

Minister to decide future of NSW Registry

A REVIEW of the future structure and role of the NSW Registry of Co-operatives has some members of the co-operative sector concerned that co-operatives may lose an important focus.

Much of the concern is centred on the belief that the yet-to-be-released review was based on the Department of Fair Trading's structural requirements, rather than on the needs of the co-operative sector (see page 5).

Recommendations

The review, by departmental officers, is believed to recommend that the registry's responsibilities be 're-allocated' within the department's existing core areas – for example, regulation, marketing and policy – rather than all the areas relating to co-operatives being grouped under the one 'banner', as at present.

The issue is clouded by the review's limited circulation and the department's reluctance to comment on its conclusions, or terms of reference, until after a decision on its recommendations has been made.

There is a feeling within some areas of the co-operative movement that, while their representatives may have been asked for their comments, in fact the department saw it as an internal matter and

had already decided on the broad thrust of the report.

The report has been circulated to a limited number of groups, including the NSW Co-operative Federation and members of the NSW Co-operative Council, who are appointed by the Minister for Fair Trading, Ms Faye Lo Po.

The minister will make the final decision on the registry's future, based on the department's recommendations. The decision will also reflect the government's policy and its perception of co-operatives.

The registry used to be under the Department of Local Government but was moved into the Department of Consumer Affairs, now the Department of Fair Trading (DFT), following the change of State Government in March 1995.

Asked for a comment on the review, the DFT directed **NATIONAL Co-op UPDATE** to Geoff Potts, adviser on co-operatives to the Minister.

However, Mr Potts said he could

"It is not the aim of the government to reduce the role of the registry nor the role of co-operatives in general society."

– **Geoff Potts**

not speak on behalf of the DFT nor speak on the review findings until a decision had been made.

There could be seen to be an element of a Catch 22 in taking a decision on the registry's future and then releasing the report to the wider co-operative community, rather than allowing time for discussion of the review's findings before a decision is made.

Options

Mr Potts did say the review presented a number of options, however, regardless of which was chosen, the government remained totally committed to the overall concept of co-operatives, particularly developments in worker co-operatives.

"It is not the aim of the government to reduce the role of the registry nor the role of co-operatives in general society," he said.

He said he understood that certain groups within the co-operative sector may be concerned, but the government was really only looking at how agencies within the DFT could best deliver their services to the public.

Unfortunately, he said, there was a lot of misinformation surrounding the issue.

Some may argue this is under-

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QUEENSLAND**Meeting with Minister**

The Co-operative Federation of Queensland met Queensland's Attorney General and Minister for Justice, Denver Beanland in July to discuss the development of co-operative legislation for the state.

CFQ director, James Howard, says that it was a very productive meeting. He says the Minister gave verbal direction to departmental officials to commence the process necessary to start developing a new

Act in Queensland.

The Minister was aware of the developments in other states towards nationally consistent state based legislation and aware of the Queensland federation's desire to have its own specific co-operative legislation as early as practicable, Mr Howard says.

CONTACT

Contact: James Howard, phone/fax (07) 3855 1113.

WESTERN AUSTRALIA**Executive officer**

The Co-operative Federation of Western Australia has appointed John Booth as its executive officer.

Mr Booth is a qualified chartered accountant with a law degree. He worked with accounting firms in Melbourne and Brisbane, before returning to Perth as taxation manager for a national firm of chartered accountants.

Since 1993, he has pursued personal interests in farming and worked as corporate consultant for both private and public companies. He was a director of a listed resource company for 17 years and is a Justice of the Peace.

Mr Booth will also be taking over the role of communications officer

from Jeff Turner, who is retiring after nearly 30 years in the co-operative sector.

Irrigation farmers unite

Earlier this year, the Water Corporation of Western Australia, in conjunction with legal firm Corrs Chambers Westgarth, held a seminar to assist irrigation farmers and others working on the proposed privatisation of the state's public irrigation schemes.

Privatisation is continuing and at least four irrigation districts are considering the formation of, or have formed, irrigation farmer co-operatives. The first of them hopes to be in operation before the end of the year.

NEW SOUTH WALES**Namoi Cotton joins federation**

The Co-operative Federation of NSW has welcomed Namoi Cotton Co-operative to its ranks.

Federation consultant, Don Kinnersley, says Namoi's addition means the federation's membership now includes the top four agricultural co-operatives in the state. Their combined turnover is measured in billions of dollars.

"We now have nearly 90 members, including 13 of the largest co-operatives in NSW, which is not bad for an organisation which has only been going since 1993," he says.

