

A Conceptual Framework of the Co-operative Enterprise and its application to the Australian Grain Industry

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Abstract:

This paper advances theory and practice for undertaking research into co-operative enterprises. A theoretical framework is presented that examines co-operative behaviour at three levels, the macro-economic or “systems level”, the “enterprise level” and the “member level”. We test the impact of the theoretical framework’s parameters on the diverse historical evolution of two large Australian grain industry co-operatives, Co-operative Bulk Handling Limited (CBH) from Western Australia and ABB Grain Ltd (ABB) from South Australia. The cross-case comparison of the CBH and ABB histories suggests that the impact of external “systems level” factors, such as government regulation, industry structure and natural environment, serve to drive and shape co-operative strategies. However the internal “member level” environment and in particular the configuration of the “four hats” of member identity as a patron, investor, owner and community member emerges as a critical determinant of co-op resilience over time. These findings highlight the importance of the development of social capital, member value, identity and commitment within co-operative enterprises.

Keywords: Co-operatives, Australian grain industry, case studies, CBH, ABB

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INTRODUCTION

The co-operative enterprise is a unique business model that fits uncomfortably into existing organisational paradigms. This is due to its dual function or ‘symbiosis’ in which the co-op simultaneously serves both an economic and a social purpose (Fairbairn 1994). As noted by Levi and Davis (2008), co-operative enterprises are the ‘*enfants terribles*’ of economics; too socially focused for mainstream economics and business, but too economically focused for the non-profit or “third” sector.

In this paper we outline a proposed conceptual architecture for undertaking research into co-operative enterprise (Mazzarol, Simmons and Mamouni Limnios 2011). This framework seeks to address the co-operative at the macro-environment or ‘systems’ level and to capture the two-way relationship between the co-operative and its socio-economic environment.

The paper focuses on a comparison of two case studies of co-operatives within the Australian grain industry. These are the Co-operative Bulk Handling Limited (CBH) from Western Australia and ABB Grain Ltd (ABB) from South Australia. These cases are examined using a historical analysis to illustrate the impact of the conceptual framework’s parameters on the co-operative business model. We analyse the impact of government policy change and industry restructures since the late 1980s on the viability and organisational structure of these two large co-ops and their strategic decision making and outcomes.

CONCEPTUAL FRAMEWORK

The conceptual framework for research of the co-operative enterprise business model is illustrated in Figure 1. As shown, it has three primary levels and a series of sub-elements. The framework’s three primary levels relating to the individual member, co-operative enterprise and macro or ‘systems’ environment is drawn from past literature used to examine business organisations (D’Amboise and Muldowney 1988; Tan et. al. 2009).

Member level

At the member level the framework recognises that members of co-operatives are motivated to support the co-op for different reasons. We liken this to their wearing multiple hats that draw them into different directions regarding the strategic direction of the co-op. The first of these is their role as investors. As a member of a co-op they are required to invest some capital to secure or retain membership. This may be a very small membership fee, or in some co-ops it can be a substantial investment depending on the capital structure and ownership rights of the co-op (Chaddad and Cook 2004). How investment returns and profits are distributed within a co-op can have significant strategic implications (Fairbairn 1994).

Further, if the members become primarily concerned with their role as investors it is likely that they will push the co-op towards becoming an investor owned firm (IOF) leading to demutualisation (Nilsson 2001).

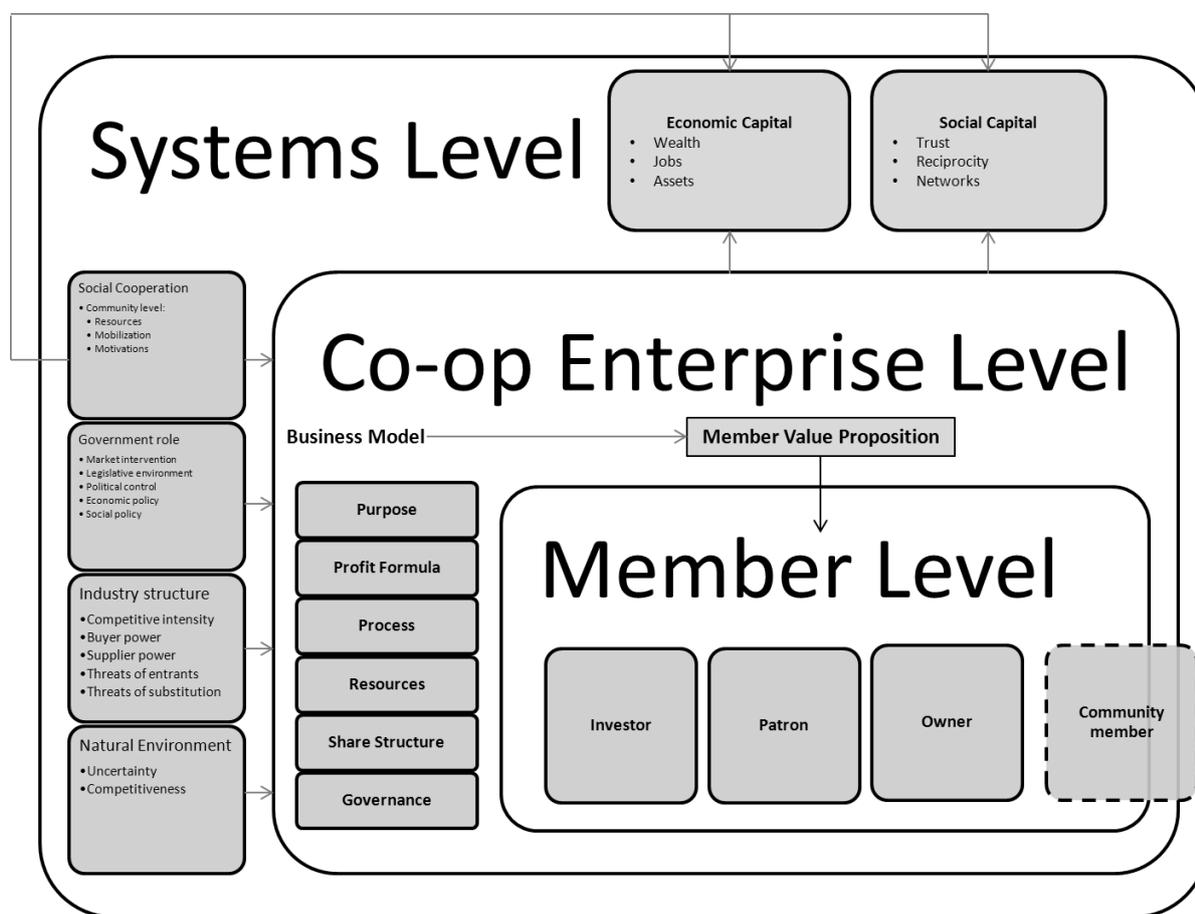


Figure 1: Conceptual Framework for Research into Co-operative Enterprise

The second “hat” worn by the member is that of patron (Nilsson 2001). This is a primary role for members and the health of co-operative enterprises is often measured in the level of business that members do with the co-op. The motivation for sustained patronage is that the member receives better prices from the co-op (Tennbakk 2004). Co-ops usually see their purpose as delivering benefits to members via lower input costs and superior prices at sale (Giannakas and Fulton (2005). In fact the presence of a co-op in a market generally helps to “keep the market honest” (Drake and Llewellyn 2001), and enhance the institutional “biodiversity” of the system (Haldane 2009). However, free-riding by members is a major problem that must be overcome by co-ops, and which arises when property rights are untradeable, insecure or unassigned (Cook 1995).

In addition to these first two, well recognised “hats” worn by the members of co-ops, we propose that attention also be given to the member’s role as owner and community member. The third role of member as owner is related to the level of control that members feel they possess within the co-op. It is underpinned by member expectations of organisational democracy and ‘procedural justice’ (Rawls 1958; 1972; Folger 1996; Folger and Cropanzano

2001). Members have both the “status” of ownership stemming from their ultimate voting power within the co-op, and the “practice” of ownership that requires them to actively participate in the democratic governance of the co-op. This is likely to depend on the ‘intensity’ (Simmons and Birchall 2009), or strength of ‘feeling of belonging’ to the co-op (McMillan and Chavis 1986). Member commitment and sense of ownership can vary and it is the challenge to the co-op to strengthen these feelings amongst members (Birchall and Simmons 2010).

