

RESEARCH ARTICLE

Resistance Is Not Futile: Co-operatives, Demutualization, Agriculture, and Neoliberalism in Australia

Greg Patmore^{1*} , Nikola Balnave² and Olivera Marjanovic³

¹Work and Organisational Studies, The University of Sydney Business School, Sydney, NSW 2006, Australia, ²Macquarie University, Sydney, NSW, Australia and ³University of Technology, Sydney, Sydney, NSW, Australia

*Corresponding Author: Greg Patmore; Email: greg.patmore@sydney.edu.au

Abstract

Recognition of co-operatives as a legitimate business model and form of economic participation was significantly challenged by the rise of neo-liberalism in the 1980s with its emphasis on individuals and markets. This fueled an externally and internally driven push to demutualize co-operatives and convert them into Investor Owned Businesses (IOB). While the international trend to demutualize emerged from the end of the Second World War, evidence indicates it accelerated from the late 1980s until the onset of the Global Financial Crisis. Drawing on an ongoing project of historical data collection and visual analysis of Australian co-operatives, this paper explores the Australian experience with demutualization, particularly with regard to agriculture. In line with the international experience, there has been a surge in Australian demutualization since the 1980s. However, while demutualization continues to be a feature of the Australian landscape post-GFC as co-operatives tackle with the changed political and economic environment, the paper also challenges the view that demutualization is inevitable for agricultural co-operatives. Co-operative managers can make strategic choices to avoid demutualization and retain member control. Further, co-operative culture and the persistence of co-operative clusters in particular regions can blunt the push to demutualize.

Keywords: Co-operatives; Demutualization; Agriculture; Neo-Liberalism; Australia

The impact of neoliberalism on state enterprises since the 1980s has received much attention in the academic literature and public policy debates.¹ However, other business forms have also been significantly impacted, including co-operatives. The rise of neoliberalism questioned the legitimacy of co-operatives as a form of economic participation² and fueled a push to demutualize co-operatives and convert them into Investor-Owned Businesses (IOB). An emphasis was placed on economic performance over the benefits that arise from consumers, farmers, and others having direct control over their economic fortunes. Within this context there also developed theories relating to agricultural co-operatives that predicted that co-operatives reached a point where organizational tensions led to bankruptcy or demutualization. This article explores two questions relating to co-operative demutualization: What factors lead to the demutualization of co-operatives? Is it inevitable that agricultural co-operatives become IOBs?

According to Battilani and Schröter, interest in demutualization began to spread internationally from the end of World War II, with Australia being an “early mover” and therefore an important national case study for international research on demutualization.³ However, it was in the late 1980s that Battilani and Schröter argue the trend to demutualization notably accelerated, coinciding with the interest in privatization, which was fueled by the rise of neoliberalism. The Global

¹The research for this article was funded by the Australian Research Council Discovery Scheme Grant DP170100573. We would like to thank the Business Council of Co-operatives and Mutuals, Co-operatives WA, the Co-op Federation, the Killarney Co-operative, NORCO, particularly Mark Meyers and Greg MacNamara, the various registrars of co-operatives in each state and Wally Newman. We would also like to thank Garry Cronan, Caitlin Gardner, Yasmin Rittau, and Jiang Zhu for their research assistance.

²Kalmi, 2007.

³Battilani and Schröter, 2012, 151–5.

Financial Crisis (GFC) of 2007–9 generated recognition that co-operatives are a much less risk-taking form of business. According to Battilani and Schröter, this ended the interest in demutualization, with exceptions such as Japan, and led to some cases of remutualization.⁴

This article provides the first in-depth study of the trends in Australian demutualization drawing upon the Visual Historical Atlas of Australian Co-operatives Project (VHAACP), which is a large-scale, ongoing project of data collection and visual analysis of the history of Australian co-operatives from early nineteenth century to date. The article examines agricultural co-operatives, given the prevalence of Australian demutualization in this sector, and provides two case studies of significant agricultural co-operatives that resisted demutualization to further deepen the findings of the aggregate data. Australian agriculture contributed 2.2 percent of GDP and 11 percent of goods and services exported in 2018–19. It is heavily export orientated with approximately 70 percent of production going overseas.⁵

The article's literature review will focus on two issues. Firstly, it will examine the factors underlying demutualization generally including cultural change and isomorphism. Secondly, it will examine the strong focus on demutualization in the agricultural economics literature, which has become a tool for those promoting demutualization in the sector. Agricultural economists have suggested a life cycle for agricultural co-operatives with a fate of either failure or demutualization due to governance issues relating to the co-operative business model. This approach to demutualization downplays the significance of co-operative culture, with its emphasis on self-help, economic democracy, and control of capital by co-operative members, which reinforces the co-operative business model.

The article will then analyze the history of co-operative demutualization in Australia particularly with regard to agriculture. While there has been an upsurge in Australia since the late 1980s against the background of neoliberalism, this article highlights that demutualization has continued to be a feature of the Australian co-operative landscape after the GFC. The article examines the role of the state, consultants, and executives in promoting IOBs at the expense of co-operatives. While there were some legislative attempts to resist demutualization, the weak organization of the co-operative sector undermined political opposition. Despite this, there were co-operatives that resisted demutualization, challenging the notion that demutualization is inevitable for established agricultural co-operatives.

Co-operatives, Demutualization, and Neoliberalism

While there were examples of consumer co-operatives in the United Kingdom from the mid-eighteenth century, the major nineteenth-century attempt to define a set of co-operative principles is associated with the Rochdale consumer co-operative of 1844, which was formed in the wake of an unsuccessful weavers' strike over wages and distress for the participants. A group of "pioneers," dominated by skilled and supervisory trades, in Rochdale, England, started the movement to combat low wages, high prices, and poor-quality food.⁶ Johnston Birchall notes that there were nine fundamental principles set out in the early rules and publications of the Rochdale co-operative. The first principle related to democracy. The Rochdale consumer co-operatives differ from other businesses in that that management is based on democratic principles with "one member one vote" rather than one vote for each share. This meant that someone holding 100 shares had the same number of votes as someone holding one share. Other principles included open membership; the distribution of the surplus as a dividend on purchases; cash trading; fixed and limited interest on capital; selling only pure and unadulterated and pure food; education; political and religious neutrality; and the disposal of net assets without profit to members.⁷ As Wilson, Webster, and Vorberg-Rugh note, the "principles of this model both spread across the world and survived to the present as the 'ideal.'"⁸ The co-operative

⁴Ibid., 155.

⁵Australian Government, Department of Agriculture, Water and the Environment, 2020.

⁶Patmore and Balnave, 2018, 2, 29.

⁷Birchall, 1994, 54–64.

⁸Wilson et al., 2013, 37.

model took on a variety of forms with different challenges including consumer co-operatives, worker co-operatives, financial co-operatives, and agricultural co-operatives.

What is demutualization? Chaddad and Cook define it as “changes in the ownership structure of user owned and controlled organizations from a mutual to a for-profit, proprietary organization.”⁹ Co-operative shares, which can usually be traded within the co-operative, may become unrestricted common stock in a corporate organization, with the possibility that demutualization will be followed by a public listing, and additional risk capital being acquired by outside investors. The principle of one person one vote is lost after demutualization, with the votes now being based on the number of shares.¹⁰

A co-operative can demutualize in a variety of ways. The co-operative may decide to transform itself into an IOB or merge with another co-operative to form an IOB. Members are issued with shares according to some allocation formula and/or sold shares, which injects members capital into the new IOB. The co-operative may be acquired by an IOB or merge with an IOB losing its mutuality, with members receiving either shares in the IOB or cash. They can provide two types of shares to maintain control by former co-operative members but also attract outside capital. While Class A shares are held by former members with full voting rights, Class B shares could receive dividends, but voting can be limited to changes that affect their voting rights and the sale of the business. While there is a view that transforming co-operatives into IOBs is not a demutualization if former members retained majority control, the risks of outside investors eventually gaining control increases, particularly if more capital is sought through new share issues on the stock market.¹¹

As noted previously Battilani and Schröter have highlighted an acceleration in co-operative demutualization from the late 1980s to the GFC. They have grouped several theories on the demutualization of Member-Owned Businesses (MOBs), including co-operatives, that developed during that period, under five categories: expropriation by managers; political reasons; inefficiency or lack of growth perspectives; cultural reasons; and organizational isomorphism. A new generation of managers, often formally trained and drawn from the private sector, have fueled the move to more market-orientated routines and practices, “while toning down solidarity values.”¹² The expropriation by managers reflects the self-interest of the new wave of co-operative managers, with a similar educational background to IOB executives, who are much more market orientated. Some managers see demutualization as a way to create wealth for themselves and directors at the expense of co-operative members. There are several examples of this occurring in UK building societies where members resisted demutualization when they realized the value of mutuality. The dismantling of the socialist system in Europe is a major political reason for the wave of demutualization as people identified co-operatives with the communist regime. Governments believed that the best way to reintegrate their agriculture into Western markets was privatization. Inefficiency and lack of growth are argued to have led to the acceleration of demutualization since the late 1980s. The constraints that co-operatives face in raising additional capital has been a feature of demutualization in the financial sector, although forms of hybridization, such as the New Generation Co-operative in North American agriculture and the development co-operative networks in Italy, have allowed co-operatives to overcome the capital problem without demutualization. There has also been criticism about the lack of or poor managerial control in co-operatives.¹³

Two particular problems that weakened co-operatives as an alternative business model were the shift in cultural values and isomorphism. Regarding cultural values, the rise of neoliberalism provided the cultural context for privatization, which fostered and preceded demutualization that occurred in the United Kingdom from the late 1980s. Organizational isomorphism theories,¹⁴ which involve the convergence of organizational forms, argue that, faced with economic and technological changes in increasingly globalized markets, co-operatives have adopted the practices and strategies of successful

⁹Chaddad and Cook, 2004, 576.