In recent years, Namoi Cotton has investigated alternate structures and merger options.

Mr Kinnersley says its decision to support the Co-operative Federation of NSW is an indication of the company's resolve to be successful while maintaining its co-operative structure.

Ag co-op leader forum

The NSW Federation is organising a one-day Agricultural Co-operative Leaders Forum on Wednesday, October 23, to coincide with NSW Co-operative Week.

Sponsored by the Department of Primary Industry and Energy, the

forum aims to attract directors and chief executives of the big agricultural co-operatives.

Mr Kinnersley expects about 40 delegates to attend.

Four overseas and two local speakers will address three specific issues:

- financing a co-operative for value adding;
- globalisation in the 21st Century with respect to joint ventures and marketing agreements; and
- leadership for co-operative development.

Mr Kinnersley says two speakers will address each topic, followed by an hour of discussion and debate on issues arising.

He says the forum has been organised in response to requests from delegates at last year's Co-operative Key Issues conference, who identified a need for an appropriate forum to delve into certain co-operative issues in more detail.

CONTACT

Don Kinnersley, (02) 9797 8777, fax (02) 716 6640.

'National Co-op Update' welcomes contributions of news and articles. Contact Chris Greenwood, (03) 9576 1510, fax (03) 9576 1276.

VICTORIA**Credit union push**

In July, the Victorian Credit Union Marketers Network (VCUMN) launched a Melbourne Transit advertising campaign in support of the credit union movement.

The campaign features messages on Melbourne's buses and trams.

The three focal messages of the main campaign, which runs until the end of August, are:

- Melbourne's abuzz with credit unions.
- Take control of your finances.
- Three million members strong.

In the south-eastern suburbs, a 'superbus' emblazoned with the slogans will operate until the end of September.

Alicia Hilton-Wood, public relations manager with the Victorian Division of Credit Union Services Corporation, says the campaign is a shining example of what the Victorian credit union movement can achieve by working together in a spirit of co-operation.

The campaign marks the renaissance of co-operative marketing in Victoria, Ms Hilton-Wood says, but, "there is a lot of brand awareness still to be done in Victoria".

Because many Victorian credit unions have an industrial base, they have a low profile among the general public.

The Pyramid Building Society failure also made many Victorian investors wary of alternatives to the conventional banking system.

According to Ms Hilton Wood, credit unions Australia-wide have more than three million members.

"Traditionally, credit unions have worked on providing only their members with information, as opposed to going outside of their membership," she says.

"As restrictions on membership have eased and membership has become more open to the general public, credit unions have become more willing to put money towards marketing."

Victorian credit unions are joining together to run stands on behalf of all credit unions at Melbourne's Motor and Home Shows.

VCUMN was established in 1995 to promote the role of marketing within the Victorian credit union movement and to promote co-operation among co-operatives. Its members meet regularly to discuss how they can work co-operatively to help one another build awareness of credit unions.

CONTACT

Alicia Hilton-Wood, (03) 9286 4536, fax (03) 9286 4499.

Energy for the future

AT THE END OF JULY, the Co-operative Federation of Victoria and Co-operative Energy Ltd sponsored a workshop on co-operative opportunities in the electricity industry.

About 20 delegates heard a number of speakers outline the potential (and pitfalls) of co-operative involvement in the new Victorian electricity industry.

Keynote speaker, Chris Strong, a Victorian parliamentarian and chairman of the Economic Development Committee of Victoria, outlined the state's electricity industry at present and some of the lessons learnt from co-operatives involved in the electricity industry overseas.

Co-operative Federation of Victoria secretary, Tony Gill, was pleased with the level of interest shown on the day.

He says a working party was formed at the workshop. It will meet in the coming weeks to investigate the opportunities for co-operatives in this area.

CONTACT

Tony Gill, (053) 45 7466, fax (053) 48 3253.

New guide to options for employee buyouts

EMPLOYEES thinking about banding together to buy their employer's business should consider forming a co-operative, according to the NSW Minister for Fair Trading, Faye Lo Po.

The minister was launching a report, 'Employee Buy-Outs', produced by her department, accountants Price Waterhouse, the NSW Registry of Co-operatives and the Australian Employee Ownership Association.

The report highlights the merits of employee buy-outs, when they are appropriate, the different types and detail on how to go about it.

Ms Lo Po said the report's release marked the start of a concerted push by her department's Registry of Co-operatives and other organisations to get wider recognition for employee ownership of businesses as a viable proposition.

