7. To be or not to be a co-operative? The case of Australia's grain co-operatives CBH and ABB Grain

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This chapter examines the parallel histories of two of Australia's largest bulk grains handling co-operatives, Co-operative Bulk Handling (CBH) and the South Australian Co-operative Bulk Handling (SACBH), later named AusBulk and then ABB Grain Ltd. Both co-operatives provide an insight into the forces that shape a co-operative enterprise and provide lessons for why such businesses form and why they survive or disappear. The case demonstrates how co-operative enterprises respond to pressures from government regulation, external market competition and the internal forces of management and member desires for investment returns or continuing patronage.

The chapter is organised into the following sections. It draws upon the conceptual framework of the co-operative enterprise business model outlined in Chapter 2 (see Figure 2.1) and Cook's (1995) 'co-operative life cycle theory'. First there is an overview of the two case study firms and the methodology used in the research. Then a brief history of the development of the Australian bulk grains industry is provided, followed by a historical examination of each co-operative through each of the five stages of the 'life cycle' framework. The chapter then examines the histories of the two co-operatives against the 'systems', 'enterprise' and 'member' level units of analysis outlined in the conceptual framework. Finally, it draws conclusions from the analysis and offers recommendations for future research and practice.

INTRODUCTION TO THE CASES AND METHODOLOGY

The two co-operatives selected for this chapter represent clear examples of how such enterprises are formed, move through their life cycle and either abandon their co-operative principles and convert into investor owned firms (IOF), or continue to remain co-operatives. Both co-operatives operated in the same industry in similar environmental, regulatory and industry contexts. Both have long histories that effectively chart the course of Australia's broad acre wheat and barley production from World War I to the first decade of the current century.

Co-operative Bulk Handling Group Ltd (CBH)

Established in 1933 CBH was Australia's largest co-operative business at time of writing. It is also one of the largest bulk grain handling and storage operations in the world. CBH is also one of Australia's major exporters and remains the only large Australian grain business still owned and controlled by growers.

The co-operative is headquartered in Perth, Western Australia (WA) and in 2011 it had an annual turnover of $1.9 billion and net assets of $1.1 billion. In 2012 CBH had a membership of 4,500 growers located across WA and employed around 2,500 people. As an integrated corporate group, CBH operates a bulk grain handling business consisting of 197 receival sites and four grain export terminals. The total storage capacity of CBH exceeds 20 million tonnes and the co-operative's average receivals are around 10 million tonnes per year, with a record harvest in 2011–12 producing a total of 15 million tonnes of grain (CBH 2013).

Around 95% of the WA grain harvest is exported and CBH operates a fleet of ships, plus a grain marketing and trading business, 'CBH Grain', that maintains a network of 15 offices: nine in WA, four in eastern Australia and one each in Hong Kong and Tokyo. The co-operative is also a partner in a joint venture, 'Interflour', that owns and operates a network of flour mills across South East Asia. Further, with 60% of all grain in WA being transported to port by rail, in 2012 CBH acquired a rail fleet. CBH has also a number of other smaller subsidiary companies.

CBH is a non-distributing co-operative, meaning that it does not issue dividends to members and enjoys tax exempt status on its core bulk grain handling business. Profit generated from the CBH Group's businesses is paid back to the enterprise for the ongoing maintenance and expansion of the co-operative. A feature of this business structure has been the need for CBH to allow non-members to trade with the co-operative in order to comply with the provisions of its tax exemption under Australia's tax codes. Further, if any profit is paid to members as rebates it must also be distributed to all growers who trade with the co-operative whether or not they are members.

SA Co-operative Bulk Handling Ltd /ABB Grain Ltd (ABB Grain)

Our second case involves two businesses with distinctly different origins that merged. The first was the South Australian Co-operative Bulk Handling Ltd (SACBH), a bulk handling co-operative business similar to CBH that was established in 1954 and grew into a major business operation by the end of the 20th century. In 2000 SACBH, which had a membership of 17,365 members, demutualised to form a hybrid company known as AusBulk-United Grower Holdings (Thomas 2006). The second business was the Australian Barley Board (ABB), which was established in 1939 as a statutory authority with monopoly control over all domestic malting barley. In 1999 ABB privatised to become ABB Grain and then merged with AusBulk-UGH in 2004. At its height ABB Grain was Australia's largest agribusiness with around 16,300 members, more than 4 million tonnes of storage capacity, over 1,100 employees and a diverse business portfolio including grain, malt, wool, fertilisers, chemicals, export marketing and bulk storage and handling. ABB Grain had also expanded into New Zealand, China, Egypt and the Ukraine. ABB Grain was eventually listed on the Australian Stock Exchange (ASX) as an investor owned business, but in 2009 it was acquired by Viterra, Canada's largest grain handling business.

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Methodology

The case study method was chosen for this research because it offers a suitable methodology for exploring a subject in-depth and in an environment where there is limited established theory (Chetty 1996). Case study methodology can be used to formulate new theory (Eisenhardt 1989), or to test theory (Yin 1989). In this case we are seeking primarily to test theory by using two cases to examine the validity of the conceptual framework outlined in Chapter 2. In the selection of these cases we sought to compare two very similar co-operatives with almost parallel histories, but quite different responses to their systems environment in the way their business models evolved. Multiple case studies enable comparisons and can support more robust theory (Eisenhardt and Graebner 2007). In fact the two 'cases' can be said to form a single case, in keeping with the notion that a case can be whatever 'bounded system' is of interest (Stake 1978).

Our case study development procedures were informed by Eisenhardt (1989, 1991) and Yin (1989). They involved the preparation of a detailed case study protocol that was used to guide all case data collection. The initial pilot case study was undertaken with CBH and was then used to revise the case study methodology. Data collection involved a review of published histories, plus annual reports and the construction of a time line of the co-operative from its establishment to the present day. A series of critical incidents were then identified within the time line to mark periods of major strategic change and importance. This critical incident time line was then used to guide in-depth interviews with current and past board members and senior executives from the co-operatives. These interviews typically lasted for around two hours with all discussions audio recorded for accuracy of subsequent transcription. Following transcription the cases were developed into large stand-alone case studies that followed a chronological format and these were sent back to the key managers within the co-operatives where possible for approval and validation. Our analysis follows a chronological approach as defined by Yin (1989) and draws together the available evidence using a historical case analysis technique (see: Superfine 2009; Coldwell et al. 2012). In doing so it focuses on the key constructs from the conceptual framework and also the five stages of the 'co-operative life cycle theory' (Cook 1995).

AUSTRALIA'S GRAINS INDUSTRY – AN OVERVIEW

Wheat has been grown in Australia since the earliest European settlement in 1788 (Hancock 1957). However, it was the introduction of mechanical ploughing and harvesting in the 1880s, plus drought and disease resistant wheat varieties, fertilisers and the expansion of inland rail networks that saw the industry begin to take off (ABS 2006). A range of summer and winter crops (e.g. wheat, barley, canola, sorghum) is grown across the continent in 'wheat belts' as illustrated in Figure 7.1. These grain producing areas were already establishing prior to World War I, but expanded rapidly in the 1920s and 1930s, then again in the period after World War II with the application of mechanisation to land clearing and production (Donath 1953).

