



Western Australian Co-operative News

Newsletter of the Co-operative Federation of Western Australia Inc.
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NEW CO-OPERATIVE LEGISLATION ONE STEP CLOSER

In February the Federation received advice from Minister Kobelky's office that the Co-operative Bill has been given priority for introduction into Parliament in 2004. Minister Kobelky will be seeking to have it introduced as early as possible in that year. The Federation has continued to lobby relevant Ministers and opposition party members and it is pleasing to see that the intended outcome has been achieved.

If priority is maintained, the draft Bill should be available by the end of 2003. Discussions have continued over the years on the basis that the Federation would be involved at the drafting instruction stage, where it is considered that the most influence on proposed amendments can be achieved.

The department is now able to allocate resources to the project and will assist the Federation in a review of the current CCP legislation. This will enable workshops to be held during 2003 informing Co-operatives of proposed changes and their implications on current practice.

Drafting instructions for amendments to the CCP legislation relating to Mutual Recognition and Co-operative Capital Units have recently been circulated to the states for consideration. These amendments will form part of the information being prepared for discussion at the co-operative workshops.

PHD GRANT FOR RESEARCH INTO AGRICULTURAL COOPERATIVES

Edith Cowan University and the Western Australian Department of Agriculture are funding a three-year research project into agricultural cooperatives in Western Australia. Elizabeth Cheong, the recipient of the funding, will finish the project in about 12 months as her thesis for her Doctor of Philosophy.

Elizabeth is exploring the role of agricultural cooperatives in a market-driven economy to determine whether they are a valid model in the 21st century.

To understand factors that stimulate or inhibit the potential of the model for the agricultural industry, Elizabeth is using the qualitative research methods of sociological theory and economic analysis rather than a traditional scientific analysis of the cooperative sector.

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CO-OPERATIVE LEADERSHIP: INVOLVED OR COMMITTED?

It has become increasingly apparent to me that the success or failure of co-operatives depends to a large degree on the person at the top. That person must be committed to the interests of the members of the co-operative, not merely involved in running a business. Three examples may illustrate this. I will not identify the co-operatives or the people because the important thing is not who they are but what they have done.

Unlocking value

The CEO of one co-operative was approached by parties who believed that they could “unlock value” for members (to use one of today’s buzz words) by taking over the co-operative. The CEO’s support was seen to be vital. If he was in favour of the scheme, it was believed that the board would be likely to agree to it. He was offered a substantial and secret “at risk” payment (to use another of today’s buzz words) to support the proposal. The CEO rejected the proposal outright. It offended his ethics and smacked of deceit. He knew that ‘unlocking value’ was code for making a short-term gain by selling off assets built up by previous members. He believed that there was a high chance that the parties advocating the takeover stood to make substantial fees from the deal at the expense of the members of the co-operative. He believed that a true professional is not remunerated according to the advice he or she gives. So he knew that the interest of the co-operative involved saying ‘no’ to a proposal that would have given him a million dollars. That CEO retired some years ago. The co-operative has gone from strength to strength, due in no small part to the standard set by that CEO who was committed to the long term interest of the co-operative’s members.

Predator pricing

In another instance a fertiliser co-operative was faced with severe competition from a larger investor-owned firm which started a price war as it attempted to gain market share. It was clear that the product was being sold below cost. The decision was made to recommend that members buy their supplies from the competitor and the operations of the co-operative were scaled down or mothballed. Within a year the investor-owned firm went bankrupt. The co-operative survived because its top management was committed to the long term interest of members. It continues to prosper.

Long term sustainability

The third co-operative has not survived. The reason may be found in a comment made by a top executive. “I never understood when I joined why I should be expected to pay full price when I bought goods from the co-operative only to have to wait to get a rebate later in the year.”

Co-operatives, like any business, face normal business risks. No managers have perfect foresight. The prices charged must carry a sufficient margin to cover costs. Businesses must also build up some reserves in good times for the lean times that inevitably come. The successful co-operative is one where members recognise that they benefit from the profits that past members have left in the organisation and that they too must be prepared to leave something in for future members.