The member’s role as a member of their community provides the final “hat”. Without community support and engagement social enterprises such as co-ops are unlikely to be founded (Peredo and Chrisman 2006). The importance of community support for co-ops should not be underestimated (Sevarlic, Nikolic and Simmons 2010; Levi and Pellegrin-Rescia 1997). Where the members of a co-op embrace the co-operative guiding principle of “caring for the community” it is possible for co-ops to become a mechanism for building social entrepreneurship and innovation (Novkovic 2008).

Co-op Enterprise level

At the co-operative enterprise level of the framework the focus is on how the co-op’s business model delivers value to the member. The concept of business models has only limited theoretical or conceptual foundations in the economics and management disciplines (Teece 2010). However, it has been studied in recent years as the configuration of products, processes, profit formula (how money is made), and resources required to deliver a customer value proposition (Chesborough and Rosenbloom 2002; Osterwalder, Pigneur and Tucci 2005; Johnson, Christensen and Kagermann 2008; Teece 2010).

A business model for co-operative enterprises has been developed from these foundations (Mazzarol, Mamouni Limnios and Reboud 2011). This recognises that the most important point of focus for a co-op is its purpose, which is what keeps its membership involved (Shah 1996). The key elements of the business model comprise: i) the co-op’s purpose; ii) its formula for generating sustainable profits for both itself and its members; iii) the processes and iv) resources it needs to deliver its purpose; v) how its share structure is configured; and vi) the governance structure (e.g. board composition, constitution etc.). These elements of the co-op business model must be coordinated so as to deliver the member value proposition, a combination of direct and indirect, financial and non-financial benefits members expect under the purpose, in what is recognised as the delivery of “cooperative value” (Nha 2006).

Agricultural or producer co-ops have generally been created for the purposes of giving members enhanced market access and market risk reduction, as well as financial benefits from higher farm gate prices and lower input costs. However, they may also offer improved productivity through the pooling of resources and bulk purchasing, as well as access to market information, knowledge and opportunities for community building (Krivokapic-Skoko 2002). Finally, co-ops can also allow capturing profits from another operational level and investments that add value to the co-op product or service. For many co-ops there is a need to balance the self-interest of the individual member against the wider common good of

the collective membership and community (Streeck and Schmitter 1985; Simmons and Birchall 2009). This is a challenge for many social enterprises (Austin, Stevenson and Weiskillem 2006). As co-ops grow the need to balance organizational interests, member interests and wider community interests becomes increasingly challenging and agency or control problems can emerge as professional managers are introduced that can be inclined to prioritise organizational growth over member value creation.

Systems level

At the systems level the conceptual framework comprises six elements, four are inputs and two are outputs. The four inputs relate to: i) the need for social cooperation within the community from which the co-op is created; ii) the role of government; iii) the structure of the industry in which the co-op operates; and iv) the effects of the natural environment. The two outputs are the creation by the co-op of economic and social capital.

The first input factor relates to the importance of there being strong social capital already existing within the community before the creation of a social enterprise can be achieved (Peredo and Chrisman 2006). As the “community cooperation theory” suggests, there should be sufficient motivation, mobilisation and resources within the community for the social venture to be established (Birchall and Simmons 2004). In the case of the role of government it is clear that co-ops are impacted in positive and negative ways by how governments adapt their regulatory environments (Gentzoglanis 2007). This can relate to legislation encompassing governance, the distribution of share capital, voting rights and the level of tax that the co-op must pay (Spear and Bidet 2003; Ingram and McEvily 2007).

In relation to industry structure, Porter (1980) has provided a five-part framework for understanding markets that considers: i) the level of industry rivalry or competition; ii) the bargaining power of suppliers; iii) the bargaining power of buyers; iv) threats of new entrants to the market, and v) the threats of substitutes. In addition to industry structure and competitive forces, the natural environment has significant potential to impact on producer co-ops’ operations. Corporate responses to the environment encompass a complex mixture of issues that take on a strategic perspective when set against the context of the other three input factors (Banerjee, Iyer and Kashyap 2003).

The two output factors are representative of the dual role of the co-op as a social business that generates both economic and social capital (Novkovic 2008). Measuring the economic capital output of a co-op is made complex by the fact that share capital is not openly traded, profits are often not distributed or are paid back into the co-op (Nembhard 2002), and the cooperative sector is not uniformly established and monitored at national and international levels. Co-ops have been found to offer enhanced financial benefits to farmers via higher farm gate prices (Krivokapic-Skoko 2002). Co-ops have also been credited with fostering higher productivity levels and better industrial relations records than IOFs, plus being more likely to employ within their local communities (Bartlett et al 1992). They have also been noted as having created physical assets and infrastructure that would not have existed had the co-op not provided such economic value (Birchall 2011; Heriot and Campbell 2006).

In the area of social capital creation the issue of measurement becomes even more problematic. Social capital is poorly defined (Fine 2001), although it is generally associated with trust, reciprocity and networks (Woolcock 1998; Burt 1997; Leana and Van Buren 1999). As a social enterprise the co-op is responsible for cementing ‘bonds’ between individual members of the community around the co-op’s purpose. However, it also has the responsibility to strengthen ‘networks’ between the co-op’s community and other communities that its members need to reach. Here it should develop ‘links’ to otherwise quite diverse communities and provide a leadership role as a ‘holder’ or ‘bridge builder’ able to draw diverse or distant communities together (Birch and Whittam 2008).

While the creation of economic capital is important for the co-operative business model to maintain financial sustainability, the generation of social capital is equally important. Social enterprise requires a strong trust between members, high levels of reciprocity in which mutual benefits are exchanged; short term sacrifices repaid over time, and densely interlocked networks of voluntary relationships (Peredo and Chrisman 2006). There must be ‘bonding’ between local community members who found and support the co-op, but as a unified group the co-op must serve as a ‘bridge’ to wider communities outside the immediate membership base (Birchall 2011).

METHODOLOGY

This study is part of a wider research project into the sustainability of the co-operative business model funded by the Australian Research Council (ARC) and industry partners, Co-operatives WA, Co-operative Bulk Handling (CBH) Group Ltd, Capricorn Society Ltd and Ravensdown Fertilizer Co-operative. It has involved the collection of case study data from a range of co-operatives in several countries with the aim of developing a better understanding of how to create sustainable and resilient co-ops.

The case study methodology was chosen for this study because it offers a suitable methodology for exploring a subject in-depth and in an environment where there is limited established theory (Chetty 1996). Case study methodology can be used to formulate new theory (Eisenhardt 1989), or to test theory (Yin 1989). In this case we are seeking to test theory by using two cases to examine the validity of the conceptual framework outlined in the first part of this paper and illustrated in Figure 1. The case study selection was guided by theoretical rather than a random sampling approach. These two cases were chosen because they present two very similar organisations that have taken quite different routes.

Our case study development procedures were guided by Yin (1989) and involved the preparation of a detailed case study protocol that was used to guide all case data collection. The initial pilot case study was undertaken with CBH that was then used to revise the case study methodology. Data collection involved a review of published histories, plus annual reports and the construction of a time line of the co-op from its establishment to the present day. A series of critical incidents were then identified within the time line to mark periods of major strategic change and importance. This critical incident time line was then used to guide in-depth interviews with current and past board members and senior executives from the co-

ops. These interviews typically lasted for around 2 hours with all discussions audio recorded for accuracy of subsequent transcription.

CASE STUDIES

The background of the two case studies is outlined in Tables 1 and 2 where it can be seen that both Co-operative Bulk Handling Limited (CBH) of Western Australia and ABB Grain Ltd of South Australia are major bulk grain storage and handling organisations. Both co-ops operated in fairly similar environmental and industry contexts, with relatively long histories that effectively chart the course of Australia’s broad acre wheat and barley production from the First World War era to the present day. Both experienced similar pressures in the form of government regulatory change, increasing industry competition, international market opportunities and drought. The key difference between these two large agricultural producer co-ops was that while CBH remained a relatively “pure”, non-distributing co-operative, ABB demutualised, traded its shares on the open stock market and eventually was taken over by Canadian firm Viterra.

