

DEVELOPING AN AUSTRALIAN CO-OPERATIVE AND MUTUAL INDEX

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This paper examines the creation of an Australian Co-operative and Mutuals Index (ACMI) as a mechanism for enhancing our understanding of the role played by co-operative and mutual enterprises in the economic and social development of the nation. It suggests that without reliable data on the size, structure and socio-economic contributions of these businesses it will be difficult to appreciate their importance to the national economy.

One of the most important roles attributed to co-operative and mutual enterprises is the potential of such firms to play a significant role in fostering economic and social development (Williams, 2007). The Co-operative enterprise business model that emerged in the Rochdale Society of 1844 offered a blueprint for future businesses offering a democratic, equitable and sustainable organisational structure (Fairbairn, 1994). Economic self-development for members and a strong emphasis on community capacity building have been features of the co-operative and mutual enterprise ever since (Lange, 1985; Robertson 2012).

An important aspect of co-operative enterprise is its “dual role” of economic and social capital formation (Novkovic, 2008), which is a key feature that distinguishes co-operatives from investor-owned firms (IOF). However, this also creates difficulties for the co-operative enterprise to be fully accepted within the mainstream IOF community where it is often seen as too “social” in its purpose. Yet it can also be seen as “too economically rational” for many within the not-for-profit/social business community (Levi and Davis, 2008). However, such enterprises can form the foundation of a vibrant social economy (Defourny, 2001).

According to Skurnik (2002) the goals of a co-operative differ from those of an IOF as it does not seek to generate profit returns for its owners. Instead the primary goal of the co-operative is:

“...to produce the services required by its members as efficiently and competently as possible”.
(Skurnik, 2002 p. 112)

Any profits or surplus generated from operations is typically distributed back to members in proportion not to their shareholding but their level of patronage. The democratic governance of the co-operative and mutual business model is another distinctive feature. Davis (2002) has suggested that among the major reasons co-operatives can play an important role in economic and social development is their focus on self-help for communities. This can shift them away from dependence on welfare from either the government or charitable sectors. Successful co-operatives offer local communities an opportunity to achieve greater self-determination, local autonomy and community control and have been seen as a potential mechanism for the alleviation of poverty in developing economies (Simmons and Birchall, 2008).

The total number of co-operative and mutual enterprises in Australia is unknown, although it has been estimated to be around 1,700 (Denniss and Baker, 2012). As noted by the Australian Bureau of Statistics (ABS), co-operatives in Australia are difficult to define and the ABS does not have collection processes to easily capture these organisations. Many co-operatives are not registered under the state co-operatives legislations but with the Australian corporation’s law as public companies. Others are registered as both other incorporated or unincorporated entities. This means that reliable

data on Australia's co-operative and mutual enterprises cannot be generated from ABS statistics (ABS, 2012).

This contrasts with some countries, notably Finland, where data on co-operatives is readily available. In Finland it has been possible to demonstrate the strong economic contribution of such enterprises to that country's economy, with good sectoral data to highlight market share (Skurnik, 2002). Similarly, a major study of the economic impact of co-operatives in the United States suggested that there were around 30,000 co-operative enterprises in that country with over \$500 billion in revenue and \$3 trillion in assets. Together these firms contributed an estimated 2 million jobs, \$75 billion in wages and benefits paid and \$133.5 billion in value-added income. There were around 350 million members and the co-operative firms' generated almost \$79 billion in patronage refunds and dividends (Deller, Hoyt, Hueth and Sundaram-Stukel, 2009). Such statistics offer a strong argument for the co-operative and mutual enterprise sector to be taken seriously. This data suggests that it is not just the economic contribution of co-operative and mutual enterprises that matters; instead it shows the sector's contribution in the creation and strengthening of social capital (Lang and Roessl, 2011).

Since the Global Financial Crisis (GFC) of 2008-2009 many of the world's economies continue to experience high rates of unemployment and growing gaps between the wealthiest and poorest members of society (Ramos, 2014). While Australia has managed to avoid some of the worst aspects of the GFC its economy remains at a cross-road. The demise of large-scale car manufacturing and recent controversy over the aborted sale of major agribusiness IOF GrainCorp Ltd to American commodities trading giant Archer Daniels Midland (ADM) has triggered a discussion over the future direction for Australian business and the role that co-operative and mutual enterprise might play (Mazzarol, 2013a,b,c; 2014a/b). What is needed is more robust and reliable statistics on the size, shape and impact of the Australian co-operative and mutual enterprise sector.