"It is only in recent years that employees have begun to form co-operatives to buy out businesses from their employers, but already there are some outstanding successes," she said.

She said anecdotal evidence from here and overseas suggests that employees work harder when they own the business and share the profits.

With help from the Registry of Co-operatives, the employees of a manufacturer of abrasive grinding wheels bought the business in March 1991 after forming a co-operative.

"The Abrasiflex Workers Co-operative Limited has increased production by around 20% with a significant increase in profits," Ms Lo Po said.

"The co-operative has introduced new products and is exporting some of its technology to New Zealand, Papua New Guinea and Fiji."

"Forming a co-operative allows employees to raise finance jointly and gives them an equal stake in the business. They contribute to and share in the company's success and each takes part in day-to-day decision-making, as well as long-term planning," she said.

CONTACT

For more information, contact Ross Neilson, Department of Fair Trading, (02) 9241 1503, fax (02) 9252 2760.

'THE GREAT SURVIVORS'

There are 891 co-operatives in NSW, with export sales of \$608m last financial year.

In the past five years, more than 150 co-operatives have been formed in NSW, in areas such as business management services, transport, fisheries, housing, arts and crafts, child care, tourism and entertainment.

"They are great survivors," according to the NSW Minister for Fair Trading, Faye Lo Po. "Fewer than 10% fail within their first five years of operation, all the more impressive when compared with the 50-80% of other small business which can expect to fold within the same time frame."

NEWS IN BRIEF

Co-operative co-operation

Fertiliser co-operative, Pivot, and the Ricegrowers Co-operative Limited have formed a 50/50 consortium to build a \$10 million state-of-the-art stock feedmill in Victoria.

The benefits of co-operation between co-operatives was recognised following a joint bid for the Port of Geelong freight facility earlier this year.

New offices for WA federation

The Western Australian Federation has established offices at Suite 37, the Business Building, 328 Albany Highway, Victoria Park 6100. Phone (09) 472 4210, fax (09) 472 4213.

Key Issues conference

Garry Cronan, co-operative development manager with the NSW Registry of Co-operatives, says the planning for the 1996 Key Issues conference is well under way.

The conference will run over two days, October 24 and 25, and will be the highlight of co-operative week which runs from Monday, October 21.

The conference will run a number of concurrent sessions in specialist areas relating to agricultural, community and worker co-operatives.

Details of the conference will be available soon and a full preview will appear in the next issue of NATIONAL CO-OP UPDATE.

CONTACT

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Co-operatives a champion for sustainable development

THE POTENTIAL of co-operative enterprise to alleviate poverty by creating employment and satisfying societal needs more effectively than either public or private profit-making enterprises has been widely recognised by the United Nations.

One of the ways the UN has reinforced the importance of this role was the 1995 declaration of an international day of co-operatives.

In 1996, 'The year for the eradication of poverty', the UN again drew the attention to the significant contribution co-operatives make to reducing poverty and to the need to form partnerships with the co-operative movement.

Co-operatives have always had an impact in the communities in which they operate. Working at the grassroots level, they help bring about sustainable development in the community by empowering the members.

International Co-operative Alliance (ICA) members also act globally and have won increased recognition of their contribution to the UN's economic, social and environmental goals.

Concern for community – reflecting the impact co-operatives have in contributing to sustainable development within communities – was added to the movement's guiding principles in Sep-

SNAPSHOT

A message from the International Co-operative Alliance celebrating International Co-operatives Day (July 6).

tember 1995 when the principles in total were reviewed and revised.

Some principles of co-operative identity have changed little since the movement began more than 150 years ago.

The first three – voluntary and open membership, democratic control and member economic participation – are the foundations on which the modern movement were built.

The fourth – autonomy and independence – has proven a necessary ingredient in societies where governments used co-operatives to enforce their own development programs and economic plans, often to the detriment of the co-operative values.

Principle five – education, training and information – has been acknowledged as of primordial importance, not only for the co-operative members, elected representatives, managers and employees, but also for society at large, especially for those who govern societies, for opin-

ion leaders and for the young who will become co-operators of tomorrow.

The sixth principle – co-operative solidarity or co-operation between co-operatives – is the potential strength of the international co-operative movement. This principle is becoming increasingly important in the face of contemporary global economic, social and political trends which societies everywhere are facing.

The ICA calls on the more than 760,000,000 members at grassroots level and on co-operative enterprises and organisations at local, regional and national level, to consider not only how to improve the situation, but also devote significant energy to promoting new co-operative enterprises in their own and related fields.

