Partnership.

This was a mechanism to give formal ownership to the employees. However, Spedan did not give up power. He elected to work without salary but he was the Chairman of the Partnership hence could continue to manage the business and over-rule decisions he deemed wrong or unwise. The role of the Chairman in the Partnership is central however Spedan also instituted a mechanism to remove the Chairman.

The formal mechanism for removing the Chairman is the John Lewis Partnership Trust Company (the Trust Company) that where established in 1929. The Trust Company has a Deputy Chairman and three further trustees which hold 60 of the 100 shares and the Chairman the remaining 40. This means that the three trustees that are elected by the Partnership Council can vote the Chairman out of the business if they so wish. This brings back power to the Partnership through the function of the Council.

The powers in the Partnership is divided between three bodies

- the Partnership Council,
- the Partnership Board
- the Chairman

The Council is the body that represents the Partners in the governance structure. All Partners are members of the Council and each have one vote when electing members of the Council to represent them. The Council meets twice a year and any question can be discussed at the meeting. The Council meeting has the power to ask the Chairman to resign through the three members of the Trust Company.

The decisions of the Council represents the view of the Partners through the Branch Forum. The Forum meets regularly to discuss local business issues, often weekly, but also questions that concerns the whole Partnership.

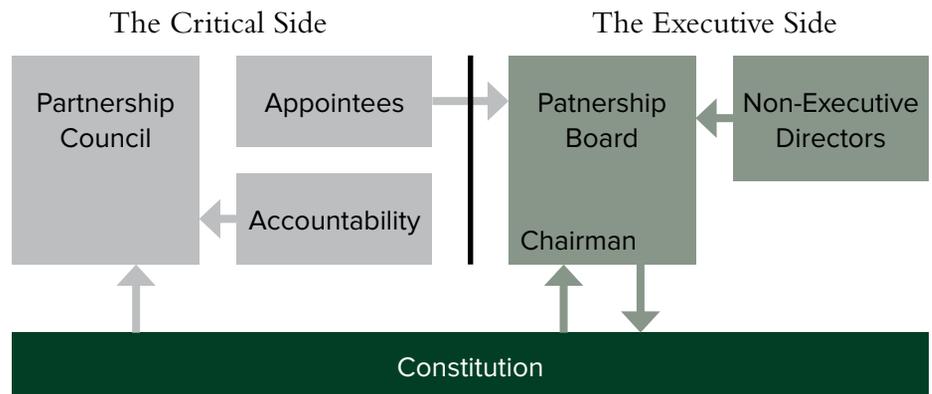


Figure 3



Figure 4

The Partnership Board is responsible for managing the performance of the Partnership. This is in practice the executive committee and consists of Chairman, five appointed members - (CEO's of John Lewis and Waitrose, Finance director, HR director, Group development Director), five elected members by the Partners and 3 non-Executives. In addition, the Partnership Board also includes one Councillor who has responsibility for challenging and encouraging every Partner to play their role as co-owners, seeking to ensure that the Partnership is true to its principles and compassionate to individual Partners.

The role of the Chairman is to ensure that the Partnership develops its distinctive character and democratic vitality. He is the Chairman of the Partnership Board, the Chairman of the John Lewis Partnership Trust Limited. He nominates his successor in accordance with the Articles of Association of John Lewis Partnership Trust Limited. As the senior executive in the Partnership, he is ultimately responsible for its commercial performance.

# ICA Governance Structure



# ICA Governance Structure

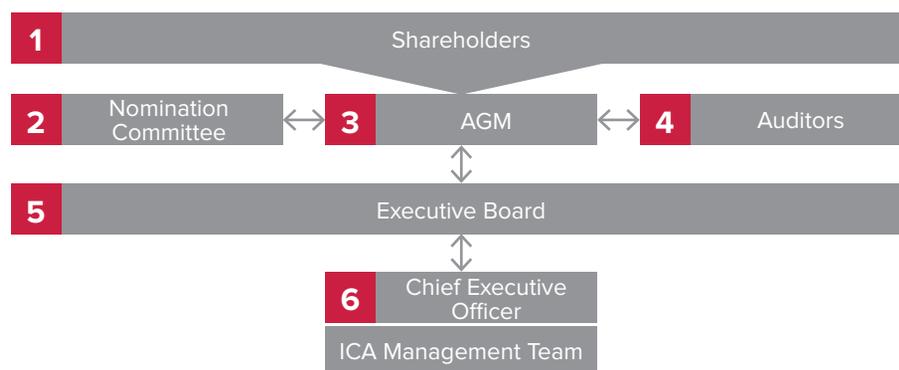
ICA Gruppen's overall goal is to create long-term shareholder value through positive share price development and dividends.

ICA Gruppen has two classes of shares, ordinary share and C shares. The C class shares comprises 40.8% of total number of shares, are unlisted and do not carry entitlements to cash dividends. The remaining 59.2% shares are listed ordinary shares with dividend entitlement. At the end of 2014 all the C shares and 10.5% of Ordinary shares, i.e. 51.3% were owned by the Association of ICA Retailers. The second largest share owner is AB Industrivärlden with 10.5% of the shares.

The governance structure of ICA Gruppen is governed by the Swedish company law and the listing regulation for NASDAQ Stockholm, and the Swedish Corporate Governance Code. The responsibility for the company's affairs is with the Board of Directors. It is recorded that several of the Board members are not independent as they may have affiliations either with the Association of ICA Retailer or ownership and board membership of independent ICA retailers.

The company's shareholders can exercise their ownership rights in the Annual General Meeting. The AGM receives reports from the Nomination Committee and the Audit Committee regarding the nomination to the board of directors, and independent review of the financial performance from the auditors. The AGM approves the financial results and the procedures for the committee's and the Board. The CEO is responsible for the day-to-day administration of the company in accordance with the Board's instructions.