METHODOLOGY

The creation of the Australian Co-operative and Mutual Business Index (ACMI) commenced in 2012 following discussions with industry for a study to map the contribution of the sector to the national economy. It draws on the conceptual framework of the co-operative enterprise business model originally proposed by Mazzarol, Simmons and Mamouni Limnios (2012). This examines seven elements within the enterprise: i) purpose; ii) member value proposition; iii) profit formula; iv) processes; v) resources; vi) share structure and vii) governance. It also examines four input factors (social cooperation; government; industry structure and the natural environment), and two outputs (economic and social capital). The ACMI is also benchmarked against the industry measures used by IBIS World for their industry analysis (IBIS World, 2014). This includes the firm's company details, history and industry context, financials, governance, growth and performance trends, products and brands, market segments, market share and major competitors.

The ACMI replicates this data and also examines perceptions within the firm's senior management towards its: competitive environment; member value and social capital creation; membership and employment base; purpose; share capital and surplus distribution policies and governance. At time of writing this work was continuing as data was still in progress.

An initial starting point for the development of the ACMI was the existing “Top 100” lists produced by Co-operatives Australia (CA, 2010; 2011; 2012). The most recent of these reports suggested that the largest 100 Australian co-operative and mutual enterprises had a combined annual turnover of around \$17.8 billion. It also reported these firms had an estimated 12.8 million members and employed 29,957 people (CA, 2012). Using this as a baseline the ACMI methodology progressed in several stages.

Stage 1: Developing the ACMI measures

The first stage involved developing a list of the key data required for the ACMI. This included eight key areas with multiple items in each area. Discussions on the structure of these criteria took place with the industry, most notably the Business Council of Co-operatives and Mutuals (BCCM). Table 1 lists these areas and fields of data.

Table 1: Key Areas of the ACMI

Major Area	Key data fields
1. Company information	Company name, address, state of origin, ABN/ACN, export activity, multi-state activity.
2. Governance	Registration as a co-operative; Democratic governance (e.g. “one-member-one-vote”); Adherence to co-operative principles; Regulated by (Co-ops Law; Corporations Law; APRA); Distributing v non-distributing; Whether or not it allows non-members to trade, own shares, vote or hold board positions.
3. Financial information	Gross annual revenue, EBITDA, NPAT and Total Assets for previous two financial years.
4. Annual report	Copies of annual reports for previous two financial years.
5. Membership & Employee Information	Total full time and part time employees for past two years; Total membership for previous two years; % of members who are individuals and % who are businesses for the previous two years.
6. Industry Sector	ANZSIC division – primary and secondary.
7. Competitive environment	Senior management perceptions of the changes to membership, community support, government regulation, economic policy, market competition and level of changes in the natural environment over the previous 12 months.
8. Member Value & Social Capital	Senior management perceptions of their member value proposition (MVP); members awareness and understanding of the MVP; community understanding of the MVP; engagement with the local community and marketing of the co-operative or mutual values.

Stage 2: Data collection

Data collection began by undertaking a review of all the firms listed on the “Top 100” lists for the years 2011 and 2012, with data sourced from their websites and other publicly available sources such as IBISWorld. In most cases the annual reports for these organisations could be accessed in this way, which provided key financial data. This initial “desk top” analysis identified 103 firms that had appeared in the Top 100 lists for the two previous years. Reliable financial and other data was also publicly available for all but 20 of these organisations via their annual reports.

With assistance from the BCCM and the Co-operatives Federations of Western Australia (WA) and New South Wales (NSW) all 103 companies were approached with a letter and email seeking their participation in the study. An online survey was prepared and once a firm had agreed to participate an email was sent to the key contact person who was asked to complete the questionnaire. Responses as time of writing had reached 47 (e.g. 45.6% response rate) and a series of telephone calls had been made to each organisation that had agreed to participate but had not yet completed the survey. In most cases the reason for not completing the survey was due to a key manager not being available as a result of their travelling or being unable to address the matter in the requested time. Not all the responses to the survey were complete, with 32 organisations fully completing the questionnaire. The data collection process was continuing as at early August 2014 when this report was finalised.

PRELIMINARY FINDINGS

The following is a summary of the preliminary findings from the research as at August 2014. It is largely descriptive providing a snapshot of the work in progress on the ACMI.

