



## *Passive-Aggressive culture; where you'd least expect to find it!*

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*“To have a crisis is tough, but to have three in under 12 months is unique and was effectively what the Co-op went through in 2013/14”.*

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At our recent HR Directors Dinner, Steve Murrells, Group Chief Executive of the Cooperative Group gave our cross sector audience a fascinating account of the Co-op's 'near death experience', outlining the crisis in detail and the levers they pulled to turn the business around, sharing how humour, used in the right way, got the business through some really dark moments.

Steve told our audience that when he first joined Co-op's food business, he did

some due diligence and understood that for decades the Co-op had been pushing customers away and losing traffic, but what resonated with him was when he spoke to people about the Co-op, there was a real emotional connection. People wanted the Co-op to be a success. With such a rich legacy, he believed the platform was perfect for him to make a genuine difference.

He went on to describe a business in deep trouble. Colleagues had lost their voice, their 'mojo' and they felt the business had abandoned them. The governance treacle that ran throughout the entire organisation made quick decision making and change impossible.

However what was really holding the business back was the culture which Steve described as ‘passive aggressive’; he simply did not know where he stood. He would be briefing in meetings, feeling a consensus had been achieved but by the time he had left the room people would be briefing against him. He described this as ‘false positivity’ which was particularly prevalent around the time the Queen opened the Co-op’s new head office at Angel Square in Manchester.

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*“Culture eats strategy for breakfast”.*

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Steve knew, even as he waved off the Queen, that he needed to start addressing the cultural issues in the food business if they were going to make change a reality. Having always been a big believer that “culture eats strategy for breakfast”, it was essential that he addressed this starting at the top. The challenge was that the Co-op’s governance was archaic. The main board at the time consisted of 25 members including a Botanist, Civil Servant, Plasterer and a Nurse, who were essentially responsible for governing one of the most complex societies in the country. The Co-op was the largest funeral provider, 3rd largest pharmacist, 5th largest food retailer, and it owned and ran its own bank. With its own farms it was the UK’s largest land owner, had a large general insurance business, a legal practice and it had a significant JV with Thomas Cook in travel. Yet the business was asking ‘25 good honest people’ to get their arms around a £13bn complex business.

If the Co-op was to truly change and indeed survive, then they needed a board that was agile, made up of a collection of professionals and member-nominated Directors. Without their agreement they wouldn’t be able to change the rule book. For the original board it was a classic case of ‘turkeys voting for Christmas’.

So in early 2013 this became the management team’s focus. At the same time the Co-op’s PR Company was starting to deal with the early rumblings of the bank’s crisis.

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*“The biggest corporate capital black hole of any UK business up to that point”.*

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Steve admitted that the financial crisis of 2008 had finally suddenly caught up with them. Up until that point they seemed to have avoided some of the horrors experienced by their peer group. However, three things happened simultaneously that drastically impacted their fortunes. Firstly, interest rates had fallen to such a low level it had become very difficult to generate the returns and profits that they needed, secondly, in their acquisition of Britannia Building Society 3 years earlier, it became clear they had inherited a ‘toxic book’ and that was playing out to the detriment of capital ratios. Thirdly, they were trying to negotiate the purchase of 650 Lloyds Bank branches in their pursuit to become a big challenger bank. The long and short of this was they had completely overstretched themselves and had taken their eyes off the day to day banking business. Within 8 months,

what appeared to be a very well run bank ended up being the biggest corporate capital black hole of any UK business up to that point - a huge £1.7bn.

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*“He saw a belief that the ingrained values, principles and ethics of the Co-op were disintegrating around them”.*

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As the Co-op banking crisis was unravelling, their PR agency had advised that so long as they could restrict the banking issues to the financial press, the brand would be OK. Just when things couldn't get any worse the second crisis hit, and it was 'media gold' exclaimed Steve. It was sex, drugs, religion and financial services.... and it was on the front pages of the Daily Mail. The belief that they could hold the Bank's woes solely to the financial pages was blown out of the water; the brand nose-dived, plummeting from 'the most trusted to the least trusted overnight'. The worst was still to come! Paul Flowers, the then Chair of the bank, provided evidence to a Commons Select Committee. He was asked a very basic question; what was the asset value of the bank? When Paul Flowers answered “£3bn” when in fact it was £42bn, the press had a field day questioning why the Chair of the Co-op Bank was unable to answer a simple question and what governance was actually in place. This just added another layer of complexity to the Group's mounting problems.