The Board of Directors consist of 5 to 10 members. In 2015 there were 9 members of the Board and two representatives of the trade union. Four of the Directors are independent and the remaining five have affiliation with Association of ICA Retailers or independent ICA retailers. Committee's reporting to the Board are the Audit committee, Investment Committee, and the Remuneration Committee.



# KF Governance Structure

2018

Pomarańcze	świeże	1,20 x 3,58	4,588
Grejpfr.	Czeru. św.	1 0,814 x 4,39	3,578
Ogórki	grunt	F 0,446 x 8,79	1,780
Papryka	C. świeża	F 0,474 x 3,99	1,910
Czosnek	świeży	F 0,1 x 3,89	1,170
Pomid.	rzyms. świeża	F 1 x 3,99	3,990
Rolada	lodowa	F 1 x 4,89	4,890
Ser carski	w kaw.	F 1 x 3,99	3,990
Schab	tradycyjny	F 2 x 3,99	7,980
Masło	Balkański	F 1 x 5,79	5,790
Krem	do pieczywa	F 1 x 2,50	2,500
Kefir	2%	F 1 x 3,20	3,200
Jogurt	natur. 2,5%	F 1 x 3,20	3,200
Smietana	12%	F 1 x 3,20	3,200
Serek	wiej. lekki	F 1 x 3,20	3,200
Mleko	UHT 3,2%	F 1 x 3,20	3,200
Smietanka	UHT	F 1 x 3,20	3,200
la klasy	UHT	F 1 x 3,20	3,200

# KF Governance Structure

KF is the parent company of Coop Sverige. The purpose of KF is to manage the Coop group for the benefits of its customers and members. It aims to provide high quality and affordable products and services. Four objectives direct the activities of KF in 2015.

1. The Lobbying objective:  
The current legislation for cooperative organizations is based on an older legislation and KF is actively working with Government and the legislature to change and bring legislation up to today's legal framework
2. The Association objective:  
The remit for KF is to develop and manage the relationships with the Associations for the benefits of its members
3. The Ownership objective:  
Through clarity of purpose and focus on creating value for KF and to be an active owner of its businesses
4. The organizational structure objective: Create focus on the core business of grocery retailing through divestment of non-core activities

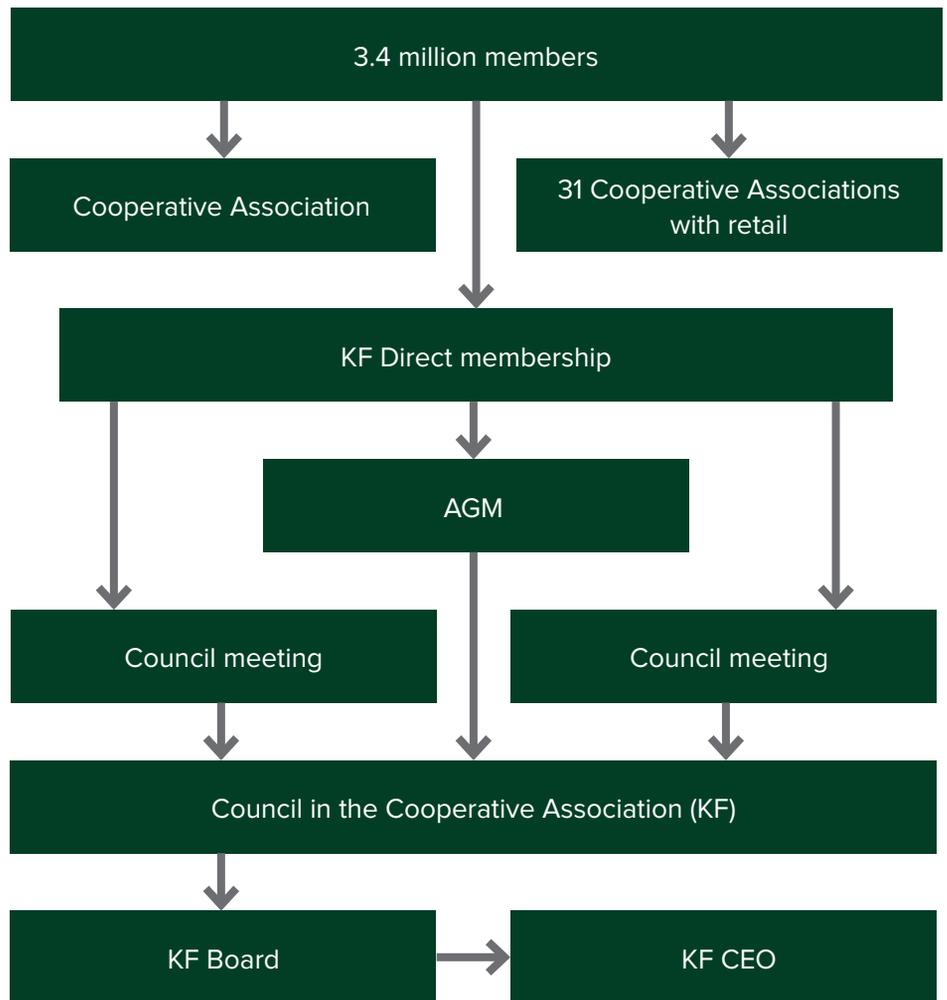
Swedish law prescribes that a cooperative organization must not be politically active and religiously neutral, acting as a legal entity with democratic governance processes.

In a membership cooperative the fundamental unit of ownership is the individual member who is a member of the local cooperative organization. In 2015 KF had 3,4m members in Sweden. The initial membership cost is SEK 100 and provides the member one vote in the local cooperative organization. A nomination committee provides a list of candidates that will represent the local cooperative organization. The cooperative organization each has two types of representative, one is the local member and the other is the owner representative who is often linked to the local Coop shop such as an employee. These representatives are elected through one vote for each local member to the council meeting (föreningsstämma or distriktsstämma if the organization is large). Through this geographically dispersed process 94 representatives are elected to vote in the annual KF council meeting. In the KF council meeting decisions ratify the financial results for the year,

elect the nomination committee, board of directors, chairperson and auditors. It determines the remuneration for the elected members and the board of directors. The board of directors are elected for one year and appoints the CEO and set the objectives for the CEO. It also decides the strategy and takes decision with large economic impact.

