

DIRECTOR LIABILITY – A REALITY FOR ALL CO-OPERATIVES

AFTER THE excesses of the '80s, 'corporate governance' has become the catchcry of the business world in the '90s.

Rod Warren, senior partner with law firm Deacon Graham & James, says directors of business enterprises justifiably feel insecure when they read of directors held liable for the failure of their companies and, in some cases, also convicted of criminal offences.

The responsibility of co-operative directors is no different to that of any other corporate group.

The law does not differentiate between full or part-time directors, between those paid large fees and those acting in an honorary capacity, or between directors of a company formed for profit making and not-for-profit groups.

"The fact that a corporation is a co-operative does not mean that proper corporate governance practices can be ignored," Mr Warren says.

Changing needs

As a co-operative grows, there is a need to review corporate behaviour. Practices put in place in the co-operative's early days may no longer be suitable.

Mr Warren says there has been much debate around the world over the way boards of many public companies behaved during the 'decade of greed'.

Studies tried to identify why shareholders, particularly institutional shareholders, had exercised so little influence and why, in many cases, the boards had been so ineffective in controlling management.

SNAPSHOT

Co-operative directors should not underestimate the importance of good corporate governance. Delegates at the recent Western Australian Co-operatives Federation conference were warned of the risks.

In the UK, the debate prompted a report on the role of directors and links between shareholders, employees and boards.

The Cadbury Report (named after its chairman Sir Adrian Cadbury), has largely been adopted as the benchmark for the behaviour of boards in Australia and the UK.

The emphasis has been put on boards to take a hard look at themselves to see how they measure up in corporate governance terms.

Mr Warren offers some practical suggestions on good corporate governance in co-operatives:

- Co-operative directors must not 'muddle on' in the belief that, because they are unpaid and perform their duties for the benefit of the local community, they are free from the risk of liability. If it requires they be paid appropriately (or protected by insurance, etc), then provision must be made for this to occur.
- The board must govern. It must set about creating a culture of supervising and regulating the co-operative's management.
- All directors should regard themselves as professional. Boards should seek to attract a variety of skills to their ranks, not merely rely on the

skills of the membership.

- Either a board or a committee of the board which is independent of management should be responsible for appointing auditors and liaising with them. The board must make use of its auditors if they are to be protected in their position as directors.
- Appointment to the board should be encouraged through a committee set up for that purpose. The board is not a club; it requires new blood and appropriate skills to meet changing times.

Paying the price

According to Mr Warren, corporate governance and corporate regulation is an expensive business.

"It is my view that behind the policies which have now imposed extraordinarily high duties and responsibilities on directors is a policy of making companies pay for their own supervision," he says.

Directors are responsible for corporate regulation and governance. If they fail, they can personally 'carry the can'.

"Directors are now the ones who are put in the firing line and told to protect their own backsides by ensuring that the corporation works and they do not lose their investors' (or members') money," Mr Warren says. □

INSIDE THIS ISSUE

National election 2

The Co-operative Council of Australia has a new national chairman.

The flexible co-op 3

The co-op model has wide application in a variety of commercial and social environments.

Co-op taxation 3

A report on the financing and taxation of co-operatives in the UK may provide guidance to Australian co-operatives.

Options expand 4

Health care and plantation forestry are the focus of reports on opportunities for co-operative development in Australia.

Canadians act 5

The Canadian government has introduced a new Co-operative Act with many similarities to our own legislation.

Hypothetically ... 6

A 'hypothetical' at the Co-operative Federation of Western Australia conference explored the relationship between management and the board.

Regular features

Around the States 2
International News 7

WHO'S PLAYING POWER GAMES?

When a long-standing and (let's face it) domineering manager leaves a co-operative, the power struggle begins.

Find out who's angling to fill the power vacuum.

Turn to page 6.

NEWS FROM AROUND AUSTRALIA

NATIONAL

Howard to chair CCA

James Howard, executive director of the Co-operative Federation of Queensland, has been elected chairman of the Co-operative Council of Australia (CCA). He takes over from Western Australia's Frank O'Connor for a two-year term.