Table 1: Co-operatives Selected for the Case Studies

Cooperative Bulk Handling Group Ltd (CBH Group)

Established in 1933 CBH Group is Australia’s largest co-op and one of the largest bulk grain handling and storage operations in the world. CBH is also one of Australia’s major exporters. Headquartered in Perth Western Australia (WA), it has an annual turnover of A\$2.63 billion and 4,500 members representing the grain growers of WA. In 2010 the co-op employed 2,500 people and exported 95% of its harvest to more than 20 international markets. It has total storage and handling capacity for more than 20 m tonnes. Although it is a non-distributing co-op, CBH Group owns joint ventures that include a flour processing business in South East Asia, a shipping company and a rail fleet company.

ABB Cooperative Ltd (ABB Grain)

This co-op emerged originally as two separate entities. The first was SA Cooperative Bulk Handling (SACBH), which was established in 1954 and expanded to be the major grain storage and handling business in South Australia. The second was the Australian Barley Board (ABB), which was established in 1939 as the monopoly handler of all domestic malting barley. In 1999 ABB lost control over this monopoly and privatised into ABB Grain Ltd. In 2000 SACBH was demutualised and renamed AUSBULK and United Grower Holdings. In 2004 ABB Grain and AUSBULK/UGH merged to form ABB Grain Ltd. Despite a major expansion and diversification strategy ABB Grain was taken over by Canadian firm Viterra in 2009.

Early History of the Co-operatives 1914-1979

As outlined in Table 2 the early history of CBH and ABB encompassing the period from World War I to the 1980s is largely one of government regulation and the establishment of a workable system of bulk grain handling and storage. Early development of the broad acre “wheat belts” across Australia’s south west and south east was limited by the lack of mechanised farming equipment plus road and rail infrastructure to move produce to market cost effectively. The introduction of the Sunshine Harvester in the 1880s revolutionised grain

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production at the farm level (Payne and Donovan 1999). However, wheat still had to be loaded into jute bags and carried via horse and dray to rail and sea ports. Storage in these bags required manual handling and often vulnerable to pest infestation and spoilage due to rain (Ayriss, 1999; Thomas 2006).

Table 2: Case Study Time Lines

Year	CBH Group Ltd	ABB Grain Ltd
1914-1919	WA “Wheat Belt” established following WW1. All grain handled manually in jute bags and moved by horse or early motor trucks.	1914 SA Government asks Canadian silo company J. Metcalf & Co. to recommend a bulk grain handling system for the state. 1916 SA Parliament rejects Metcalf report.
1920-1939	Early trials of bulk handling in 1920s. WA farmers propose State Government adopts a state-wide bulk handling scheme. 1933 CBH est and first major wheat bins are constructed. Storm damage to wheat crop in 1934 triggers Royal Commission (1935) leading to the Bulk Handling Act (1936) giving CBH monopoly rights to bulk wheat handling in WA. First export terminal open 1937 at Geraldton.	1922 Farmers’ Bulk Handling Co-op picks up the original Metcalf report and seeks to get a bulk handling system established in SA. However, SA Parliament again rejects the idea. However, mice and weevil infestation of stored grains during WW1 trigger a move by Federal Government to offer £3m to states to establish bulk storage. Only NSW takes up the offer. 1939 SA Wheat & Woolgrowers Assoc (SAWWA) proposes bulk handling.
1940-1959	WW2 impacts on CBH as shipping is not available and vast grain stockpiles are stored around 2.6m tonnes. 1952 CBH expands from wheat to barley and oats. 1955 CBH takes control of all port grain terminals in WA. Under law CBH must provide receival points across the state.	WW2 sees creation of Australian Wheat Board (AWB) and Australian Barley Board (ABB) as single desk monopoly marketing authorities. Bulk handling schemes such as CBH in WA and others in Vic and NSW place pressure on SA Government. 1954 SAWWA propose bulk handling scheme again and SACBH is est.
1960-1969	Rationalisation and upgrading of receival points commencing from 1962. By 1965 CBH has 305 receival points (largest number of receival points in one time) and total storage capacity for over 2m tonnes.	Early expansion in late 1950s continues with expansion of receival points and port terminals. 1962 SACBH contracts with ABB to handle barley crop statewide. 1963 Federal Government enacts Export (Grain) regulations. 1965 SACBH capacity is 1.3m tonnes. 1968 first toll rebates paid.
1970-1979	1970 CBH is granted a tax exemption. 1972 decision to build vast grain terminal at Kwinana requiring a A\$42m loan. Further rationalisation to 193 receival points but for over 3.7m tonnes of capacity.	Steady growth in operations of SACBH and ABB. Advances in scientific methods for pest control and handling. 1973 lupins and rapeseed added. 1978 AWB introduces state-based accounting with differentials between states for handling and storage charges. Toll repayment period reduced from 9 to 4 years. Barley is included in storage.

1980-1989	1980/1981 introduction of new silos with controlled atmosphere, sealing & fumigation. 1985 major facilities upgrades. 1986 Royal Commission into Australia’s Bulk grain handling system leads to 1989 domestic Australian market deregulation and therefore loss of CBH’s monopoly in WA.	Concerns over inefficiency and costs rise with a national push for deregulation of the grains market. 1980 SACBH has over 16,300 members and more than 4m tonnes of storage capacity. 1987 AWB introduces payment for quality scheme leading to load by load testing of all wheat. 1988 Royal Commission into grain handling and storage. SACBH seeks grower support to retain monopoly handling rights.
1990-1999	1990 CBH negotiates 5-year contract with state rail and introduces computer systems to control network. 1994/1995 strategic review by CBH Board of future directions. Leads to organisation restructure 1996-1998. 1998 management proposal to demutualise CBH. 2000 shareholders’ meeting does not approve demutualisation.	Wheat Marketing Act (1989) deregulates bulk handling market leading to restructure of bulk grain co-ops sector. 1992 ABB controls 90% of malting barley exports from Australia. 1996 members vote to change the SACBH constitution to allow first non-grower to join the board. The Bulk Grain Handling Act is also repealed. 1999 ABB privatises to form ABB Grain Ltd raising A\$35m. ABB loses monopoly over malting barley.
2000-2011	2000 CBH receives record 12m tonnes. 2002 CBH merges with Grains Pool WA to create CBH Group. Grain export monopoly lost 2003. Joint venture “Interflour” est. 2004. CBH launches “Grain Express” logistics system 2008 and joint venture in shipping 2009. Australian Tax Office challenges CBH tax exempt status leading to strategic review of business structure. 2011 CBH retains tax exemption and non-distributive co-operative structure.	Rapid demutualisation of east coast grain’s markets. 2000 SACBH demutualises to form AusBulk and United Grower Holdings. Online grain marketing system “Ezigrain” est. 2000. AusBulk handles 8.6m tonnes and has 10m tonnes storage capacity. 2002 AWB enters SA bulk handling market with four sites. ABB lists on ASX raising A\$22m. 2004 ABB and AusBulk merge into ABB Grain and commence major expansion via acquisition. 2009 ABB enters S&P/ASX 100 but is acquired by Canada’s Viterra for A\$1.6bn.

Bulk grain handling systems had already been trialled in North America and as early as 1914 the South Australian (SA) Government contracted Canadian Silo Company J. Metcalf & Co to undertake a review and report on the introduction of a system for bulk grain handling in that state. The Metcalf report recommended a switch from bagged to bulk grain handling on the basis of lower costs to growers, faster loading of ships and reduced congestion for rail and port infrastructure. A network of regional receival points feeding into a smaller number of bulk storage facilities located near sea ports was proposed to be owned and operated by the SA Government. However, despite the clear advantages in efficiencies, lower costs to growers and enhanced longer term value to the state, the proposal was rejected by SA Parliament in 1916 largely on the basis of the upfront cost of £1.1 million (Thomas 2006).

In Western Australia (WA) similar considerations were given to bulk grain handling. Early trials took place in the 1920s. Following a proposal in 1931 from the WA Farmers’ Co-operative for a state-wide bulk-handling scheme, five experimental bins were constructed

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with a storage capacity of 42,565 tonnes (Ayriss 1999). This led to the establishment of CBH in April 1933 as a co-operative based on the principles of one-member-one-vote regardless of the volume of grain delivered. In the same year a new curved horizontal storage bin was introduced known as the "1933 Type".