Top 100 Co-operative and Mutual Enterprises

An initial focus for the project has been the development of a Top 100 league table for Australia's co-operative and mutual enterprise sector using financial data available from the public domain and, where possible, the firms directly. This analysis suggested that the largest co-operative or mutual enterprise in Australia by annual turnover was the WA bulk grains handling and storage business Co-operative Bulk Handling Ltd (CBH). This business reported an annual turnover of more than \$2.81 billion for the financial year FY2013, an increase of just over \$543 million on FY2012. This was an increase of \$782.4 million over FY2011, suggesting that CBH had experienced significant growth during the past three years. The second largest enterprise was the Victorian dairy co-operative Murray Goulburn Co-operative Co Ltd with an annual turnover in FY2013 of around \$2.39 billion. In third and fourth places were the WA-based health insurance mutual HBF with annual turnover of \$1.35 billion, and the financial services mutual Australian Unity of Victoria with annual turnover of \$1.15 billion for FY2013. As with CBH all these businesses had experience strong growth in turnover over the period since FY2011. Table 2 lists the Top 10 co-operative and mutual enterprise by gross turnover for FY2012/2013.

Table 2: Top 10 Australian Co-operative and Mutual Enterprises 2013 FY2012/13

Rank	Name	State	Gross Turnover	EBIT ¹	NPAT ²	Total Assets
1.	Co-operative Bulk Handling Ltd	WA	\$2,815,739,000	\$137,723,000	\$131,707,000	\$1,988,752,000
2.	Murray Goulburn Co-operative Ltd	VIC	\$2,389,435,000	\$39,053,000	\$34,904,000	\$1,659,054,000
3.	HBF of WA	WA	\$1,349,596,000	\$175,867,000	\$176,585,000	\$1,367,522,000
4.	Australian Unity	VIC	\$1,146,136,000	\$62,923,000	\$29,410,000	\$3,823,538,000
5.	Credit Union Australia	QLD	\$693,103,000	\$78,635,000	\$57,485,000	\$9,958,103,000
6.	Namoi Cotton Co-operative Ltd	NSW	\$580,042,000	(\$3,363,000)	\$508,000	\$293,523,000
7.	RACWA	WA	\$560,042,000	\$32,497,000	\$35,173,000	\$1,518,627,000
8.	RACQ	QLD	\$532,827,000	\$46,297,000	\$38,446,000	\$2,242,016,000
9.	Heritage Bank Ltd	QLD	\$493,712,000	\$52,964,000	\$37,052,000	\$8,507,047,000
10.	NRMA	NSW	\$478,886,000	\$45,140,000	\$37,211,000	\$1,131,318,000

¹ EBIT = earnings before interest and tax. ² NPAT = net profit after tax.

The combined annual turnover for the Top 100 co-operative and mutual enterprises was estimated to be around \$19.24 billion for FY2013. Preliminary assessment suggests that these firms also held combined assets of more than \$102.9 billion. Just over half (52.4%) of these largest co-operative and mutual enterprises were headquartered in NSW. The other states and territories accounted for the remainder as follows: Australian Capital Territory 1%, Queensland 8%, South Australia 10%, Victoria 13% and WA 15.5%. Despite having only 15.5% of all co-operative and mutual businesses, WA accounted for nearly the same proportion of the entire annual turnover (28.7%) as did NSW (29.5%).

Classification of these Top 100 firms by industry is somewhat problematic due to the diversity of the business activities that some of the larger firms engage in, but also due to the nature of how many co-operative and mutual enterprises operate. For example, a motor vehicle owners club such as the Royal Automobile Club of Western Australia (RAC WA) offers members roadside assistance as a core business, but also car insurance, general insurance, driver education, motor vehicle repair and travel services. This places it across financial services and personal services industry categories.

To simplify the industry classification we have grouped the firms into 16 broad categories which are shown in Table 3 along with the combined turnover for each sector plus the median turnover, EBIT and NPAT, plus the total assets for these firms. There are 103 firms shown in the table because at time of writing the final Top 100 league table had not been finalised.