¹⁰Birchall, 2011, 163.

¹¹Birchall, 2011, 162; Davis, 2005, 7.

¹²Battilani and Schröter, 2012, 157.

¹³Ammaritto, 2018, 47–90; Battilani and Schröter, 2012, 15, 150, 158–61; Birchall, 2011, 9.

¹⁴DiMaggio and Powell, 1983.

IOBs, and in doing so have lost their identity and been viewed as an inferior alternative to IOBs because of their collective rather than individual ethos. Battilani and Schröter argued that connecting the shift in cultural values that accompanied privatization with organizational isomorphism led them to conclude that “demutualisation occurred where the new ideas of increased competition spread both quickly and deeply.”¹⁵ While there are a number of explanations for demutualization, as Battilani and Schröter note there is a lack of data on demutualization that charts the trends in demutualization over time.¹⁶ This article will test whether there has been an upsurge in the rate of demutualization since the 1980s using new long-term data relating to demutualization in Australia generally, and specifically in regard to agriculture.

Agricultural Co-operatives and Demutualization

There are several reasons why farmers form agricultural co-operatives. Farmers may form agricultural co-operatives to provide crucial supplies such as seeds and fertilizers through bulk purchases that reduce costs. Agricultural co-operatives may also allow farmers to vertically integrate by marketing and distributing their goods. Early examples of these types of agricultural co-operatives can be seen in the United States, where farmers had to sell stock in distant markets, with co-operative pig marketing beginning in Granville, New York, in 1820. Farmers can also vertically integrate through co-operatives by establishing facilities to allow the processing of their products so that they are fit for human consumption. Early examples of these types of agricultural co-operatives can be found in cheese factories and creameries in countries such as Canada, Denmark, Ireland, and the United States. Other forms of agricultural co-operatives include irrigation co-operatives and fishing co-operatives.¹⁷

There are a variety of other reasons why farmers would form an agricultural co-operative. They can be a revolt against the present economic and political system, especially during economic downturns. Agricultural co-operatives may specifically arise from market failures or contract failures, where suppliers, processors, and marketers cannot be controlled through traditional contracts. Farmers desire to cut out the “middle-man” and gain direct control over supply, marketing, and production. They wish to obtain a fair price for their produce and to reduce production costs through economies of scale, greater coordination, and avoiding intermediaries who may charge large fees for their services. Anger with the charges imposed by bankers, grain merchants, implement manufacturers, and store-keepers fueled the enthusiasm of prairie grain growers in Canada for co-operatives in the early part of the twentieth century. They also desired to create new markets for their produce and protect existing markets. Agricultural co-operatives also allow farmers to pool risk in what can be a volatile industry in terms of market demand, weather, and pests and capture profits from others involved in the food supply chain. Greater stability in income allows farmers to exercise greater quality control and achieve greater productivity through crop variety and herd improvements. The governance costs of co-operatives are also lower if members are homogenous with similar objectives such as producing a similar crop. Overall, by combining together farmers increase their market power.¹⁸

While agricultural co-operatives have distinguished themselves from other types of businesses, the need to obtain capital to remain competitive and expand has led some to consider demutualization. Agricultural co-operatives can take a variety of approaches to raising capital without necessarily demutualizing and avoid giving away ownership rights such as borrowing. They may also purchase or establish another legal entity such as a trust or registered company to minimize the risk associated with new ventures and maintain an existing business name. Co-operatives can create joint ventures with other co-operatives and even IOBs.¹⁹ Battilani and Schröter argue that these strategies are not considered to

¹⁵Battilani and Schröter, 2012, 158.

¹⁶*Ibid.*, 153.

¹⁷Barton, 1989, 12; Birchall, 1997, 14–16; MacPherson, 1979, 10–11.

¹⁸Barton, 1989, 12; Hansmann, 1980, 845; Hansmann, 1996, 125, 137; Lewis, 2006, xviii; MacPherson, 1979, 11–12.

¹⁹Battilani and Schröter, 2012, 153; Birchall, 2011, 162–3.

be demutualization but as “institutional innovation aimed at facing increasing competition and globalization”²⁰ as they do not undermine membership control.

There have been claims that agricultural co-operatives “degenerate” or “evolve” into IOBs. Agricultural economists have argued that agricultural co-operative failures, including demutualization, may arise from systemic problems with the co-operative business model. Agricultural co-operatives tend to be less flexible than IOBs in shifting their economic focus as markets change due to their democratic governance and their attachment to the original objectives that underlay their formation. As they grow there tend to be more competing interest groups, which leads to conflict and a tendency for those with goals relating to organizational gain rather than co-operative ideals to take over. One competing interest group are “dry” or nontrading shareholders, such as retired farmers, who may be interested in getting the best return for their shares rather than getting the best price or service from the co-operative. The co-operative increasingly behaves like an IOB with corporate-orientated aspirations such as profitability and financial stability taking priority over member-centered goals such as the level of service and economic democracy.²¹ Cook and Buresse have noted that the life cycle of agricultural co-operatives consists of five phases: economic justification; organizational design; growth, glory and heterogeneity; recognition and introspection; and choice, whether to “tinker, reinvent, spawn” or set up a “separate entrepreneurial venture” or exit.²²

The “life cycle” approach can be criticized on several grounds. There is determinism. Co-operative members and managers have choice and can adapt their organizations and objectives without compromising the essential democratic nature of co-operative enterprises, even shifting forms as is the case of transformational co-operatives, where the form of the co-operative shifts over time to match changes in local conditions, such as where dairying co-operatives become retail co-operatives as local milk production declines.²³ Secondly, the agricultural co-operative literature also generally overlooks the idea that co-operatives are not just businesses, they are also a movement with regional, national, and international organizations such as the International Co-operative Alliance (ICA), which promotes the co-operative movement worldwide and provides a forum for international co-operative collaboration. There is an ideology and culture built around collective self-help, economic democracy, and community obligation enshrined in co-operative principles. There are important cultural artifacts associated with the co-operative movement such as International Co-operative Day, co-operative halls of fame and museums. Co-operatives may also be concentrated in geographical clusters, such as the Emilia Romagna region of Italy or the Basque region of Spain, which reinforce co-operative culture through economic transactions and collaboration as part of a local or regional network. Co-operative values and culture provide a source of resistance to demutualization, which relies on appealing to members’ personal financial interests.²⁴ Finally, the long life span of some co-operatives indicates that co-operative demise is not inevitable. Two examples of agricultural co-operatives that have survived the fluctuations of the business cycle are Land O’ Lakes in the United States, founded in 1921,²⁵ and NORCO in Australia, founded in 1893.²⁶ NORCO is a major case study for the Visual Historical Atlas of Australian Co-operatives Project (VHACCP) and will highlight that agricultural demutualization is not inevitable even when cultural climate favors this outcome.

Data and Methods

The VHAACP,²⁷ which provides the comprehensive research data for this study, includes the Visual Historical Atlas of Australian Co-operatives as a key component. The atlas was developed by the

²⁰Battilani and Schröter, 2012, 153.

²¹Cheong, 2006, 226; Cook, 1995; Davis, 2001; Hansmann, 1980, 845; Hansmann, 1996, 125, 137; Helmberger, 1966; Hind, 1999.

²²Cook and Buresse, 2009.

²³Ibid., 14–15; Patmore, 2020, 19; Patmore and Balnave, 2018, 12.

²⁴Albaladejo and Menzani, 2017, 53; Birchall, 2011, 174; Gurney, 1996, 61–87; Hilson, 2017, 47–8.

²⁵Birchall, 2011, 162; Keillor, 2000, 283–96.

²⁶NORCO, 29 June 1893, 3 July 1893. A003 V475, Minutes 1892–4, University of New England Archives, Armidale, Australia.

²⁷Co-operatives Research Group, 2021; Patmore et al., 2019.

authors with funding from the Australian Research Council. It focuses on research data collection and visual data exploration of all forms of co-operatives in Australia including retail co-operatives, agricultural co-operatives, and financial co-operatives, such as credit unions and co-operative building societies. The atlas also includes co-operative federations and auxiliary organizations such as co-operative women's guilds. It does not include insurance mutuals, such as health funds, which can restrict membership participation to a small group of "governing members," or industry superannuation funds, where members do not directly elect the board of directors. Insurance funds, health funds, and superannuation have not been covered by specific Australian co-operative legislation.