The executive in this co-operative clearly considered that all the profit on his transactions belonged to him. He did not see either the need to build up a buffer, or the fact that he benefited from the amounts left in the co-operative by previous members. He was primarily interested in his own entitlements. He had an interest in the co-operative but he was not really committed to it. I am not surprised that the co-operative has ceased to exist.

Of course, the standards and values of the person at the top are not the only factor in the life of a business but it makes you think, doesn’t it?

Alan Robb, University of Canterbury

Courtesy New Zealand *Co-operative News*

Co-operative managers v co-operative principles

The temptation to sacrifice considerations of principle to the need to counter the aggressive methods of competitors by turning their own weapons against them, grows stronger—all the more so where co-operative managers and administrators, even if proficient in business techniques, are insufficiently grounded

Co-operative Principles and therefore do not

really understand the nature of the institution they serve or how to turn the Movements basic ideas to competitive advantage.

W. P. Watkins, *Co-operative Principles Today and Tomorrow*, Holyoake Books, Manchester, 1986, page 4. Quote from e-mail signature panel used by Tom Webb.

Courtesy New Zealand Co-operative News.

Leading Questions for Co-operative Directors

Often the key to success is not just finding the right answers, it is asking the right questions in the first place. In a recent issue of the *Co-operative Business Journal*, published by the US National Co-operative Business Association, **Bruce Anderson** and **Brian Henehan** from the Cornell Co-operative Enterprise Program presented a thought-provoking list of questions co-operative directors should make it their business to answer.

Strategic issues

- Is there a written, up-to-date, strategic plan?
- Are the managers responsible for implementing the strategic plan and are they being evaluated against the achievement of our strategic goals?
- Do employees and members understand the co-operative's vision, mission and objectives?
- Does our strategic plan primarily focus on internal or external growth? Why?

Financial issues

- Does the co-operative's financial reporting system provide management, the board and people responsible for various areas of the business the best and most up-to-date business information?
- Does the co-operative have an optimal balance between the amount of debt and equity, as well as between the short and long term debt? What has led us to that conclusion?
- Were there any major beneficial items over which management and our independent auditor disagreed in terms of how they should be handled? What were those items?
- What is the co-operative's weighted- average cost of capital?

Operational issues

- What business areas of this co-operative will be obsolete in 3-5 years?
- What methods of benchmarking are used by our co-operative and are we benchmarking ourselves against the leading global non-co-operatives, as well as co-operatives?
- Do you feel the board becomes too involved in operational issues?

Marketing issues

- Do all products and services the co-operative markets pay their way?
- Who are our primary competitors, what are their strengths and weaknesses compared to our own?
- Are we making every effort to anticipate the future wants and needs of our customers? Are we prepared to meet those wants and needs as they arise?
- Do we have the policies and procedures to ensure that our members deliver the quality and quantity of products the market demands? Are there exceptions to these policies and procedures?

(cont. next page)

DotCOOP: The new Top-level Internet Domain (TLD)

In September 2000 the National Co-operative Business Association (United States) and Poptel with the support of the International Co-operative Alliance (Geneva) applied for approval of the .coop domain which was approved in November 2000 and went live in January 2002. .coop now joins .com, .org., .net and six other new top-level domains on the internet.

Dotcoop is only available to co-operatives, co-operative support organizations and businesses owned by co-operatives and there are processes in place to ensure that non co-operatives are excluded.

This initiative provides the opportunity for all co-operatives to promote and differentiate themselves from the myriad of entities, ethical and otherwise that clutter the internet, while

benefiting from the globally established and trusted business reputation of co-operatives.

For the period ending 10 June 2003 the purchase of Dotcoop domain names have been slashed by 50% as part of a worldwide promotion. A minimum 2 year licence period will cost US\$99.00 (US\$49.50 per year).

In Australia the Co-operative Federation of Victoria Ltd. (CFEDV) has been appointed a steward of the .Coop Community Name and has established australia.coop for this purpose. It should be noted that CFEDV will receive a very small commission for all Australian Dotcoop names sold.

For further information on Dotcoop and how to register go to www.australia.coop and click on the registration link.