In addition there are regular local membership meetings that connect the members with their local Coop shop.

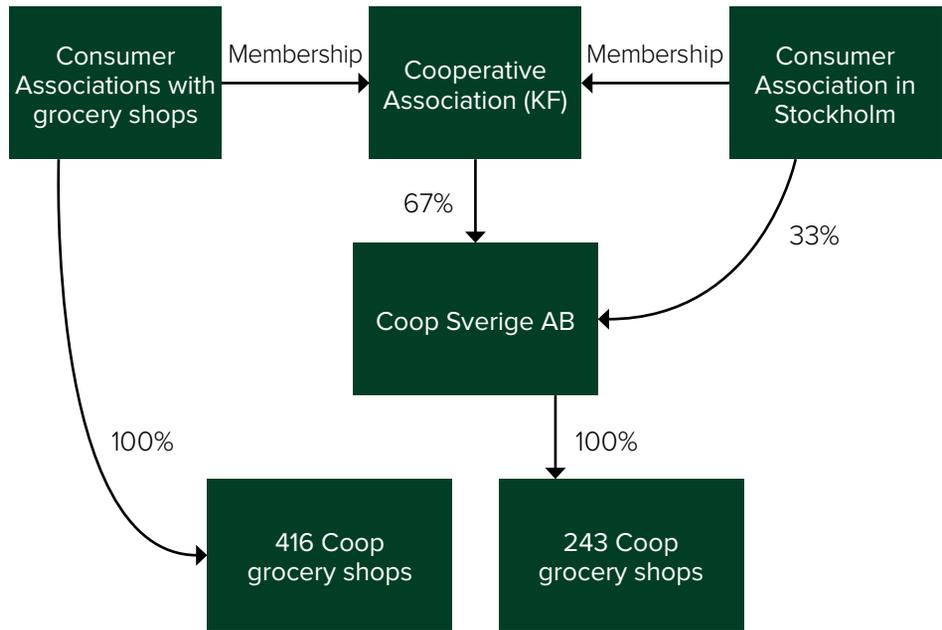
In 2014 21,580 members (0.6% of its members) took part in elections for 2,251 elected members at different levels in the governance process.



Coop Sverige which is the grocery part of KF runs the 243 shops and supermarkets, and operating areas such as management of procurement and product category management, marketing, logistics, Non-food sales and on-line sales. It also have responsibility

for central functions such as HR, Communications, and Finance. These central functions also supports the local Cooperative Associations with the goal of improving efficiency through economics of scale, management control and advice.

**Ownership between KF and Coop Sverige**



# Comparison

A black and white photograph of a large pile of apples, filling the entire frame. The apples are stacked and piled together, creating a dense texture. The lighting is soft, highlighting the natural curves and textures of the fruit. The word "Comparison" is overlaid in a classic serif font, centered in the upper portion of the image.

# Comparison

The Governance structure of the three business could be described as per figure 5.

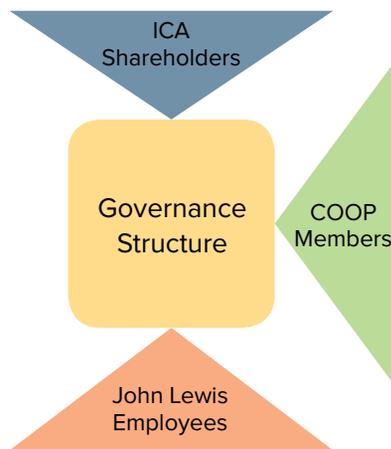


Figure 5

The basic structure of Governance differs between a top-down, a bottom-up, and a membership perspective. Comparing the formal structure and decision bodies' show the differences and commonalities.

## Analysis

Despite the difference in ownership the top level of the three organizations have similar structures with similar decision roles in the management of the business. It should be noted that in both the case of JLP and Coop both organizations apply what they term a democratic governance process. Interestingly, the Association of ICA Retailers refers to itself as a democratic organization and is the majority shareholder of a public company.

	JPL	KF	ICA
Top level decision function	Partnership Council	Council meeting (Stämman)	Shareholder meeting (Årsmöte)
Actors of top level functions	Elected Partners (employees)	Elected Members (Ombud)	Shareholders
Main decisions of top-level function	Hold Chairman to account Ratify financial results Agree annual bonus Elect members to the Partnership board	Ratify financial results Elect members of various committees Elect auditors	Ratify financial results Elect Executive Board members Elect members of various committees Elect auditors
Executive Board	Partnership Board	Executive Board (KF styrelse)	Executive Board (styrelse)
Main decisions of Executive Board	Setting strategy and financial goals Responsible for the performance of the business Appointing Senior Executives	Setting strategy and financial goals Responsible for the performance of the business Appoints CEO	Setting strategy and financials goals Responsible for the performance of the business Appoints CEO

Table 1

After several years of losses in Coop Sverige which has been covered through sales of assets and businesses, the governance structure is changing. The KF annual report 2015 states the purpose of KF to be an “active owner” of the businesses within KF. In the seven strategic goals outlined goal #4 emphasise the development of a strong and owner focused organization. The goal as a strong owner is to ensure a financially viable organization with clear lines of authority between KF as owner and the operating businesses such as Coop Sverige. The 2015 annual report makes clear that a pre-requisite for strong finances is consolidation through mergers of the local Coop associations to create economies of scale and a stronger balance sheet with which to access finance for investments. Furthermore, the role of KF is aiming to make a clear distinction between the owner (KF) and the operating companies (such as Coop Sverige) and plan to implement the same code for corporate governance that applies in publicly listed companies. KF sets the strategy, appoints the CEO, the board of directors in each business and holds each business accountable for its performance.