The VHAACP draws upon and integrates data from a range of reputable sources. It is the first to use the Australian National Library Trove newspaper database to develop a long-term picture of the development of a business model, particularly for the nineteenth century. The general data relating to the development of Australia co-operatives are collected by the researchers from a variety of sources including the limited surviving historical records of various state and national bodies relating to the movement. This material is supplemented by public sources such as newspapers, particularly at community level, published co-operative histories, detailed case studies, parliamentary papers and debates, and material sent to the various registrars of co-operative societies. While the VHAACP primarily draws from Australian sources, it also examines the records of the English Co-operative Wholesale Society (CWS) in Manchester for obtaining further information on nineteenth-century Australian co-operatives.

The Visual Historical Atlas in June 2020 contained the historical data of 3,743 co-operatives at 1,724 locations. Major types included 936 agricultural co-operatives, 899 community co-operatives, such as registered clubs, 646 consumer co-operatives, and 576 financial co-operatives. The Visual Historical Atlas was implemented using a state-of-the-art data visualization software called Tableau. The main data inputted into Tableau's database includes location, date of operation, type of co-operative, membership, employment, finances, and end status. The financial data includes assets, turnover, liabilities, and surpluses/losses. Locations include, for example, branch stores and produce handling facilities. The information is inputted from reputable data sets, such as Trove and Registrar's reports, but also extracted and coded by the researchers from various documents such as registration files and co-operative records, which examine co-operatives over long periods, rather than short-term data that may cover only one or two years. The data is cross-checked and verified using different historical records to confirm that the co-operatives are, for example, indeed co-operatives given the lack of legal definition in the Australian environment for a long period. Finally, the data is recorded by a team of historians on spreadsheets, which are then given to a team of visual analytics researchers to be uploaded and stored in previously designed data structures (called multidimensional data models). When visualized, the data highlights trends and allow patterns of growth, decline, and revival to be visible with only a small proportion of the population of co-operatives. As more data is inputted in the Visual Historical Atlas these patterns also become clearer. The Visual Historical Atlas currently contains data from the earliest interest in co-operative land settlement in 1827 to the present.

In spite of being a very comprehensive source of data on Australian co-operatives to date, there are some limitations with variations of data types available on the atlas. The surviving information that could be found about co-operatives and stored in the atlas is good for understanding the life span and type of co-operative, which is important for understanding overall fluctuations of interest in co-operatives. However, it is still limited in regard to financial, membership, and employment data. Moreover, there are not consistent series of historical data to be found, for example, on the membership, turnover, assets, and market share of specific co-operatives. To compensate for and overcome these limitations, where possible missing data were extracted from other historical sources such as annual reports and newspapers. Also, the atlas was designed to only track co-operative data. As such it does not include organizations after they have been demutualized. Therefore, if the demutualized co-operative is not a public company, there can be problems with obtaining data on economic performance after demutualization. While the atlas does have performance data on specific co-operatives, the confidentiality agreements with registrars, signed at the time of data collection,

do not allow the specific co-operatives to be identified. Despite these limitations, the data set captured by the Visual Atlas is very comprehensive, and as such it is uniquely placed to examine the development of co-operatives in Australia. To date, there is no alternative comprehensive data base available that charts the development of Australia co-operatives. Developed by the authors the atlas provides the validated set of research data as well as the interactive visual environment to enable them to explore issues such as trends in demutualization.

Another dimension of the project is a series of case studies to allow greater insights into the growth and decline of co-operatives. These case studies involve an examination of the co-operative records such as reports, minutes, and publications, from their formation. They included co-operatives with considerable surviving records that have operated for long periods such as NORCO. Oral histories of participants in these organizations supplement the written records. The project currently has 14 detailed long-term case studies with coverage of significant regions for co-operative activity such as the Riverina, the Hunter Valley, and the West Australian wheat belt.

A Historical Overview of Co-operatives and Demutualization in Australia

The idea of co-operation in Australia dates from the 1820s with ideas of land settlement promoted by Peter Cunningham, naval surgeon and author, influenced by the great UK Co-operator Robert Owen. The ideas of the Rochdale movement also began to attract interest in Australia in the 1850s with the earliest known Australian Rochdale consumer co-operative formed in Brisbane in August 1859 barely fifteen years after the establishment of the Rochdale movement in England. Australian farmers adopted the idea of co-operatives with dairying leading the way in the 1880s influenced by the success of Danish dairy co-operatives.²⁸ As [Figure 1](#) indicates, agricultural co-operatives peaked in 1950. Their subsequent decline reflects a falling rural population, amalgamation, and demutualization. Where exit data is available for a sample of 472 agricultural co-operatives in the Visual Historical Atlas Version 19 between 1951 and 2019, there were 68 amalgamations, 68 demutualizations, 151 liquidations, and 185 cancellations of registrations. Murray-Goulburn, formerly one of Australia's largest dairy co-operatives, absorbed at least eighteen dairy co-operatives between 1957 and 2000, many of which were the result of previous amalgamations.²⁹ The exit data does not pick up a number of transformations where dairy co-operatives became retail co-operatives such as the Killarney Co-operative in Queensland.³⁰ There are still significant examples of agricultural co-operatives in Australia, with Co-operative Bulk Handling (CBH) in the state of Western Australia (WA) being a major exporter of Australian wheat with a revenue of more than A\$4.4 billion.³¹

While there have been fluctuations in numbers of agricultural co-operatives, there have also been clusters of all types of Australian co-operatives in geographical terms. Consumer co-operatives tended to be found in the coalmining areas of the states, New South Wales (NSW), Victoria, and WA.³² Agricultural co-operatives were generally found in areas where there were concentrations of small landowners such as dairy farmers, orchardists, sugar cane farmers, wheat farmers, and grape growers. The VHAACP has highlighted regional towns that have been historical hotspots for co-operative formation—Broken Hill (NSW), Bathurst (NSW), Toowoomba (Queensland), and Bendigo (Victoria). There are regional hotspots clusters such as the Northern Wheat Belt of WA and the Richmond River Valley of NSW, which currently has consumer, agricultural, fishing, and financial co-operatives.

The Visual Historical Atlas includes data on the end status of all types of co-operatives since the 1820s. Excluding ongoing co-operatives and co-operatives where final status was unknown, there are 2,689 co-operatives of all types in the sample that no longer exist. Of these, 161 co-operatives were demutualized, while 1,447 had their registration cancelled, largely due to inactivity or insufficient

²⁸Lewis, 1992, 375–6; Lewis, 2006, xvii–xviii; Patmore and Balnave, 2018, 64, 101–2.

²⁹Watson, 2000, 270–5.

³⁰Telfer, 2012, 75.

³¹CBH, 2019, 9.

³²Balnave and Patmore, 2012, 987–9.

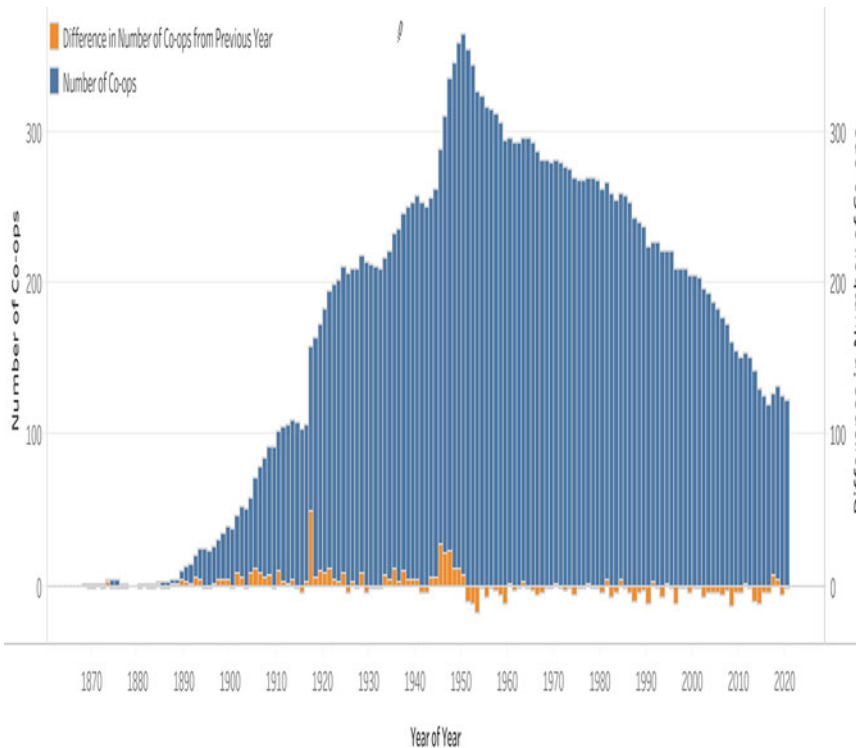


Figure 1. Agricultural Co-operatives in Australia, 1868–2020
Source – VHAACP Version 19.0, June 2020

funds to complete the formalities of liquidation, 711 liquidated, 358 amalgamated, and 12 ceased as co-operatives for other reasons such as insufficient capital to commence operations. Demutualization relates to a viable ongoing entity and does not include the purchase of co-operative assets by an IOB as part of a liquidation process, as occurred with the takeover in 2020 of the University Co-operative Bookshop by Booktopia in Australia.³³ Demutualization can be a slow process. Westralian Farmers' Co-operative was an example of a slow demutualization with a partial demutualization arising from launching of Westfarmers Ltd. in 1982 and full demutualization in 2001 with a final exchange of co-operative shares for Westfarmers Ltd. shares. The Westralian Farmers' Co-operative, controlled by Westfarmers, remained registered until 2015, when any remaining assets were transferred to a new IOB.³⁴