Australia's climate is harsh, soils are fragile and distances to markets are significant. These environmental factors impact on the nature of grain production depending on the

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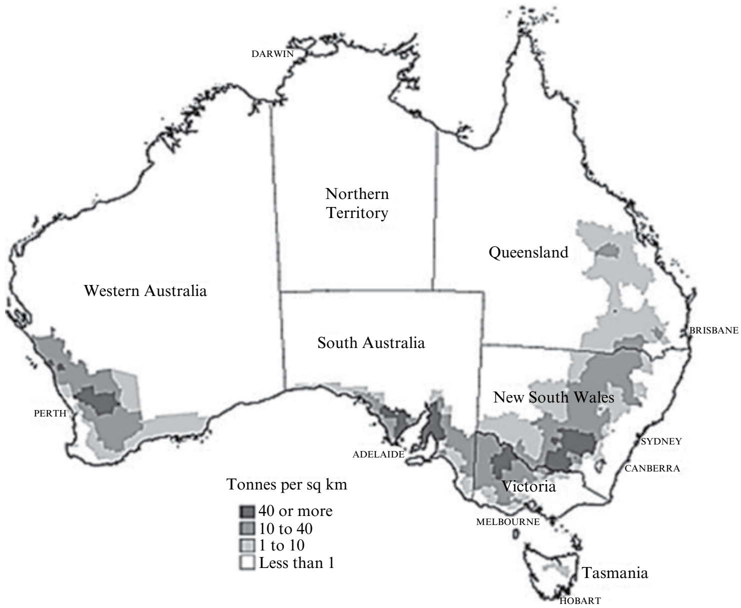

Source: ABS (2006).

Figure 7.1 The Australian wheat belts

region. For example, in South Australia (SA), New South Wales (NSW) and Victoria most crops are sold into domestic markets and farms tend to be smaller. In northern NSW and Queensland the climate is sub-tropical to tropical and farms are larger and produce a wide range of summer and winter crops. However, in Western Australia (WA) and the western side of SA, soils are poor, rainfall is low and local markets are small. Here farms are much larger and export focused (Knopke, O'Donnell and Shepherd 2000). For example, around 80% to 90% of grain produced in WA is exported, while two-thirds of the grain grown in eastern states is sold for domestic purposes (PWC 2008).

The Emergence of Bulk Grain Handling Systems in Australia

Large scale grain exports commenced in Australia in 1898 and increased during the first decades of the 20th century as steam ships replaced sail and loading systems improved. However, all grain was carried in jute bags which were well suited for sailing ships, but posed problems for handling and storage on land and in the larger steam vessels (Planner 1988). As grain production expanded in the early 20th century along with road and rail infrastructure a major problem emerged in the need for farmers to make use of jute bags to store and handle their crops. Even with the introduction of motor trucks and rail systems the use of jute bags required manual handling of grain and exposed the crop to pest infestation and spoilage from rain (Ayris 1999; Thomas 2006). Bulk grain handling systems had become well established across Australia by the 1950s, but use of jute bags continued (Donath 1953).

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Bulk handling of grain emerged in North America prior to World War I. An attempt to introduce such a system in NSW in 1906 failed due to the cost and lack of suitable shipping. Assessments of the feasibility of setting up bulk handling systems took place during the period 1912–14 in Victoria and SA. Yet despite their recognition of the benefits of bulk handling only NSW established a system under the *Grain Elevator Act 1916 (NSW)*, with the SA government rejecting it due to the high upfront cost of £1.1 million (Thomas 2006).

Pressure from growers and a desire by state governments to provide for more efficient and lower costs of transport and storage saw the spread of bulk grain handling systems throughout the 1920s and 1930s. Victoria set up a system under the *Grain Elevators Act 1934 (Vic)*, which like that of NSW was under state government control (Planner 1998). In WA, following significant lobbying by the Westralian Farmers' Co-operative, the Co-operative Bulk Handling Company Ltd of WA (CBH) was established in April 1933 following trials and the first export of bulk wheat in 1932. This was a co-operative enterprise based on the principles of one-member-one-vote regardless of the volume of grain delivered. The passage of the *Bulk Handling Act 1936 (WA)* granted CBH a 20 year monopoly to the handling and storage of all bulk grain in the state. In return, CBH was obliged to build a state wide network of bulk grain handling and storage facilities. The legislation specified that in areas of the state where there was a guaranteed annual wheat crop of 200,000 bushels not already within 40 kilometres of an existing site, CBH had to build a grain receival point or storage bin (Ayris 1999). For the next 40 years CBH continued to grow and expand the bulk grain handling system of WA.

In South Australia the adoption of bulk grain handling was delayed for decades due to government opposition, even when there was federal government funding of £3 million to state governments to help them establish bulk grain storage and handling systems. Opposition was based on cost and fears of a monopoly, with some politicians even suggesting jute bags were a superior option (Advertiser 1922). Attempts were made by the SA Wheat & Woolgrowers Association (SAWWA) to introduce the system in 1939 but it was not until after World War II that the rising cost of jute bags and loss to vermin prompted change. Eventually a vigorous grassroots lobbying campaign by farmers forced a change of mindset within the state parliament. This led to the establishment of South Australian Co-operative Bulk Handling Ltd (SACBH) in 1954. The new co-operative followed a similar governance model to CBH in Western Australia, and quickly began to establish its operations (Thomas 2006). As in WA the co-operative was regulated and granted a monopoly under the *Bulk Grain Handling Act 1955 (SA)*. The financial and governance arrangements for SACBH were for growers to pay a compulsory toll for all wheat they supplied. These tolls were set at a fixed rate per tonne and were treated as advances to the company without interest. They were to be repayable after 12 years and provided the base of financial capital for the co-operative (Thomas 2006, p. 22).

Queensland was the last state to adopt bulk handling and built its first bulk grain silos in 1955 with a port terminal facility opening in 1958 at the Port of Brisbane. The system established in Queensland was a hybrid that had some private and some government owned and operated organisations. Eventually this somewhat inefficient system was addressed with the creation in 1983 of Bulk Grains Queensland (BGQ). This new entity took a monopoly control over all grain handling in that state and used its power to invest

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in state of the art port terminal facilities at the Fisherman Islands Grain Terminal which opened in 1986 (Planner 1988).

THE CO-OPERATIVE LIFE CYCLE IN THE AUSTRALIAN GRAINS INDUSTRY

We commence this analysis with an overview of the co-operative life cycle theory applied to the Australian grains industry (see Brewin et al. 2008), in particular the two bulk handling co-operatives.

Stage 1: Formation (1914–1954)

As noted above the emergence of the bulk grain handling systems across Australia and the two co-operatives was driven in the first stage by the rising costs and inefficiencies of jute bags. While other states formed government owned state enterprises, WA and SA adopted co-operative enterprises that operated under state provided monopoly. Consistent with Cook's (1995) life cycle theory this stage was characterised by market failure and a willingness of growers to form together to establish the co-operatives. The delayed formation of SACBH was a key difference between the two enterprises although both followed similar business model structures.

During this time ABB was one of several single desk marketing authorities that were established in Australia during the Great Depression and World War II in order to coordinate the nation's grain markets. ABB was established along with the Australian Wheat Board (AWB); both organisations were to play a key role in the future of the WA and SA grain co-operatives during the final decades of the 20th century. These government statutory authorities held a monopoly over the purchase and marketing of selected grain (e.g. barley or wheat). However, such monopolies provided Australian growers with a degree of price stability which was critically important following the volatile and uncertain years of the 1920s and 1930s.

Stage 2: Growth and Consolidation (1960–1979)

The second stage of each of these co-operatives' life cycles was marked by steady growth within a highly regulated market environment. Not only did the two co-operatives enjoy the benefits of their monopoly control over bulk grain handling as provided under their state legislation, they also operated in a government controlled system of transportation and marketing. All rail freight and sea ports were state owned and operated. There were restrictions placed by government regulation on the movement of grain by road in order to avoid competition with state rail authorities (Brewin et al. 2008). This did not always result in efficiencies (Cracknell and Sing 2000), and as time progressed the cost effectiveness of road over rail transport improved (Fisher and Rose 2006).