LEADING QUESTIONS (cont)

Co-operative and member relation issues

- Do members have a feeling of membership? That is do they know they will be listened to and that they can have an influence on co-operative decisions?
- Does our co-operative's nominating and election system assure that we get the best elected co-operative representatives? If not, why not?
- How would you characterise member satisfaction and loyalty? How would you know?
- Is membership well enough informed about your co-operative on subjects such as major policy decisions, operations, marketing, strategy, financial status and co-operative governance?
- Are you well-positioned to serve the members of the future?
- Do members and employees know why we exist and what it means to be a co-operative?
- Do members appreciate that democratic control means winning some and losing some policy decisions that directly impact on them?
- Are sufficient resources being directed to director development and education?
- Given our resources, are we doing enough to develop and educate the next generation of co-operative leaders, both members, managers and employees?
- How does management ensure the impact of major policy decisions on different members (i.e. members of different, size, location, age etc.)
- Why doesn't the co-operative send quarterly unaudited financial reports to members?

Article courtesy the final issue of *National Co-operative Update*

CONFERENCES 2003

Following are preliminary details of conferences and seminars that may be of interest.

June/July	CFWA / ATO seminars - Franking credits for Co-operative dividends, Perth
September	CFWA Annual Conference, Perth
November	Monash Agricultural Directors Seminar, New Zealand

FROM THE EXECUTIVE OFFICER

State taxation audits

Recently three metropolitan co-operatives were the focus of State Taxation audits in the areas of: **Payroll tax** – salary sacrifice in favour of superannuation and fringe benefits, and **Stamp duty** – share transfers from members and shares purchased from members and subsequently reissued to members. The coincidence of these audits may extend to other co-operatives and the Federation recommends that all co-operatives should consult their accountants to ensure correct compliance with State taxation requirements.

Loss of member rebates

In discussions with some co-operative managers errors have been noted when registering the names of the holders of shares, the two most common being:

Legal entity – shares should be registered in the name of the legal entity i.e. the partners names, not the name of the partnership –the company name – the trustee of a trust.

Incorrect name – shares not registered in the name of the user of the co-operative's services i.e. in the name of another family member.

Implications

In both cases the 'user' is not the member and is therefore not entitled to rebates and their patronage can not be classified as 'business done with a member'.

The registered holder of the shares not being the 'user' should be classified as an inactive member.

Seminars on the franking of co-operative dividends

The ATO has requested the Federation coordinate seminars at which their representatives will explain the application and implication of changes being made to the Tax Act in respect of franking credits for co-operative dividends. As soon as suitable times have been arranged, all co-operatives will be advised of the time and place of the seminars, which will be held in both metropolitan and regional areas. It is hoped that advisors, managers, and directors will attend, as the dividend policy is a responsibility of the board.

International Degree in Co-operative Management

Owing to the lack of any formal co-operative management courses in Australia, the Federation has been following the development of the Saint Mary's degree with interest (see page 8). It is hoped that some WA co-operatives will take advantage of this opportunity and encourage their managers and aspiring managers to enrol in the program. It is also hoped that some co-operatives will consider becoming a member of the CMEC (see back page for details).

www.australia.coop

The Federation recommends *australia.coop* to readers as a resource rich co-operative portal for Australia's co-operative movement. David Griffiths, of the Co-operative Federation of Victoria Ltd, maintains the portal, which is updated on an as needs basis at least weekly and covers a very wide range of relevant subjects.

CFWA web site

The Federation's web site is being upgraded, a process which will take some months. To view progress readers can access it on ***www.cfw.org***

DotCOOP

Now until the 10th June is an excellent time to promote your co-op identity and disappear from the mire of .com, .net scenes by purchasing a .coop domain name at half price. See page 4 for details.

This newsletter will be available electronically. If you would like to receive an electronic version please send an email to ***cfwa@cfwa.org.au***

John Booth, Executive Officer

... and briefs

This space is for comments and contributions by members and/or readers. Why not give it a go? The available space can be increased!

NEW CCP LEGISLATION

In this series on impending changes to the WA legislation the Queensland Act is being used as the model.

Directors – declaration of interest

Where a director has made a declaration of interest in a contract, proposed contract, who holds an office, or in other areas where there could be a conflict with the director's duties as a director, unless the board determines otherwise that director must not be present nor take part in any deliberation or decision making by the board.

No declaration need be made where the contracts are usually made in similar dealings with other members, are made in good faith, are in the ordinary course of business and are on similar terms.