Throughout the following five decades CBH steadily expanded. The bumper harvest of 1934 saw over 300,000 tonnes of wheat received into storage. However, heavy rains spoiled much of the crop and this event triggered a Royal Commission the following year to investigate the bulk wheat handling and storage system. The outcome of this inquiry was the Bulk Handling Act (1936) that gave a 20 year monopoly to CBH to establish a state-wide system of bulk grain handling and storage. The first wheat exports from WA were made a year later in 1937. Although the outbreak of World War II restricted shipping and curtailed exports CBH continued to expand. Throughout the 1940s CBH increased its network of receival storage bins at rail heads and sea port facilities. By 1943 CBH had repaid all its original start-up debts of £100,000.

The 1950s saw CBH expand into barley and oats while constructing more grain terminals at key sea ports. Under the Bulk Handling Act (1936) CBH was required to build receival points anywhere there was a guaranteed annual wheat crop of 200,000 bushels that was not already within 40 kilometres of an existing site. By 1969 CBH was operating a network of over 300 receival points and storage capacity of 3 million tonnes. The 1960s also saw major upgrading of the rail freight system with the introduction of the standard gauge rail. However, the rapid growth of the 1950s and 1960s also led to over extension and the 1970s saw CBH rationalise its receival point network down to only 193, but with a storage capacity of 3.7 million tonnes. In 1970 CBH also commenced the construction of a major grain terminal site at Kwinana, south of Fremantle. This required CBH to raise a bank loan of \$42 million which was the biggest single loan ever issued in Australia to that time, and was too large for a single bank to provide (Ayriss 1999).

While CBH was progressing steadily in WA due to the legislative environment created for it under the Bulk Grain Handling Act (1936), the situation in South Australia was more complex. Attempts by farmers' co-ops to revive the failed strategies outlined within the Metcalf Report in 1922 again failed to secure support from the SA Parliament. Much of the opposition within the SA Parliament was due to fears that it would create a monopoly able to generate whatever profits it liked, and that many farmers would still use bags well into the future (Advertiser 1922). Even when the Federal Government, following significant spoilage of grain due to vermin, offered £3 million to states to help establish bulk grain storage systems the SA Government failed to take up the opportunity.

The Great Depression (1929-1933) and World War II led to the creation of a series of single desk marketing authorities with the power to coordinate grain markets. The Australian Wheat Board (AWB) and the Australian Barley Board (ABB) were established in 1939 at the outbreak of the war. These organisations held a monopoly over the purchase of their respective grains. There were also bulk handling systems in place in all the other wheat

producing states and South Australia came under pressure to establish a bulk handling system along the lines of those operating in WA and NSW. However, even when SA growers once again proposed the creation of a bulk handling system in 1939 it was unsuccessful. It was not until 1954 and after a vigorous grassroots campaign by farmers, that the South Australia Co-operative Bulk Handling (SACBH) was established.

Following its establishment SACBH grew rapidly opening a series of receival points and port terminals. In 1962 SACBH contracted with ABB to handle all barley across South Australia and by 1965 SACBH had a storage capacity of 1.3 million tonnes (Thomas 2006). This growth continued during the 1970s and SACBH widened its operations from wheat and barley to include other crops such as oats, lupins and rapeseed. New grain terminals and port upgrades took place in response to the increasing volume of grain production. Scientific management of grain storage and pest control also advanced during this period.

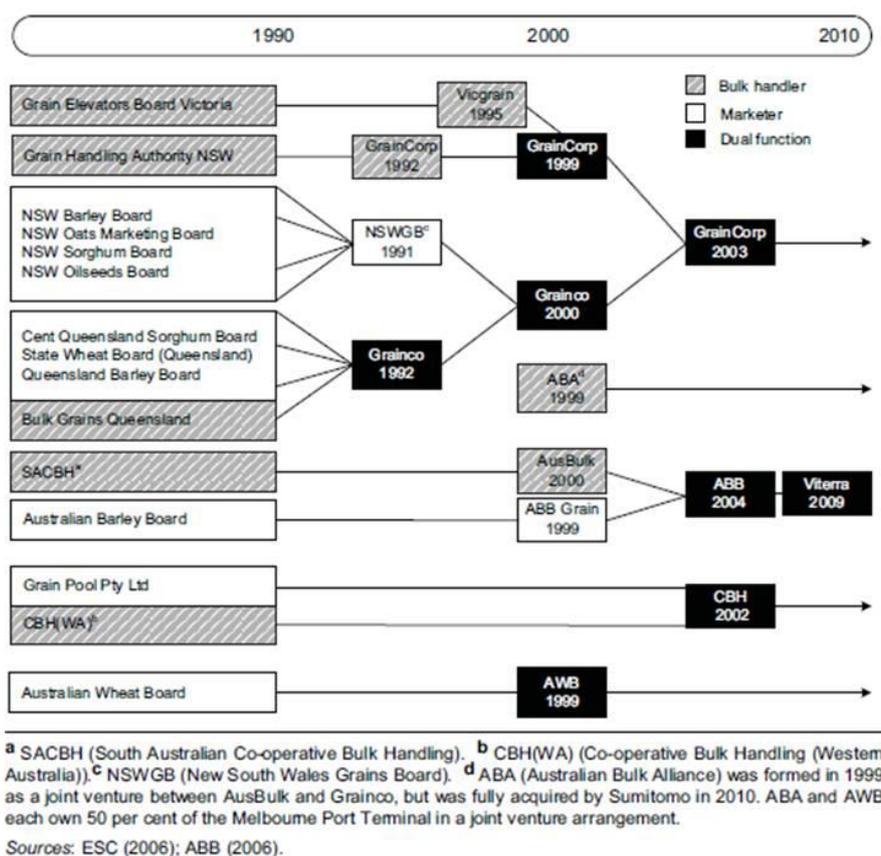
Market Deregulation and Corporate Change - 1980-2010

The 1980s was a period of increasing technological and scientific advances in the storage and handling of bulk grain. New climatically controlled silos with sealing and fumigation to protect against insect and vermin infestation became a feature of the system. However, there was also mounting pressure for market deregulation of the centrally controlled system of single desk monopolies in the Australian grains industry (Brewin, Bielik and Oleson 2008). What was at stake were the market stabilisation schemes that had been put in place across Australia in the aftermath of the Great Depression and during the move to centralised control in World War II. Farmers preferred the security offered by single desk marketing monopolies such as AWB and ABB, which offered price stability as monies earned from periods of high prices were set aside to offset returns in periods of low prices. These schemes offered guaranteed minimum floor prices based on costs of production and underwritten by government. These prices were also guaranteed for periods of 5 years. However, through the 1970s commodity prices on international markets began to fall while production costs rose and the Australian Government became uncomfortable with having to guarantee farm gate prices at rising production costs while not being able to recoup these from global markets. Furthermore, scientific and technical advances in production, storage and handling resulted in ever increasing production leading to growing stockpiles of grain (Thomas 2006).

The Australian economy was hit by a severe recession in early 1980s leading to the election of the Federal Labor Government of Prime Minister Bob Hawke. His government commenced a process of market restructuring and deregulation designed to make the Australian economy more open and competitive. The natural environment was also affecting the grain industry with severe droughts impacting production levels across the eastern states of Australia, which never reached the levels enjoyed in the 1960s and 1970s (Payne and Donovan 1999). However, inefficiencies in bulk grain handling within New South Wales (NSW) and Queensland triggered a Royal Commission in 1986. This led in turn to a recommendation for market deregulation. The passage of the Wheat Marketing Act (1989)

commenced the process of deregulation across Australia by removing the monopoly power of the state-based bulk handlers and single desk marketing boards (Ryan 1994).

The pace of market deregulation that this national legislation drove through the grains industry can be illustrated by the restructuring that took place over the next twenty years. For example, in 1990 there were 15 different organisations engaged in the Australian grain industry. This included 10 state or national marketing boards including AWB and ABB plus the Grain Pool WA (GPWA). The other five organisations were bulk grain handling organisations including Bulk Grains Queensland, Grain Elevators Board of Victoria, Grain Handling Authority NSW, as well as CBH and SACBH. Over the next twenty years this number of organisations was steadily reduced to only four (see Figure 2).



Source: Productivity Commission (2010)

Figure 2: Consolidation of the Australian Grain Industry 1990-2010

In 1991 the four separate grain marketing boards within NSW were combined into a single NSW Grains Board, while in Queensland three separate grain marketing boards were merged. These NSW and Queensland organisations then merged into Grainco in 2000. Over the same period the Victorian and NSW bulk grain handling organisations merged into GrainCorp and Vicgrain. By 1999 GrainCorp – which had been privatised in 1992 and listed on the Australian Stock Exchange (ASX) in 1998 – acquired Vicgrain and then Grainco in 2003.