This second stage was one of growth within a benign and stable environment lasting for around 20 years. CBH secured its tax exemption status in 1970, which enabled it to focus on the reinvestment of all profits back into the business. For members, the stability of grain pricing and the relative simplicity and comfort of dealing with a co-operative

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that operated in their interests ensured that member value was delivered. As suggested by the life cycle theory this second stage is one in which the co-operatives were able to provide members with benefits they could not achieve via alternative means (Cook 1995). Following the difficult and turbulent years of Stage 1, this period saw around 25 years of relative calm that allowed both co-operatives to expand their operations. However, the high degree of government regulation masked rising levels of inefficiency across the sector (Brewin et al. 2008) and in the business models of these co-operatives. This was already apparent to CBH by the early 1970s and triggered their network rationalisation and investment in the Kwinana port facility.

Stage 3: Market Deregulation (1980–1989)

Despite the introduction of new grain handling and storage facilities in the 1980s there was mounting pressure for market deregulation of the centrally controlled system of single desk monopolies in the Australian grains industry (Watson 1999; Brewin et al. 2008). This was motivated by the rising cost of bulk grain handling and the perceived inefficiencies within the sector. The state-owned bulk grain handling organisations in NSW and Victoria, and the statutory marketing authorities such as AWB and ABB were viewed by many as inefficient and overly bureaucratic (Whitwell and Sydenham 1991). Problems with the cost of rail freight also arose in NSW where it was cheaper by $6.70 per tonne to move grain to port by road than via the state owned rail system (Fisher and Rose 2006).

At stake were the market stabilisation schemes that had been put in place across Australia in the aftermath of the Great Depression and during the move to centralised control in World War II. Farmers preferred the security offered by single desk marketing, which offered price stability as monies earned from periods of high prices were set aside to offset returns in periods of low prices. These schemes offered guaranteed minimum floor prices based on costs of production and underwritten by government. These prices were also guaranteed for periods of five years (Watson 1999).

However, through the 1970s commodity prices on international markets began to fall while production costs rose and the Australian Government became uncomfortable with having to guarantee farm gate prices at rising production costs while not being able to recoup these from global markets. Furthermore, scientific and technical advances in production, storage and handling resulted in ever increasing production leading to growing stockpiles of grain (Thomas 2006).

The Australian economy was hit by a severe recession in the early 1980s leading to the election of the Federal Labor Government of Prime Minister Bob Hawke. His government commenced a process of market restructuring and deregulation designed to make the Australian economy more open and competitive. The natural environment was also affecting the grain industry with severe droughts impacting production levels across the eastern states of Australia, which never reached the levels enjoyed in the 1960s and 1970s (Payne and Donovan 1999). However, inefficiencies in bulk grain handling within NSW and Queensland triggered a Royal Commission in 1986. This led in turn to a recommendation for market deregulation. The passage of the *Wheat Marketing Act 1989 (Commonwealth)* commenced the process of deregulation across Australia by removing the monopoly power of the state-based bulk handlers and single desk marketing boards (Ryan 1994).

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This was a significant period within the co-operatives' life cycles and represents the type of environmental or market changes that occur within the third life cycle stage. As suggested by Cook (1995) the co-operative usually turns its attention inwards to address its own transactions costs and the five 'generic' problems of free riding, horizon, portfolio, control and influence cost that such external changes serve to amplify.

Stage 4: Strategic Choices (1990–2000)

For CBH and SACBH/ABB Grain the 1990s was a decade of strategic change which was to have significant impact on the business models of the two co-operatives. The entry of the United Kingdom into the European common market in 1973 had forced Australia to start looking for alternative markets. Fortunately for Australia's grains export marketing authorities the decline of the UK as a trade partner was counterbalanced by the rise of Japan and other non-traditional export markets. Throughout the 1970s and 1980s ABB had gradually expanded its marketing reach and established strong export markets in Asia. The early 1990s found ABB in control of over 90% of Australia's malting barley exports and 100% of domestic barley via its single desk arrangements. In the aftermath of the market deregulation that had taken place in the Australian grains industry during the 1980s, ABB had become more market oriented and saw its primary purpose as one of maximising the net returns to growers who delivered to its grain pool.

According to Cook's (1995) life cycle theory, by stage four the co-operative will be faced with management issues. Some of these may arise from members seeking to challenge collective ownership rights as the business is valuable and a demutualisation will yield a return to shareholders. There may also be pressure for the co-operative to invest heavily in future growth and the need to raise capital can also place pressure on the co-operative's share structure and governance. This leads to the co-operative's management having to decide whether they will exit, continue or seek a transition. These strategic choices confronted the two co-operatives during the 1990s.

Both co-operatives responded to the pressures of a deregulated market by reviewing their operations and seeking to achieve greater levels of efficiency. For example, in 1990 CBH entered into a five-year contract with the state rail authority and introduced new computer systems. By 1994–95 it had commenced a process of strategic review targeted at its employees and also at developing its future directions. This led to a major restructuring of the business in the period 1996–98 with most of these changes focusing on employee operations. In 1999–2000 a proposal from the CBH board to demutualise was rejected by the members who voted to remain a co-operative.

At the same time SACBH and ABB were travelling towards what would become a process of demutualisation in Stage 5. Having initially fought to keep its grain handling monopoly SACBH found itself increasingly under pressure from a rapidly deregulating east coast grains sector. In 1996 the members of SACBH voted to change the co-operative's constitution to allow the first non-grower to join the board. In 1999 ABB privatised to form ABB Grain Ltd raising $35 million but losing its monopoly over the handling and storage of malting barley. For Michael Iwaniw, CEO of ABB, the decision to move to an IOF business model was justified on the grounds of cost. In his analysis the traditional co-operative was inefficient:

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> One of the problems with co-ops is because they serve a master who is a grower they can lead to inefficiencies, but they don't actually create any value for that grower. It's a mistaken efficiency, if that makes sense, because basically, even if it is a co-op, it should be efficient. When we took over AusBulk the break even tonnage was about 63.8 million tonnes. We got it down to less than 1.8 million tonnes. Now we didn't acquire as many silos; we just looked at making that organisation stop unnecessary capital expenditure. That's the other thing – capital; co-ops don't tend to value capital because if they make money they have got to do something with it. So, what do you do? You build more silos; put bells and whistles on your silos. It's not necessarily a bad thing; it's just that with co-ops when you have a great year, what do you do with the money? (Iwaniw interview 2010)

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Stage 5: Implementing Strategies (2001–2010)

In the decade between 2001 and 2010 the final life cycle stage unfolded. Here the co-operatives sought to implement the strategic options they had taken in the previous stage. According to Cook (1995) in the final stage of the life cycle of a co-operative the management deals with these strategic choices and may exit via liquidation, merger or conversion to an investor owned firm. Alternatively the co-operative may choose to continue as a member owned business, but may look for external equity funding by partial conversion of its ownership structure, or getting members to generate the new capital through internal share issue.

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

As a result of the CBH-GPWA merger the monopoly over coarse grain (e.g. barley, lupins, and canola) export marketing previously held by GPWA was removed by the WA State Government in 2003. It was replaced by a Grain Licencing Authority (GLA) that issued bulk export licences for shipments of WA sourced grain in excess of 500,000 tonnes. AWB still controlled a monopoly over wheat exports, which accounted for 70% of the CBH throughput. However, it was clear to the CBH board that the market was moving towards deregulation. For many on the board, the creation of the GLA in 2003 was the 'starting gun of deregulation'.

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

Over the period 2005 to 2010 CBH continued to develop its joint venture which ultimately proved profitable for the co-operative. In 2008 it launched a new logistics management system 'Grain Express' designed to track grain across the entire system and enhance the flexibility of distribution. The following year CBH launched a second joint venture with Hudson Shipping lines in the area of shipping and stevedoring designed to control the movement of grain to its flour mills run by Interflour. By 2010 CBH was a highly diversified corporate group with a non-distributing co-operative at its core (CBH Operations) and subsidiary companies.