Speaking to **NATIONAL CO-OP UPDATE** after his election, Mr Howard said the CCA believed co-operatives were significant, modern businesses and would work on promoting their image and the benefits they bring to the Australian community.

"They are owned by Australians and keep the benefits in Australia," he said. "They reflect the interests of small business people and farmers who are their members. There are opportunities for co-operatives to grow and to advance the value-adding and export activities that Australia needs. This will create greater employment and related small business growth into the future."

As part of its promotion of co-operatives, the CCA is planning a conference in Canberra in early 1998 to build on the goodwill co-operatives have across Australia. More details will be published as they are released.

SOUTH AUSTRALIA

SA Act drafted

The South Australian Co-operative Act is being drafted.

Co-operative Federation of South Australia secretary, **David Osgood**, expects to see a draft of the proposed legislation soon.

As with other states, the Act will be based on the Victorian Co-operatives Act, with the core consistency provisions which will make for nationally consistent legislation, but provide for any special needs required by SA co-operatives.

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NEW SOUTH WALES

Reform closer

NSW Minister for Fair Trading, **Faye Lo Po**, and Registrar of Co-operatives, **Dr Elizabeth Coombs**, have assured the Co-operative Federation of NSW that the government is moving towards reforming the NSW Co-operative Act.

The reforms aim to bring it into line with other state Acts now under scrutiny across Australia.

Federation consultant, **Don Kinnersley**, says NSW looks like amending its legislation to include the core consistency provisions necessary for interstate co-operatives to exist. Other aspects of the Act will reflect the needs of the State Government and the NSW co-operative sector.

No time lines have been laid down, though it seems certain that no action will be taken until the release of a discussion paper on the future direction of the NSW government's policy on co-operatives. This paper, due for release mid-year, is being prepared by **Garry Cronan** of the Department of Fair Trading's Co-operative Policy Unit.

Focus on fund raising

The Co-operative Federation of NSW is organising a conference in early November looking at practical considerations of fund raising for co-operatives in Australia.

Don Kinnersley says previous conferences on this topic have been very informative in terms of what is happening overseas, but he thinks it is time we got down to basics and asked what are we going to do in Australia.

"We want to use the conference to discuss what the options are for fund raising and how we can handle them in Australia under the new legislation," he says.

"We need to look at how we can use the provisions in the Act to raise capital. If we cannot do this efficiently and effectively, it will place enormous pressure on the future viability of a number of co-operatives."

No date has been set as yet, but it will be held in Sydney over two days – one devoted to analysing the new legislation and its implications, and the other to options for raising funds.

CONTACT: DON KINNERSLEY ON (02) 9797 8777.

QUEENSLAND

State conference

The Co-operative Federation of Queensland held its 1997 state conference on April 17 and 18.

As part of a packed program, **Jenni Mattila**, a partner with legal firm Corrs Chambers Westgarth, discussed the impact of new co-operative legislation on the roles of the chairmen, senior executives and members.

In recent years, there has been much talk of converting co-operatives to proprietary companies. In a welcome reversal of that trend, **Jeremy Martineau**, from legal firm McCullough & Robertson outlined the advantages of converting to a co-operative.

Rabobank was well represented at the conference. **Rod Campbell**, Rabo's senior manager – corporate finance, spoke on co-operative banking structures and facilities. **Michael O'Keeffe**, Rabo's recently appointed chief manager – agribusiness advisory and research services, looked at the international success of co-operatives.

The last session was devoted to legislation and tax issues, with Britt Maxwell from Corrs Chambers Westgarth discussing the application of the regulations and rules applying to the new co-operative legislation.

Chris Connors, company secretary of the Proserpine Co-operative Sugar Milling Association, spoke about co-operative tax planning and practice.

Full report next issue.

Qld draft legislation

The Queensland co-operative movement has had its period of consultation on its new state legislation and is awaiting the draft regulations to be released for further comment.

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AUSTRALIAN CAPITAL TERRITORY

ACT on the reform trail

The ACT Registry of Co-operatives is participating, in co-operation with other states, in a review of current ACT legislation, with a view to reform.