The ICA calls on member organisations and those in the fields of agriculture, banking, consumer co-operation, energy, fisheries, health, housing, insurance, trade and tourism – as well as its committees in communication, human resources development, research and promotion of equal opportunities for women – to work together to build a strong, united movement which can help make tomorrow's world a better place for future generations.

Going public, going global and retiring with dignity

DURING the 1980s, three major Irish dairy co-operatives (Kerry, Avonmore and Waterford) re-structured to become public limited liability companies (Plcs).

The original co-operatives retained majority shareholdings; the remaining shares were offered to institutions and the public. One (Kerry) has now voted to change its rules to allow the co-operative's shareholding to fall below 50%.

By most measures, the groups have performed superbly, diversifying away from their core milk processing businesses to become profitable global food companies.

Quotas

European Union quotas were the main driving force behind the dairy Plcs' establishment. Co-operative managements saw limited growth opportunities within Ireland and dairy farmers were unable, or unwilling, to finance new activities outside the country.

Kerry Gold became a Plc in 1986, Avonmore in 1987 and Waterford in 1988.

All three have followed a strategy of product and market diversification.

The Kerry story illustrates this strategy.

Since becoming a Plc, Kerry has acquired eight further companies in Ireland, 12 in the UK, eight in North America (including Mexico) and four in other locations.

Today, dairy products account for only 20% of group turnover, but Ireland still provides 40% of sales and 31% of operating profit. The group's core business is now food ingredients (29% of sales).

Kerry's financial performance is remarkable – especially given the poor record of acquisition-led growth in the food industry (70% fail, according to Tony O'Reilly, the Irish CEO of H.J. Heinz).

Suppliers, who were able to buy shares at a discount in 1986, achieved a higher rate of capital gain than other investors – 29% a year. A IR£10,000 package of shares bought by a supplier in 1986, would now be worth IR£162,000 (about A\$339,000), not allowing for bonus issues, etc.

SNAPSHOT

Bill Schroder and Nicki Marks look at the current and future status of Irish dairy co-operatives – and the lessons for Australia. Bill and Nicki led the Monash University Agribusiness Research Unit's European tour for Australian co-operative company directors and managers in April/May this year.

Kerry Group PLC: Growth 1986-1995 (%/year)

Sales:	16%
Profit Before Tax:	21%
Share Price:	24%

It seems that growth has been largely debt-financed. Kerry now has a gearing ratio of 95% – reflecting some recent major acquisitions.

This debt level is seen as a temporary phenomenon and seems not to bother either management or market analysts. Kerry is confident it will reduce debt to give a gearing ratio of 55% by the end of 1997.

Investment standards

The performance of the two other Plcs has not been as impressive as Kerry's, but still highly satisfactory by most investment standards.

What lies behind the excellent performance of the co-operatives evolved into Plcs? Does the hybrid governance structure help or hinder global expansion? This question was answered by one of the Kerry directors: "Ownership is not the issue. Success is the issue."

What determines success? In a word, management. The particular

management skills required to be successful in the global acquisition game are:

- to be able to identify and price under-performing businesses;
- to recognise which parts of these businesses are candidates for divestment; and
- to be able to quickly move the acquisition to profitability.

We heard several reasons why Irish managers do well: An excellent education system, language skills, a young population and a willingness to move internationally (Ireland has always been a nation of emigrants).

The attitude of both the co-operative and private investors is the second important success variable.

The private investors in the Plcs are institutions and individuals who take a long-term view and are willing to support management.

Kerry has only supplier directors. The institutional investors are not interested in an active board role.

This governance formula works well – as long as management performs. However, management may find it is riding a tiger.

Success generates an expectation of further success. For example,

Kerry's mission is to achieve a sustained growth of 15% a year. If it falters (as it did in 1994), the market reacts strongly.

The farmer-suppliers (either through the co-operative or as individuals) have a similar view. The rates of return certainly beat farming – even in the 'Alice in Wonderland' world of the Common Agricultural Policy!

Success, driven by excellent management and sympathetic investors, makes it easier to handle the inevitable problems arising in a hybrid co-operative/private investor business.

Shareholder conflict

An example of these problems is that the milk price paid to farmers could lead to conflict between the two categories of shareholders.

Milk price is obviously an expense to the Plc and the private investors will want to keep it down. The significance of milk price depends on how important it is in the total profit equation which, in turn, depends on milk processing's share of operating profit.