Rather than remaining as a co-operative or conversion into an investor owned firm a third option proposed by Cook (1995) is the transition into what has been described as a 'new generation co-operative' (see Nilsson 1999). This type of co-operative has closed membership, and delivery rights are tradable at a market rate. Such co-operatives can allow non-member investors to hold seats on the board, and members enjoy equal voting rights but proportionate equity rights based on volume of delivery. In this stage the co-operative becomes more 'offensive' in nature. Yet the final stage for SACBH was not to become a new generation co-operative. Instead it was demutualised into a hybrid business structure 'AusBulk-UGH'. AusBulk was owned 51% by a grower-owned company United Grower Holdings.

While these changes were taking place within SACBH, ABB was moving down a similar path. In 1990 ABB General Manager John Tansell retired and was replaced by his deputy Michael Iwaniw. This brought a new, more commercially competitive leadership to the organisation. The opening up of the wheat market and the privatisation of AWB meant that ABB was also under pressure. A review of the barley market in 1990–91 by the state governments of Victoria and South Australia took place along with a similar review in NSW. These reviews led to new barley marketing legislation in 1993 that opened up the domestic market but retained ABB's 'single desk' position for export markets. It also gave ABB the rights to trade in other grains and for the organisation to retain profits from levies so as to build up a financial capital reserve that could ultimately allow the business to operate independently of government.

By the end of the 1990s there was political momentum across state and federal governments to privatise ABB. This took place in July 1999 with the creation of ABB Grain Ltd, a company with A and B class shares. The A-class shares were held by growers who had the power to elect five of the seven board members. Only active growers were entitled to these shares and quotas were set on the quantity of grain that had to be supplied (25 tonnes per annum over three years). Share capital was not tradable, but could be redeemed by ABB Grain Ltd when the grower ceased being active. The B-class shares

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were tradable and $35 million in these shares was issued to growers and even the estates of deceased growers (Payne and Donovan 1999).

For ABB Grain Ltd the decade started with equal optimism. By 2002 ABB had listed its B-class shares on the ASX raising $22 million. With this funding ABB commenced a process of expansion and acquisition that continued for several years. In 2004 ABB Grain and AusBulk-UGH merged, into effectively a takeover by ABB Grain Ltd. This move was initially unpopular with the board of AusBulk-UGH but it was motivated by growers who considered that the amalgamation of these two entities would create a well-balanced business akin to that formed by the merger of CBH and GPWA.

Between 2004 and 2009 the newly formed ABB Grain Ltd made a series of acquisitions and also expanded its operations internationally in China, Egypt, New Zealand and the Ukraine, the latter being via a joint venture. It also diversified out of grain into wool. In 2007 ABB Grain Ltd redeemed all A-class shares as part of a financial restructuring. This effectively removed any protection of grower interests. The following year ABB embarked on a capital raising exercise that generated $187 million. Despite this funding ABB, now listed on the ASX, was vulnerable to takeover. In September 2009 it was acquired by Canada's Viterra for $1.6 billion. Shareholders were offered $9.11 to $9.59 per share in cash, stocks and special dividends.

SYSTEMS LEVEL ANALYSIS

From a 'systems level' perspective the life cycle patterns displayed by these two co-operatives have several common themes that support the conceptual framework described in Chapter 2. These relate to the role of social cooperation in helping to form the co-operatives in their early years, and the role of government in regulating and then deregulating the grain industry. Also shown are the important roles played by industry competition and the natural environment. Each of these forces is discussed in the following subsections.

The Role of Social Cooperation

As suggested by Birchall and Simmons' (2004) 'social cooperation theory' and Peredo and Chrisman's (2006) 'theory of community-based enterprise', the antecedent conditions required to establish and sustain a co-operative enterprise are the presence of resources or skills within the community, the motivation or shared goals that the community can use to drive its action, and the capacity of the community to mobilise itself for a collaborative endeavour. These elements are enhanced by the presence of social capital which forms around interpersonal relationships based on mutual benefits, reciprocity and trust (Winter 2000; Adler and Kwon 2002).

During the first stage of these co-operatives' life cycles the economic and environmental pressures that had created a market failure were addressed through social cooperation. Unlike NSW and Victoria that established state-owned enterprises to supply the bulk handling infrastructure, WA and SA had to employ alternative business models. Their adoption of a co-operative enterprise business model was facilitated by the existence of pre-existing grower co-operatives (e.g. Westralian Farmers' Co-operative and

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SAWWA). It should be noted that farmer political activism was strong in Western Australia, which was the state in which the Country Party of Australia was founded in 1913. Also relevant was the influence of the 'soldier settler' schemes that saw thousands of ex-servicemen from World War I take up small blocks of farmland using grants provided by the federal government (Radi 1974). These settlement schemes helped to expand the wheat belts (Stimson 2011), but also infused into the farming communities people with strong bonds of mateship who faced common challenges of land clearing and cultivation in a harsh environment.

The Westralian Farmers' Co-operative (est. 1915) was a key actor in mobilising the necessary resources required to establish CBH. It lobbied the WA state government in 1931 to introduce a state-wide bulk grain handling scheme for wheat and used its resources to mobilise farmers to raise the necessary capital to found CBH. Despite their initial failure growers in SA also demonstrated social cooperation via the work of the Farmers' Bulk Handling of Grain Co-operative in the 1920s and SAWWA in the 1930s and 1940s. Their eventual success in the 1950s involved a significant effort of grower mobilisation:

> The scene was now set for what became an almost evangelical crusade to garner grower commitments. Application forms were forwarded to every grower, and the South Australian Wheat and Woolgrowers' Association mounted extensive public meetings across the state through its branch membership . . . Grower support was overwhelming. The Association's branches around the state reported 100% in favour. (Thomas 2006, p. 23)

These motivations were driven by common economic challenges facing growers in the two states. For example, WA growers had been paying a significant amount for the transportation of wheat in jute bags. It was estimated that as much as 14% of the total revenue from the WA wheat export crop was absorbed in the purchase of jute bags (Planner 1988). These high costs were threatening the viability of the WA growers. As described earlier, this was also a problem for the SA growers who continued to suffer the high cost of having to use jute bags through until the 1950s. The two co-operatives emerged from a desire by growers to solve the problem of rising costs of storage and handling, the problems of spoilage and the need to compete with growers in North America who had more efficient rail transportation systems and lower storage and handling costs (Fisher and Rose 2006). While growers in other states of Australia had government provided bulk grain storage and handling systems, those in WA and SA had to make use of the co-operative business model to address their needs.

The Role of Government

The role played by government can be clearly seen in the evolution of these co-operatives. This took the form of the passage of the *Bulk Grain Handling Act 1936 (WA)* and *Bulk Grain Handling Act 1955 (SA)*, which granted the co-operatives state wide monopolies in their respective industries. Under these legislative structures the co-operatives were able to grow their business operations and had to build their respective networks in order to fulfil the requirements of the Acts.

The provision of tax exemptions assisted the co-operatives from a financial perspective. When CBH secured its tax exemption in 1970 it required an amendment to the state

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legislation that governed the co-operative's operations. Under a new constitution rebates were not permitted to be distributed solely to members, and in the event that the business was wound up the distribution of any assets owned by the co-operative was to be made at the discretion of the state government. The argument put in favour of this governance and share capital structure was that it would allow CBH to accumulate surplus profits and reinvest them into the resources it needed for future growth such as the Kwinana grain port facility it was then about to build without having to increase tolls and levies to growers (CBH 1970).