Table 3: Top 100 Australian Co-operative and Mutual Enterprises FY2012/13 by sector

Sector	N	Combined Turnover	Median Turnover	Median EBIT ¹	Median NPAT ²	Total Assets
Agricultural producer	17	\$7,215.7 m	\$632.6 m	\$488,269	\$446,842	\$4,370.9 m
Arts & recreation services	3	\$39.2 m	\$13.1 m	(\$251,245)	(\$209,298)	\$19 m
Banking & Finance services	38	\$5,132.1 m	\$60.3 m	\$6.3 m	\$4.5 m	\$7,963 m
Education	1	NA	NA	NA	NA	NA
Fishing	4	\$190.8 m	\$14.2 m	\$73,143	\$42,298	\$1.25 m
Health services	2	\$28.6 m	\$14.3 m	NA	NA	NA
Housing	1	NA	\$41.2 m	\$1.8 m	\$1.8 m	\$684 m
Insurance & superannuation	2	\$2,495.7 m	\$1,247.9 m	\$119 m	\$103 m	\$5,191.1 m
Personal services ³	7	\$2,491.8 m	\$476.4 m	\$38.8 m	\$36.2 m	\$6,935.6 m
Religious	1	\$10.2 m	NA	NA	NA	NA
Retailing	12	\$399.2 m	\$17.2 m	(\$164,183)	(\$128,807)	\$167 m
Shared services	2	\$46.4 m	\$23.2 m	NA	NA	NA
Transport services	2	NA	\$16.7 m	NA	NA	NA
Utilities (e.g. water supply)	3	\$13 m	\$3.3 m	\$1.8 m	\$1.5 m	\$158.2 m
Wholesaling/Purchasing	7	\$875.2 m	\$123 m	\$19.3 m	\$13.9 m	\$4,044.7 m
Worker/employee	1	NA	\$25.6 m	NA	NA	NA
TOTAL	103	\$19,239.1 m	\$49.1 m	\$4.1 m	\$2.7 m	\$102,901 m

¹ EBIT = earnings before interest and tax. ² NPAT = net profit after tax. ³ Includes motor vehicle associations (e.g. NRMA).

As shown in Table 3 the median turnover for the insurance and superannuation services firms were the highest, with the agricultural producer co-operatives coming second and personal services co-operative and mutual firm firms in third place. This latter group comprised the motor vehicle clubs such as the NRMA, RACWA and RACQ that have not only services but financial services such insurance arms. The negative EBIT and NPAT for the arts and recreation services and retailing firms are worth noting.

Although some of the data for these firms remained unavailable at time of writing, there was sufficient information to get a general overview of the largest Australian co-operative and mutual

enterprises. It also highlights the need for more in-depth information rather than relying simply on the gross annual turnover as this can often mask the actual performance of the business.

Survey of Top 100 Co-operative and Mutual Enterprises

Although the survey of these Top 100 co-operative and mutual enterprises was still continuing at time of writing complete data for 32 organisations had been collected. Of these firms the distribution by state was: NSW 40.6%; QLD 6.3%; SA 25.0%; VIC 9.4%; WA 18.8%. Around 44% were operating across more than one state and 6% were engaged in overseas markets, primarily New Zealand and the Pacific Islands.

When asked about their corporate structure 94% reported being “Australian organisations with 5 or more active members and one or more economic or social objectives”, which is consistent with the definition of a co-operative or mutual enterprise (ABS, 2012). A similar proportion (93%) reported that their organisation was based on “sharing, democracy and delegation for the benefit of all their members”, which is consistent with the general philosophy of the international co-operative movement (ICA, 2014). All reported having a “one-member-one-vote” principle in their governance.

In relation to regulation and corporate status 63.3% of firms reported being incorporated under the Corporations Act 2001 but governed along co-operative principles. Around half (46.7%) reported being so incorporated, but also being regulated by state or territory registries under the various Co-operatives National Law and national regulations. A smaller proportion (33.3%) was comprised of financial services businesses and they were regulated by the Australian Prudential Regulation Authority (APRA). Of these firms 23.3% were also incorporated under the Corporations Act 2001.

The gross annual turnover of these firms ranged from \$1.26 million to \$1.21 billion for FY2012/13. A total of 63% of the responding firms reported that they were “distributing” organisations, thereby issuing financial dividends or distributions from surplus capital to members. The remaining 37% were “non-distributing”. A high proportion (83%) reported that they allowed non-members to trade with the enterprise, although only 3% stated that they allowed non-members to hold share capital and participate in voting. While 20% stated that they also allowed non-members to hold positions on their boards with voting rights.

In terms of membership the number of members reported ranged from 3 to around 2.4 million, with the median being 2,536 in FY2012/13 and 2,647 in FY2011/12. Of these members 89% were individuals who were members of motor vehicle owners associations, financial services firms and retail co-operatives. In terms of employees, the number of full time employees ranged from 1 to 290 with the median being 88 in FY2012/13 and 75 in FY2011/12. Part time employment ranged from nil to 260 with a median for 12 in FY2012/13 and 8.5 in FY2011/12.