The registry's **Stuart Chapman** says the ACT has its own legislation, enacted in 1939.

In keeping with the general move towards nationally consistent legislation, registry officers were to meet in April to discuss the next stage in the process, which will be broadly equivalent to that carried out by other states.

As a result of the core consistent provisions, other co-operatives may decide to establish a presence in the ACT. It will also encourage the formation of new co-operatives.

ADVANTAGE, CO-OPERATIVE

GRAHAM MONDAY, chief policy officer with the NSW Department of Fair Trading's Co-operative Policy Unit, believes co-operatives can have both social and commercial implications in today's society.

At the WA co-operative conference, he highlighted a number of features in their favour:

1. Co-operatives can be set up and operated by 'ordinary people'.

This allows significant personal empowerment and provides members with benefits more effectively than if they acted individually.

2. Co-operatives are a way to maximise efficiency.

Studies have shown that co-operatives can easily match other organisational structures in many areas of operation and be more efficient in areas such as bad debts and expense ratios.

"Much of this efficiency is derived from strong member bonding, facilitated through effective communication, close geographic proximity and an expectation of continuing membership – distinguishing features of successful co-operatives," Mr Monday says.

3. Co-operatives offer a flexible legal structure.

SNAPSHOT

Graham Monday argues that the 'pluses' offered by co-operatives can add up to success.

They may be structured as not-for-profit ventures, with or without shares, or as profit-making businesses. They can provide lower-cost funding options where funds are raised from among the members, who have a closer relationship to their co-operatives than shareholders in public companies.

Co-operatives also generally have lower registration and compliance fees than other legal structures.

4. Co-operatives may provide access to overseas co-operative networks.

"A number of countries, such as Japan, the US, UK, China, Malaysia, Indonesia and Singapore have well-developed co-operative sectors, which often can only be fully accessed by being structured as a co-operative," he says.

5. Co-operatives are community enterprises.

They generally keep their economic benefits within a community.

6. Co-operatives promote democracy.

They can bring people from outside the mainstream of society into a nation's economic and political life with very positive results.

"Many individuals who received their education in democracy from co-operatives have gone on to become political leaders within their nations," Mr Monday says.

7. Co-operatives build open markets.

They provide leverage to small producers, who are often the victims of powerful cartels or sole-source companies. They undercut the charges of 'middle men', thus helping to drive down unfair prices and set competitive ranges for goods and services.

8. Co-operatives are a system for developing and raising human dignity.

Mr Monday says co-operatives in less-developed countries and rural areas help people escape poverty, own homes and educate their children.

They also provide an organised way for low-income people to relate to sometimes distant government and economic power structures.

He went on to outline the suitability of the co-operative model for a wide range of environments, using case studies in community and economic development. □

CONTACT

Graham Monday on (02) 9377 9278.

TAXING ISSUES IN FINANCE

THE CRUX OF the finance issue is a co-operative's ability to secure adequate finance without sacrificing control of the enterprise, according to the British report.

The authors say some co-operative leaders and regulators in the past have relied too heavily on a rigid interpretation of co-operative principles and so have limited the availability of finance.

The report aims to:

- provide guidance to co-operatives on finance and taxation issues in a range of sectors, from agricultural to worker and community co-ops; and
- help secure a more positive public policy framework for co-operatives in the UK.

It was prepared by the Plunket Foundation, in association with Genesis Business Development Ltd, and commissioned by the UK Co-operative Council (UKCC).

One of the report's conclusions is that, despite initial impressions to the contrary, many areas of co-operative finance and taxation are of common concern and interest to co-operatives in a range of sectors.

Many of the constraints to securing finance will be familiar territory to Australians – the need to retain member/shareholder control, the poor perception of co-operative performance and the general lack of understanding of the co-operative form of business.

SNAPSHOT

A new report, 'The financing and taxation of co-operatives in the United Kingdom', holds some interesting insights for Australian co-operative financial practitioners.

However, the report raises other issues which may not have been as widely discussed in an Australian context. For instance, many people (in the UK) believe the 'availability of finance' is not the main problem. The way existing finance is deployed is the real issue for many co-operatives.