When Steve looked into the eyes of the people who make the Co-op what it is today, he saw a belief that the ingrained values, principles and ethics of the Co-

op were disintegrating around them. At that moment Steve knew he had to go on the road to engage with the people. They booked cinemas, social clubs and village halls up and down the country to engage with all 45,000 employees. The purpose being firstly, to let them see an Exec member of the Co-op stand up and talk to them and secondly, to apologise and finally, to give them hope that the new incoming team was going to sort it out.

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*“The leaks were coming out even before board meetings had finished”.*

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Having been on the road for a week, the third crisis hit. Ewan Sutherland - Group CEO resigned on the spot. He had resigned because the Board were leaking everything out of the board room to the press. The leaks were coming out even before board meetings had finished. Ewan was spending most of his life with the media camped outside his house and outside his children's school and understandably he'd had enough. The only good thing about the timing was that Steve was on the road so he could address it head on during his roadshows. It required him to dig deep and this was one of the circumstances where he found humour to be quite helpful. Steve explained that in the early days, when they were trying to save the bank, they had called one of their 'secret squirrel' projects 'Project Charlie'. One day Richard Pennycook, who was the then CFO, pointed out just as the Paul Flowers media storm was blowing up explaining that his daughter had just told him that 'Charlie' is slang for cocaine / crystal meth! If they called

it 'Charlie' colleagues may assume that they knew about it all along! The fact that Steve shared this with colleagues resonated well, it was honest and that engaged people.

Following the third crisis, Steve stressed the importance of the leadership team developing a plan quickly. They came up with a 'purpose driven strategy', playing to the Co-operative's strengths of championing 'a different way of doing business for you and your community'. Running parallel to this they started a talent programme. Things were starting to move in the right direction or so Steve thought but he couldn't have been further from the truth.

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*"A fresh start".*

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One of the best known institutional brands, with a 175 year heritage, was within just one hour of going under. Richard Pennycook had now become the Group CEO with the very specific objective of turning the business around. This was critical as there was a cross default onto the Group meaning that if the bank went down, the whole of the Co-op Group would fall. They were fortunate that the team did an amazing job and persuaded a number of US investors to effectively come on board; it was like a fresh start, to sign up to the rule book and run it in a cooperative way.

At the same time Steve was tasked to reduce debt whilst rebuilding the businesses. To ensure the survival of the group he chose to sell the pharmacy business because he knew government

subsidies on prescriptions would reduce over time thereby impacting on their own revenues. He also sold the farms business; part of the original Co-op movement's objective was to protect their members from potential food shortages. Most of the farmland they had could only grow potatoes and if there was going to be a food shortage in the future, as much as the UK loves chips, potatoes alone would clearly not solve the problem!

Alongside the disposal strategy Steve explained that they started to run two programmes of rescue and rebuild, termed the 'vital 5' and 'winning 10' programmes; 15 pieces of activity that was co-created with a group of people known as 'enterprise leaders'. This new team was compiled through a three tiered approach - a buy, borrow and build model. Buy, where you need to recruit to get the best talent on-board, borrow - use contractors or interims as a short-term stop gap and build (which is the best place to go) by looking at existing talent, and taking some risks and see who you can grow internally.

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*"Membership has now grown by 1.2m".*

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At the same time, the business relaunched the brand and moved to one member one vote. With a new scheme of 5+1 (5% discount for the customer and 1% to a nominated local charity) the membership began to grow and started to reverse the freefall seen in previous years. Membership has now grown by 1.2m to 4.6m and is continuing to grow. In addition, Steve shared that they embarked upon the biggest training

programme in their history across an employee base of 45,000 staff with the purpose of evoking a genuine sense of optimism and a future that looked exciting!

The logo, was the final thing they did, taking the brand from “the Co-operative” back to ‘the Co-op’ and adopting the 1960s design, from when they were the 7th largest organisation in the world. It was reactivated and made more modern.

Steve explained that the combination of restructuring, rebranding and relaunching membership resonated strongly with colleagues. The Co-op has since had four years of like-for-like growth on food. They’ve seen the funeral business grow and continue to lead the market and together with being the largest legal provider in the UK, their general insurance business has continued to expand.

Steve outlined the next phase, ‘Stronger Co-op, Stronger Communities’, the premise of which is, they don’t need to take ‘short term’ decisions, they are here for the long term and their intent is to get Co-op branded products and services to all people under a culture of ‘one Co-op’. Under ‘one Co-op’ their commercial success will share profit and add value back into local communities and in return, rebuild brand loyalty and trust.

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*“Make the most of a crisis”.*

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In closing Steve summarised that if you are going to have a crisis, you need to

make the most of it, you need to come out stronger, better and use it to make change that under normal circumstances would have been difficult to deliver. Have a plan. People gravitate towards the plan and ensure that you have great people around you to execute the plan. Use humour where it can help - useful in dark days. Get your work life balance right and rely on your family to keep you honest and grounded.