The analysis suggest there is a natural structure at the top level no matter if the business is shareholder focused, owned by its employees or by its members. This indicates that there is a general structure to Corporate Governance at the top level function irrespective of the type of ownership of the business.

## Stakeholder analysis

In all three cases the stakeholders feature prominent in the communication to owners, employees and the general public. In the case of ICA as a public company the shareholders and finance community are important stakeholders. An important stakeholder in the case of ICA and Coop is the general public perception of environmental care and sustainability. For JLP the communication is directed primarily towards its Partners. The analysis will focus its attention on these stakeholders; the owners, the employees, and the environment.

## John Lewis Partnership

### **a. The owners**

The owners of John Lewis Partnership is its employees through its Trust company. The management of the Trust is laid down in the Constitution and each employee has one vote when electing their representative in the Council. The ownership provides, but does not guarantee, an annual proportion of the profit of the Partnership. Historically the bonus has been in the range of 12-17% of salary but there were times in the 1930's and 1940's when the Partnership did not pay any bonuses.

### **b. The employees**

In the case of John Lewis Partnership, the employees are the same as the owners. The Annual report is therefore a communication channel to its owners, ie its employees. The structure and information in the Annual report is similar to a public company but written for its employees.

### **c. The environment**

The environment and issues around sustainability is important to JPL and is addressed in the annual report and other communication. Annual reports and KPI measures monitor progress towards sustainability goals starting with the Waitrose Environmental report in 2001.

## ICA

ICA recognise a range of stakeholders all with some common and different objectives.

### **a. The owners**

The owners in the case of ICA is two separate groups. One is shareholders of the publicly listed shares who receives a dividend. The other is the independent retailer who do not receive dividend for its 40.3% C shares. In a simplistic way ICA provides the members of the Association of ICA Retailers economies of scale in aspects such as financing, procurement, IT and HR, it provides expertise in marketing and how to run an efficient retailing business. This is similar to franchising with the difference that the franchise business is owned by the franchisee.

### **b. The employees**

The employees of ICA have the typical influence in a listed company as any other Swedish listed company. It has 12 members of the Board of which 2 are representatives of two trade unions, Handelsanställdas Förbund and Unionen. Employee's voice is therefore represented indirectly as not all employees are members of either union.

### **c. The environment**

Care for the environment is an important part of ICA's activities. Several pages in the annual accounts is dedicated to communicate the impact ICA as on the environment and the improvements that is being made. ICA has policies in place for responsible management of the supply chain.

## Coop Sweden

KF sets high priority to the responsibility for the environment, ethical behaviour, and social and economic aspect in Swedish society. In short the work on sustainability is central to its goals and aspirations. KF recognises it have a number of stakeholders in addition to its members.

### a. The owners

The owners of KF and therefore of Coop is the 3.4 million member that have invested SEK100 for a life time membership. In return the members has historically been rewarded with a rebate from their purchases Due to poor financial performance no cash rebate has been paid out for several years. The Coop customer panel consist of 38,000 members that are regularly surveyed for feedback on the performance of the business, product quality and choice. Members also have a voice in the ownership of KF through the election of local council members. In 2014 0.6% of members voted in the various elections of representatives (KF annual report 2014).

### b. The employees

Annual employee surveys and training are one of the levers Coop use to engage and respond to the need of its employees. The Board has one ordinary union representative from the Handelsanställdas förbund

### c. The environment

The environment and sustainability issues are prominent in Coop's communication with its members and customers. KF regularly engage with organizations such as WWF, Fairtrade, and Svenska Naturskyddsföreningen. Much emphasis is made of the environmental impact of Coop and its policies adhere to the UN Global Impact principles. The reporting follows the UN Global Reporting Initiative (GRI)

#### • Analysis

The ownership structure of the three businesses are different with two having owners that are intimately involved or related to running the business. JLPs owners are the employees in the business and are therefore directly involved in the daily decisions that impacts the performance of the business. In addition to employment the Partners receive a proportion of the profits as their "dividend". In the case of ICA the quality and value of the services performed by ICA Sweden has a direct impact on the revenue and profits accruing to the independent retailers that owns the ICA Gruppen. No dividend is payable to the Association of ICA retailers but can be traced to the profits made in the independent retailers accounts.

Therefore the interests between owners of a successful and profitable business and the actors in the business are aligned.

The ownership of Coop is through membership in KF. It can be reasonably assumed that members of Coop have the same expectations as for any other grocery retailer; good products, easy access to convenient shop locations, a good shopping experience and low prices. It is less clear however how well the interests of the members and the long term success of Coop is aligned. In most cases, but not all, there are nearby competitor grocery shops that competes with Coop. If the quality of the product offer, the shopping experience and a competitive price favour a competitor it seems reasonable to assume that the member would shop with a competitor. There may be emotional or philosophical reasons such as a belief in the cooperative principle that directs a member to a less competitive Coop shop, however the relatively low level of participation in the representative election process of 0.6% (KF annual report, 2014) indicates that the emotional or philosophical ties to Coop as a cooperative business are weak. In the KF 2015 annual report it is reported that a new membership structure is in development. The aim is to strengthen member's influence which is likely to be a reflection of the very low voting participation reported in 2014.

## Decision Processes

### • John Lewis Partnership

The ownership of JLP is based on one vote per employee as Partner. Each Partner can cast their vote in elections of their representative and every Partner is eligible to offer themselves as candidates for election. Partners are also able to raise questions and suggest changes to the way the business is run at local shop level, at regional and national levels. Major changes in the business such as changes to the pension provision are debated and discussed prior to a vote in the Council meetings.