The decision to hold a Royal Commission into bulk grain handling and subsequently introduce the *Wheat Marketing Act 1989 (Commonwealth)* led to the loss of the monopolies the co-operatives had enjoyed (Watson 1999). These government decisions to achieve greater market efficiencies triggered the deregulation trend that flowed on throughout the 1990s and 2000s. For example, in 1990 there were 15 different organisations engaged in the Australian grain industry. This included 10 state or national marketing boards including AWB and ABB plus the Grain Pool WA (GPWA). The other five organisations were bulk grain handling organisations including Bulk Grains Queensland, Grain Elevators Board of Victoria, Grain Handling Authority NSW, as well as CBH and SACBH. Over the next twenty years this number of organisations was steadily reduced to four, only one of which, CBH, was a co-operative.

The Role of Industry Structure and Market Competition

Industry structure reflects the 'five forces' influencing market competition originally identified by Porter (1979, 1980, 1981). These relate to the amount of competition found within a market and the degree of bargaining power of suppliers and buyers in that market; and also to the ease with which new entrants can enter the market and the potential for substitution threats to emerge that will reshape the existing market via technology or other forms of innovation.

As described above, until the 1990s the structure of the Australian grains industry in which CBH and SACBH/ABB operated was heavily regulated and dominated by monopolies. However, over the next years the former government owned bulk handling enterprises, statutory marketing authorities and at least one of the two co-operatives had been privatised. Yet the effect of this deregulation was the concentration of market power into a relatively small number of private rather than government or grower owned enterprises.

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

The other major actor in the grains market was AWB, which restructured from a government business entity with a monopoly over all wheat exports into a private company in 1999 (Watson 1999). While not a co-operative, AWB was privatised by issuing shares

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to people identified as 'growers' who then had the power to elect the chairman and most of the board. In 2001 B-class shares from AWB were publicly traded on the ASX, and in 2008 – despite strong opposition from farmers' groups – all share capital was converted to a single class, removing any special rights of growers.

The transition of the AWB from a statutory authority with grower controlled board to an investor owned firm listed on the ASX set a precedent for other grain marketing and bulk handling and storage enterprises across Australia. However, it was not necessarily a good outcome for the growers:

> The dismantling of the centralised domestic wheat marketing system reflected an acceptance of arguments for the efficiency and benefits to consumers of competition and the consistency and transparency of the state not playing favourites. Producers are expected to use storages, marketing information, some of which is state provided, and modern communications to survive as market power shifts more towards buyers. (Cockfield and Botterill 2007, p. 52)

The forces of deregulation impacted on the relationship between SACBH and ABB. An outcome of the Royal Commission on storage handling and transport was the requirement that AWB 'maximise net return to growers', which led the wheat marketing agency to negotiate charges. These provisions flowed onto the legislation governing the marketing of barley. According to Thomas (2006):

> This initiated a major philosophical debate about the nature of the commercial relations between growers, marketers and handlers. SACBH vigorously maintained that it had been formed by growers to provide storage services on their behalf. Conversely, both the AWB and the ABB saw SACBH as a service provider accountable to them only. (Thomas 2006, p. 114)

This triggered a significant debate over the charging structure that SACBH could impose and the ability of the co-operative to set charges without negotiation with AWB and ABB. According to ABB Grain CEO Michael Iwaniw there were several triggers during the early 1990s that led to the privatisation. There was already pressure for market deregulation from the farmers' lobby groups, but it was the collapse of the State Bank of South Australia in 1991 that he felt was the main catalyst:

> So basically what happened was that the governments of South Australia and Victoria decided they wanted to demutualise ABB and that was supported by the farmers' federations . . . the reasons were basically that the government had an implicit guarantee in our borrowings. When the State Bank collapsed here in South Australia and Liberal Party got in . . . we were the biggest liability on their books. (Iwaniw interview 2010)

With state government guarantees to ABB of around $600 million there was a desire to move the organisation from government control to private ownership. Thus by the end of the 1990s both SACBH and ABB had converted from co-operative and state owned enterprise into grower owned companies under corporations' law.

By comparison with their colleagues in South Australia, CBH was not under as much pressure to demutualise. The relative isolation of Western Australia's grains industry meant that it was somewhat insulated from the deregulation and privatisation momentum sweeping the other states. However, CBH was not totally immune and in 1998 there was a move by the co-operative's board of directors to undertake a corporate restructure

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and convert the company to a grower controlled public company along similar lines to AusBulk-UGH (CBH 1999). However, the board required a 75% approval from the members to succeed and this was not achieved. As one former CBH board member recalls, this push for demutualisation was driven by corporate consultants:

> No, the push [that] came from the 1990s was driven by consultants who had a financial incentive. They were on incentives, on a success fee. It was a big issue; I was a dissenting director on that. I was the only one on the whole board putting up the 'No' case against the entire board, and the management were putting up the 'Yes' case. (CBH board member interview 2011)

Another former CBH board member suggested that the pressure for demutualisation was being driven by the management team and fellow directors who were caught up with the idea of corporatisation:

> Now the directors of the day were a bit like kids in a lolly shop. They could see that the Bulk Handling Act was going to be dismantled, they were going to change to a fully corporatised structure under Corporations' Law, and the directors were running around quite foolishly saying . . . we are going to take over this and take over that . . . And they only just missed out on getting the 75% vote to change its structure. (CBH board member interview 2011)

The interviews highlighted that one of the key drivers of this push for demutualisation was the increasing number of retiring farmers, who were interested in redeeming their real equity, especially as CBH's profitability increased post 1996 (a typical horizon problem). The national and international industry changes certainly contributed to a cultural shift in the member base which was open to exploring alternatives to the 'grower ownership and control' approach that was prevalent in the 1970s and 1980s. Therefore as the 1990s ended CBH had also flirted with demutualisation but remained a traditional and non-distributing co-operative.

The Role of the Natural Environment

In addition to industry structure and competitive forces, the natural environment has significant potential to impact on co-operatives, particularly agricultural producer enterprises. Corporate responses to the environment encompass a complex mixture of issues that take on a strategic perspective when set against the context of the other three input factors (Banerjee, Iyer and Kashyap 2003). The geography of WA and SA were also key factors in the formation of the co-operatives. Both states have grain producing areas that are spread out over vast geographic areas and are more focused on export. Grain handling and transportation is therefore a more critical issue than is the case in NSW, Victoria or Queensland, and can be significantly more costly in areas that are more remote from the ports. A co-operative business model offered a solution to this market failure by effectively cross-subsidising transportation costs across the network (CBH board member interviews 2011). In the years prior to the establishment of CBH, WA growers were experiencing significant competitive disadvantages in the form of transport, handling and shipping costs which a bulk handling system operated via a co-operative business model was able to address (Fisher and Rose 2006).

The natural environment's role can also be seen in the impact of climatic conditions in farming. WA growers did not have the same options as their counterparts in other states,

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who could grow a wider range of crops across both seasons, and substitute their incomes with a diversity of livestock. Furthermore, natural environment conditions impact on loss of grain to spoilage and pest infestation. This led to government intervention in the form of Royal Commissions that in turn helped to promote the opportunities for the co-operatives to emerge (Ayris 1999). Yet during the period of market deregulation following the introduction of the *Wheat Marketing Act 1989 (Commonwealth)* the geography of WA helped to protect CBH:

> We had impermeable borders, our growers are totally dependent on the export market, and they can't truck into the nearest market. South Australians have a border with Victoria and originally when the singe desk was state based, it was very difficult to stop flows happening between Victoria and New South Wales. (CBH Board member interview)

By comparison SACBH was facing drought in 1989 and the geography of South Australia meant that the worst affected areas were in the west on the Eyre Peninsula. Here the ports were smaller and the farming conditions harsher. The introduction of differential port handling charges disadvantaged these growers, who could not seek access to alternatives (Thomas 2006).