The report discusses policies and practices of taxation for co-operatives and, while primarily focused on the UK, it includes a summary of co-operative tax regimes in other countries, including the EU, the US and Australia.

Among the key conclusions (elaborated on in the report) are:

- Co-operatives which do not remain under ultimate member control soon fail to serve their members and cease to be co-operatives.
- Co-operatives need to clearly determine if they are in fact a common ownership (club model) co-operative or an individual ownership co-operative. If they

don't, they cannot correctly address the way in which they ought to be financed.

- Markets need to be developed for co-operative financial instruments. Co-operative financial intermediaries could be the best way to facilitate this.
- There are a wide range of options available to co-operatives wishing to secure finance (examined in detail in the report). However, sourcing funds from members and internally generated funds should be exhaustively pursued before considering non-member finance.
- Co-operatives from all sectors could most usefully concentrate their efforts on pressuring governments to eliminate/reduce taxation on unallocated retained surpluses, securing tax postponement on allocated but undistributed surpluses, and having such retentions classed as capital gains in the hands of members only when they are withdrawn.
- Subsidised finance is, in the long term, not conducive to co-operative development. Where support is a matter of public policy, it is best provided by supporting development of special financial intermediaries, outright grants or direct contributions to a co-operative's income stream. □

CONTACT

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OPPORTUNITIES IN FARM FORESTRY AND HEALTH CARE

THE CO-OPERATIVES Project, an initiative of the Co-operative Federation of Victoria, highlights the role of co-operatives in society's existing and future infrastructure.

These two papers – in conjunction with the papers released last year on opportunities for co-operatives in the restructuring of local government in Victoria and the privatisation of the Victorian electricity industry – represent a significant expansion of thinking on opportunities for co-operatives in Australia.

The discussion papers, though Victorian-based, have parallels in states across Australia.

HEALTH CARE

There is a growing interest world-wide in health care co-operatives.

This interest has been driven, the paper says, by a perceived recognition that both the public and private sectors have disappointing records in providing such services. The paper argues that there is a third option for health care which is distinct from the traditional public and private sectors.

This option is based on the aggregation of health consumers through co-operative structures.

It says the co-operative model lends itself well to the provision of consumer-focused health care and identifies five co-operative models of health care:

- **Primary care co-operatives** – formed by members in particular communities to provide quality medical, dental, allied health and home-based services, with an emphasis on continuity and integration of care.
- **Community hospital co-operatives** – formed by members in particular communities to maintain or introduce a local or community hospital service.
- **Health services and products purchasing co-operatives** – which aggregate the purchase of health services and/or insurance products to obtain benefits for members.
- **Health insurance co-operatives** – provide insurance for their members, either individuals or organisations.
- **Integrated provision and insurance co-operatives** – integrate the purchasing and provision of services in the form of pre-paid health care packages or managed care arrangements.

The paper suggests that existing co-operatives could consider adding health

SNAPSHOT

Opportunities for co-operatives in health care and farm forestry are the subject of the two most recent papers produced by The Co-operatives Project, led by Vern Hughes.

services to their portfolios. For example, friendly societies providing health insurance products could look at providing additional health services.

The paper identifies a number of strategic partners that may wish to enter alliances with existing or new co-operatives to provide health services, including voluntary associations and church organisations.

It highlights Australia's successful, yet often ignored, history of co-operative enterprise in health. In particular, it discusses a number of consumer-based health care enterprises that have stood the test of time.

One of these is the Yallourn Medical and Hospital Society – a friendly society based around the electricity industry workforce in the Latrobe Valley, Victoria. It provides health insurance products, two medical clinics and has a half share in a private hospital.

FARM FORESTRY

The Co-operatives Project paper on farm forestry raises the co-operative option as the vehicle for the aggregation of timber supplies from Australia's burgeoning plantation timber industry.

The Victorian Government alone is developing a strategy to triple the size of the state's private forest industry by the year 2020, principally by encouraging farmers and private landowners to grow and harvest trees.