The three decision levels that manage the Partnership is divided between the Chairman, The Partnership Board and the Partnership Council. The decision making process is both downward from the Chairman and the Partnership Board and upwards from the Partners via the Partnership Council. There has been debate in the academic literature to which extent JLP is a democracy with democratic processes (Cathcart 2013, Sauser, 2008. Storey at al 2014. Paranque & Willmott, 2014) and there are arguments on both sides. Two illustrative examples are provided below.

An example of local decision making is a local branch decision on extended opening hours around Christmas. Typically the Branch manager would make calculations on the projected additional revenue and costs for additional opening hours, the roster of who would extend their working hours and other practical issues.

This would be discussed in a regular Branch meeting and the Partners would weigh the benefits of additional profits against the extra working hours, impact on family life of Partners etc. Weighing these and other factors together the local branch council would vote as to whether the opening hours should be extended.

Another example is the approach when the drive for efficiency directly impacts Partners. In 2012 it was decided to restructure the management teams in the branches. This affected 3000 managers of which 600 managers were facing redundancy. Rather than asking the affected managers to leave they were kept in the business for two years but after that point they had the option of taking another role in the business, not necessarily at the same level or location, or leave the business giving a normal notice period. The Chairman Charlie Mayfield commented that the approach was less costly as it saved on large costs for redundancy but more importantly, it retained trust and commitment from others who remain in the business. Performance are measured and monitored in JLP, people are asked to leave for performance reasons but it may take longer or is approached in a gentler manner than may be the case in another grocery business.

• ICA

ICA Gruppen is listed on a public exchange and is therefore following the rules that applies to a public company. There are three levels where important decision are made. Firstly, at the Annual General meeting where the financial results for the year is agreed and the Board of Directors are appointed. Secondly, the Board of Directors represents the shareholders, sets the strategy and appoints the CEO. The Board also makes major investments decisions and uses its internal audit function to scrutinise management of the company independently from the Executive management.

The third level of decision power resides with the CEO and the management team. Two aspects of decision processes at ICA can be noted. Firstly, several of the members of the Board of Directors are not independent as they have relationships with either the Association of ICA retailers or are owners of ICA retailing businesses. Secondly, a significant proportion of the employees are members of trade unions of which two are represented in the Board of Directors. This suggests that employees have some indirect influence at the Board level through their trade union representatives.

• **Coop**

The highest decision level in KF is the “stämman” or Annual General Meeting (AGM). KF is an economic society meaning that there are certain obligations laid down in law such as the society must not have any political and religious affiliations and apply democratic governance processes. Members of KF are connected to one of the local KF societies and a local Coop store. Members are therefore electing representatives for their local board (Distrikt stämman) and is managing the local Coop shop. The local board elects the representatives that will attend one of 10 Elective boards that then finally elects 94 representatives that attend the AGM of KF. KF is therefore a representative democratic organization. With 3.4 million members to be reduced to and represented by 94 members means that there is several layers between the individual member and the AGM.

KF adhere to the Company code of Sweden and aspects of the duties of the AGM is regulated such as agreeing the financial result for the year, appointing auditors, electing the nomination committee and Board of Directors. Since the members of the Board represents the owners ie the members, they are not considered independent directors. In addition to the elected Board member two trade unions representatives are members of the Board.

The Board appoints the CEO and determines the goals and strategy for KF

At the local level the decision taking is closer to the members and the Coop that operate in the area. The local cooperative society owns the local Coop shop and members agrees the financial results, elects the local board and the nomination committee.

At the local level there are often member’s advisory committees which connects the local members with the running of the local Coop shop.

Coop Sweden Governance process	Responsibility	Meetings
Board of Coop Sverige	Board approves goals and strategy	6 per year
CEO	CEO propose strategy, takes executive decisions to meet the strategic goals	
Executive Team	Executes the strategy and priorities initiatives	2 per month
Investment Committee	Decisions related to investments	1 per month
The Retail Group	Provide recommendations to the Executive team and executes decisions to meet the strategic goals	2 per month
Business Unit Leadership	Responsible for the BU unit performance and decide which initiatives that should be presented to the Executive team	As required
Cross Functional Forum	Responsibility for securing commitment and offer recommendations for cross-BU initiatives and projects	As required

• **Comparison**

There are similarities in the decision processes between the three organizations but difference in size show different decision processes. Coop with 3.4 million members require an elaborate representative decision process to funnel the wishes of all members to the ultimate decision level.

**Analysis**

JLP and Coop have a democratic like process where the owners of the business elect members to the top decision level in a bottom-up process. In the case of ICA the owners (shareholders) elect their own representatives dependent on the proportion of ownership.

Owners	JPL Employees	Coop Sverige Members	ICA Shareholders
Decision rights	Elect Council members as representatives to local and regional councils. One vote for each employee. Has the power to ask the Chairman to resign	Elect representatives suggested by the Nomination committee. One member one vote	Elect the Board of Directors and the Chairman
Decision process	Branch Forum elects branch representatives who is then elected in regional Councils. Finally regional Councils elects members of the Partnership Council	Members of local Coop elects representatives to one of 10 Elective boards who finally elects 94 representatives at the AGM of KF	Board of Directors are elected based on proportion of shareholding. Largest shareholder is Association of ICA Retailers. The Associations remit is to i) represent its members ii) an effective owner of ICA Gruppen AB iii) lobbying for the interest of ICA retailers

Table 3

However, the main shareholder of ICA Gruppen, Association of ICA retailers, employ a democratic process when electing the representation at the Associations AGM and the election of Board directors for ICA Gruppen. ICA therefore appear at first glance as a shareholder driven Governance structure however on further investigation the Association brings it to a position between a democratic and shareholder driven Governance structure.