**Q “What was your darkest moment during the change programme you led at the Co-op?”**

**A** *“The realisation that we nearly lost the bank! Not many people were aware at the time within the wider business that if the bank had gone down then the Co-op Group would have followed. Turnaround and legacy are the two key reasons why I joined the Co-op and if the business had gone under it would have been catastrophic.*

*“The reality is that we are witnessing this playing out today with well-known brands going to the wall such as Carillion, Palmer & Harvey and Conviviality along with others who are presenting some shocking numbers to the City. Frighteningly, in high street retail, currently the difference between success and failure can be measured by the thickness of a credit card and that is how close I was to being part of the team that lost the Co-op, which would have been horrendous.”*

*“Richard Pennycook did a great job in getting us through this very difficult time*

demonstrating great skills with a calm and collected manner.”

**Q** “I’m guessing your customer group is on the older side, what are you doing to make yourself relevant to the younger generations?”

**A** “When you line up young people and talk to them about the Co-op model they love it. They are super sceptical about big business, super sceptical about PLCs, so they love what the Co-op is about. They then tell you that ‘you lot in Manchester, don’t get us’. They’re right. So we are addressing this in a number of ways, for example our recent announcement that we will turbo charge our academy programmes; we currently run 12 academy schools, and we propose to increase this to 40. The 12 academy schools have around 10,000 students and were previously failing schools with poor Ofsted results. When the Government asked the Co-op to turn-around the performance of these schools the attendance rates and Ofsted results vastly improved. Through embedding the Co-op’s values and principles in to these young students it has had immeasurable benefits.”

“In addition to the academy schools initiative the Co-op will take on 1000 apprentices from their academies. We have also linked up with the national union of students, offering 10% discount off all products and a further 5% off our own branded products. When I took this job as CEO there were three things I wanted to do; create a movement again, offer a great place to work and create an environment where the younger

generation come to work at the Co-op or the Co-op connects with them.”

“The Co-op have also set up a “shadow” Board populated by young people to help focus and align the business to the younger generation’s viewpoints. Furthermore they have recently engaged with 10 of the best digital entrepreneurial talents in the UK, all under 35, with the view that one of these will eventually sit on the main Board and will be the voice of the younger generation.”

**Q** “You talked about the passive-aggressive culture that you found in the Co-op when you joined; how did this manifest itself and what have you done to change this and how would you describe the current culture?”

**A** “Organisational culture does not change overnight, the process of evoking change starts with the leadership team. In the past the leadership team at the Co-op had no real connection with colleagues on the shop floor and when on the few occasions they did go out into the business, operations would be tipped-off and needless to say on a senior colleague’s apparent unannounced arrival, you could smell the wet paint.”

“This illustrated the pressures that staff were constantly under, in being unable to reveal what was really going on in front-line operations. This combined with the “Manchester knows best” culture promoted a fear factor around how they managed their colleagues in this passive-aggressive manner.”

*“The quickest way of dealing with a passive aggressive culture is to ‘chop the legs’ from under those that are doing it and to make sure that the new talent that you bring into the business are predisposed to a different way of working. It does take time to change a passive aggressive culture and whilst the culture is good now in the Coop at the senior leadership level, there is still a lot to be done in the marzipan layer occupied by the operational leaders”*

*“I am constantly kept honest by colleagues and customers, and my reading of emails on a Sunday evening, which are not always complimentary, is a great way of gauging how we are progressing”*

*“By applying an ‘act and fix’ strategy the Co-op has moved a country mile from where it had previously been and has come up with a new set of 4 values that are front and centre in all that the Co-op does in taking forward its 10 year plan. This is great progress certainly when you consider that back in 2012 the Co-op had 24 values and that I could not find anyone in the business who could recite even half of them.”*

**Comment:**

Steve has steered the Co-op back into a position where, as a movement, they can positively influence social conscience. The increase in the number of Co-op academy schools is a good example of this but the provision of 1000 apprenticeship places for school leavers (from their academies) is even stronger evidence of their contribution

to society. Broader still is the work Steve is involved with in raising awareness of modern slavery in UK businesses and loneliness in society

None of these initiatives would have been possible if the Co-op had not been plucked from the precipice. Moreover, the transformation Steve drove in the food business, whilst the bank was being taken care of, meant that the overall business was in reasonable shape, once the Co-op ‘bad’ Bank had been off-loaded.

Key to Steve’s success has been his determination to act quickly where people are concerned, identifying and bringing in talent as soon as possible once he had been appointed. Also his down to earth style and his ability to engage and communicate both effectively and transparently at all levels is a leadership quality evident in most successful CEOs.