Demutualization is one of many paths for Australian agricultural co-operatives. There are examples of Australian agricultural co-operatives that have been a product of mutualization of private enterprises. The Killarney Dairy Company in Queensland faced a major crisis in 1920 with the end of war-time controls releasing huge stocks of butter onto the open market and depressing prices. Its production processes were very primitive and labor intensive. Christian Petersen, the Danish Company manager, drawing upon the Danish experience of co-operative dairying, persuaded the board of directors to convert the company into a co-operative in 1922 owned by the milk suppliers. This injected new capital and enthusiasm into the enterprise and ensured its survival.³⁵

Demutualization has been a feature of Australian co-operatives since the nineteenth century. Before the 1880s there were at least two demutualizations as Victorian goldminers transformed early worker co-operatives into IOBs to raise capital to purchase machinery as goldmining shifted from alluvial

³³*Sydney Morning Herald*, 31 January 2020, 8.

³⁴Sayer, 2009, 99–102, 106–7.

³⁵Telfer, 2012, 7–9.

Table 1. Demutualizations, 1880–2019

Decade	Number of total demutualisations from sample	% of total sample	Number of agricultural co-operative demutualizations from sample	Agricultural co-operative demutualizations as % of total demutualisations from sample	Agricultural co-operatives as % of total agricultural demutualizations 1880–2019 from sample
1880–1889	2	1	0	0	0
1890–1899	7	4	1	14	1
1900–1909	15	9	4	27	5
1910–1919	2	1	0	0	0
1920–1929	9	6	5	56	6
1930–1939	1	1	0	0	0
1940–1949	2	1	1	50	1
1950–1959	8	5	5	63	6
1960–1969	6	4	3	50	4
1970–1979	9	6	6	67	8
1980–1989	24	15	13	54	16
1990–1999	20	13	11	55	14
2000–2009	30	19	17	56	22
2010–2019	25	16	13	52	16
	160	100*	79		100*

*Rounded

Source – VHAACP Version 19.0, June 2020

mining to hard rock mining.³⁶ As Table 1 indicates, every decade since the 1880s has witnessed demutualizations. The peak in 1900–9 is largely explained by the termination of the land leases of co-operative community settlements along the Murray River by the South Australian government and the transfer of the land to private landowners.³⁷

Before 1980 agricultural co-operatives constituted 41 percent of demutualizations. Examples of the demutualization of agricultural co-operatives included the South Australian Farmers' Co-operative, which had a range of agricultural interests such as wool sales and dairy processing, was a precursor of what was to come. Concerned at the long-term viability of the co-operative, with issues such as the loss of markets arising from the United Kingdom's interest in joining the European Common Market, the board of directors hired management consultants, who convinced the board of directors that there were fundamental problems inherent in the co-operative capital and finance model that reduced the flexibility required for survival. On the 5 November 1970, the co-operative became a publicly listed company on the Adelaide and Melbourne stock exchanges. Another significant example was the Eden Fishermen's Co-operative Society in NSW in 1979, the first known case in the Visual Historical Atlas of a demutualization of an Australian fishing co-operative, following issues with H. J. Heinz, the multinational food processor, over the marketing of the catch.³⁸

Over the last four decades there has been a surge of all types of demutualizations with 62 percent of demutualizations in the Visual Historical Atlas occurring during that period with 2000–9 being the peak decade. Despite the GFC, demutualizations continue with a recent example being the financially

³⁶Age (Melbourne), 29 January 1857, 3; *Ballarat Times*, 16 July 1869, 2; *Co-operative News* (UK), 27 December 1873, 638.

³⁷Mack, 1994.

³⁸*Canberra Times*, 20 April 1979, 3, 10 August 1979, 17; Lewis, 2006, 230–1; Southern Farmers Group, 1998, 41–8.

troubled Murray Goulburn, Australia's largest dairy co-operative, which was taken over by the Canadian dairy giant Saputo in 2018.³⁹ Since the 1980s, agricultural co-operatives constituted 54 percent of the demutualizations, with agricultural production co-operatives such as dairy processors representing 43 percent of the agricultural co-operatives demutualized. Agriculture co-operatives followed the overall trend with the peak of seventeen agricultural demutualizations (32 percent of agricultural demutualizations since 1980) occurring from 2000 to 2009. These demutualizations included significant agricultural co-operatives such as the Ricegrowers Co-operative Mills in NSW with a turnover of A\$246 million and assets of A\$378 million and the South Australian Co-operative Bulk Handling, which had a turnover of approximately \$100 million and assets of approximately \$320 million. The bulk handling co-operative had 17,365 members and approximately 500 employees.⁴⁰

While the Visual Atlas does not provide data on the economic performance of co-operatives after they demutualize, there is some evidence from other sources of a concern by farmers about the loss of control they had in their former co-operative. Where dairy co-operatives have demutualized, such as with Murray Goulburn in Victoria, former dairy farmer members continued to value the co-operative business model, with the formation of the Mountain Milk Co-operative in 2017. While wheat farmers had taken a profit from the sale of their shares with the demutualization of the South Australian Co-operative Bulk Handling, those who remained in farming felt a loss of ownership and control particularly after 2009 when the demutualized co-operative was acquired by Viterra, Canada's largest grain handling business. Similar tensions can be seen with Bega Cheese, which is headquartered on the South Coast of NSW. The Bega Co-operative Society deregistered in June 2009 after voting to change its capital structure into an unlisted public company and subsequently becoming publicly listed on the Australian Stock Exchange in August 2011. While Bega Cheese placed a cap on the number of shares a shareholder could own to protect it against a corporate takeover, the proportion of shares held by local dairy farmers has declined and corporate shareholders such as NZ Dairy Giant Fonterra have purchased shares. A vote to remove the cap was narrowly defeated at the 2015 Annual General Meeting reflecting growing tensions between farmer members and corporate shareholders and highlighting a risk that demutualization may lead to the loss of local control and Australian ownership.⁴¹

Why Demutualization since the 1980s?

As Battilani and Schröter argue, changes in cultural values provide an important explanation for increased demutualization in Australia since the 1980s. Australian co-operatives were in a political climate since the 1980s that favored privatization and deregulation to make the Australian economy more globally competitive. There was a period of federal Labor Government from 1983 to 1996, the longest in Australian political history. The Hawke-Keating Labor Governments were willing to dump Keynesianism and social democratic policies, which were viewed as discredited by the collapse of the postwar boom and needed to establish their economic credentials as a responsible party of change and modernization following the apparent economic mismanagement of the Whitlam Labor federal government, which held power from 1972 to 1975. They embraced pre-Keynesian "neo-classical" economics as part of their drive to modernize Australia. The consequences of this thinking were the dismantling of state regulation, state enterprise, and public investment.⁴²

There was the floating of the Australian dollar in December 1983, which gave the financial markets increased power over government economic policy. Other changes included the abolition of exchange controls; the deregulation of the financial sector, which increased competition for financial co-operatives such as credit unions and building societies; and major tariff reductions in 1988 and 1991. There was also strong advocacy by the Labor Government of free trade agendas in international forums such as GATT. The shift toward the market led to abandonment by the Labor Party of its

³⁹Hadfield, 2018.

⁴⁰Adelaide Advertiser, 29.04.2000, 56; Mazzarol et al., 2014, 114.

⁴¹Australian Broadcasting Commission, 2015; BCCM, 2020; Lewis, 2006, 352–3; Mazzarol et al., 2014, 114, 134.