The Coop Sverige has been loss making for a number of years and has financed its losses by selling stores either to the Cooperative associations in the regions, to other retail organizations or closed the stores. In 2014 the organization was again changed and Coop Sverige was established with two main shareholders, KF 67% and the Consumer Association in Stockholm 33%. The decision processes at Coop Sverige AB is now the same as a shareholder owned organization with an executive board, CEO and Executive team.

## Financial performance data and analysis

The intention at this stage of the research study was to compare the financial performance of the grocery retailing activities of the three organisations being considered. Whilst in principle this seems straightforward – deriving consistent, accurate and comparable data from publically available information was not without difficulty. None of the organisations is represented by a separate legal entity with a requirement to produce and publish their own annual report and accounts. Rather the financial performance is subsumed within, or needs to be collated from, the financial accounts of other organisations. Thus:

- the data used for Waitrose [the UK grocery retailing operation within the John Lewis Partnership] was derived from the annual reports of John Lewis Partnership plc
- the data used for ICA Sweden [the Swedish grocery retailing operation within ICA] was derived from the annual reports of ICA Gruppen
- the data for the Swedish Coop Sverige grocery retailing operations was derived from the annual reports of KF together with report from Coop Sverige

Financial performance has been compared and analysed over the most recent five year period, 2011 to 2015. However, whilst the accounting year end date for both ICA Sweden and Coop Sverige is 31 December, the John Lewis Partnership is a little less

straightforward and has a financial year which ends on the final Saturday of January each year. For the purpose of this analysis the financial years to December for ICA Sweden and Coop Sverige have been compared to that ending the following month for Waitrose: for example the year to 31 December 2015 for the Swedish businesses, is analysed against that to 30 January 2016 for the John Lewis Partnership business. There is the added complication of a 53 week year for Waitrose to 31 January 2015, as compared to the 31 December 2014 year end for the two other businesses – but no adjustment was made for this in the data presented in Table xx opposite.

The most straightforward to deal with was the John Lewis Partnership – where Waitrose is considered as a ‘reporting segment’ and data for elements of both the income statement – down to operating profit – and the statement of financial position is provided, along with full-time equivalent [FTE] employee numbers. The partnership identifies the information and analysis provided as being ‘consistent with how our Partnership Board reviews performance throughout the year’ (John Lewis Partnership plc: Annual Report and Accounts 2015 – Note 4: Segmental reporting).

Similar financial information can be extracted from the ICA Gruppen annual reports for ICA Sweden – although employee numbers are only provided by country rather than by operating segment.

Sourcing consistent information over the five year period for Coop Sverige proved the most difficult, with data needing to be collected and collated from more than one source. Obtaining meaningful balance sheet data, along with FTE employee numbers, was particularly challenging.

Ultimately, the decision was taken to compare only the sales and operating margin performance and trends of the three businesses at this stage in the research – with more detailed analysis of financial performance and position

requiring access to information not easily accessible in the public domain. The base financial information included in the analysis is summarised in Table 4 below.

Over the five years being considered for this analysis, sales at Waitrose grew overall by 20%, from SEK 58.3 billion in 2011 to SEK 70.0 billion in 2015 – a period when UK GDP growth rates varied between 1% to 3% ([www.tradingeconomics.com](http://www.tradingeconomics.com)). Annual sales for Waitrose grew consistently by over 6% year by year to 2014, but then appeared to fall in the final year of the study. However, it needs to be remembered that 2014 represented a 53 week period for Waitrose – whereas 2015 covered 52 weeks.

	2011	2012	2013	2014	2015
Waitrose: Sales [SEK m]*	58,328	62,284	66,171	70,552	69,989
Op. profit	3,001	3,358	3,565	2,725	2,679
Operating margin	5.1%	5.4%	5.4%	3.9%	3.8%
ICA Sweden: Sales [SEK m]	62,500	65,691	67,992	71,026	72,624
Op. profit	2,617	2,849	3,058	3,249	3,366
Operating margin	4.2%	4.3%	4.5%	4.6%	4.6%
Coop Sverige: Sales [SEK m]	33,247	34,007	34,076	34,161	32,581
Op profit	(648)	(698)	(222)	(306)	140
Operating margin	(1.9%)	(2.1%)	(0.7%)	(0.9%)	0.4%

Table 4: Base financial information. \*GBP converted at GBP 1=SEK 11.5  
Financial analysis  
Waitrose

Adjusting for the additional week – gross sales grew by 1.1% between 2014 and 2015, although like for like sales fell by 1.3%. According to the commentary in the most recent (2016) John Lewis Partnership plc report and accounts – deflationary prices in the UK grocery market meant that the reduction in reported sales masked an increase in market share in the year for Waitrose.

Operating margin for Waitrose strengthened from 5.1% in 2011 to 5.4% in the following two years, but then declined to below 4% in 2014 and further to 3.8% in 2015 – driven primarily by challenging market conditions and the impact of the continued growth of low cost discounters such as Aldi and Lidl.

The trends in the Waitrose data are summarised in Figure 6 below.

Over the five years being considered for this analysis, sales at ICA Sweden grew overall by 16%, from SEK 62.5 billion in 2011 to SEK 72.6 million in 2015 – a period when Swedish GDP annual growth rates varied between -0.5% to 5% (www.tradingeconomics.com). Annual sales for ICA Sweden grew in each in each of the five years – with the largest annual growth rate being 5.1% in 2012. The rate of growth followed a somewhat inconsistent pattern – in part reflecting changes to the organisational structure –