This effectively placed the grain industry of NSW, Victoria and Queensland into the hands of a publicly listed IOF. The other major actor in the grains market was AWB which restructured from a government business entity with a monopoly over all wheat exports into a private company in 1999. While not a co-op, AWB was privatised by issuing shares to people identified as "growers" who then had the power to elect the chairman and most of the board. In 2001 "B" class shares from AWB were publicly traded on the ASX, and in 2008 - despite strong opposition from farmers groups - all share capital was converted to a single class removing any special rights of growers.

CBH in the period 1989-2010 - Desire to remain a co-op

Within WA the main concerns facing CBH at the end of the 1980s were how to keep operating costs down and enhance efficiencies. WA grain producers had been adversely impacted during the 1980s by rising costs of labour, fuel and key inputs such as fertiliser. The state rail system was considered inadequate and rail freight costs were rising. There was also a decline in the number of grain farmers. For example, in 1969 CBH had boasted 15,509 members, but by 1982 this member base had fallen to 11,634. It continued to decline as farms became larger in order to secure the scale economies that broad acre farming was demanding. Economies of scale were also needed within CBH as increasing volumes of production required an upgrading of the storage facilities across the state.

By 1989 CBH had built a modern, flexible bulk grain handling system and the following year it negotiated a five-year rail freight agreement with the state rail company Westrail. The CBH board also approved the introduction of a new computer system to link up data across the entire network. The introduction of the Wheat Marketing Act (1989) removed the previous monopoly that CBH had held over grain storage and handling in WA. However, unlike the east coast market, WA remained somewhat insulated from competition due to its relative geographic isolation from the other states.

As the 1990s rolled on CBH continued to invest in new storage and handling systems. However, by the mid-1990s the CBH Board began to undertake a strategic review of the co-op's operations out beyond 2000. This review was primarily focused on internal operational efficiencies rather than market expansion. In 1996 an organisational restructure took place that impacted on CBH employees. The next year attention was given to enhancing receival points and in 1998 CBH became the first bulk grain handler in Australia to receive over 10 million tonnes in one season. Its total storage capacity now exceeded 15 million tonnes.

While 1998 was a high water mark for CBH in terms of operations it was also a period of strategic reassessment. In that year the CBH Board considered demutualisation through a restructure that would see the business shift from a co-op to a grower controlled public company. The motivation for this move was a combination of at least four factors. First, the co-op had been experiencing a steady decline in the number of members as farmers sold out and retired or left the industry. Despite having been long term members of the co-op they departed with only the return of their original A\$2 share. Second, the success of the 1996 organisational restructure had seen the overall profitability of CBH increase substantially.

Members could now see significant value in the business and were motivated as investors to see greater capital gains from their share capital than was possible under the co-op business model. A third factor motivating the demutualisation plan was the belief that an IOF structure would be better placed to offer lower costs to consumers and deal with the more competitive marketplace now operating in Australia. Finally, there was a belief that the principles of “grower ownership and control” upon which the co-op business model was founded were no longer as important to the membership as they had been in past decades.

To secure this change of business structure 75% shareholder/member approval was required. The proposal for share allocation taken to the Annual General Meeting was based on the patronage of each member over the previous decade, with a minimum cap of shares so as to increase the attractiveness of the offer to smaller growers. This allocated proportionately more shares to smaller producers than what a straight pro-rata allocation would have allowed. However, the proposal failed to achieve the necessary number of votes. The reasons for this failure remain a point of contention among CBH Board members. Some view the rejection by members as an indication that they had come to view CBH as an extension of their own business, with more value to them from a patronage perspective than as an investment. The members were essentially happy with the status quo and felt that “nobody owns CBH”. Storage and handling charges - due to the co-op’s strategic investments and productivity enhancements - were still competitive when compared to other states across Australia. However, others felt that the CBH Board had not adequately communicated to members the full nature of the commercial opportunity that a demutualisation would offer, they pointed to the trends taking place at the same time elsewhere in Australia.

With membership unwilling to surrender the mutual status CBH spent the next ten years developing its business into Australia’s largest co-operative. In 2000 it received a record 12 million tonnes of grain and in 2002 it merged with the Grain Pool WA (GPWA). This merger was strategically important. As noted above, GPWA had been established as a state-owned statutory marketing monopoly. A merger of these two entities brought under the one roof a strong bulk grain storage and handling operation with a strong grain marketing operation. As the CBH Board viewed the issue, their existing operations were essentially that of a “warehouse operator”. However, unless they could guarantee that a grower was able to on-sell the grain via their warehouse they would not use them and CBH would not have a sustainable business. GPWA also recognised that in deregulated market it would have been feasible for CBH to develop its own grain marketing operations and compete directly with them. Both CBH and GPWA had explored mergers in the 1990s but the timing and attitudes of the two Boards had not been right for a decision. The merger went smoothly and the two Chairmen and two CEO’s from CBH and GPWA travelled across the state meeting with growers and enlisting support. The only opposition came from the Pastoralists and Graziers’ Association of WA (PGA) who were in favour of a more open, free market model.

As a result of the CBH-GPWA merger the monopoly over coarse grain (e.g. barley, lupins, canola) export marketing previously held by GPWA was removed by the WA State Government in 2003. It was replaced by a Grain Licencing Authority (GLA) that issued bulk

export licences for shipments of WA sourced grain in excess of 500,000 tonnes. AWB still controlled a monopoly over wheat exports, which accounted for 70% of the CBH throughput. However, it was clear to the CBH Board that the market was moving towards deregulation. For many on the Board, the creation of the GLA in 2003 was the “starting gun of deregulation”.

In addition to this merger CBH (now the CBH Group Ltd) also began to seek forward integration strategies through a joint venture with Pacific Agrifoods branded as “Interflour”, which took place in 2004. The Interflour deal involved Asia partners The Salim Group, and saw the acquisition of a network of established flour mills and handling facilities in Malaysia, Indonesia and Vietnam at a cost of A\$72 million. The strategy driving this joint venture was recognition by the CBH Board that ownership of assets further along the marketing channel would secure greater control over market pricing, and generate enhanced financial returns from the value adding. The mills purchased under the deal were considered to be of good quality but had been underperforming due to poor control over the supply chain. By controlling the supply chain from end to end it was felt that these operations could be returned to profit.

The commercial nature of the Interflour deal meant that the CBH Board could not make it public or even consult members. While this approach to commercial confidentiality would have been largely routine in an IOF, for a co-op it was the source of unease within some of the members. Further, coming as it did so soon after the abortive move to demutualise there was a view amongst some members that this amounted to another attempt to convert CBH from a co-op to an IOF. There was also some difficulty for members to see how the joint venture was going to benefit their individual business. At the time some members felt that the money spent on these offshore mills would have been better spent on lowering grower handling charges by upgrading silos and handling facilities.

Over the period 2005 to 2010 CBH continued to develop its joint venture which ultimately proved highly profitable for the co-op. In 2008 it launched a new logistics management system “Grain Express” designed to track grain across the entire system and enhance the flexibility of distribution. The following year CBH launched a second joint venture with Hudson Shipping lines in the area of shipping and stevedoring designed to control the movement of grain to its flour mills run by Interflour. By 2010 CBH had 4,500 members and employed some 2,500 people. It turned over A\$1.3 billion in annual revenue and controlled net assets of A\$1.1 billion. Its network of assets included 197 grain receipt points and four grain export terminals with a total storage and handling capacity of 20 million tonnes. The organisation was also highly internationally focused with 95% of its produce exported to 20 different countries.

Despite this success CBH was not without its problems. In 2010 it faced legal challenges from a small group of growers who felt they were disadvantaged by the “Grain Express” system. This led to an investigation by the Australian Competition and Consumer Commission (ACC), which eventually ruled in favour of CBH but led to a review and

modification of the system. Yet in the same year the Australian Taxation Office (ATO) challenged the right of the co-op to retain its tax exempt status. CBH had first obtained this tax exemption in 1970 so as to give it equal treatment with SACBH. This meant that CBH was not able to distribute dividends to members and could not exclude non-members from using its services at the same cost as members. However, the diversification and growth of the co-op over the intervening years meant that it was now targeted by the ATO. Although CBH eventually retained its tax exempt status it triggered a review by the Board as to whether the co-op should change its structure. The Interflour and Hudson Shipping joint ventures were commercial businesses subject to taxation. While they did not pay returns directly to members, they did return useful profits to CBH that were then invested in handling and storage operations resulting in lower fees and charges. CBH examined three options for the future: i) remain a non-distributing co-op; ii) become a distributing co-op but lose the tax exemption; or iii) become a hybrid structure divided into two.