⁴²Patmore and Coates, 2005, 129–30.

traditional view of public ownership and its desirability as early as 1986. It opposed the call for privatization by the Liberals in 1985 but supported privatization on a case-by-case basis by 1988. Major state enterprises such as Qantas and the Commonwealth Bank were privatized, while the monopoly of the state-owned Telecom was broken up. The level of proceeds from privatization in Australia from 1990 to 1997 was A\$61,269,000,000, which in US\$ terms was the second highest in OECD countries exceeded only by the United Kingdom and in terms of a percentage of GDP ranked second behind New Zealand. A significant legacy is the National Competition Policy Act, which requires both federal and state governments to implement comprehensive promarket programs under the supervision of the unelected and unaccountable National Competition Council. Successive Liberal National and Labor governments, both at a state and federal level, built their economic policies on these foundations.⁴³

The adoption of neoliberal policies was also extended to agriculture where the main thrust of Australian agricultural policy was the enthusiastic advocacy of free trade and the curtailment of domestic support for Australian farmers through schemes such as income stabilization. Agricultural agencies, such as the Australian Bureau of Agricultural Resource Economics and major farming organizations, accepted the tenets of neoliberalism to the extent that agricultural policy making was closed to those who disagreed with the new prevailing economic approach. This policy direction had begun with the exclusion of Australia from its main export market in the United Kingdom when it entered the Common Market in 1973, but was reinforced by neoliberalism and the “inability of an economically small, export dependent country to compete with the subsidies of European and North American competitors.”⁴⁴ Both state and federal governments encouraged deregulation in agriculture by removing the monopoly power of state based bulk handlers and single desk marketing boards such as the Australian Wheat Board and the Australian Barley Board, which were respectively privatized in 1998 and 1999, and the abolition of minimum price regulations and milk production quotas.⁴⁵

The shift toward neoliberalism further weakened co-operatives through isomorphism. With very few exceptions, such as state marketing boards and water irrigation schemes in NSW and WA,⁴⁶ the enthusiasm for privatization in Australia related to the conversion of state assets to IOBs rather than mutual ownership. Policy makers generally viewed corporations rather than co-operatives as more efficient entities. Professor Allan Fels, chair of the federal Australian Consumer and Competition Commission from 1995 to 2003, criticized co-operatives in 1995 for being anticompetitive, as they represented an agreement among competitors, while Federal Treasurer Peter Costello in May 1999 saw demutualization as an important trend in helping major sectors of the Australian economy respond to increased competition and structural reform.⁴⁷ An Australian Senate Inquiry found in 2016 that there were “restrictive practices” in government grants and funding mechanisms that disadvantaged co-operatives “against other types of business structures.”⁴⁸

There was also a reduction of direct state assistance toward the development of the sector. While NSW state Labor governments in the 1980s actively promoted co-operatives, the Carr Labor Government disbanded the Co-operatives Policy Branch and transferred its officers to the Co-operatives Registry in 1998. Despite protests from the Co-operative Federation of NSW, the government also transferred the registry to the regional center of Bathurst following a promise to a marginal electorate in the 1999 state elections, with only one of forty staff making the transition, leading to a significant loss of “corporate memory.”⁴⁹

The shift toward neoliberalism shook traditional approaches to management both in co-operatives and IOBs. Co-operative boards turned to consultants to help guide them through a maze of “new compliance issues” and advise them on changes in the legal, accounting, and economic environment. While the NSW

⁴³Patmore, 2019, 135; Patmore and Coates, 2005, 132–4; Reserve Bank of Australia, 1997.

⁴⁴Dibden et al., 2009, 302.

⁴⁵Mazzarol et al., 2014, 113; Todd, 2001, 243; Thomas, 2006, 15.

⁴⁶Lewis, 2006, 237–9; Plunkett et al., 2010; WAMMCO, 2020.

⁴⁷Commonwealth of Australia, 1998, 3031; Lewis, 2006, 257.

⁴⁸Commonwealth of Australia, 2016, 39.

⁴⁹Lewis, 2006, 154–62, 204.

Co-operatives Act 1992, which came into force in May 1993, for example, aimed to increase co-operative transparency and accountability, co-operative directors now faced considerable penalties, including imprisonment for a breach of duty. Consultants had very limited familiarity or sympathy with the principles of the co-operative business models, given the lack of co-operative education in tertiary educational institutions that taught law, accounting, and business. There was a link between the privatization of state assets and the demutualization of co-operatives with consultants playing a key role in promoting both. Gresham Partners Management Limited developed an expertise in the agribusiness sector through “restructuring” both co-operatives and statutory agricultural boards. There were also “success fees” for consultants if they successfully demutualized co-operatives and consultants targeted co-operatives that had considerable assets and a healthy balance sheet.⁵⁰ As Lewis argues their advice “was incestuous or narrow in its world view and reflected a corporate paradigm” with an emphasis on “recommendations for profit maximisation, enhancing share value, external investments and competitive advantage.”⁵¹

There was also a shift to independent directors who were not members. Following the repeal of the Bulk Handling Grain Act, which gave a monopoly to South Australian Co-operative Bulk Handling, by the South Australian State Government in 1996, the co-operative’s board of directors decided to deal with a more competitive market by appointing directors with specialist business skills. Peter Gunner, the first nongrower director of the co-operative, appointed in 1996, would eventually become chair of a new entity in 2004 that arose following the demutualization of the co-operative in 2000.⁵²

Another way for co-operatives to deal with the changing business environment was to import senior executives from IOBs, who had little sympathy for the co-operative business model. They could shift the culture of the co-operative by controlling key appointments such as Chief Financial Officer, appointing external directors to the board and hiring consultants who may also have little sympathy for the co-operative business model and shift it toward an IOB. Gary Helou, who had been manager of a division of an IOB, was initially appointed General Marketing Manager and eventually the CEO of the Rice Growers’ Co-operative in October 1999. He closed several of the co-operative’s rice mills in regional centers in NSW and Victoria before overseeing the demutualization of the co-operative in 2005. He argued that demutualization was necessary to raise capital and that banks better understood the IOB model in providing finance. Helou eventually went in 2011 to Murray Goulburn, Australia’s largest dairy co-operative, where he partially floated the co-operative on the Australian Stock Exchange in July 2015 through a new entity entitled MG Unit Trust with an initial capitalization of \$438 million raised though the issue of 209 million nonvoting units to more than 600 new investors. He resigned in April 2016 but laid the groundwork for the demutualization of Murray Goulburn in 2018.⁵³

There were a variety of arguments to promote demutualization among members of agricultural co-operatives. When the directors of the Producers’ Markets Co-operative in WA were faced with increased costs with the movement of the Perth Metropolitan Markets to a new site at Canning Vale in 1989, they tried unsuccessfully to raise further capital from members. Rather than raising the capital through loans, they accepted legal advice that the simpler approach was for the co-operative’s shares and assets to be purchased by a shelf company. A WA agricultural co-operative, which wanted to wind up due to the aging profile of its members, decided to demutualize on the advice of its accountants to ensure that members received the full capital value and avoid any community obligations to distribute any surplus after members were refunded the value of their shares.⁵⁴

While co-operatives faced a shift in the political and economic environment, there were some early legislative attempts in NSW, Australia’s largest state, to block demutualization, which focused on co-operative governance and increasing the sources of co-operative capital to undermine the argument

⁵⁰Gresham Partners, 2002; Lewis, 2006, 193; telephone discussion with Wally Newman, former CBH chairman, 8 April 2020.

⁵¹Lewis, 2006, 237.

⁵²Thomas, 2006, 105.

⁵³*The Australian*, 18 December 1998, 26; 28 December 2019, 16; *The Land*, 16 January 2020, 21; *Weekly Times*, 23 December 1998, 12; 27 October 1999, 4.

⁵⁴Government of Western Australia, Department of Consumer and Employee Protection Records, Perth, Box R040064174; letter from Phillips Fox to Corporate Operating Division, Corporate Affairs Division, 29 August 1989, State Records Office of WA, Perth, Series 2497, cons6371, item 000142.

that the co-operative model could not meet the capital demands of the changed economic environment. In NSW agricultural co-operatives faced corporate raids, whereby “dry” shareholders were targeted by those promoting demutualization. The Nepean Dairy Co-operative, where “dries” formed 92 percent of the shareholders, was taken over by United Dairies in 1984 with an offer of \$43 for each share with a face value of \$2. Similarly, the Farmers’ GRAZCOS co-operative, which provided sheep-shearing services and conducted wool auctions, was converted to a company, Pafinda Foods, in 1986 following a A\$15.6 million offer by corporate raiders to the “dries.” Pafinda Foods was also interested in acquiring Dairy Farmers, the large NSW dairy co-operative, whose managing director, Don Kinnersley was aware that the co-operatives’ “dries” were a threat to producer control but needed their capital.⁵⁵

The NSW government responded to the attack on Dairy Farmers by amending the Co-operation Act in October 1987 with the aim of returning control to active shareholders by preventing “dries” selling shares to outsiders and forcing “dries” to pay out their shares at \$2 each with no capital gain. Pafinda Foods, through a subsidiary, the Bodalla Company, took advantage of the push to amend the act to make an offer of \$5 per share, which would allow Pafinda Foods control of Dairy Farmers at less than its asset value. Dairy Farmers responded by shedding its “dries” before they could take up the offer and creating a new share policy that related shares to the volume of member business, which blocked the Pafinda takeover as Bodalla only supplied 0.4 percent of Dairy Farmers’ milk. The loss of capital arising from buying out the “dries” combined with uncertainty surrounding the deregulation of the dairy industry led Dairy Farmers to merge with two other co-operatives in January 1990 to form Australian Co-operative Foods, which was partially demutualized in 2004 with Dairy Farmers Co-operative Ltd. being registered as an NSW co-operative to supply milk.⁵⁶