The rapid pace of industry competition that had emerged during the 1990s coincided with changes to the natural environment. This was acknowledged by CBH in their Annual Report of 2007 that noted concerns over climate change. It reported that there had been more erratic peaks and troughs in their harvests over the previous decade. This had posed a challenge for their grain operations. They needed to keep overhead costs down during times of drought while retaining the capability to receive increasing crop sizes (CBH 2007).

These changes to climate meant that the cycles of drought and rains were becoming less predictable than had been the case in the 1960s and 1970s. At the same time the market deregulation of the 1980s and 1990s was posing new competitive challenges. For example, in 2001 the newly formed AusBulk-UHG received its largest ever harvest of 8.6 million tonnes and its storage capacity reached 10 million tonnes. However, the company also began to experience competition within South Australia from AWB which started to build rural storage facilities in that state. As the decade progressed competition increased while the climate became more unpredictable. The period 2006–08 was one of particularly severe drought, reducing the volume of grain and impacting on the financial position of ABB Grain Ltd, which had been formed from the merger of AusBulk-UGH and the former ABB.

The export markets served by ABB were drawing not only from South Australia but also from Victoria and NSW. Poor harvests caused by drought meant that in 2007–08 following two consecutive years of drought there were no bulk exports from NSW and exports were subdued in SA and Victoria (Productivity Commission 2010). According to Michael Iwaniw, the long periods of drought that affected South Australian and Victorian grain production in this period served to weaken ABB Grain Ltd and made it a takeover target for Viterra in 2009:

> We had four droughts and the droughts that we had meant that we got less than half or just over; we averaged around about half our average receivals in those years of drought. If you took CBH and compared us, they had 6–7 million tonnes four years in a row. I guarantee you

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> their changes wouldn't be what they were if they had experienced drought, you have to do something; you can't just continue cutting costs . . . Had we not had those droughts and we had had average crops we might have been having a go at Viterra. I mean, we were a volume business, ABB made a $50 million profit after tax in a drought year. Had we had normal years our profit would be about $100 million to $120 million after tax . . . under different circumstances ABB would have survived; we had board members a bit split; we had just gone through four droughts which helped the process and weakened the resolve to stay. And you know there were a lot of arguments – climate change started coming into it; you are never going to get a good crop. I mean we had a top crop last year and a good crop this year. (Iwaniw interview 2010)

The combination of environmental and industry change within the systems level of these two businesses were major forces for strategic change in this stage of the life cycle. For both CBH and ABB Grain Ltd there was a strong focus on 'drought proofing' their businesses.

Economic and Social Capital Outputs

As outlined in the conceptual framework described in Chapter 2, there are two key outputs from the co-operative enterprise in the form of economic and social capital. In terms of these outputs the cases show the significant contribution that these co-operatives made to their respective members. In economic terms both CBH and SACBH/ABB Grain grew into multi-billion dollar international businesses that generated significant revenues from exporting and offshore ventures. Both co-operatives built substantial physical infrastructure and developed world-class systems that helped to add considerable value to the Australian economy. As they grew these two co-operatives provided thousands of direct and indirect jobs, and had beneficial impacts on the rural economy through investment in R&D in grain production, storage and handling, plus the upgrading of road, rail and port facilities (Productivity Commission 2010).

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

From a social capital perspective the democratic principles inherent in the co-operative business structure protected smaller growers and guaranteed that their views would be heard. The need for all member voices to be heard meant that the boards and senior management teams of these co-operatives had to engage with members in making all major strategic changes to the business. Failure to adequately communicate and win the members' trust risked failure as took place in the abortive plan for the demutualisation of CBH in 1999–2000. The decision by CBH members to eschew financial dividends in order to retain the non-distributing, tax exempt status of the co-operative can be viewed as a willingness to sacrifice personal gain for a perceived greater benefit to the wider community of WA growers.

By comparison, the decision by members of SACBH to demutualise and form AusBulk-UGH led ultimately to a loss of grower control under ABB Grain, although members did not intend this when the process was first proposed. Despite the ultimate

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abandonment of its co-operative status SACBH/ABB Grain did generate a good deal of social capital during its time. An example of this is given by Payne and Donovan (1999) in their official history of the organisation. They relate the response from members over the process of demutualisation:

> Some farmers had mixed feelings about the change of ownership. Many still recalled stories told by their fathers and grandfathers about growers being manipulated by grain agents in accepting low prices for their goods . . . They were concerned to retain something of the old ABB, however, particularly the regional offices and regional officers who spoke the farmers' language, so they could be sure ABB staff members would support them and speak for them. They also wanted to retain a Board which had a 'quiet gentlemanly way of doing business', comprising people who were considered honourable. (Payne and Donovan, 1999, p. 166)

The sense of understanding the farmers and looking after their specific needs was a key aspect of what formed the culture of these co-operatives, although it is not easily measured and is often overlooked or taken for granted.

ENTERPRISE LEVEL ANALYSIS

At the enterprise level the key units of analysis are the co-operative's purpose, profit formula, processes and resources, share structure and governance arrangements. These six elements form the core of the business model and how they are configured results in the creation of a member value proposition (MVP).

Purpose

It can be seen from the life cycle analysis discussed above that the primary purpose for the creation of the two co-operatives was the need to find a cost efficient method of bulk grain storage and handling. Unlike the other states where government owned enterprises were created to solve the problem, both WA and SA had to develop co-operatives working under state provided monopoly rights. From a business model perspective these conditions enabled CBH and SACBH during the early stage of their life cycles to focus on a clear purpose, accumulate the necessary resources, and develop the processes to deliver a member value proposition. Economic value was generated from these business models. For example, by 1943, only ten years after its establishment, CBH had repaid all its original start-up debts of £100,000, and increased its storage and handling network throughout the remainder of that decade. It continued to expand profitably during the rest of its history.

In the case of SACBH, once it had demutualised into AusBulk-UGH and then following the merger with ABB, it began to focus more on the generation of profits and undertook an international expansion into export marketing, professional agribusiness services, fertilisers and wool. In 2003, following ASX listing the previous year, ABB had commenced an expansion by acquisition and merger strategy. Throughout 2004 ABB acquired a professional grain services company and a fertiliser business. Then in 2007 it acquired wool businesses in Australia and New Zealand and formed a joint venture in the Ukraine grains industry. The process of demutualisation and conversion into an

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investor owned firm had altered its purpose from delivering efficient bulk grain handling to growers, to returning capital investment gains and dividends to shareholders.

Profits, Processes and Resources

The processes and resources of the co-operatives evolved in response to the system level forces described earlier and the demand from members for value by way of lower costs and greater efficiency. This resulted in CBH seeking to rationalise its grain receival network down from over 300 sites with storage capacity of 3 million tonnes in 1969, to 193 receival sites with 3.7 million tonnes storage capacity in the early 1970s. This was a controversial issue and required the CBH Chairman Mick Gayfer to travel around the state talking to members and explaining the need for this change, often in the face of vocal opposition (Ayris 1999). SACBH also expanded its operations and in 1962 it secured a contract from ABB to handle all the barley across the state, requiring it to build a network of new storage facilities. By 1965 it had storage capacity of around 1.3 million tonnes and had opened a series of bulk grain handling terminals at the sea ports of Thevenard in 1961, Port Pirie in 1962, Port Adelaide in 1963 and Port Giles in 1969 (Thomas 2006).