For example, if milk processing within Ireland represents 15% of operating profit (it would be somewhere near this for Kerry) and the raw milk price is half the cost of production of finished dairy products, a 10% increase in the milk price will lead to a 0.75% fall in operating profit.

In a company where milk processing remains the primary business, the issue becomes more important.

Some companies (such as Waterford) accept a lower yield on their Irish milk processing assets than for their other businesses.

Of course, a farmer can always switch processors although, as in Australia, farmers are reluctant to do so, for both cost and relationship reasons.

In any case, it seems that this issue is more important to newspaper reporters than in reality. Not one of the directors or managers we talked to saw it as a major issue.

Co-operative control may raise the cost of equity funds from institutions and individual shareholders because there is always the risk that farmers, as the collective majority shareholder, may vote in ways that are not in the interests of the institutional shareholders.

An example of this is borrowing to finance growth because farmers are unable to contribute equity

Agriculture in Ireland

Agriculture represents 10% of the Irish GDP (compared with 4% in Australia) and 12% of employment. Dairy is the most important agricultural industry.

In some ways, the Irish dairy industry is similar to Victoria's, seasonal and export oriented (more than 80% of milk is exported, mostly within the EU). Milk production per farm is much less, around 130,000 litres/farm (compared with 600,000 litres/farm in Victoria).

There was dancing in the streets of Dublin when Ireland joined the (then) EEC in 1973. No country stood to benefit more from the EEC's agricultural policy. Over the years, Ireland has remained a major beneficiary of EEC largesse, initially from price supports; more recently from infrastructure and environmental grants, and direct income support.

The Irish dairy industry grew rapidly from 1973 until EEC quotas on dairy products were introduced in 1986.

capital and are not willing to dilute their shareholding. Such borrowings may result in periods of very high indebtedness.

Again, this comes back to management. If managers deliver on publicly announced debt reduction plans, all investors are comfortable; if they falter, the market will quickly turn against the company.

The last, and most important, issue is the concern that going the Plc route will lead to the loss of farmer control. This has not yet happened in Ireland. Even a co-operative shareholding of less than 50% does not necessarily mean a loss of control, as long as the co-operative remains the major shareholder and the remaining shareholders don't block vote against it.

Lessons for Australia

What does the Irish Plc experience mean for Australia?

We should recognise that the two industries are quite different. Irish dairy farms are much smaller than in Australia and the industry is more export-oriented.

Irish milk production is basically static due to quotas and the farming population is ageing, with many looking towards retirement (encouraged by EU assistance).

The Plc structure does something that co-operatives do very badly: it allows co-operative members to get their money out when they leave farming.

On the other hand, the Australian industry, unrestricted by domestic quotas, is looking to expand under the new GATT regime. This expansion will, of course, require capital which could be raised through a public share issue.

However, if the future is as bright as the analysts say, Australian dairy farmers should think seriously about giving any of it away. □

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NEXT ISSUE:

'Where to now? Co-operatives gear up for the future.' Members of the tour group share their experiences and the implications for co-operative management in Australia.

Minister to decide future of NSW Registry

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standable when he nor anyone else in the DFT is at liberty to discuss the review before a decision is handed down.

The position of state-based regulatory and development bodies – such as the NSW Registry of Co-operatives – within the government system has long been the subject of debate.

Some believe that they fit more closely into a local government portfolio, others believe they should be part of regional or business development departments.

The NSW Government's preferred option for dealing with administrative anomalies such as the NSW Registry has been to 'functionalise' their duties within a larger department.

Consultant to the NSW federation, Don Kinnersley, said there was concern in NSW that the changes may reduce the focus on co-operatives and dilute the effort which the NSW Government has put into their development.

Registry priorities

He said the registry's priorities – which were perceived to centre on agricultural co-operatives – and those of the new government did not 'match'.

"Rather than telling the registry to change its priorities, the government looks like it will agree to a restructure," he said.

"The NSW federation is concerned, first, about the amount of resources available for development of the sector, and, second, about co-ordination of the various activities which currently come under the registry and which will be spread around four or five divisions of the department."

Mr Kinnersley said that, while there could be grounds for criticising some aspects of the registry as it stands, there was concern that its resources may, in future, either not be available in total or not be as focused.

"The point that the government is making is that they want to have co-operatives in areas which haven't been explored to date and they don't believe the current structure will adequately address the needs of new types of co-operatives," he said.

"The NSW federation is concerned, first, about the amount of resources available for development of the sector, and, second, about co-ordination of the various activities which currently come under the registry."

"For example, they want to have a lot of worker co-operatives up and running, as well as electricity and energy co-operatives.