The NSW Co-operatives Act 1992 provided for Co-operative Capital Units (CCU), which were a new form of co-operative capital “designed to permit the holders to share profit and risk in the co-operative without gaining any of the benefits of the membership or contravening co-operative principles.”⁵⁷ There was legal confusion about the nature of the CCU, which was viewed as a cross between a share and a loan, with the legislation giving the co-operative a great deal of discretion to determine its precise terms. The tax implications were also unclear and there were the longstanding co-operative concerns that if large amounts of capital were held by nonmembers this could threaten the member control of the co-operative through the threat of capital withdrawal. The CCUs were poorly taken up and failed to attract much capital. By 2000 only six co-operatives had issued CCUs and overall the legislation “was a non-event.” By 2007 only one further co-operative had taken up CCUs.⁵⁸

The failure to follow up the problems relating to CCUs with effective political lobbying reflects the longstanding weakness of co-operative organization at a state and national level with co-operative law being administered at a state level. At a state level, there was interest in forming co-operative peak organizations, but these were generally short-lived. Two longstanding examples of state peak bodies include the Co-operative Federation of Western Australia, which was formed in October 1919 at the instigation of the Westralian Farmers’ Co-operative Ltd. and dominated by farmers’ co-operatives, and the Co-operative Federation of Queensland founded in 1945. At a national level, after at least three previous Australian Co-operative Congresses, a Commonwealth Consumers Co-operative Conference with representatives of co-operatives from six states held at the Albert Hall in Canberra in December 1943 led to the establishment of a permanent secretariat in Canberra known as the Co-operative Federation of Australia (CFA). The CFA, however, remained weak and fluctuated in its level of activity, becoming moribund in 1986. The CFNSW, which was established in 1964, formed its own Australian Association of Co-operatives, which collapsed in 1993, with NSW co-operatives reforming CFNSW. After further unsuccessful attempts to form a national organization, in the wake of the UN International Year of

⁵⁵GRAZCOS, “Sixtieth Annual Report. 1979,” Typescript. SC331/2/9, Tasmanian Archives and Heritage Office; Lewis, 1992, 423; Lewis, 2006, 316; Todd, 2001, 200.

⁵⁶Lewis, 2006, 316–22; Todd, 2001, 30–3.

⁵⁷Magarey, 1994, 114.

⁵⁸Lewis, 2006, 190–3; Magarey, 1994, 114–15; NSW Office of Fair Trading, 2007.

Co-operatives 2012 co-operatives and mutuals launched a new national organization called the Business Council of Co-operatives and Mutuals in July 2013 to represent the whole sector.⁵⁹

Resisting Demutualization in Agriculture: CBH and NORCO

Within some Australian agricultural co-operatives there was resistance to demutualization, with two notable examples of successful resistance being CBH and NORCO. They are good case studies for testing the inevitability of agricultural co-operative demutualization with their long histories and growth. As noted previously NORCO was established in 1893, while CBH was formed in 1933. These co-operatives operated in environments that reflected a neoliberal shift toward market deregulation in the 1980s and 1990s with the dismantling of market stabilization schemes in both wheat farming and dairying that offered price and income stability. CBH and NORCO looked to outside assistance to help them survive the changing market landscape through consultants, independent directors, and a CEO from outside the co-operative sector.⁶⁰

Both co-operatives shared common features that helped resist the movement toward demutualization. They are based in regions that historically have had clusters of co-operatives that reinforce co-operative networking and ideology: the Wheatbelt of WA and the Richmond River Valley of NSW. They have been strong promoters of co-operative ideology and have played important roles in supporting co-operative federations at a local, state, and federal level. While WA unlike NSW co-operative legislation was silent on the issue of “dries,” CBH rules required a member to be an “active grower” for at least two seasons or otherwise their shares would be purchased for the face value of A\$2 and redistributed to new members. While NORCO dairy farmers operated in a relatively smaller area, wheat farmers in CBH were spread across a far larger area. The CBH Board, however, consisted of directors only elected by wheat farmers from geographical electorates, which structurally embedded the notion of economic democracy and control in CBH culture. While both co-operatives faced declining memberships due to increased competition and the consolidation of farms, both were financially healthy. NORCO’s membership was in decline from 834 in 1992 to 301 in 2012, but both turnover and assets almost doubled, with NORCO having assets of A\$141million and a turnover of A\$345 million in 2011–12. CBH’s membership fell from 9,622 in June 1992 to approximately 7,500 by 2002, but turnover grew from A\$101 million in 1991–2 to A\$228 million in 2000.⁶¹

Within this context CBH management and its board conducted a major campaign to demutualize. There was the departure of key CBH personnel with Ray Delmonico, who had served as general manager leaving in 1994 after eight years in that position and service with CBH that began as a casual wheat bin assistant in 1944, and Mick Gayer retiring as chair of CBH after twenty-five years in 1996. From 1996 CBH began to review its operations in response to the greater competitive pressures by for example initiating in January 1997 a Strategic Receiving Point Program that concentrated capital investment in the fifty-eight most strategic sites for receiving grain to provide members with a better service and reduce costs. There was also a shift to a corporate culture with a focus on KPIs, team clusters, and mission statements, with CBH management drawing on practices of IOBs such as ICI and Colgate-Palmolive. They recruited consultants such as Gresham Partners, Price Waterhouse Coopers, and Clayton Utz to support and justify the restructuring.⁶² The CBH leadership was also influenced by the work of the US economist Professor Michael Cook, an advocate of the life cycle theory of agricultural co-operatives, who was reported by a CBH publication in 1998 as arguing that co-operative notions of “self-help” were no longer popular, and co-operatives would need to redefine “property rights” to survive.⁶³

⁵⁹Balnave and Patmore, 2012, 992–4; *Courier Mail* (Brisbane), 12 April 1946, 2; 25 July 1946, 2; Lewis, 2006, 151; Patmore and Balnave, 2018, 212–13; *Victorian Co-operative News*, Winter 1995, 4.

⁶⁰Mazzarol et al., 2014, 113, 119–20; Todd, 2001, 33–40.

⁶¹CBH, 1992, 9; 1993, 23; 1998, 7; 2000, 30; 2002, 2; Cheong, 2006, 227; NORCO, 2006, 10; 2009, 4.

⁶²Ayris, 1999, 174; *CBH Topics*, February 1996, 261; Goldfinch, 2003, 136–7; *New Horizon* (CBH), September 1999, February 2000; *Weekly Staff Bulletin* (CBH), 3 November 1995, 1; 17 November 1995, 3; 24 January 1997, 1; 31 January 1997, 1–2; 26 February 1997, 3–5; 7 March 1997, 2–4.

⁶³*The Newsletter* (CBH), June 1998.

CBH management and the board initiated the push toward demutualization in 1999–2000 with a top-down campaign targeting both employees and members. Newsletters, *New Horizon* and *CBH Corporate Restructure*, were published to put the case for demutualization, which included arguments that legislative changes weakened CBH’s status as a co-operative; growing wheat farmer debt; the need to raise capital to remain competitive; increased share value beyond the current value of \$2 per share; and that National Competition Policy would force the restructuring of CBH anyway. Proposed changes to the WA co-operative legislation, which required changes to CBH’s constitution by a members’ vote, were viewed as costly and a “distraction.”⁶⁴ A company was justified as “a stronger and more flexible structure, better suited to a competitive industry structure”⁶⁵ and CBH drew upon the decision of South Australian Co-operative Bulk Handling, their South Australian equivalent, to demutualize in August 2000 to support the restructuring. There were video cassettes promoting restructuring circulated to members, prize competitions for members who gave the best answer for favorably weighted questions relating to the restructure, and meetings with members to explain the restructuring. Staff were surveyed on their views on the restructuring and given a chance to win “New Horizon” caps and t-shirts if they participated in a similar competition for CBH members.⁶⁶

There were concerns among growers about the proposed demutualization. The board of directors did agree to split the demutualization from listing on the ASX to meet members concerns that the CBH should be operating at an optimum level before listing to ensure the best share price. There were also concerns about the movement away from the co-operative principle of one vote for each member irrespective of the size of their investment with the CBH board capping the maximum number of votes for each individual to ensure the support of smaller shareholders. While 58 percent of voting members voted for demutualization on 29 September 2000, the numbers were not sufficient to meet the 75 percent required by CBH rules and 65 percent of members did not vote.⁶⁷

Within CBH there was growing resistance to demutualization following the failure of the September 2000 attempt. Wally Newman, who joined the CBH Board of Directors in a by-election of May 2000 when a director had to resign for personal reasons, was a strong opponent of the demutualization push, circulating antidemutualization circulars and speaking against it, being ostracized by the other directors for his views. He provided the focus for the shift of CBH away from demutualization questioning the claims that demutualization would leave members better off and supporting the principle of democratic control by farmers. Other directors elected in the wake of the failed restructuring vote, such as Richard Steel, also supported the retention of the co-operative structure on similar grounds. Newman eventually became the CBH chair in August 2014. Andy Crane, who became CBH CEO in April 2009 and had co-operative sympathies, challenged those who supported demutualization by undertaking a series of member meetings in September and October 2010 and a member survey that highlighted their support for the co-operative model.⁶⁸ Neil Wendel, then CBH chair, subsequently stated that “we are confident that a co-operative structure will not only enable us to compete against bigger international grain businesses but give us an advantage.”⁶⁹ An extraordinary meeting of CBH members on 4 May 2011, with unanimous support of the board of directors, voted 96.66 percent to endorse the co-operative model by registering under the new WA Co-operatives Act 2009. More recently CBH adopted rules that required a 50 percent turnout in a demutualization vote and promoted co-operative education. Despite the concerns of those supporting demutualization, CBH continued to grow, merging with the Grain Pool of WA in November 2002, with a revenue of A\$228 million in 2000 increasing to more than A\$4.4 billion in 2019.⁷⁰

⁶⁴ *CBH Corporate Restructure*, January 2000; *New Horizon* (CBH), September 1999; *Weekly Staff Bulletin* (CBH), 30 June 2000, 3.