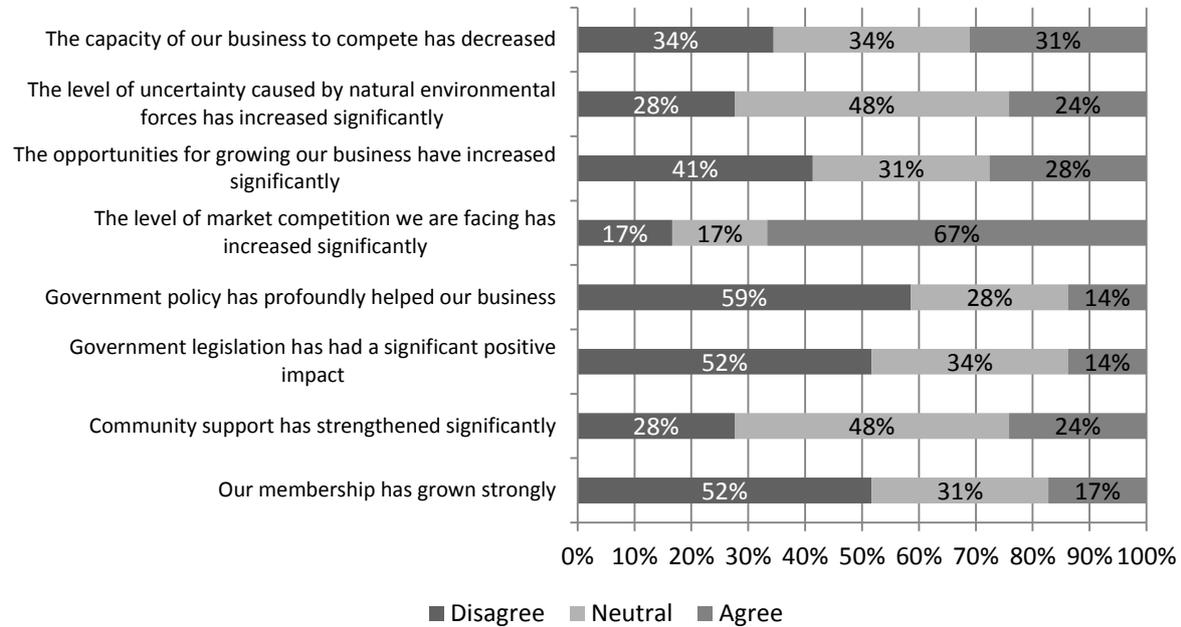
Perceptions of the organisational task environment

Within the ACMI survey seven items examined the perceptions of these organisations’ managers towards their firms’ organisational task environment. The purpose of these items was to explore how managers viewed the level of membership growth and community support, the impact of government regulation, level of market competition and any impact from changes to the natural environment. For each item the respondent was asked to indicate whether or not they agreed or

disagreed with the statement using a 5-point rating scale where 1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree and 5 = strongly agree.

Figure 1: Perceptions of organisational task environment

During the previous 12 months...



As shown in Figure 1 there was fairly even division by respondents to the item relating to whether the capacity of their business to compete had decreased over the previous 12 months. There was also a high degree of equivocation over the question of whether they felt that the level of uncertainty caused by the natural environment had increased significantly, with 48% neither agreeing nor disagreeing.

Of interest is the finding that only 28% reported agreement with the view that opportunities for growing their business had increased significantly in the previous 12 months. In fact only 7% strongly agreed with this view and 14% strongly disagreed. Related to this item was the question of whether market competition had increased significantly in the previous 12 months. Here 67% reported agreement that they felt it had. A total of 45% agreed to this and 21% strongly agreed.

There was also a strong negative view about government policy and regulation being helpful to the business. As shown in Figure 1, 59% of respondents disagreed with the view that government economic policy had profoundly helped their businesses, with 24% in strong disagreement. Just over half (52%) also disagreed with the view that government legislation had significant, positive impacts on their business. In fact 31% were in strong disagreement with this view.