Major expansions of infrastructure took place in the 1970s with CBH raising a bank loan of $42 million (the largest bank loan ever issued in Australia to that time) in 1970 to build the Kwinana grain storage and shipping terminal (Ayris 1999). When opened it was the largest facility of its kind in the world (Planner 1988). During the 1980s, while facilities upgrades continued, the focus shifted onto the use of new technologies and scientific advances in grain storage and handling (CBH 1985). This saw the introduction of climate controlled silos with sealing and fumigation to protect against insect and vermin infestation. Both co-operatives invested heavily in such systems during this period as well as introducing new computer based management systems. Industrial relations also loomed as important issues in this period, following severe strikes at WA ports in 1979 that resulted in the suspension of grain export and risked pitting growers against the stevedore unions (*West Australian* 1979; *Western Farmers* 1979).

Throughout the twenty years from 1990 to 2010 the process of acquiring new resources continued as did the enhancement of processes. In the case of SACBH/ABB the 1990s was marked by the acquisition of bulk loading ports and the upgrading of existing facilities, plus the introduction of new computer data management systems. In the 2000s, following demutualisation and privatisation, AusBulk/ABB Grain embarked on an ambitious growth strategy that saw the acquisition of a range of businesses and the introduction of a computer based logistics management and marketing system 'Ezigrain'.

CBH followed a similar pattern despite remaining a co-operative. A major strategic review in 1995 led to organisational restructures in 1996 under the titles *Handling the Future* and *Growing Together*. These related respectively to a strategic direction for the organisation and a redesign of the workplace involving team-based management and decentralisation of decision making within the business (CBH 1996). A range of other initiatives also took place in relation to quality assurance, the expansion of grain terminals and industrial relations agreements with the unions. The next decade saw the merger with GPWA, the formation of the Interflour joint venture and the development of the Grain Express logistics system.

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Governance and Share Structure

As discussed above the interplay between the systems level forces of government deregulation, increasing market competition and environmental change forced the co-operatives to review their governance and share structure arrangements. These developments are consistent with the fourth stage of Cook's (1995) life cycle theory. This is illustrated in the decision in 1996 by members of SACBH to change the co-operative's constitution to appoint Perry Gunner as the first non-grower as a director of the board so as to boost the board's strategic business capability.

These changes to the constitutional framework also broke up the former system of having state and regional board members. This system had been originally created as recognition of the geographical and climatic diversity of SA across the Eyre Peninsula, Mid North and Eastern South Eastern regions. The Eyre Peninsula had always needed special assistance with sea port access, and generally lacked the ability of their eastern counterparts to transport grain in Victoria. Additional changes were made to the SACBH constitution affecting voting and eligibility for membership, the application of tolls and the purpose of the business. These were governance and share structure arrangements that had significant long term effects:

> The 1996 constitutional changes were a portent for more extensive changes in 2000, which were to totally transform the company and the way it operated. Indeed, it can be argued that these initial changes provided a basis for the later ones. (Thomas 2006, p. 106)

Faced with a more competitive market the SACBH Board looked for alternative business models and sought examples from around the world that could enable it to retain grower/member control. Key concerns were the distribution of share capital to members on an equitable basis that reflected their patronage, ensuring that no single member could secure undue control or influence over the business, loss of the tax exemption, and allowing the share capital to be traded. The justification for this move towards demutualisation was explained by the SACBH Chairman Kevin O'Driscoll at the time as follows:

> Whilst the current structure has served members well in the formative stages of the company, it is not sustainable in the future. A key issue is that the company has a substantive asset base in excess of $320 million yet members have no direct entitlements in these assets. Moreover the current structure is likely to be restrictive in a more open, commercial operating environment, in terms of access to alternative sources of capital at competitive rates and flexibility to enter into strategic alliances. (Thomas 2006, p. 106)

The model selected and adopted in 2000 was a hybrid structure known as AusBulk-United Grower Holdings (AusBulk-UGH). This comprised a grower-owned company UGH which owned 51% of the equity in AusBulk. However, as shown earlier the eventual outcome of these changes to governance and share structure was the transition of the co-operative to an investor owned firm.

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MEMBER LEVEL ANALYSIS

At the member level the key units of analysis are the roles played by the members in terms of being patrons, investors, owners and members of their community. As Nilsson (2001) suggests, there is potential for members to transition from being focused primarily on patronage in the early years of the co-operative, to a focus on being investors as the co-operative builds up substantial value in its balance sheet. This tension between the patron and investor 'hats' is seen as a potential challenge to a co-operative's future viability if not dealt with.

Patrons versus Investors: The South Australian Experience

The decision by SACBH to demutualise in 2000 to form AusBulk-UGH, and the move towards demutualisation within CBH in the same year, reflected the pressure that both co-operatives were experiencing in the deregulated market environment. The antecedents of SACBH's transition from a traditional co-operative to an investor owned firm can be traced to 1989 when it carried out a restructure of its membership arrangements. In an extraordinary general meeting the membership of SACBH changed the co-operative's articles of association to allow membership to lapse if a member did not trade with the business for more than four consecutive years. Changes were also made to the system of toll charges and provisions put in place to enhance the transparency of members' partnership arrangements so as to reduce the chance of double voting. As the official SACBH/ABB historian Thomas (2006) explained:

> Without the changes in 1989, it would have been extremely difficult to determine eligibility for shares in SACBH when the company demutualised in 2000. The decision to go back 10 years to determine entitlement would have been a difficult task without the reforms (Thomas 2006, p. 111)

According to Thomas (2006) the events that led up to this change of governance and ownership rights commenced with a major review of tolls charged to members that was undertaken in 1987. These tolls were viewed as being too high and were not tax deductible to growers. By this period SACBH had grown into a major business and held a cash surplus of $35 million, plus significant assets within its balance sheet. It was well placed to secure debt financing for future expansion if required. However, there was a growing debate within the membership over what would happen to the assets of the co-operative should it be wound up or sold. Members felt that the state government would end up acquiring the business due to the loan guarantees that it held. This action in 1989, in the same year as the legislative changes to the wheat marketing system, highlights the change in member perceptions of what constituted value within the co-operative.

The demutualisation of SACBH had been a concern for many growers, but they had been reassured that the corporate governance of AusBulk-UGH would protect their level of ownership and control. However, once the merger with ABB occurred in 2004 and particularly when the new ABB Grain Ltd redeemed all A-class shares in 2007, any residual ownership and control the growers might have had disappeared. They had become investors who sought value not via patronage, but from the sale of their shares for a capital gain. What replaced the mutuality of a member owned business was a

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foreign investor owned business in the form of Viterra. One legacy of this was the loss of a social capital that the co-operative business model could provide. As Michael Iwaniw explained:

> And if you talk about industry issues today you talk about carbon price, you talk about GM foods; all those issues are massive for farmers. Today with deregulation they are mostly gone. They are mostly ineffective. So you have lost your grower voice. ABB still had some farmer connections, but they are now gone, Viterra don't have them. So all farmers, those middle structures that looked after farmers' interests, you know, the big, important issues, are gone – ineffective. So what are you left with, who does that? (Iwaniw interview 2010)

It is also worth noting in relation to these developments in South Australia that there was a high level of diversity across the grower community in that state. While most of the wheat grown in other east coast states is sold locally, in SA there is a west-east divide. On South Australia's Eyre Peninsula in the west almost all wheat is exported in bulk, while that grown in the other regions of the state is used for both domestic and export markets (Productivity Commission 2010). This created a less cohesive grower community than that found in Western Australia.