Accounts and audit

Corporations Law parts 3.6 and 3.7 accounting standards are applicable to accounts and consolidated accounts prepared by co-operatives. An exemption to this requirement can be granted by the registrar.

Fund raising

Issue of debentures – except where the registrar has granted an exemption or the issue is made only to members, members and employees or an inactive member who has had their share capital converted to debt, all debentures issued must comply with the Corporations Law.

Where the issue is exempt from the Corporations Law a disclosure statement approved by the registrar and containing information sufficient to make an informed opinion on the financial state of the co-operative, must be given to the person.

Co-operative Capital Units –all jurisdictions have agreed to include CCUs in the CCP legislation and proposed drafting instructions, based on the NSW legislation, have been circulated for their consideration.

Distribution of surplus or reserves to members

A co-operative may apply a *part* of the surplus or reserves by

- a) distribution to members as a rebate on the basis of business done, or
- b) the issue of bonus shares, or
- c) the issue of a limited dividend (as determined by regulation - Qld. 10% above the 5 year Commonwealth Bank rate on a deposit of \$100,000 offered during the relevant financial year)

The amount of the rebate or dividend may, **with the consent of the member**, be applied in payment for the issue of bonus shares, or as a loan to the co-operative.

Currently, sections of this clause may not be acceptable to WA co-operatives and the Federation has made this clear in its submissions to the Department and to the Co-operative Council of Australia.

Acquisition and disposal of assets

A special resolution by way of a postal ballot is required to:

- a) sell or lease as a going concern the business of the co-operative or a part of that business relating to its primary activity with a value of 5% or more of the total value of the business
- b) sell to or buy from a director or employee property, with a value in excess of 5% of the total value of all the assets relating to its primary activities
- c) buy an asset exceeding 5% of the total value of the assets of the co-operative resulting in the co-operative commencing to carry on an activity which is not one of its primary activities
- d) sell an asset resulting in the co-operative ceasing to carry on a primary activity, or the substantial impairment of the ability to carry on a primary activity either generally or in a particular geographic region

The registrar may exempt a co-operative from compliance with this section.

*For information on links to legislation in other jurisdictions please contact **John Booth**.*

FEDERATION COUNCIL NEWS

At the February meeting of Council, Western Australian Meat Marketing Co-operative Ltd. was appointed to fill a casual vacancy. The co-operative's representative is CEO Desmond Griffiths.

Federation member

Associated Newsagents (WA)
Co-operative Ltd.
Capricorn Society Ltd
Community Co-operative Travel Ltd
Co-operative Bulk Handling Ltd
Co-operative Purchasing Services Ltd
Geraldton Fishermen's Co-operative Ltd
MBL Food Services Co-operative Ltd
Mt. Barker Co-operative Ltd
United Farmers Co-operative
Company Ltd
West Australian Meat Marketing Co-operative
Ltd.

Executive officer:

John Booth

CFWA CONFERENCE

SEPTEMBER 2003

Council has confirmed 25 and 26 September as the dates of our Annual General Meeting and Conference.

Details of topics and the location will be forwarded during June.

Please keep these dates free for the major event on the WA Co-operative Calendar.

CO-OPERATIVE SCUTTLEBUTT

Ord River District Co-operative Ltd.

ORDCO as part of a policy to grow its operations, has acquired, effective 1 April, a caged aquaculture business growing barramundi with an annual production of 500 tonnes.

Other areas of growth include - Acquisition of the licence to operate the Port of Wyndham and establishing bulk facilities for sugar, molasses and fertiliser on co-operative owned land adjacent to the Port of Wyndham facilities.

Mt. Barker Co-operative Ltd.

Warren York will be retiring from the co-operative at the end of August after 33 years' service, of which 25 years was as general manager.

York & Districts Co-operative Ltd.

John Partridge has recently been appointed General Manager to fill the vacancy left by Simon Glassop.

Challenge Dairy Co-operative Ltd.

In January a joint venture between Challenge and Beijing Sanyuan Foods was signed. The three stage program will include upgrading the Capel plant, building a new high-tech powder plant and building a new cheese plant beside the powder plant. It is forecast to be up and running by 2005-2006. The Australian registered joint venture company will be called Sanyuan Challenge Australian Dairy Pty Ltd and the first chairman would be from Beijing Sanyuan Foods with the chairmanship being rotated every three years.