⁶⁵ *New Horizon* (CBH), September 1999.

⁶⁶ *New Horizon* (CBH), February 2000, August 2000; *Weekly Staff Bulletin* (CBH), 30 June 2000, 3–4, 25 August 2000, 1.

⁶⁷ *New Horizon* (CBH), June 2000, August 2000; *Topics* (CBH), November 2000, 7; *Weekly Staff Bulletin* (CBH), 29.09.2000, 1.

⁶⁸ Discussion with Wally Newman, CBH Chairman, 27 July 2018, Como (WA); *Pick of the Crop* (CBH), March 2009, 2; June 2010, 5; August 2014, 6; *Topics* (CBH), August 2000, 6; *Weekly Staff Bulletin* (CBH), 23 February 2001.

⁶⁹ *Pick of the Crop* (CBH), October 2010, 3

⁷⁰ *CBH* (2000) 30, (2019), 9; *Pick of the Crop* (CBH), June 2011, 2; *Weekly Staff Bulletin* (CBH), 8 March 2002, 1; 1 November 2002, 1.

NORCO experimented with ways of raising capital that did not involve demutualization and the board of directors remained committed to the co-operative model with the support of NORCO's members. NORCO decided in September 1993 to issue CCUs, which gave none of the rights and privileges of a NORCO member, hoping to attract funds at less than overdraft rates. NORCO, however, found CCUs not effective in raising capital and poorly understood by the general public, members, administrators, and financial institutions. NORCO in 1995 also amended its rules to allow for two independent directors but subject to member endorsement. They could be nominated by the board of directors but had to be endorsed by a vote of more than 50 percent of members. There were two between 1995 and 2000 but there were no further appointments after 2000. Consultants became embedded within NORCO, with NORCO managers remembering that consultants were given too much influence inside the dairy co-operative and began pushing for demutualization before 2008. The consultants claimed that the traded shares following demutualization would be worth more than co-operative shares due to NORCO's increasing profitability.⁷¹

NORCO also appointed Murray Richardson as the new CEO in September 2004 with a background outside the co-operative sector in IOB food processors such as Nestlé. Richardson strengthened NORCO's market position through a number of strategies such as a strategic alliance in May 2006 with Fonterra, the New Zealand global dairy co-operative, to provide manufacturing facilities and supply milk on a preferred basis in exchange for sales, marketing, and distribution support. Richardson showed an interest in demutualization noting that the demutualization Bega Co-operative Society placed the former Co-operative in "a terrific position to grow with a new capital structure and strong profits." He resigned in July 2008 as his views did not align with NORCO Board of Directors' support for the co-operative business model.⁷²

Conclusion

This study provides the first in-depth study of demutualization in Australia, which has been viewed as an early mover in demutualization, drawing upon comprehensive data collected by the researchers and provided by the VHAACP as well as specific research case studies of agricultural co-operatives. Demutualization has been a feature of Australian co-operative history since the 1850s, but since the 1980s there has been a surge of interest in demutualization, particularly in agriculture, continuing after the GFC despite the GFC raising questions about the value of the IOB. One of the major drivers for this, as Battilani and Schröter have highlighted, was a cultural shift arising from neoliberalism that has been promoted by Labor and conservative governments in Australia through deregulation, privatization, and embracing of globalization. Australia during the 1990s was a leading OECD economy in the privatization of state assets. This policy direction had begun in agricultural policy with the exclusion of Australia from its main export market in the United Kingdom, when it entered the Common Market in 1973 but was intensified by neoliberalism and the state subsidization of European and North American competitors. This cultural shift encouraged isomorphism with the idea that there was a convergence toward the more successful IOB at the expense of the co-operative business model. This can be seen in government practices that favored IOBs over co-operatives and the decline in state resources relating to the co-operative sector.

Co-operatives faced a new and uncertain environment and turned to consultants and imported managers from IOBs, many of whom had little sympathy for the co-operative sector and saw co-operatives as undervalued in terms of their assets. Consultants also linked privatization of state assets and the demutualization of state assets through the promotion of IOBs. There was also interest in ideas that favored co-operative demutualization such as those found in the co-operative life cycle theory of agricultural co-operatives. Co-operative members faced a range of arguments favoring

⁷¹Email communication with from Mark Meyers, NORCO Co-operative Secretary, 16 March 2021; interviews with Mark Myers, NORCO Co-operative Secretary, Greg MacNamara, NORCO CEO, 11 March 2019, Lismore, NSW; NORCO, AGM Minutes, 24 September 1993. Held in NORCO Head Office, Lismore, NSW.

⁷²*Dairy Dialogue* (NORCO), 13 August 2004, 1; 14 March 2008, 2; 15 August 2008, 1; interviews with Mark Myers, NORCO Co-operative Secretary, Greg MacNamara, NORCO CEO, 11 March 2019, Lismore, NSW.

demutualization in a changing economic and legal environment that indicated that it was a simpler way than trying to meet the challenges through the co-operative structure. While there were some legislative attempts to redress the vulnerability of co-operatives to corporate raiders and increase the options available to co-operatives to raise capital, the co-operative legislative response was weakened by poor co-operative organization at a state and federal level.

While the environment favored a shift toward demutualization, there were examples of successful resistance by the large agricultural co-operatives CBH and NORCO. Both co-operatives faced market deregulation and turned to outside consultants. NORCO briefly experimented with independent directors and imported a CEO from the non-co-operative sector to deal with these changes. CBH and NORCO shared the issue of a declining membership but were still increasing revenue. Both were located in regions that were co-operative clusters and long-standing promoters of the co-operative business model. They retained a homogenous membership with a focus on the best return for their product through minimizing the threat of “dry” shareholders. CBH management and its board of directors initiated a sophisticated campaign to win over both members and employees drawing upon a range of experts, member meetings, competitions, and special publications to win the member vote. Member resistance, however, shifted CBH from a situation where the board of directors and the CEO supported a push toward demutualization in 2000 to a situation in 2011 where members overwhelming supported the co-operative model. Despite an interest by consultants and a senior manager in demutualization, the NORCO Board of Directors and its members remained committed to the co-operative business model.

Demutualization is not an inevitable outcome of a life cycle for the co-operative model in agriculture as managers can make strategic choices that ensure co-operative survival and success in a competitive market and members can rally to support a model that allows their voice to influence their economic well-being. While co-operatives are a business, they are underpinned by an ideology and culture that emphasizes the benefits of mutuality rather than individualism.