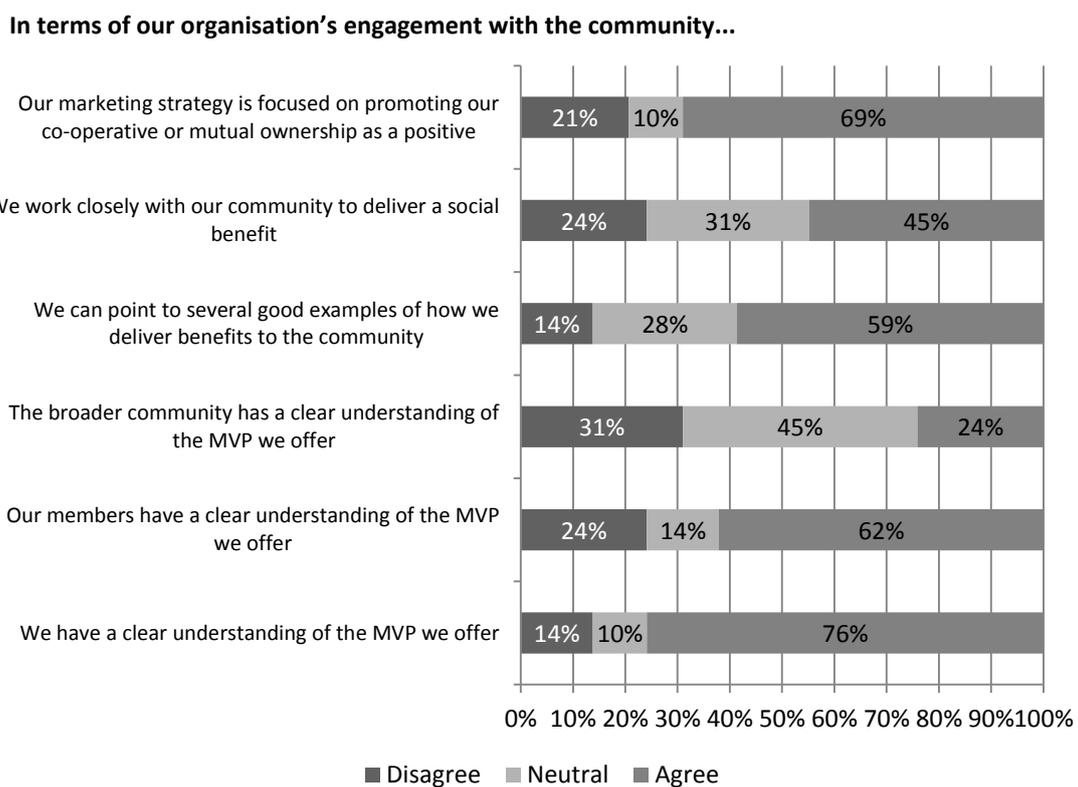
A further two questions asked if there had been growth in the level of community support for these businesses in the previous twelve months and also a strong growth in membership. As can be seen from Figure 1 around half (48%) of the respondents did not seem to have a definitive answer for the first issue, suggesting that they did not really know whether or not community support had strengthened significantly. Of the rest, 28% felt that it had not strengthened while 24% felt that it

had. Of some interest was the final question about growth in membership. Just over half (52%) indicated that membership had not grown strongly with 31% strongly disagreeing that it had and only 7% strongly agreeing that membership growth was strong.

Member value and social capital

A further set of questions within the ACMI survey focused on the perceptions of the respondent firms towards their member value and social capital creation. The results for these items are shown in Figure 2 where it can be seen that the majority 69% believed that their organisation’s marketing strategy was focused on the promotion of co-operative or mutual ownership as a positive attribute. Of these 31% were in strong agreement. There was less agreement over whether these firms worked closely with their communities to deliver social benefits. As figure 2 shows 45% agreed (21% strongly agreed), while 24% disagreed. Nevertheless, 59% agreed that they could point to several good examples of how their business delivered benefits to the community. Of these 28% strongly agreed with this view.

Figure 2: Member Value Proposition (MVP) and Social Capital Building



The respondents were also asked whether they felt that they, their members and the wider community had a clear understanding of the member value proposition (MVP) that the business offered. As shown in figure 2 the majority (76%) of respondents agreed that they had a clear understanding of the MVP they offered to their members, with 38% in strong agreement. The majority 62% also felt that their members had a clear understanding of this MVP, with 14% in strong agreement with this view. However, there was a much more equivocal response to the issue of whether the broader community had a clear understanding of the MVP they offered. A high

proportion (31%) did not feel that the community understood their MVP and only 24% felt that they did with 45% unsure.