The first option was a “no-change” strategy that was not appealing to the members as investors, but offered lower fees and loyalty payments for patronage. Option two offered the members lower fees and loyalty payments, but also cash rebates based on patronage, plus share rebates likely to have an accumulated value over time based on patronage. However, this option also required CBH to pay tax as it would move away from its non-distributing status. The third option would have seen CBH split into a non-distributing tax-exempt co-op focused on grain storage and handling, and a distributing tax paying co-op responsible for grain marketing, plus the joint ventures. The risk associated with the third option, which could have combined the best of both worlds, was that CBH would have to re-apply for its tax-exemption for the grain storage and handling entity. These options were discussed actively with members throughout 2010 leading to a decision to remain unchanged. It seemed that members placed greater value on the patronage services offered by CBH than the prospect of obtaining direct financial returns.

ABB in the period 1989-2010 - Moving towards IOF status

In South Australia the Wheat Marketing Act (1989) also impacted on SACBH which felt that the inefficiencies and high handling charges that plagued the NSW and Queensland bulk grain handlers did not apply to them. However, they were unable to retain their monopoly over bulk grain handling in SA despite vocal support from their grower members not to deregulate (Thomas 2006). With the wheat market now deregulating there was pressure on other grain marketing monopolies. By the early 1990s ABB controlled 90% of malting barley exports from Australia and held a monopoly over all domestic barley sales. The aim of ABB was to give growers maxim net returns for the grain supplied into their pool. However, bad weather and a serious fire at Port Adelaide in 1995 caused disruptions to the flow of grain exports. The pressure for structural change in the industry led to the repeal in 1996 of the Bulk Handling of Grain Act (1955) in South Australia that had led to the establishment of SACBH thereby removing its monopoly.

Unlike WA the environment in which SACBH and ABB operated was quite different. Geographic isolation meant that CBH did not have significant competition from other Australian bulk grain handlers. However, this was not the case for SACBH which often experienced intense competition from Victorian and NSW based bulk handling operators during the 1980s over the flow of grains produced in south eastern Australia. In Victoria growers were restricted from transporting grain more than 60 kilometres from their farms unless they owned the truck (Payne and Donovan 1999). It was a provision designed to protect the state rail authorities but it served to fan the flames of discontent with the regulated system. The deregulation of the grains market meant that the level of competitive pressure throughout the 1990s was likely to be greater on the east coast than the west.

In 1999 ABB privatised to form ABB Grain Ltd and raised A\$35 million in capital. Throughout the 1980s ABB had steadily expanded its international markets into Asia and the Middle East. Rising demand for malting barley for beer and spirits helped to boost ABB’s market expansion and the organisation developed strong customer and supply chain skills under the leadership of CEO Michael Iwaniw who took on the role in 1989. The decade of the 1990s had seen constant regulatory changes and reviews by government of the grains industry. This move towards privatisation of ABB was driven by farmers in both South Australia and Victoria. The new company that emerged was not a co-op, but a grower owned corporation with two classes of share capital. Growers held “A” Class shares that conferred a right to elect five of the seven board members. To be eligible for these shares a person had to have delivered a minimum of 25 tonnes of grain regardless of type per annum over a three-year rolling average. The “A” class shares were non-redeemable but would be bought back by ABB in the event that the grower left the industry. The “B” Class shares were available to non-growers and were free to be traded on the ASX. It was possible for “B” Class shareholders to elect the remaining two members of the board (Payne and Donovan 1999).

Not all growers were happy with the privatisation of ABB and there was concern raised about the likelihood of grain prices being less attractive. There were also concerns that a corporate culture in ABB would lose the grower focus that had previously been a feature of the organisation. However, the financial benefits offered by the shareholding and overall push to privatise that was sweeping through the eastern states of Australia secured the support of the majority. A legacy of this privatisation was the loss of the monopoly rights to domestic malting barley that ABB had previously enjoyed.

The year after ABB privatised SACBH demutualised to form AusBulk and United Grower Holdings (UGH). This structure saw AusBulk as a corporation owned by UGH as a grower-owned holding company. Following the repeal of the Bulk Handling of Grain Act in 1996 the process of moving to demutualisation had already been set within SACBH. For example, in the same year as the Act was repealed, SACBH appointed Mr Perry Gunner as its first non-grower Director on the Board. He was selected for his business skills and was later to become the Chairman of ABB following its merger with AusBulk in 2004. Additional changes that took place within the change from SACBH to AusBulk was the removal of a preferential voting system that sought to achieve a balance of directors from different regions within the

state, guaranteeing that there would be at least one director from each of the three regions in SA.

Driving the move towards demutualisation was the deregulation that took place throughout the grains industry in the 1990s and a desire by the SACBH Board to prepare for this intense competition. The Board sought to understand how best to structure the company and undertook study tours of different co-ops and other grower-owned businesses around the world. Also examined were the business structures of AWB and ABB with their grower controlled corporate structures with “A” and “B” class share capital. The SACBH Board finally adopted a holding company structure and engaged actively with growers across the state throughout 1999 in order to win support for the move. Of particular concern to growers was how their interests would be protected under the new corporate structure and whether this would be sufficiently strong enough to avoid the company becoming a takeover target. Another key issue was the loss of the tax exempt status enjoyed to that time by SACBH. Growers were also keen to ensure that they obtained sufficient recognition for their patronage when issuing share capital. This share structure was also unusual for Australia and there was a need to secure special approval from the ATO. However, these issues were finally resolved and 96% of growers voted in favour of the structure (Thomas 2006).

In 2001 the newly formed AusBulk received its largest ever harvest of 8.6 million tonnes and its storage capacity reached 10 million tonnes. The company also began to experience competition within SA from AWB which started to build rural storage facilities. By 2002 ABB had listed its “B” class shares on the ASX raising A\$22 million. With this funding ABB commenced a process of expansion and acquisition that continued for several years. Yet in 2004 ABB and AusBulk-UGH merged to form ABB Grain Ltd. This move was initially unpopular with the Board of AusBulk-UGH but it was motivated by growers who considered that the amalgamation of these two entities would create a well-balanced business akin to that formed by the merger of CBH and GPWA.

Between 2004 and 2009 the newly formed ABB made a series of acquisitions and also expanded its operations internationally in China, Egypt, New Zealand and the Ukraine, the latter being via a joint venture. It also diversified out of grain into wool. In 2007 ABB redeemed all “A” Class shares as part of a financial restructuring. This effectively removed any protection of grower interests. The following year ABB embarked on a capital raising exercise that generated A\$187 million. Despite this funding ABB, now listed on the ASX was vulnerable to take over. In September 2009 it was acquired by Canada’s Viterro for A\$1.6 billion. Shareholders were offered A\$9.11 to A\$9.59 per share in cash, stocks and special dividends. According to ABB CEO Michael Iwaniw one of the factors that led to the Viterro takeover was the impact of drought. Grain production, particularly wheat, is highly variable from year to year due to weather conditions. The period 2006-2008 was one of particularly severe drought, reducing the volume of grain and impacting on the financial position of ABB. It is also worth noting that while wheat production in states such as Victoria, NSW and Queensland is mainly consumed domestically, that from South Australia and Western Australia is mostly exported. Export markets served by ABB were drawing not only from

South Australia but also from Victoria and NSW. Poor harvests caused by drought meant that in 2007-2008 following two consecutive years of drought there were no bulk exports from NSW and subdued in SA and Victoria (Productivity Commission 2010).

ANALYSIS

Now we consider the evolution of these two cases within the conceptual framework outlined earlier in this paper. Table 3 summarises the analysis as an overview and maps each of the elements outlined in the conceptual framework illustrated in Figure 1. We discuss each of these within the three primary levels of Systems, Co-op and Member in the following subsections.

