

Co-operatives Australia has published this paper to affirm the importance of co-operatives recognising that demutualisation is not inevitable; that a subsequent loss of member ownership and control has significant consequences; that there are alternative strategic and structural choices, and that balanced information is the prerequisite to informed choice.

# Valuing Co-operation

## Future is in the Hands of Members

The future of any co-operative as a co-operative business depends greatly on –

- meeting members immediate and future needs;
- continuous demonstration of value to its membership;
- members being engaged with their co-operative meaningfully; and
- members valuing their membership in a holistic way, combining both monetary and non-monetary benefits.

It is important that co-operative boards get their strategy right and have clear lines of communication with members and other stakeholders. Boards must continually demonstrate their commitment to co-operative business principles through appropriate policies, practices and actions. Boards must also demand a commitment to the board's strategic direction by management and staff.

Without an ongoing program of communication and education around member value, investor-driven interests and carpet-baggers will continue to raid successful Australian co-operatives. Carpet-baggers are those who promote demutualisation to advance their personal interests while purporting to benefit the co-operative or mutual.

## Demutualisation Lessons

The Co-operative Merit (Adby 2002), outlined what had been learnt from co-operatives and mutuals that had demutualised:

- Evidence of strengthened net worth was weak.
- Net premiums do not increase relative to industry.

- Expense ratios increase relative to industry.
- No significant increase in accounting results.
- Management salaries are higher.
- Management turnover is higher.
- Many go on a buying binge or change the nature of the business.
- Loss of member customers leads to increased costs to entice customers.
- Very often a converted co-operative or mutual is itself taken over within 3-5 years.
- Head offices move and regional presence declines.

## Align Strategy and Structure

In *Adapt or Die: Organizational Changes in Co-operatives*, (Chaddad 2009), Dr Chaddad of University of Missouri, states there is no conclusive evidence about the failure rates and performance differences between co-operatives and investor-owned corporations. Evidence suggests that relatively speaking the co-operative sector is no worse off than the investor-owned corporate sector with USA supply and marketing co-operatives having increased their market share since 1950.

Dr Chaddad warned demutualisation is mistakenly seen as an easy way out for co-operatives – as an easy remedy to the so called ills of co-operatives, when in fact conflicts of interest are likely to get worse after demutualisation. He suggests an alternative to demutualisation is for co-operatives to ensure strategy and structure are aligned.

Adaptation and reorganisation can take different forms, centred around co-operative ownership with control remaining with members. Strategic options can include using subsidiary companies, incorporated or unincorporated joint ventures, as well as re-aligning active membership requirements.

## Valuing our Mutuality

*Valuing our Mutuality* was a project initiated by the International Co-operative Mutual Insurance Federation to raise public awareness around the value of mutual and co-operative insurance, undertaken against the backdrop of demutualisations in the European financial sector.

The research focused on four areas -

- financial and business performance;
- the concept of mutuality;
- legislation and capitalisation; and
- demutualisation trends and post-demutualisation realities.

The report, published in 2001 and updated in 2002, is the most comprehensive study of its kind to date. It provides an in-depth analysis of the performance of ninety-seven insurance mutual businesses in eleven European countries,

showing that insurance mutuals outperformed investor-owned companies in -

- greater claims payments,
- lower costs; and
- better overall financial performance.

Mutuality was shown to have a significant value by creating a circle of mutual benefit focusing primarily on customer value resulting in good performance, which in turn strengthens and promotes the mutual way of doing business.

### Demutualisation Check List

Consideration of corporatisation / demutualisation must be based on best practice openness and transparency. Members should receive information about the experiences and lessons of co-operatives and mutuals that have successfully adapted or reorganised, in preference to abandoning the principles of co-operation or mutuality.

All too often the pro-demutualisation argument is ill-informed and biased about the operations of the co-operative. Corporatisation through demutualisation is also often wrongly portrayed as the only option.

Importantly, through their elected directors and the wider membership when appropriate, co-operatives must address the following key medium- to longer-term issues, if under challenge by investor-driven interests and carpet-baggers:

1. Would member patrons be able to market/source products and services better if they gave up control of their co-operative?
2. Would member patrons receive/pay fair prices if they gave up control of their co-operative?
3. Would member patrons continue to guide the business and its strategic direction?
4. Would the business continue to have close ties with key suppliers and customers?
5. Would the business have an ongoing commitment to satisfying customer needs?
6. What impact would investor-driven interests have on business practices, prices given/received, net worth, net premiums and expense ratios?
7. Who and what would determine and drive business priorities?
8. Would a local/regional commitment continue?

### Co-ops as Market Maker

The Chairman of Challenge Dairy Co-operative Ltd, Larry Brennen OAM, wrote in November 2009 - "Murray Goulburn provides the real benchmark for the price of milk and without them, dairy farmers would never achieve the real value from

their milk. We all benefit from Murray Goulburn's position in the dairy industry. Victoria and Australia has Murray Goulburn and it must survive and prosper for the benefit of all Australian dairy farmers".

### Balanced Information

Members must insist, in the event of moves to corporatise their enterprise through demutualisation, that the board prepare and distribute even-handed information so that an informed decision can be made about the future of their co-operative or mutual.

The report to members must address fully, the advantages and disadvantages of remaining a co-operative business or demutualising.

If the board is recommending demutualisation it is incumbent on directors to disclose to members their financial interest in the outcome. Advisory success fees must also be disclosed in the report to members.

*"One of the greatest dangers to mutuals and co-operatives comes from within – from managers and directors who are not committed to co-operative principles and values."*

Race Mathews "Looting the Mutuals: The Ethics and economics of Demutualisation"

*"In most cases, demutualisation is caused by the choices of the cooperative executives, with the support of outside consultants and with the acquiescent consensus of the boards of directors; very rarely is it a product of pressure from the members."*

How the Bumblebee Flies – Co-operation, Ethics and Development" Ivano Barberini 2009, past President International Co-operative Alliance.

The following comment typifies the outcome of a number of corporatisations/demutualisations.

*"The money has come home...but farmers have now to face an absolute clash of cultures with the PLC. This is a hard lesson for some members who thought that the market would look after them..."*

Demutualisation has unlocked wealth for investors and carpet-baggers – not to the former owners of co-operatives and mutuals. Without ownership the co-operative benefit is lost.

Co-operatives Australia is the national body for state Co-operative Federations.. It is an unincorporated body with membership by the State Co-operative Federations of New South Wales, Queensland, South Australia, Victoria and Western Australia. Comments on this statement are invited and can be directed to -[secretary.co-ops.aust@australia.coop](mailto:secretary.co-ops.aust@australia.coop)