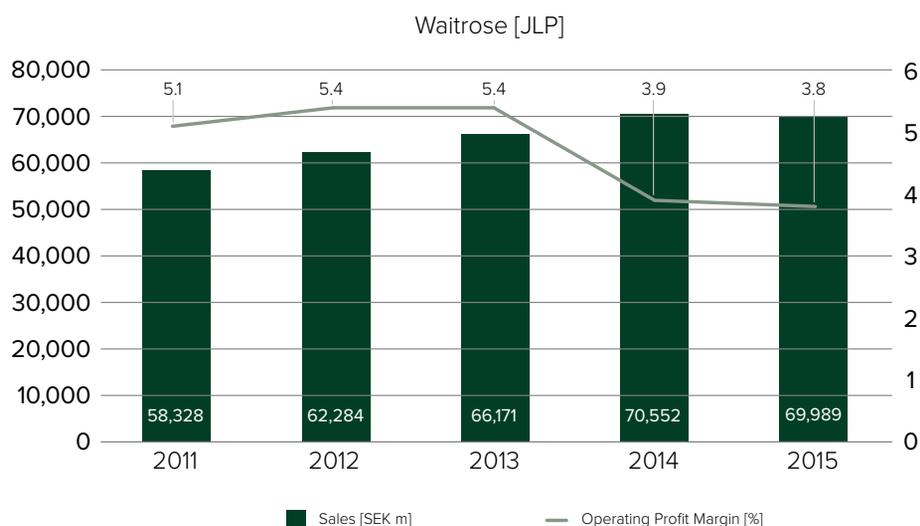


Figure 6: Trends in Waitrose Sales and Operating Profit Margin 2011 to 2015  
ICA Sweden

with the lowest annual growth of 2.2% occurring in 2015. The commentary in the most recent (2015) ICA Gruppen accounts identifies the Swedish grocery retail market as ‘mature’ – with the traditional players of ICA, Axfood, Coop and Bergendahls accounting for around 70% of sales. However, as in the UK, the commentary goes on to identify that competition has increased in recent years, mainly due to the growth of discount chains.

Despite the increased competition, operating margins for ICA Sweden have grown consistently year by year from 4.2% 2011 to 4.6% in 2015 – indicating strengthening efficiency and cost controls in the face of increasing competition.

The trends in the ICA Sweden data are summarised in Figure 7 below.

**Coop Sverige**

Over the five years being considered for this analysis, sales at Coop Sverige fell overall by 2% – from SEK 33.2 million in 2011 to SEK 32.6 million in 2015 – a period when Swedish GDP annual growth rates varied between -0.5% to 5% (www.tradingeconomics.com).

This overall figure masks the fact that annual sales for Coop Sverige did grow each year between 2011 and 2014 – although by only 0.2% in each of 2013 and 2014.

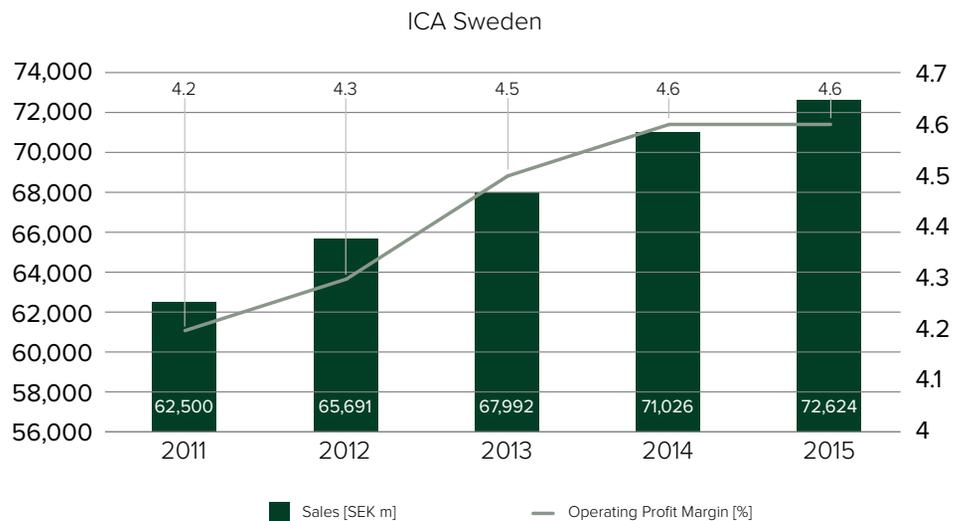


Figure 7: Trends in ICA Sweden Sales and Operating Profit Margin 2011 to 2015  
Coop Sverige

However, in each of the four years of sales growth, the organisation made an operating loss – and only in 2015 when sales fell, was a positive operating profit recorded.

Coop Sverige faced similar competitive forces to ICA Sweden but appeared to cope with them far less effectively. Operating margins were negative throughout the period 2011 to 2014 and recovered to just 0.4% in the 2015 following restructuring. The trends in the Coop Sverige data are summarised in Figure 8 below.

## Findings

### • Governance structure

The study finds surprisingly similar Corporate Governance structures between what could be perceived to be different ownership structures. All three organizations have the same fora that represents the owners, in the case of JLP it's the Council, in ICA it's the AGM and in KF it's the AGM. Studying the decision rights for the AGM and Council reveal that they have the same aim and purpose

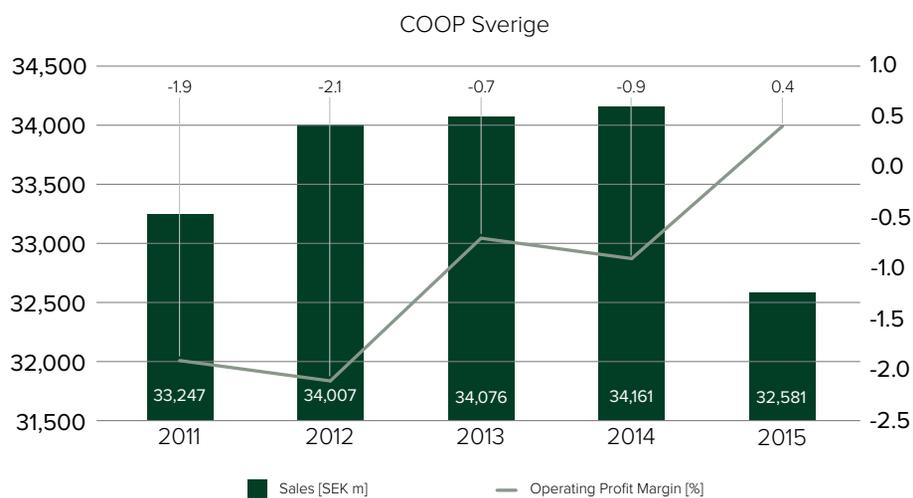


Figure 8: Trends in COOP Sverige Sales and Operating Profit Margin 2011 to 2015

namely to agree the annual results, appoint a Board of Directors and some governance functions such as auditors. The Board of Directors also have decision rights of major importance such as buying or selling parts of the business and major investments and to appoint the CEO of the operating business.