Table 3: The Conceptual Framework Applied to CBH and ABB

Systems Level - Input Factors:	
Social Cooperation	In WA the Westralian Farmers’ Co-op and in SA the SAWWA are instrumental in lobbying governments to have CBH and SACBH est.
Government role	Bulk Handling Act WA (1936) and Bulk Handling of Grain SA (1955) provide important early monopolies for CBH and SACBH. Government est of single desk marketing authorities create ABB and GPWA. Federal Government move to deregulation via Wheat Marketing Act (1989) ends monopolies and opens up market to competition forcing change.
Industry Structure	Market protection and monopoly from 1920s to 1980s provides stability and opportunities for growth. Market deregulation 1980 to 2010 leads to merger, privatisation and demutualisation within east coast impacting SACBH & ABB, but relative isolation of WA market impacts less on CBH and GPWA.
Natural Environment	Weather spoilage and vermin trigger Royal Commission (1935) and pressure for the creation of bulk handling systems. CBH and ABB seek to “drought proof” their businesses by establishing joint ventures (e.g. Interflour) and by diversification (e.g. ABB’s NZ wool venture). Drought impacts on crop yields during period 2000-2008, which makes ABB vulnerable to takeover by Viterra..
Systems Level - Output Factors:	
Economic capital creation	CBH and SACBH/ABB both create significant economic value for growers. In early period this involves providing price and market stability during period of depression and war. Significant investment in bulk grain handling and storage infrastructure provides efficient supply chain. From 1980s the move to create international marketing and offshore joint ventures provides for profits used to underpin domestic handling operations.
Social capital creation	Co-op business structure draws growers together into strong organisations with the ability to ensure individual farmers are able to secure benefits via democratic principles in the governance model “one-member-one-vote”. Both SACBH and CBH initially opt for non-distributing tax exempt business models. However, while CBH maintains “pure” co-op model, SACBH/ABB opts for demutualisation.

Co-op Enterprise Level:	
Purpose	Est of CBH and SACBH/ABB is to fulfil the purpose of providing growers with efficient supply chain for produce and to help stabilise markets. However, deregulation post 1989 leads to demutualisation/privatisation. Purpose shifts for ABB once it becomes publicly listed IOF.
Profit formula	CBH and SACBH initially operate as tax exempt, non-distributing co-ops with ABB/GPWA as government owned statutory authorities. CBH moves into Interflour & shipping joint ventures that generate profits, but are returned to the co-op to reinvest in the bulk handling operations. Once it abandons the co-op business model ABB focuses on profits and dividends, with share price on the ASX a key issue in subsequent takeover by Viterra.
Process	Both CBH and SACBH/ABB invest in similar systems throughout their history.
Resources	Both CBH and SACBH/ABB require similar levels of capital and assets.
Share structure	While initial share structure is found between CBH and SACBH while both are co-ops, the demutualisation of SACBH into a grower-owned company creates “A” and “B” class shareholders. Eventually ABB has only one class of share removing growers’ control.
Governance	CBH continues to have all grower board and “one-member-one-vote” principle. Demutualisation sees SACBH/AusBulk adopt non-grower director and then mixed board elected by “A” and “B” Class shareholders. There was also a key role played by visionary CEO’s and their Board Chairs who engaged actively in achieving change and growing the business.
Member Level:	
Investor	SACBH/ABB members eventually see their investor “hat” as of prime importance as the process of demutualisation unfolds post 2000.
Patron	CBH members see patron “hat” as of prime importance despite being offered the opportunity to move towards demutualisation in 1999/2000.
Owner	Share capital distribution in post demutualisation era creates a sense of investor ownership within ABB/AusBulk but one that is different to the ownership sense held by CBH. The CBH members see the co-op as a public not a private good and while nobody owns CBH, everyone owns CBH.
Community member	Both WA and SA grower communities are initially following similar paths as they fight to secure reliable supply chain and marketing infrastructure during the early years. WA growers continue to support the tax exempt status of CBH even though it permits free-riding by non-members. There is also a support for cross-subsidisation to allow smaller producers to gain the same benefits as larger ones. Diversity of east coast grain markets makes it more difficult to maintain the community membership ethos within SA growers.

Systems Level Analysis - Input Factors

At the systems level the two case studies illustrate the important role played by social cooperation amongst the grower communities in the early years of getting the co-ops established. In the 1920s the “soldier settlers’ scheme” helped to establish the Australian “wheat belts” (Stimson 2011). These schemes brought together many “ex-diggers” who held

a sense of mateship and mutual support for others in their community. In WA it was the Westralian Farmers’ Co-operative (est. 1915) that was instrumental in 1931 in proposing to the WA Government the introduction of a state-wide bulk-handling scheme for wheat that eventually led to the establishment of CBH in 1933. Similar farmer activity occurred in South Australia with the Farmers’ Bulk Handling Co-op seeking to get a bulk handling system established in 1922. The SA Wheat and Woolgrowers’ Association tried again in 1939 and continued lobbying until the establishment of SACBH in 1955.

Despite the clearly significant role played by farmers associations in establishing these co-ops it was the state governments who had the ultimate power to create the legislative environment to allow them to succeed or fail. The WA Government responded quite positively and passed the Bulk Handling Act WA (1936) that gave CBH a monopoly over grain handling and storage in that state. This Act also required the co-op to expand its operations to provide receival points across the WA wheat belt. In South Australia the State Government was less responsive, resulting in a delay in the establishment of SACBH. The role of the Australian Federal Government was also highly important in the creation of the single desk marketing authorities in World War II, and the subsequent market deregulation that took place following the introduction of the Wheat Marketing Act (1989).

The influence of state and federal government policy determined the overall level of competition taking place within the Australian grain industry. During the early period of heavy government regulation and legislated monopolies the industry structure was defined by state-based bulk grain handling organisations such as CBH and SACBH that operated without competition. The statutory authorities such as ABB, AWB and GPWA held clearly defined “single desk” controls over different types of grain and the rights to market them domestically or overseas. This system worked well for the growers who enjoyed stable markets and greater price stability as prices were usually fixed for periods of up to 5 years. However, in the period of market deregulation after 1989 these conditions become more uncertain and turbulent resulting in the move towards restructuring, mergers and the process of demutualisation of co-ops.

The role of the natural environment is seen in the impact that weather and spoilage from pests led to the Royal Commission of 1935 that resulted in the establishment of CBH. The seasonal fluctuations in grain production caused by periods of drought and good rains meant that growers experienced difficulties in maintaining steady year by year incomes. This also impacted on the co-ops which sought to “drought proof” their businesses by diversifying (e.g. ABB moved into wool in New Zealand), and value adding (e.g. CBH joint venture “Interflour” and ABB operations in the Ukraine and in malting barley). As noted above, the drought of 2006-2008 impacted adversely on ABB and making them vulnerable to a takeover.

Systems Level Analysis - Output Factors

In terms of economic and social capital outputs the cases also show the significant contribution that these co-ops made to their respective members. In economic terms both

CBH and ABB grew into multi-billion dollar international businesses that generated significant revenues from exporting and offshore ventures. Both co-ops built substantial physical infrastructure and developed world-class systems that helped to add considerable value to the Australian economy. As they grew these two co-ops provide thousands of direct and indirect jobs, and had beneficial impacts on the rural economy through investment in R&D in grain production, storage and handling, plus the upgrading of road, rail and port facilities (Productivity Commission 2010).

Another example of the creation of economic capital is illustrated in the system of tolls used by SACBH to assist in raising capital. Growers paid a small fee per tonne of grain supplied into the co-op to help fund its operations and infrastructure. As the business matured it was possible to repay these tolls back to members. The first payment was made in 1968. When SACBH demutualised in 2000 a total of A\$15 million was returned to grower members (Thomas 2006).

From a social capital perspective the democratic principles inherent in the co-op business structure protected smaller growers and guaranteed that their views would be heard. The need for all member voices to be heard meant that the Boards and Top Management Teams of these co-ops had to engage with members in making all major strategic changes to the business. Failure to adequately communicate and win the members’ trust risked failure as took place in the abortive plan for the demutualisation of CBH in 2000. The decision by CBH members to eschew financial dividends in order to retain the non-distributing, tax exempt status of the co-op can be viewed as a willingness to sacrifice personal gain for a perceived greater benefit to the wider community of WA growers. By comparison, the decision by members of SACBH to demutualise and form AusBulk-UGH led ultimately to a loss of grower control under ABB Grain, although their intention was not to do so when this process was first proposed.