References

- Albaladejo, Francisco and Tito Menzani. 2017. “Co-operative Wineries in Italy and Spain in the Second Half of the Twentieth Century: Success or Failure of the Co-operative Business Model?” *Enterprise and Society* 18 (1): 32–71.
- Ammirato, Piero. 2018. *The Growth of Italian Co-operatives: Innovation, Resilience and Social Responsibility*. Routledge.
- Australian Broadcasting Commission. 2015. “Close Run Bega Cheese AGM Voting Pits Farmers Against Corporate.” Accessed 17 March 2020, <https://www.abc.net.au/news/rural/2015-10-29/close-run-bega-cheese-agm-voting-pits-farmers-against-corporate/6896568>
- Australian Government. Department of Agriculture, Water and Environment. 2020. “Snapshot of Australian Agriculture 2020.” Accessed 17 March 2020, <https://www.agriculture.gov.au/abares/publications/insights/snapshot-of-australian-agriculture-2020#around-70-of-agricultural-output-is-exported>
- Ayris, Cyril. 1999. *A Heritage Ingrained: A History of Co-operative Bulk Handling Ltd. 1933–2009*. CBH.
- Balnave, Nikola and Greg Patmore. 2012. “Rochdale Consumer Co-operatives in Australia: Decline and Survival.” *Business History* 54 (6): 986–1003.
- Barton, David. 1989. “What Is a Co-operative?” In *Co-operatives in Agriculture* edited by David Cobia. Prentice Hall.
- Battilani, Patrizia and Harm Schröter. 2012. “Demutualization and Its Problems.” In *The Co-operative Business Movement, 1950 to the Present*, edited by Patrizia Battilani and Harm Schröter. Cambridge University Press.
- Birchall, Johnston. 1994. *Co-op: the People’s Business*. Manchester University Press.
- Birchall, Johnston. 1997. *The International Co-operative Movement*. University of Manchester Press.
- Birchall, Johnston. 2011. *People-Centered Businesses: Co-operatives, Mutuals and the Idea of Membership*. Palgrave Macmillan.
- Business Council of Co-operatives and Mutuals. 2020. “Co-operative Conversations: Episode 2.” Accessed 17 March 2020, <https://bccm.coop/project/co-operative-conversations-episode-2/>
- CBH. 1992. *Annual Report 1992*. CBH.
- CBH. 1993. *Annual Report 1993*. CBH.
- CBH. 1998. *Annual Report 1998*. CBH.
- CBH. 2000. *Annual Report 2000*. CBH.
- CBH. 2002. *Annual Report 2002*. CBH.
- CBH. 2019. *Annual Report 2019*. CBH.
- Chaddad, Fernando and Michael Cook. 2004. “The Economics of Organization Structure Changes: A US Perspective on Demutualization.” *Annals of Public and Co-operative Economics* 75 (4): 575–94.

- Cheong, Elizabeth. 2006. "The Agricultural Co-operative Business Structure in Context: A Western Australian Study." Accessed 17 March 2020, <http://ro.ecu.edu.au/theses/56>
- Co-operatives Research Group, The University of Sydney, 2021. "Visual Historical Atlas of Australian Co-operatives." Accessed 8 March 2021, <https://www.sydney.edu.au/content/dam/corporate/documents/business-school/research/research-groups/visual-historical-atlas-of-australian-co-operatives.pdf>
- Commonwealth of Australia, Parliamentary Debates, 1998. House of Representatives. Appropriation Bill (No. 1) 1998–99. Second Reading Speech. Tuesday 12 May 1998. Commonwealth of Australia.
- Commonwealth of Australia, Senate, Economics References Committee. 2016. *Co-operative, Mutual and Member-Owned Firms*. Commonwealth of Australia.
- Cook, Michael, 1995. "The Future of US Agricultural Co-operatives: A Neo-Institutional Approach." *American Journal of Agricultural Economics* 77 (5): 1153–9.
- Cook, Michael and Molly Burress. 2009. "A Co-operative Life Cycle Framework." Accessed 10 March 2020, <http://departments.agri.huji.ac.il/economics/en/events/p-cook.pdf>
- Davis, Kevin. 2001. "Credit Union Governance and the Survival of the Cooperative Form." *Journal of Financial Services Research* 19 (2/3): 197–210.
- Davis, Kevin. 2005. "Credit Unions and Demutualisation." *Managerial Finance* 31(11): 6–25.
- Dibden, Jacqui, Clive Potter and Chris Cocklin. 2009. "Contesting the Neoliberal Project for Agriculture: Productivist and Multifunctional Trajectories in the European Union and Australia." *Journal of Rural Studies* 25: 299–308.
- DiMaggio, Paul and Wally Powell. 1983. "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organisational Fields." *American Sociological Review* 48 (2): 148–60.
- Goldfinch, Richenda. 2003. *Legends of the Grain Game*. CBH.
- Gresham Partners. 2002. "Gresham Partners." Accessed 10 March 2020, https://webarchive.nla.gov.au/awa/20010115141000/http://www.gresham.com.au/live/foodpartners_mn.html
- Gurney, Peter. 1996. *Co-operative Culture and the Politics of Consumption in England, 1870–1930*. Manchester University Press.
- Hadfield, Miles. 2018. "Murray Goulburn Shareholders Approve Sale to Canadian Dairy Saputo." Accessed 3 February 2020, <https://www.thenews.coop/127785/sector/murray-goulburn-shareholders-approve-sale-canadian-dairy-saputo/>
- Hansmann, Henry. 1980. "The Role of the Non-Profit Enterprise." *The Yale Law Journal* 89 (5): 835–901.
- Hansmann, Henry. 1996. *The Ownership of the Enterprise*. Harvard University Press.
- Helmberger, Peter. 1966. "Future Roles for Agricultural Co-operatives." *Journal of Farm Economics* 48 (5): 1427–35.
- Hilson, Mary. 2017. "Co-operative History: Movements and Businesses." In *A Global History of Consumer Co-operation since 1850: Movements and Businesses*, edited by Mary Hilson, Silke Neunsinger and Greg Patmore. Brill.
- Hind, Abigail. 1999. "Co-operative Life Cycles and Goals." *Journal of Agricultural Economics* 50 (3): 536–48.
- Kalmi, Panu. 2007. "The Disappearance of Cooperatives from Economics Textbooks." *Cambridge Journal of Economics* 31 (4): 625–47.
- Keillor, Steven. 2000. *Co-operative Commonwealth: Co-ops in Rural Minnesota, 1859–1939*. Minnesota Historical Society Press.
- Lewis, Gary. 1992. *A Middle Way. Rochdale Co-operatives in New South Wales 1859–1986*. Australian Association of Co-operatives.
- Lewis, Gary. 2006. *The Democracy Principle. Farmer Co-operatives in Twentieth Century Australia*. Author.
- Mack, David. 1994. *The Village Settlements on the River Murray in South Australia 1894–1909: A Chronicle of Communal life and Hardship*. Author.
- MacPherson, Ian. 1979. *Each for All: A History of the Co-operative Movement in English Canada, 1900–1945*. Macmillan.
- Magarey, Donald. 1994. *Guide to the NSW Co-operatives Law*. CCH.
- Mazzarol, Tim, Elena Mamouni Limnios and Richard Simmons. 2014. "To Be or Not to Be a Co-op? The Case of Australia's Grain Co-operatives CBH and ABB Grain." In *Research Handbook on Sustainable Co-operative Enterprise: Case Studies of Organisational Resilience in the Co-operative Business Model*, edited by Tim Mazzarol, Sophie Reboud, Elana Mamouni Limnios and Delwyn Clark. Elgar: 113–39.
- NORCO. 2006. *Annual Report 2006*. NORCO.
- NORCO. 2009. *Annual Report 2009*. NORCO.
- NSW Office of Fair Trading. 2007. *Co-operative Capital Units and Co-operative Principles Summary*. NSW Office of Fair Trading.
- Patmore, Greg. 2019. "Different Types of Societal Regulation: Coordinated Market Economy, Social Democracy, Aspiration of Worker Control." In *Handbook of the Politics of Labour, Work and Employment*, edited by Gregor Gall. Elgar: 127–43.
- Patmore, Greg. 2020. *Innovative Consumer Co-operatives: The Rise and Fall of Berkeley*. Routledge.
- Patmore, Greg and Nikola Balnave. 2018. *A Global History of Co-operative Business*. Routledge.
- Patmore, Greg and David Coates. 2005. "Labour Parties and the State in Australia and the UK." *Labour History* 88: 121–42.
- Patmore, Greg, Nikola Balnave and Olivera Marjanovic. 2019. "Visualising Organisations over Time and Space: The Visual Atlas of Australian Co-operatives." In *Contemporary Issues in Work and Organisations*, edited by Russell Lansbury, Anya Johnson and Diane van den Broek. Routledge: 143–55.
- Plunkett, Brad, Fernando Chaddad and Michael Cook. 2010. "Ownership Structures and Incentives to Invest: Dual-Structured Irrigation co-operatives in Australia." *Journal of Institutional Economics* 6 (2): 261–80.
- Reserve Bank of Australia. 1997. *Privitisation in Australia*. Accessed 23 March 2021, <https://www.rba.gov.au/publications/bulletin/1997/dec/2.html>
- Sayer, Rosemary. 2009. *The CEO, the Chairman and the Board. Trevor Eastwood*. Hardie Grant Books.

- Southern Farmers Group. 1998. *The First Century: Southern Farmers*. Southern Farmers.
- Telfer, John. 2012. *Killarney Co-operative Limited: A History, 1922–2012*. Killarney Co-operative.
- Thomas, David. 2006. *A Golden Era: Celebrating 50 years of Bulk Grain Handling in South Australia*. ABB Grain.
- Todd, Jan. 2001. *More Than Milk: Dairy Farmers and the Co-operative Response to Industry Deregulation*. Hale and Iremonger.
- WAMMCO. 2020. “Brief History of WAMMCO.” Accessed 23 March 2021, <https://www.wammco.com.au/about/brief-history-of-wammco>
- Watson, Catherine. 2000. *Just a Bunch of Cow Cockies: The Story of the Murray Goulburn Co-operative*. Murray Goulburn Co-operative.
- Wilson John, Anthony Webster and Rachael Vorberg-Rugh. 2013. *Building Co-operation: A Business History of the Co-operative Group, 1863–2013*. Oxford University Press.