The CEO is responsible for executing the agreed strategy and the operating performance of the business.

There seems not be any difference in Corporate Governance irrespective of who the owner is, whether the employees, the members or the grocery store owners. The question then becomes if there is a difference in performance between the three types of ownership.

- **Financial performance**

The review of financial performance undertaken within this study primarily comprises of an analysis of sales and operating margin over a five year period. Factors other than Corporate Governance have a potentially significant influence over these measures – in particular the health of the Swedish and UK economies within which the businesses operate and the extent of competition in the retail grocery trade in both countries.

The commentary contained in the annual report and accounts of both the John Lewis Partnership plc [relevant to Waitrose] and ICA Gruppen [relevant to ICA Sweden] identify increasing levels of competition – in particular from new, low cost entrants – but both of these organisations appear to have weathered the competitive storm reasonably well. Although margins in Waitrose have fallen from almost 5.5% of sales to just below 4% – those of ICA Sweden have grown consistently over the period and have been held at 4.6%. Margin performance within Coop Sverige – identified by ICA Sweden as one of the four main competitors in the same mature Swedish retail grocery market – have however, been poor: recovering to just 0.4% in 2015 following four years in negative territory. It is difficult to avoid drawing the conclusion that the impact of the ownership structure may be reflected in the pattern of financial performance – with the financial imperative of needing to satisfy shareholders being most directly evident for ICA Sweden.

The 'partnership' model within John Lewis – with a focus on providing returns to partners in a quasi-shareholder fashion – may be a factor relevant to the performance of Waitrose. The cooperative structure – furthest removed from the financially focussed ownership model – provides the least impressive financial results, which are not sustainable longer term in to the future.

### Findings and Discussion

This research study of three grocery organizations with three very different ownerships identify two successful models and one model (KF) that have struggled financially for several years.. The two successful models in the study show that the employee (John Lewis Partnership) owned model and the independent retail owned model (ICA) is growing their businesses profitably whilst the membership owned model (KF/Coop) has not been financially successful. With losses mounting the KF has been forced to review and change its Corporate Governance. In response to the financial difficulties KF is embarking on a radical overhaul of the Corporate Governance structure which by any comparison is the same as the governance code for publicly listed companies. There is nevertheless commitment to ensure membership influence in KF and Coop. However, there is no clarity at the time of writing how this is going to be achieved?

These findings are interesting in relation to Ekberg (2012) who compared successful and failing retail Cooperatives in Norway, Germany

and the UK. Ekberg's analysis suggest that the Cooperative movements can have difficulties responding to dynamic and highly competitive markets such as grocery retailing yet also succeeding which the example in Norway demonstrates. The future of retailing is evolving with continued shift between different grocery formats, a rapid increase in on-line retailing and competition. The UK is a world leader in on-line grocery retailing since over 15 years and Sweden has seen significant growth in the past 3-4 years. The question is can KF and Coop respond to this fast moving market?

In conclusion. There seems to be two successful ownership models: 1) employee owned or 2) shareholder owned whilst the Cooperative model is struggling to compete and is seeking its solution in the shareholder ownership model.

Future research streams have been identified during the pilot study

Further research would focus its attention on how Coop:-

1. Manage the changing Corporate Governance structure
2. Develop membership engagement and governance structure
3. Meet the challenges posed by the grocery retail market

From a financial perspective, it would be interesting to compare how cooperative and shareholder owned grocery retailers in the UK market fared against Waitrose. Do the shareholder owned organisations outperform Waitrose – similar to ICA Sweden – and do cooperatives underperform as with Coop Sverige: or is that not the case?

Additionally, building on points 3 and 4 above, it would be both interesting and of value to explore how access to capital and other issues associated with control of the balance sheet may be used to help improve financial performance. Patrick Lewis – the Group Finance Director for John Lewis states in the 2016 Annual Report and Accounts that – ‘While our profit has declined, market share growth, continued infrastructure investment and a stronger balance sheet have set us up well for future success.’

With the cooperative model arguably making significant injections of capital more difficult to access, are cooperatives able to expand and invest to help meet customer needs more effectively – or do they need to retrench and divest of non-core operations in order to provide capital to invest in core retail grocery operations?

JLPs purpose is the Happiness of its Partners. Further research would focus on how employee engagement processes at JPL compare and contrast with the employee engagement processes applied at Coop during the changes in the governance structure. What can Coop learn from JPL?

Future research requires access to JLP and Coop staff and financial data. The authors have good access to staff at JLP and we are hopeful we can achieve good access to Coop staff and data

### **Limitations**

This pilot study is primarily based on secondary material in the public domain and further studies would seek primary data from both KF/Coop and JLP. In particular the financial data for Coop Sverige is not publicly available hence the financial analysis is based on reasonable assumption but which has not been verified by Coop.

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**Hult Research**

**Ashridge Executive Education at  
Hult International Business School**

Berkhamsted  
Hertfordshire HP4 1NS  
United Kingdom  
T: +44 (0)1442 841246  
E: [research@ashridge.hult.edu](mailto:research@ashridge.hult.edu)

[hult.edu/research](http://hult.edu/research)