"Whether they are right or wrong, history will prove.

"My view is that the registry happened to be looking at agriculture just because the (past) government wanted it to, if the new government wanted it to look at something else, they'd do that."

Members of the NSW Co-operatives Council contacted by NATIONAL CO-OP UPDATE did not want to discuss the issue in detail before the minister made a decision.

However, it seems they have made the department aware that a mechanism to co-ordinate the changes would be needed if the registry was broken up.

Others in the co-operative sector simply remarked "if it ain't bust – don't fix it".

Many industry members are saying that, while the registry is not perfect, it provides an essential focus for issues affecting the co-operative movement.

In recent years, the development branch, in particular, has been seen as a driving force in the sec-

tor's development (through the Co-operatives Key Issues conference and other initiatives).

Perhaps the most worrying aspect of the review and forthcoming decision is the apparent lack of input from the broader co-operative movement.

Invitation to co-operatives

Every co-operative in NSW was sent a letter advising them of the review, but few are believed to have taken up the invitation to become involved.

Tim Dyce, executive officer of the Asia Pacific Co-operative Training Centre, was consulted at some length by those preparing the report.

However, he said he had not received a copy of the report nor been given the opportunity to clarify any points he made in the light of their interpretation.

"Without the benefit of the reviewers' report and further discussion, it is difficult to know what has been made of your views or if, indeed, they were correctly understood in the first place," he said.

Frank O'Connor, chairman of the National Co-operative Council of Australia, said a restructure of the registry would be a disaster for the Australian co-operative sector.

"The Registry of Co-operatives in NSW has done some significant things to raise the profile and improve the operation of the co-operative movement in Australia and I think it would be a disaster for it to be subsumed within a larger government department," he said.

He believed that absorbing the registry functions and staff within the DFT would result in fewer services and a reduced emphasis on the co-operative sector. □

Co-operatives around the world

'CO-OPERATIVE Principles for the 21st Century' is a 72-page, full-colour book illustrating the colour, diversity and dynamism of co-operatives world-wide.

The A4 book, with more than 150 photographs, has been compiled by Canadian Professor Ian MacPherson.

It includes the 1995 'Statement on Co-operative Identity' (setting out the values on which co-opera-

tives are based and the movement's revised principles) as well as a background chapter on the thinking behind the principles.

CONTACT

The International Co-operative Alliance, Communications Department, 15 route des Morillons, 1218 Grand-Saconnex, Geneva, Switzerland. The book costs 40 Swiss francs plus postage.

IN THE BOARDROOM

An inside look at the role of 'outside' directors

THE DECISION to bring 'outsiders' onto a co-operative board can be difficult to come to terms with.

Many board members need to balance the fear of where an outside member may push the co-operative against the undoubtedly fresh approach brought by the often very experienced and knowledgeable independent directors.

The PRO=NED survey of co-operative board chairman, carried out earlier this year, attempted to glean the 'warts and all' impressions of the success/failure of non-executive directors (NEDs).

Their views were balanced by the responses to the same questions by the 'NEDs' themselves.

PRO=NED chief executive, Guy Pease, says the survey did not set out to assess individual performance, but to gain an overall impression of the pitfalls and benefits of appointing independent directors.

Results

A major challenge is seen as overcoming a belief that the NED would push away from co-operative philosophy in favour of commercialism and 'corporate systems'.

Mr Pease says this fear is particularly apparent in the early stages of the appointment of outside directors. There are power bases within any board, and it is natural to be concerned about anything which may threaten the status quo. This fear tends to diminish with experience of the appointment.

Another issue raised by chairmen was some NEDs' enthusiasm for the 'latest fads' in board behaviour and an often over-zealous approach to financial management.

A number of chairmen noted that some of the criticism may be due in part to too high an expectation of the NED in the first place.

It is a concern echoed by a number of appointees:

"Expectations of a NED can be too high. They are often seen as the font of wisdom and that can place extreme pressure on their performance."

"In the initial period there were many issues that needed addressing. For a

SNAPSHOT

PRO=NED, an organisation specialising in the appointment of non-executive directors to company boards, recently completed a mini-survey of its co-operative clients.

time, I would have been the worst paid person in the whole co-operative, on an hourly basis. Par for the course in the initial stages of an appointment I guess, but there is often no flip side to this in terms of the co-operative bearing training or the cost of updating knowledge."

Internal 'politics'

Some NEDs noted that the board's internal politics could be a major barrier to getting the job done and that decision making could be painfully slow and too frequently compromised:

"Member directors are often political appointees representing their region. They get 'elected' and therefore have to hold their seats."