Despite the ultimate abandonment of its co-operative status ABB did generate a good deal of social capital during its time. An example of this was given by Payne and Donovan (1999) in their official history of the organisation. They relate the case of a young farming couple who lived in quite poor circumstances. The father of the young woman died and when she was sorting through his personal effects an old kit bag was discovered containing unredeemed cheques for barley crop shipments. The ABB Board moved quickly to pay the money into the deceased father’s estate to assist the young family to ease their economic circumstances.

Co-operative Enterprise Level Analysis - the Business Model

In relation to the business model elements within the conceptual framework it can be seen that both co-ops were established for the purpose of providing grain growers with more efficient storage and handling facilities. This purpose also included the creation of more efficient supply chain and later marketing systems that did much to stabilise market and price volatility for growers during the period from the early 1930s to the late 1980s. During this period the co-ops adopted profit formulas based around a non-distributing, tax exempt status in which all grower handling charges were repaid and all profits re-invested in the business to

provide enhanced services to members. All processes and resources within the two co-ops were configured to deliver this purpose and financial outcome. To maintain this business model the share capital structure of the co-ops was based around the principle of non-proportional share ownership and “one-member-one-vote” democratic governance.

As the market and regulatory environment became more turbulent in the 1990s and 2000s the co-ops reviewed their business models and the WA and SA co-ops ultimately took different paths. Due to the mergers of CBH/GPWA and ABB/AusBulk-UGH the purpose of these two businesses changed to incorporate international marketing and later offshore joint ventures. New processes were also introduced such as the logistics management systems “GrainExpress” and “EziGrain”. The acquisition of the Asian flour mills by CBH through the Interflour joint venture represent an example of the acquisition of new resources that were needed for this new strategic purpose. As SACBH moved to demutualise into AusBulk-UGH its share structure changed with the “A” and “B” Class share capital. The initial attempt to preserve grower rights by ensuring that “A” Class shareholders were active growers who had the power to elect the majority of Board members seemed to be a suitable compromise. Yet following the merger with ABB in 2004, the pressures of the market led to all “A” Class shares being redeemed by 2007 as the business no longer had purely grower shareholder interests at stake.

Member Level Analysis - the four hats

At the member level it the often conflicting interests of the “four hats” worn by members can be seen to play their role. For much of the early establishment and growth period the primary interest of members was on their patronage “hat”. The need for reliable and efficient grain storage and handling that reduced spoilage and state regulated marketing authorities helped growers deal with risk and uncertainty. This was particularly important during the Great Depression and World War II and was continued throughout the post-war era until the 1980s. The need to open up the Australian economy and pursue market efficiency through deregulation slowly delivered a change of attitude, particularly on in the eastern states. As has been shown, the trend towards demutualisation and privatisation became stronger during the 1990s. Despite some initial concerns the members of SACBH began to see their investor “hat” as being of equal or greater importance than their patron “hat”.

The shift in importance of the investor “hat” amongst growers can be attributed to a number of factors. First, the consolidation of farms in the 1970s and 1980s meant that the total number of members in each co-op was falling. This made many remaining members seek to find a way to redeem the value that they could see from the co-op as their exit would have returned little other than the value of their original share at par values of around \$2. A second reason for this increased interest in the investor “hat” was the growing commercialisation of the co-ops and the deregulation of the markets. The privatisation of AWB and ABB in the late 1990s established a more competitive market in the Australian grain industry. It is also clear that competition between AWB and ABB helped to drive the mindset of the ABB Board towards an IOF business model (Thomas 2006).

Mapping the ownership and community member “hats” is more complex, however the process of demutualisation of ABB/AusBulk and the considerations of demutualisation held within CBH around 1999-2000 provide some insights. For the members of ABB/AusBulk the movement towards demutualisation highlighted for members the need to consider their ownership status. Under the former co-op business model the inherently democratic system of governance ensured that all grower members’ rights would be protected. However, as SACBH moved to convert to an IOF as AusBulk, it became apparent to members that their control over the organisation may be placed in jeopardy. Of particular concern were the differentials in grower communities across South Australia. The three grain producing regions of the Eyre Peninsula, Mid-North and Eastern-South Eastern had different climatic, soil and economic conditions. There were also issues over what constituted a “grower”, as some producers engaged in wheat and barley production on smaller scales than others. The final shape of the share capital structure and corporate governance/constitutional arrangements for AusBulk reflected this realisation by members of their need to claim ownership over the business.

By comparison the decision by CBH growers not to demutualise reflected what some of the Board Members of the time saw as a perception by members that the co-op was a public good, owned by everyone and no-one at the same time. The subsequent decision in 2010 to preserve the non-distributing tax exempt status of CBH seems to be a further reflection of this view, even though by doing so the members forfeited future dividends and continued to allow free-riding by non-members where it occurred. In many respects the ownership “hat” became more of an issue amongst the members of SACBH/AusBulk and eventually ABB as it moved from co-op to IOF. The mutuality of a co-op and the absence of recognisable share capital that accumulated value over time, may have contributed to the lack of perceived ownership. However, once the move towards an IOF business model took place the sense of ownership became a central focus.

In terms of the community membership “hat” the two cases do provide evidence of the importance of grower mobilisation and collaboration to secure the necessary capital and legislative structures required to build these co-ops in their early years. The politics of Australia’s agricultural sector is significant and this was particularly the case in the early years when the population density in the wheat belts was much higher than it is today. Grower communities in Australia have a strong tradition of rural political activism and this influenced both state and federal parliaments as the Country Party and subsequently the National Party became an influential force in coalition with the United Australia Party and later the Liberal Party. There was also an active rural press that helped to maintain a community awareness of the activities taking place across the farming communities.

Despite these elements of community cohesion there is also evidence of divisions between growers based on sub-regional or district location, volume of production and even type of grain produced. Yet although these divisions sometimes affected the members of CBH, the general pattern of behaviour in the WA co-op was one of a common unity of purpose for the grain producers of that state. By contrast the members of SACBH/AusBulk/ABB, although

primarily centred on South Australia, were impacted by the inter-state competition that was inherent in the eastern states. The deregulation movement post-1989 meant that the grain markets of the four mainland eastern seaboard states were becoming open to competition. Rather than serve as a unifying process it worked to foster greater diversity. For example, while over 90% of all wheat grown in WA is handled and exported by CBH, on the east coast the situation is quite different. In Queensland, NSW, Victoria and the eastern side of South Australia most of the wheat produced is consumed locally with smaller quantities exported. This supply chain is controlled by GrainCorp and now Viterra. However, on South Australia’s Eyre Peninsula to the west almost all wheat is exported in bulk by Viterra (Productivity Commission 2010). What this effectively means is that the grower community in South Australia was less cohesive than that found in WA.

DISCUSSIONS AND CONCLUSIONS

The cases of CBH and ABB have been subject to previous analysis using Cook’s co-operative lifecycle theory (Brewin et al 2008). However, our analysis develops the understanding of the behaviour of these two very similar organisations using the conceptual framework. The cross-case comparison of the CBH and ABB stories suggest that while the impact of external “systems” level factors serve to drive and shape co-op strategy, the internal “member level” environment is likely to be a critical determinant of whether the co-op maintains cohesion or seeks to demutualise. The findings highlight the importance of building social capital within the co-op and focusing on understanding how member value, identity and commitment are engendered within the co-operative enterprise.

The study has some limitations. Given the long historical timeline and significant scope of activities associated with these cases it is difficult to secure all documents and materials required for analysis. Interviews were obtained with past and present Board members from both organisations, but more work is needed to fully explore the member level issues encompassed in this framework. Future research should undertake surveys of members to examine how they perceive the relative importance of the four “hats” they are often asked to wear.

Despite these limitations the study offers support for the conceptual framework and suggests that it can be a useful mechanism through which the analysis of the co-operative enterprise can be undertaken. These often misunderstood social enterprises make a significant contribution to their communities and wider national economies. Their importance is often under recognised and as can be seen from the examples outlined in this paper, the pressure to drive competition within economies can lead to the loss of co-ops and mutual enterprises as they are deemed not to provide the best business model for an open and competitive market. Yet as the stories of CBH and ABB show, it is often the tortoise-like co-op that wins the longer race than its hare-like IOF.

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