DISCUSSION AND CONCLUSIONS

Although the ACMI remains a work in progress the data collected so far highlights the importance of gathering in-depth financial and non-financial information on the Australian co-operative and mutual enterprise sector. The sector makes an important economic and social contribution to the Australian economy, but the nature of this contribution is difficult to fully determine due to the paucity of available data.

From the information that has been collected to date the pattern that emerges suggests that Australia's co-operative and mutual enterprises can be found in almost all industry sectors and comprise some of the largest firms in each sector. This can be illustrated with reference to some of the firms that comprise the Top 10 list shown in Table 2. Of these CBH Ltd is not only Australia's largest co-operative business but one of the largest players in the cereal grain wholesaling industry for 2013-2014. In this regard it holds around 27.6% market share at a national level competing with Glencore Grain Pty Ltd (26.7%), GrainCorp Ltd (24%) and Cargill Australia Ltd (7.5%) (Witham, 2013). None of these competitors is a co-operative business and both Glencore and Cargill are foreign owned subsidiaries.

In the area of milk and cream processing Murray Goulburn controls around 12.3% of the national market share, competing with Lion Pty Ltd (32.1%), Parmalat Australia Ltd (14.7%) and Fonterra Co-operative Group Ltd (13.5%). All three competitors are subsidiaries of overseas companies and even though Fonterra is a co-operative business in New Zealand it does not operate as such in Australia (Lin, 2013a). In other areas of the dairy industry Murray Goulburn is also prominent. For example, in 2013 it controlled 34.7% of the cheese manufacturing industry in Australia (Lin, 2013b), 23% of the butter and dairy product manufacturing (Lin, 2013c), and 16.1% of the milk powder manufacturing segment (Lin, 2013d).

Within the field of health insurance, HBF of WA is one Australia's largest health insurers and held 6.6% of the national market in 2013 competing with Medibank Private (27.9%), BUPA Asia Pacific Pty Ltd (26.8%), HCF Australia Ltd (10.5%) and NIB Holdings Ltd (6.3%). Of these competitors BUPA is a UK based business that acquired HBA, Mutual Community, DCA Aged care group and then MBF to become the second largest health insurance firm in Australia (Chia, 2013). NIB is a publicly listed investor owned firm and HCF is a not-for-profit health benefits company established in 1932.

The financial data gathered for the ACMI and displayed in this paper illustrate not only the size and diversity of the Australian co-operative and mutual enterprise sector, but also the growth and decline of firms within the sector. Over time the purpose of the ACMI is to map these trends and to examine the relative performance and health of the sector against national and international comparisons. Each co-operative and mutual enterprise operates within its industry sector and must face the competitive pressures and government regulatory regimes that apply there. It can be seen from the survey data reported here that as many respondents perceived the capacity of their business to compete had decreased as those who felt it had increased. Only 28% expressed confidence that there were opportunities for their business to grow and 52% reported that

membership had not grown strongly. Strong membership growth within the sector is important if the number of co-operatives is to remain viable (Birchall and Simmons, 2004).

It is encouraging to see that a high proportion of firms that responded to the survey felt that they and their members had a clear understanding of the member value proposition (MVP) that the business offered. Further, it was also good to see that a high proportion of firms also felt that their marketing strategy was focused on promoting the nature of co-operative and mutual enterprise as a positive. The need to market the co-operative advantage has been noted in the academic literature for some time (Webb, 1996). However, the ability to clearly articulate this message and use it to engage the community, plus recruit and retain members is not always undertaken by co-operative and mutual enterprises. This may be reflected in the responses to the survey item relating to whether the community had a clear understanding of the MVP offered by these firms. Only 24% felt confident that this was the case and 31% were of the view that this was not the case.

The information presented in this paper remains a work in progress and has limitations due to gaps in the data. It is largely descriptive in nature and represents little more than a preliminary overview of the findings. Future research will need to build on the initial work undertaken in building this ACMI. It will not only need to capture more data from a wider range of cases, but examine the available data to look for trends and to make comparison with other co-operative and mutual enterprises as well as with investor owned firms and other competitor businesses.

Although the ACMI remains a work in progress the data collected so far highlights the importance of gathering in-depth financial and non-financial information on the Australian co-operative and mutual enterprise sector. The sector makes an important economic and social contribution to the Australian economy, but the nature of this contribution is difficult to fully determine due to the paucity of available data.

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