An inherent dilemma among co-operative directors is that their duty under the law requires them to act in the best interests of the business, but their election as board members obliges them to represent a constituency – the aims of which may not necessarily coincide with what is best for the business at the time.

Mr Pease says appointment of 'political' members to a board is not in the board's long-term interest but agrees that it is sometimes inevitable.

"Often you have nine or 10 people on the board representing particular regions, but this is not good corporate governance. I think co-operatives know this, but it is difficult to get away from," he says.

Mr Pease does not down play the importance of regional representa-

"Expectations of a NED can be too high. They are often seen as the font of wisdom and that can place extreme pressure on their performance."

tion, believing that these nominees should, and must, be listened to very carefully. However, he believes they should form advisory groups that can be consulted by the board.

"These representatives have a legitimate right to voice their concerns, but there is always an element of vested interest. While this consultation is a vital part of the process, it should not detract from board members making the long-term strategic decisions in the best interest of the co-operative as a whole," Mr Pease says.

Value of NEDs

According to Mr Pease, the value of a NED goes back to the fundamentals of good corporate governance.

"In a co-operative at board level, you have a group of people with broadly the same backgrounds, but the key to good corporate governance and strategic decision making in companies is diversity of contribution," he says.

"In a board structure of members with a narrow range of experience (albeit full of talent), you are not getting that. One of the greatest things you get from independent directors is that diversity."

In the survey, chairmen noted the value of NEDs to the board in a number of areas.

They are seen to have valuable commercial skills and experience, can stimulate the board's emphasis on business planning and strategic management and, in many cases, play a devil's advocate role on issues which come before the board.

Other responses included:

- They helped the board recognise the broader issues of good corporate governance, rather than the more simplistic view of representing the other producers who elected them.
- They can provide support for grower directors against domina-

tion by a CEO who may treat the board as his or her servant rather than employer. NEDs also provide professional back-up for growers' instinctive ideas.

- Co-operatives without independent directors are missing out, for example one NED's takeover experience was crucial.

The experience of NEDs in solving practical problems at board level was raised by the NED appointees themselves.

"One of the major influences we had was in the choice of CEO. That choice alone has made a profound difference to the performance of the co-operative. The previous CEO virtually controlled the board."

The concept of NEDs solving particular problems, however, raises the question of whether consultants could fulfil a similar role.

Mr Pease says the fundamental difference between a consultant and an independent director is the degree of responsibility.

A NED is part of the co-operative's governing body and, as an equal member on that board, carries equal responsibility; he or she is not just another consultant passing in the night.

A consultant will usually do what the co-operative wants, but that may not be what it actually needs. Hopefully, the independent director would have the co-operative's best interests at heart.

An independent director should, as Mr Pease puts it, "wake up in the middle of the night saying 'Eureka, I think I know what will help this co-operative solve its problem' and the next day be in talking to the co-operative chairman about it".

It can be illustrated by saying the consultant is 'involved' and the director is 'committed' in the same way as, in a meal of bacon and eggs, the chicken is involved but the pig is 'committed'.

Number of NEDs

On the question of the number of independent directors on the board, the consensus between chairmen and independent directors seems to be definitely more than one and up to three or four.

As noted by one chairman: "A single NED can be overwhelmed by a grower-dominated board. Where two or more NEDs, with different, but complementary backgrounds support a proposal, the rest of the board is more likely to go along with it."

In the same vein: "One director with all the communication skills in the world will sound as if they are 'carping' when continually raising a particular point, regardless of its importance."

Generally, the chairmen surveyed were happy with the way NEDs were working on their boards. Many with one appointee were looking for another appropriately qualified nominee.

From the other side of the fence, independent directors responding to the survey seemed particularly realistic about their role on the board.

A number noted the need to avoid coming on to the board with the idea of 'shaking it up'. Instead,

A number of NEDs noted the need to avoid coming on to the board with the idea of 'shaking it up'. Instead, they advised caution and a willingness to be inclusive in the board process.

they advised caution and a willingness to be inclusive in the board process:

"We could complete board meetings in a fraction of the time, but it is important

that board members go home understanding and feeling they have participated in the decisions."

A number of NEDs identified the need for more education programs to ensure that directors of a co-operative developed a better understanding of the role of a director.

The quid pro quo from chairmen in the education area was the need for independent directors to thoroughly understand the co-operative structure, ethos and philosophy.

Mr Pease agrees with both sentiments.