The paper argues that small, private landowners own considerable amounts of land suitable for plantation forestry and that co-

operatives are the ideal vehicle to bring economies of scale to individual farm-holder production.

"The key to viability for plantation forestry on Australian farms is the aggregation of management, marketing and operational functions," it says.

"Individual landowners cannot undertake to grow, harvest and individually market a stand of timber and expect to be competitive in the market place.

"Only by aggregating these functions through a co-operative structure can small private landowners achieve viability."

Export markets

Forestry co-operatives formed to manage and market timber provide producers with a means of becoming competitive and gaining access to otherwise unattainable export markets.

These co-operatives also contribute to desirable land management practices, such as lowering water tables and salinity levels.

Several forestry co-operatives have already been formed in Victoria and Tasmania.

For example, the North West Tree Growers Co-operative Society Ltd, formed in 1991 in Tasmania, has 180 members. By 1994, its sales exceeded \$2 million in domestic and export pine and domestic hardwood sales.

Business opportunities

The paper points to a number of options for co-operative business opportunities including:

- The formation of new forestry co-operatives.
- Existing agricultural co-operatives facilitating development of farm forestry ventures undertaken by their members.
- Strategic alliances with regional credit unions to provide start-up capital and operating loans for new timber ventures.
- Joint ventures with existing forestry co-operatives to develop contracts for export markets. Two or more forestry co-operatives may also establish joint ventures in processing, such as wood chipping and ship loading. □

CONTACT

For more information and copies of the papers, contact project co-ordinator, Vern Hughes, on (03) 9314 7235 or fax (03) 5348 3253.

INTERNATIONAL STUDY TOUR PLANNED FOR OCTOBER

A TOUR OF Indonesia, the UK and Holland will give co-operative managers and directors an opportunity to explore co-operative structures and business issues in an international context.

The group will leave Australia on October 4 and return on October 19, although there are optional side trips to other European countries or the US.

The tour will be led by **Michael**

O'Keeffe, chief manager – agribusiness advisory and research services with Rabo Australia. Mr O'Keeffe has been involved with previous co-operative tours organised through the Agribusiness Research Unit at Monash University.

CONTACT

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CANADIAN GOVERNMENT INTRODUCES NEW ACT

THE CANADIAN Government introduced the Canada Co-operative Act (CCA) to parliament at the end of March with the expectation that it will be passed in the current sitting.

As well as addressing governance and finance issues, the Act also provides benefits to small and large co-operatives by simplifying incorporation and providing clear standards for directors' liability.

According to the Canadian Minister for Industry, John Manley, the Act offers co-operatives modern, flexible tools so they can compete with other businesses.

Co-operatives cover many sectors of the Canadian economy, from agriculture and forestry to retailing and health care.

In agriculture, they are responsible for marketing around 61% of dairy products, more than 50% of grains and oilseeds, and around 47% of poultry and eggs.

Ralph Goodale, Canadian Minister for Agriculture – Agri-food (and minister responsible for co-operatives) acknowledges the significance of co-operatives.

"Co-operatives contribute to the economy and have a large, positive impact on Canadian society," he says.

"Their continued success is vital to the future of Canada and to the prosperity of rural communities."

As in many countries, developing the legislation was a 'co-operative' process involving a number of parties.

The Canadian Co-operative Association, in collaboration with the Conseil Canadien de la Cooperation, played a key role in drafting the legislation. Industry Canada and Agriculture and Agri-food Canada used this draft to conduct a series of consultations and fine tuning of the legislation.

Canadian co-operative groups say the proposed Act harmonises co-operative corporate governance rules with other modern governance rules.

Its major components include:

Co-operative principles

Fundamental to the legislation is the premise that co-operatives must be organised and operated according to accepted 'principles of co-operation'.

The basis for the Act's co-operative principles are those expounded by the International Co-operative Alliance (ICA) and updated in 1995:

- open membership;
- one member – one vote;
- no proxy voting for members;
- limited interest on member loans;

SNAPSHOT

The proposed Canadian Co-operative Act strengthens and clarifies co-operative corporate governance rules and gives access to different sources of capital.