SCUTTLEBUTT DEFINED

The Illustrated Contemporary Dictionary

- 1] A drinking fountain aboard ship
 - 2] Slang rumour gossip
- [Orig. *scuttle butt*, a lidded cask for drinking water]

Anonymous

Information exchanged among those gathered around the fountain of all knowledge.

International Education Co-operative offers Masters degree in Co-operative Management

Exciting distance higher education is now available to Australia's co-operative managers. The Co-operative Management Education Co-operative (CMEC) delivers high-level university education on co-operatives and credit unions. CMEC is centered at the School of Commerce at Saint Mary's University in Nova Scotia, Canada and has as members co-operative and credit union organizations, co-operative educational institutions and others from the United Kingdom, Canada and the USA.

Courses for a Masters in the Management of Co-operatives and Credit Unions will start in September 2003. Applications are being taken now. The program is designed for part-time study and is expected to take about four to five years to complete along with normal work commitments. The cost per student is expected to be about CAN\$15,000 (AUS\$16,700).

The Partners

CMEC comprises large and small co-operatives and credit unions dedicated to the idea that successful co-operative business prospers when sound business skills are interwoven with co-operative values and principles.

Members include agricultural co-operatives, credit unions, retail/wholesale co-operatives and insurance giant, The Co-operators and Credit Union Mutual Insurance Services (CUMIS). Among the UK members are the world's largest consumer co-operative, the Co-operative Group, Oxford Swindon and Gloucester Co-operative and West Midlands Co-operative. The Scottish Organization of Agricultural Societies, the umbrella organization of Scottish agricultural co-ops, is a member. Membership has tripled in the past year and continues to grow rapidly.

St. Mary's University, established in 1802, runs one of Canada's oldest faculties of commerce, Atlantic Canada's leading business school and one of the country's most respected schools of commerce. It offers business degrees at the undergraduate level, a Masters in Business Administration, an Executive MBA Program and a doctoral program in Management. The Masters of Management of Co-operatives and Credit Unions has the support and input of the University at the highest levels.

Why is the program needed?

Few business schools in the English-speaking world have graduate or undergraduate level courses on co-operatives. The St. Mary's program will fill this gap, teaching in the latest thinking and skills to help co-operatives survive and thrive in the global economy.

"Our values and principles can either be seen as a sea anchor dragging behind the ship slowing our progress or as the mainsail driving us ahead of our competition," says Tom Webb. "In the age of Enron we see our co-operative difference as 'the co-operative advantage'.

"Co-operatives offer people around the world a values-based business structure that our competitors admire as they struggle with a single bottom line. The key is to link values, sound management and financial success."

Program Curriculum

Crucial to building the program curriculum is ensuring it delivers on business skills while asking, 'I know how that is done in an investor owned business but how would we do it differently in a co-operative and does the co-operative solution contribute to our success?' Co-operative members demand that co-ops and credit unions have more than a single 'bottom line' goal. Traditionally, accounting practices in co-operatives have not measured how well resources are used to achieve goals other than return on capital invested.

If we don't measure our achievement for other goals as well, we don't know if we are performing well or not in achieving them. Failure to measure our success in achieving all our goals has serious consequences: we may waste resources with ineffective efforts; neither managers nor boards will know if they have accomplished their goals; in an economic downturn we will abandon what we are not sure works even if it is important to our success. The Masters program will foster the creation of co-operative accounting tools drawing on world-wide best practice of co-operative business and include other goals as well.

(cont. back page)

PHD GRANT FOR RESEARCH

(from page 1)

Elizabeth has interviewed agricultural cooperative board members and senior staff, support agencies, such as agribusiness consultants, accountants and bankers, the Cooperative Federation of WA (CFWA) and staff of government agencies. A dominant interview theme is the importance of commitment to the cooperative principles, particularly 'one member one vote' and rebates based on patronage.

While developing and sustaining a cooperative is a challenging task, as with any new enterprise, the guiding principles of the cooperative values has provided a clear sense of direction for the Board of Management.