"Co-operatives have something very important to do in terms of

training and development, both in general management terms and corporate governance," he says.

"By the same token, self-training for independent directors is important and I think most work hard to come up to speed on co-operative issues once appointed."

According to Mr Pease, while many co-operative boards approach the appointment of NEDs with extreme caution, once there, the appointees quickly become a valuable part of the team.

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INTERNATIONAL ROUNDUP

NEW ZEALAND

New Act becomes law

The New Zealand Co-operative Companies Act of 1996 became law on June 4 and is likely to become effective from September 1.

The NZ Agricultural Co-operative Association Inc (NZACA) has run a series of workshops throughout the country to inform co-operative members of the Act and its implications for co-operative activities.

Following the government's 1989 announcement that it planned the repeal of the four existing Co-operative Acts, the NZ co-operative movement launched a campaign for specific co-operative legislation to be maintained in the best interests of its members.

NZACA secretary, Paul Giles, paid tribute to the many individuals involved in drafting the legislation and driving the processes involved in establishing the Act. It has been a long, hard battle; there were nine drafts of the legislation before a final form was reached. Co-operative members and their legal representatives spent many hours in negotiations aimed at convincing government officials and parliamentarians (who often did not understand co-operatives and 'mutuals') of the need for the Act.

Both co-operatives and 'mutuals' (which, being registered under the Industrial and Provident Societies Act, were not directly threatened by the proposed 1989 legislative reforms) contributed financially and practically to establishing the Act.

Amid the celebrations, however, Mr Giles warned that there was no room for complacency. "The Act, though passed by government, still requires further action by each co-operative in NZ to address and resolve their constitution and re-registering under the Act, before June 30, 1997," he said.

IRELAND

Farmers drop Kerry share requirement

Farmer shareholders in the former Irish dairy co-operative – now Kerry Group Plc – have voted to allow their shareholding to drop below 51%.

John Tyrrell, director-general of the Irish Co-operative Organisation Society Ltd in Dublin, told **NATIONAL CO-OP UPDATE** that the decision came as the result of two votes taken on July 15 and 29.

He said that, to adopt the proposal, shareholders had to vote at two special general meetings each with at least 75% of members present.

Kerry Group shareholders voted by the required majority to allow their share in the Kerry Group to fall to 39%. Kerry Co-operative Shareholders will receive Kerry Group Plc shares (quoted shares) in return for 25% of their co-operative shares which will then be cancelled.

Mr Tyrrell says the vote at the first meeting was 82.2% in favour of the reduction in shareholding and 79.6% in favour at the second.

The new rules are being sent for registration to the Registrar for Friendly Societies and will take effect from their date of registration.

INDIA

Flooded with success

India's dairy co-operatives have achieved significant achievements under the Operation Flood program, according to the World Bank.

Operation Flood is a government initiative to develop a competitive and sustainable dairy industry in India and is run along co-operative lines. The World Bank says the targets of the dairy development projects initiated under Operation Flood have been met or surpassed.

THE PHILIPPINES

Youth congress looks to future leaders

It seems co-operatives all over the world are facing similar problems.

In a letter to **NATIONAL CO-OP UPDATE**, the National Confederation of Co-operatives, NATCCO – the apex organisation of 1659 co-operatives across the Philippines – highlighted some of the issues discussed at its third annual congress in June.

Under the theme, 'Co-operative relevance in a changing world', participants sought to determine how co-operatives can remain viable, given the pace of change at local and international levels.

With international speakers such as Robby Tulus, senior policy adviser of the Canadian Co-operative Association and the International Co-operative Alliance, the discussion centred around what adjustment co-operatives in the Philippines should make in the light of an increasingly liberalised and open economy. No doubt many of the topics would fit well into the Australian Key Issues conference agenda.

A significant event held in conjunction with the NATCCO congress was the second national co-operative youth congress. Under the banner, 'Developing co-operatives: future leaders', delegates focused on identifying major requirements for continued development of the co-operative sector. These included education, socio-economic-civic involvement, fund generation, information dissemination and youth representation in the co-operative structure.

INTERNATIONAL CO-OPERATIVE ALLIANCE

Co-operating on the world-wide web

The International Co-operative Alliance's world-wide web site – found at <http://www.coop.org> – includes information on the alliance and on the history and activities of co-operatives across the planet.

It also provides a link to the ICA/Wisonsin Center for Co-operatives Gopher Server and hypertext links to other web sites on co-operatives as well as to sites of international organisations and business information relevant to co-operatives. New Zealand

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