- limited dividends on membership shares;
- members are to provide capital (where feasible);
- distribution of surplus funds; and
- co-operative education.

Incorporation:

The legislation simplifies incorporation procedures and maintains safeguards against the misuse of the co-operative form of business.

A co-operative may incorporate 'as a right', as long as it declares that it will operate on a 'co-operative basis'.

Capitalisation

The biggest changes to the legislation are found in the area of capitalisation.

Traditionally, co-operatives raised their own capital from member contributions.

While the proposed legislation reflects this philosophy, in that members must continue to provide capital where possible, it also responds to the sector's requests to allow co-operatives access to the many financing options already available to business corporations.

The new financing options include equity financing and the introduction of no-par value shares.

As in other countries, Canada has identified the limited options available to co-operatives in raising capital and the limitations this can place on their growth. Under the old Act, only membership and debt financing was permitted.

While the proposed legislation provides co-operatives with new financing opportunities, they may elect to continue to access traditional forms of capital via retention of earnings, issuing preference shares and borrowing.

There are more than 7300 non-financial sector co-operatives in Canada, with more than 4.3 million members generating more than Can\$22 billion in sales each year.

Equity financing

The legislation permits co-operatives to issue investment shares to members or non-members.

Safeguards have been put in place to ensure the co-operative structure (and its members) are protected. For example, members must authorise the issue of investment shares and these must be set out in the articles of the co-operative.

While the proposed legislation provides for outside equity, it also attempts to ensure that control of the co-operative always rests with members. 'Investors' only have the right to elect directors to the co-operative board if the articles specifically authorise it and then only up to 20% of the board.

Canadian officials say this gives investors a potential voice in the management of the co-operative, but ensures that primary control always remains with members.

Investment shareholders are given basic protection rights for their capital investment, including voting rights on fundamental changes to the co-operative.

Par value and no-par value membership shares

Under the proposed CCA, co-operatives have the option of structuring their co-operative with par value or no-par value membership shares (investment shares must always be issued as no-par value shares).

This option allows flexibility – members can choose to maintain traditional co-operative endeavours (i.e. issue membership share at par value) or realise a potential gain on their membership shares (issue shares at no-par value).

No-par value membership shares allow the absolute success or failure of the co-operative to be reflected in the fluctuation in the value of the shares.

Canadian co-operatives want to maintain the ability to issue par value membership shares. This is especially relevant to smaller co-operatives where no-par value shares could be costly, as directors would have to determine the fair market value of shares each year for redeeming and issuing capital.

Directors

The Act allows for the appointment of non-member directors. Under previous legislation, all directors had to be members; under the new rules a minimum of two-thirds must be members.

With the provision that up to 20% of the board may be elected by outside investors, the architects of the legislation believe a good mix of qualified individuals will be achieved.

The new legislation also tightens the standards on director responsibilities and liabilities, bringing them into line with those applying to directors of other business organisations. □

WHAT'S GOING ON AT THE WHYGIVITUP CO-OPERATIVE?

SNAPSHOT

In the manner of a Geoffrey Robertson 'Hypothetical', corporate planning consultant Bill Robertson introduced delegates at the Western Australian co-operatives conference to the Whygivitup Co-operative Company.

The Whygivitup Co-operative Company Ltd is in a period of change.

Hands On, the manager of many years, has retired at short notice for health reasons and Young Buck has been hurriedly recruited.

Hands On knew the place backwards and commanded grudging respect from the board members, whom he had 'trained' to allow him a great degree of freedom in running the business.

As one would expect, there had been a few fights over the years, as board members tried to exert some authority.

Although there was no impropriety (we hasten to add), Hands On retained an iron grip on the management of the company and gave only as much information as he was obliged to.

He was the same with the staff: he held his cards close to his chest and kept a tight rein on decision making.

The co-operative grew slowly, rebates and dividends were paid and, as long as the results were better than the previous year, the board tolerated the situation.

Young Buck's arrival was a bitter disappointment to long-time second-in-charge, Miss Doubt, who thought she should have got the top job.