Elizabeth found that the perennial issue of capital raising for cooperatives seemed to be less of an issue in WA. Key players in a couple of the cooperatives interviewed indicated that they did not have any capital raising problems and indeed were able to access substantial bank loans if required.

Issues

In Western Australia, the barrier to cooperative development presented by capital raising appeared to be limited to value adding co-operatives that require substantial funds to construct state of the art processing facilities. However, the research shows that external advisors have queried the potential of value adding processing in WA. Their independent comments gave the same opinion: that Western Australia lacked a competitive edge in the food processing industry. This view was not supported by a cooperative focusing on premium value added products for export markets.

Another perennial issue has been the unallocated retained equity. It would seem that the current Western Australian cooperative legislation (the Companies (Cooperatives) Act 1943) has a unique inherent flexibility enabling cooperatives to resolve this issue.

An agricultural supply cooperative has adopted long used principles from its industrial cousins by assigning 'individual property rights' to retained equity through a share allocation mechanism. Thus it is able to access this capital for cooperative activities, overcoming the issue of capital raising to a considerable extent. For

these mechanisms to work the cooperative must be making profits.

New co-operatives

Statistics show that in the last five to six years there has been a substantial increase in the registration of new cooperatives (albeit from a low base). During this compressed time, the CFWA has identified a range of events that have put co-operatives high on the rural and regional radar as an optional operational structure. These events include:

- 1] Reviews of Statutory Marketing Authorities, such as the distribution of water to irrigators, the dairy industry, the wheat industry the meat industry, and several other smaller industries
- 2] The proposed CBH conversion to a public company, its failure, subsequent merger with the Grain Pool, and media releases emphasising its intention to remain a co-operative
- 3] The growing strength, influence and acceptance of the United Farmers Cooperative
- 4] Interest in the New Generation Co-operative model, combined with a number of international study tours and lectures sponsored by the Western Australia Department of Agriculture
- 5] The appointment by the CFWA of a full time executive officer proactive in promoting co-operatives, liaising with government agencies and agricultural groups interested in exploring cooperative structures and assisting with the formation and administration of cooperatives.

Public Policy Strategies

Can the continuing interest in co-operatives in rural and regional WA be sustained under the current momentum? Could some well-placed public policy strategies leverage this interest and trigger economic viability for small family agricultural farms who choose to work collectively while bringing some well needed economic and social benefits for their local communities? Elizabeth is tentatively concluding that some well-placed agricultural cooperative public policy developments, similar to that of the US and Canada, could stimulate cooperative revitalization in WA .

Elizabeth would like to speak with individuals and groups, associated directly or indirectly with the agricultural cooperative sector, about their views on the validity of the model in Western Australia. Please contact her initially via e-mail e.cheong@ecu.edu.au

MASTERS DEGREE (cont.)

The masters program will be delivered largely via the internet, using special software including the use of chat lines, e-mail and on-line meetings.

Looking for Partners?

The CMEC is looking for Australian partners to broaden and strengthen the program. On a recent visit to Australia, Tom Webb was surprised by the number of problems common to both countries, commenting:

“The impact of the global economy on our communities and co-op businesses, economies of scale, the strength offered by relationship marketing, the requirement for more and better member, board and management education, the need for better and more innovative co-operative business tools—these are global co-operative problems.”

NOTICE TO READERS

Every effort is made to ensure the accuracy of information presented in this newsletter.

However, no responsibility is accepted for any errors, or for views expressed, which may not necessarily reflect those of the Co-operative Federation of Western Australia Inc or its members.

Involvement by Australian Co-ops

Australian co-operatives can become involved in various ways, including:

- a) acquiring 10 shares of CAN\$100 each, (CAN\$1000–AUS\$1100) in CMEC enabling the member to receive regular program information and advise on program improvements
- b) encouraging managers and aspiring managers to enroll in the program, and
- c) encouraging other co-operatives to become members of CMEC.

For further details on the program see website www.stmarys.ca/academic/commerce/ccu or contact Tom Webb, Executive Director, CMEC at jtwebb@auracom.com

Tom Webb was the keynote speaker at the 2001 CFWA conference; his presentations on MOCA, Marketing Our Co-operative Advantage, were very well received by those attending.

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