He is well qualified academically and keen to get on in life, but lacks experience in general management. He soon discovered that much of the information he needed to run the business went out the door with his predecessor. Any policies and procedures that existed were carried in Hands On's head and Miss Doubt was not at all helpful.

It all came to a head when Young Buck wanted to buy a Ford LTD as his company car. When he made the request to the board, he was challenged on two grounds – the price and the make.

Although the car was similar to what Hands On had, he had fought long and hard, against strong board opposition, to get it.

Secretly, the board members never liked the idea of the manager having a better car than their own, so they were reluctant to get rolled again this time.

It also seems that one of the board members had acquired an interest in the Shady General Motors (GM) dealership and there was the suggestion that it could supply a vehicle at the 'right' price.

The full board agreed that Shady would deliver Young Buck a Holden Berlina the next day.

This became typical of the situation at Whygivitup.

The board, with new-found bravado, challenged Young Buck on many of his decisions. He became frustrated at always having to seek board approval to get anything done.

The auditors, also, had recently started their annual audit of the company's books and systems.

For years, they had been 'kept in their place' by Hands On and were now asking all sorts of questions about policies and procedures that Young Buck was unable to answer.

The audit leader even wanted to arrange a session with the board to discuss the matter – an intrusion unheard of in Hands On's day.

The object of the exercise ...

1. Establish the principal issues arising from Hands On's iron rule and from Young Buck's frustrating relationship with his directors.
2. Identify the responsibilities of the parties involved in this situation.
3. Establish the matters where it is usual, useful or, perhaps, essential, to have agreed company policies – with special reference to co-operatives.
4. Discuss how they should be developed, implemented and monitored.

Points to ponder

The following responses to the issues should not be considered all-inclusive. There may be other, equally valid observations ... think through what is relevant and important to your co-operative.

1. The board appears to have failed in its fiduciary duty to act in the interests of the company (the shareholders as a group), in that it had surrendered control almost entirely to Hands On, the manager.

As Young Buck discovered, to his dismay, there were no agreed policies, so he had to either delay decisions until he consulted the board or make decisions that were open to challenge at the whim of the board, which made efficient management almost impossible.

2. It is the board's responsibility to:

- direct the company's management on the expected financial results;
- set in place a policy framework within which those results should be achieved;
- monitor progress to ensure that the required results are achieved; and
- that policies have been observed.

It should then leave the managers to manage.

The policies usually evolve as situations arise that are beyond the authority of the manager. The policies need not originate from the board, but should each have formal board sanction before being implemented.

The director linked to the Shady GM dealership should not have taken any part in the decision to buy the car. In such a matter of conflicting interest, he should have declared his interest, made the offer and left the meeting until the matter was settled.

The board was left open to question because it did not obtain competitive quotes before approving the deal, which may not have been in the interests of all shareholders.

As an appointee of the shareholders, the auditor, between general meetings of shareholders, reports to the board. The fact that he had previously been denied the opportunity is a matter of concern. Perhaps he was derelict in his duty by not insisting on speaking to the board.

The manager's duty is to produce the required results, by managing the day-to-day

affairs of the company within the law and the policy framework.

3. Policies are the broad principles or guidelines, given by directors and agreed with management, within which management must produce the results required by shareholders – they represent limits to the managers' authority in their day-to-day conduct of the business. They are set in place to allow the managers to run the business without frequent referral to the board for approval of new actions that are no different in principle to others taken previously.

In other words, they allow managers to run the business effectively, without the need for intervention of the board in routine situations.

The major areas of policy are:

- compliance with the laws governing business operations;
- financial;
- shareholder relations;
- employee relations; and
- marketing and customer relations.

Compliance: Legislation and regulations of the various levels of government are akin to externally imposed policies in major areas of community concern.

The most important statutes are the Co-operative Acts, the Taxation Act, and those dealing with competition, industrial relations, occupational health and safety, and the environment. There are many more Acts, regulations and by-laws of federal,

state and local government authorities. They set minimum standards of company behaviour, but there is nothing to stop an organisation having its own higher policy standards, as long as there is no conflict.

Financial: Policies in this area relate mostly to such matters as:

- financial gearing, the relationship between:
 - shareholders' equity; and
 - borrowed funds.
- distribution of profits, the shares of such funds that are:
 - retained in the business to finance growth;
 - paid as dividends in proportion to shareholdings; or
 - paid as rebates in proportion to trading.
- maintenance of other prudent balance sheet ratios; and
- personal limits of authority for expenditure, cheque signing and credit approval.

Shareholder relations deal with such matters as:

- non-trading shareholders;
- communication of management and board with members;
- maintenance of the share register; and
- entitlements for distributors.

Employee relations cover such issues as:

- education and training;
- career and succession planning;
- choices within the industrial relations regime; and

- reward systems, including superannuation.

Marketing and customer relations address such issues as:

- customer service levels;
- research activity;
- quality in product design and production;
- advertising standards and sales methods; and
- communication with customers and the public in general.

4. Developing policy need not be the preserve of either board or management. However, it is important that, whatever the origin of policy, it be formally approved by the board and minuted.

Implementation of policy is the responsibility of the chief executive officer (CEO), who should have it recorded and disseminated to the staff concerned.

Many organisations maintain a register or policy manual for that purpose. Education or training in how to implement policy may also be needed.

Supervision of staff by managers is probably the only effective day-to-day action to monitor compliance with policy. The board may ask for regular or *ad hoc* reports from the CEO.

Internal and external auditors have a vital role in assuring the board and shareholders in general that policy is being observed in the company's operations. □

NEWS FROM AROUND THE WORLD

Milk magazine

British milk supply co-operative, Milk Marque, has moved to raise its profile in the British consumer market with the launch of a glossy, monthly consumer magazine called 'Home & Life'.

The 150-plus page magazine will cost £1 and feature articles on cookery, motoring, wine and travel. It will be exclusively delivered to households via the milkman and may prove an added incentive for consumers to order doorstep milk delivery, stemming the tide of increasing supermarket sales.

Rochdale in Japan

In 1844, the first co-operative was formed in Rochdale, England. To engender the Rochdale co-operative spirit and develop new contacts and cultural activities, the Japanese co-operative Osaka Izumi opened the 'Rochdale Club' in 1987. As it celebrates its 10th anniversary, the number of people using the club has grown to more than 300,000.

Teleworking

The UK Co-operative Bank has introduced a pilot scheme with a number of staff to work from home.

The bank recently signed a 'teleworking agreement' with the banking union. The agreement ensures bank staff working from home have appropriate terms and condition.

For teleworkers, the benefits include reduced travel time and expenses, and the ability to integrate work and home life more effectively. The bank believes teleworking will help reduce recruiting and retraining costs, as well as offering greater employment flexibility for its staff.

Joint venture

A Swedish-based dairy co-operative and the Danish-based co-operative, MD Foods, have formed a joint venture company called AM Foods to produce and sell vending machine products such as coffee and hot chocolate. By joining forces, the co-operatives hope to be able to match the marketing muscle of their giant proprietary competitors, Nestlé and Kraft Jacobs Suchard.

US publications ...

'Rural Co-operative Publications' is a new booklet available from the USDA's Co-operative Service. It describes more than 150 research reports, educational publications and videos on various co-operative topics.

CONTACT: FOR A FREE COPY, CONTACT THE CO-OPERATIVE SERVICES PROGRAM, USDA/RBCDS, Ag Box 3255, WASHINGTON, DC 20250-3255, TEL 202 690 1384, FAX 202 720 4641.

... and videos

The National Co-operative Business Association (NCBA) in the US, in conjunction with the University of California Centre for Co-operatives, has produced a video entitled, 'The A-B-C of co-operative child care'. The video explains how co-operative child care centres – member owned and run – can provide high-quality, affordable child care facilities. The video is the second in an on-going series. The first was 'How to run a co-op food buying club'.

CONTACT: JILL STEVENSON, NCBA, WASHINGTON DC, E-MAIL: JSTEVENSON@NCBA.ORG. COST: CHILD CARE VIDEO US\$19.95, FOOD CO-OPS US\$35.

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