The demise of ABB Grain Ltd in 2009 left many South Australian growers with mixed feelings. However, some had taken a profit from the sale of their shares, and others, who remained in farming, were concerned over the loss of ownership and control. This was a point made by Iwaniw:

> One of the biggest things about the change in these co-ops is that they talk about control and the importance of control, and that manifests itself in the type of board they have and the shares, one-for-one, whatever; it's about control. Now we always argued that if you buy shares you control the company, don't sell your shares! Today, if none of those farmers sold their shares ABB would still be 100% owned by farmers. But they did sell them and they have every right to do that. (Iwaniw interview 2010)

Patrons versus Investors: The Western Australian Experience

Market deregulation also impacted CBH and there was serious concern expressed by members in the early 1980s as a result of rising handling and storage costs which were the highest in the country (*Farmers' Weekly* 1980). This came on the back of rising costs of fuel, labour, machinery, transportation and rail freight charges (*Western Farmer & Grazier* 1980). CBH faced major cost increases in port handling costs as well as rail freight, power, water and site rental charges that it could not absorb (CBH 1982). To help contain costs CBH reformed its industrial relations agreements and invested in the upgrading of its port terminals which contained any rise in handling charges to a modest 5% throughout the decade (CBH 1989).

Within WA the decision not to demutualise meant that CBH had strong grower control, but this posed problems for the board who were seeking to undertake bold expansion plans. For example, the commercial nature of the Interflour deal meant that the CBH board could not make it public or even consult members. While this approach to commercial confidentiality would have been largely routine in an investor owned firm (IOF), for a co-operative it was the source of unease with some of the members. Further, coming as it did so soon after the abortive move to demutualise in 1999/2000 there was

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a view amongst some members that this amounted to another attempt to convert CBH from a co-operative to an IOF. There was also some difficulty for members to see how the Interflour joint venture was going to benefit their individual business. At the time some members felt that the money spent on these offshore mills would have been better used to lower their charges by upgrading silos and handling facilities.

Further member discontent emerged in 2010 following a legal challenge from a small group of growers who felt they were disadvantaged by the Grain Express system of logistics management. This led to an investigation by the Australian Competition and Consumer Commission (ACC), which eventually ruled in favour of CBH but triggered a review and modification of the system. Yet in the same year the Australian Taxation Office (ATO) challenged the right of CBH to retain its tax exempt status.

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

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

Declining Membership Base

The demutualisation of SACBH into AusBulk-UGH and the movement by CBH towards the same outcome was driven by the systems level pressures of government deregulation and increasing industry competition. The desires by the co-operatives' boards of directors to preserve their businesses and make them more competitive were behind these decisions. However, there was also a strong willingness by the members to

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move towards demutualisation. Even CBH had a close vote in this regard. This requires some examination of the membership and its motivations.

A key factor at work within the membership of these co-operatives was the steady decline of the number of growers operating in the industry over the period from the 1960s to the 1990s. In the case of CBH the co-operative had over 15,000 members in the late 1960s but saw this decline to around 4,500 by the end of the century. In the case of SACBH the same thing was happening as former CEO of ABB Grain Ltd Michael Iwaniw explained:

> What was happening was AusBulk-UGH was a bit like CBH. It was shrinking, the ownership was shrinking . . . so what was actually happening was AusBulk was going to be controlled by fewer and fewer people, which is CBH's issue as well . . . so basically AusBulk demutualised because they wanted to get this value out to the growers. (Iwaniw interview 2010)

While technology, improved farming methods and consolidation of farms into larger operations saw grain production increase steadily from the 1980s, the total number of growers declined. Many farmers were retiring and their children were choosing to leave the land and take up careers elsewhere. Farms were then sold and consolidated into larger holdings that required more capital investment and a more business minded ownership.

This decline in members within the co-operatives suggests a possible shift in member dynamics with fewer, but larger growers potentially seeing the businesses as a potential source of investment capital. The issue was explored with former directors and managers from the co-operatives. Some felt that the declining membership was in part responsible for this desire to move towards demutualisation. However, others held different views, suggesting that there had always been small and large farmers within the co-operatives and that no shift in grower dynamics was occurring as a result of the decline in members. According to one former CBH board member of the time the failure to demutualise was due to a strong sense of collective ownership amongst members:

> But even in 2000 there was a very strong tradition about what was done by our forefathers, and so why should we cash in on the previous four generations? And it is still there today. That's what's maintained it; there is a lot of tradition there. (CBH Board member interview 2011)

However, Ozdemir (2005), in a study of agricultural co-operatives in Turkey found that farmers with larger and more profitable businesses took greater interest in the financial affairs of the co-operatives, and were more likely to participate in their governance. An examination of the data from CBH over the period from 1994/1995 to 2009/2010 found that the larger growers (top 25%) were delivering between 60% and 65% of the total tonnage, and the top 5% of growers were delivering between 25% and 30% of the total volume of grain received. What was clear from the interviews with CBH board members is that the failed 1999/2000 demutualisation plans had left a legacy of mistrust amongst many of the more co-operatively minded growers who felt that the board was not acting in their interests. By contrast the members who sought to move the co-operative towards a corporate model were disappointed by what they viewed as a lack of 'real equity' in the business.

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CONCLUSIONS

The parallel cases of CBH and SACBH/ABB Grain provide support to Cook's (1995) 'co-operative life cycle theory', something that has been noted previously in the literature (Brewin et al. 2008). In applying the conceptual framework outlined in Chapter 2 this analysis has also provided evidence to help explain why and how these co-operatives transformed their business models. It offers preliminary findings to support the conceptual framework and demonstrate its potential value for future research.

It can be seen that the 'systems level' forces played significant roles. The importance of social cooperation in helping to create the co-operatives is well illustrated in the active and protracted lobbying of grower organisations. This provides support for the 'social cooperation theory' of Birchall and Simmons (2004). The role of government is also clearly demonstrated in the early stages of their life cycles when state legislation provided monopoly rights to the co-operatives and created regulated markets that facilitated their initial growth. The deregulation process that created uncertainty and opened market competition was also due to government action.

Also noteworthy, but often overlooked, is the role played by the natural environment in shaping the strategic fortunes of the two co-operatives. For primary producer co-operatives such environmental impacts are unsurprising, but it is important for managers of co-operatives to recognise that the natural environment is part of their systems environment and should be factored into their strategic planning. This is a point raised by Banerjee et al. (2003) who suggest that the level of 'corporate environmentalism' a business may have is determined by the industry it operates in, the nature of government regulation relating to environmental issues, public concern over the environment and whether the adoption of environmental strategies provides a competitive advantage. This same combination of factors can be seen within these two co-operatives, although the focus was on how to deal with geographic and climatic variations across regions, threats from pest and vermin infestation, water damage and droughts induced by climate change.

Our analysis of the 'enterprise level' suggests that the transformation of the co-operatives' business models was driven by the interplay between these 'systems level' forces, the decisions made by the boards, and the unity or diversity of the members. For example, the decision to change the SACBH constitution to allow non-grower board members, and the restructure of the board composition to reduce the influence of regional representatives paved the way towards the ultimate demutualisation. The different dynamics of the South Australian grain sector across these three regions also played a role in dividing members along west-east lines. These forces were not as prominent in WA which formed an isolated mostly export-only market.

The case studies also provide evidence to support the importance of the members of a co-operative to find a balance between the often competing roles of patron, investor, owner and community member. The decision by the members of SACBH to demutualise suggests their investor role was of more value than their patron role, although the subsequent sale of their shares under the AusBulk and ABB Grain structure suggests that their roles as owners and community members were less valued or at least recognised. This contrasts with CBH where the desire to remain a co-operative was built around a strong patron role, but also strong owner and community member perspectives.

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Implications for Researchers and Managers

Although this remains a preliminary analysis in the application of the conceptual framework, these complex and lengthy cases provide researchers with a demonstration of how the conceptual framework might be used in future research. The framework is designed as a comprehensive model for macro, meso and micro-level analysis. For managers of co-operative enterprises the cases suggest that strategic analysis and planning requires consideration of the interplay between the systems and member level factors and how they impact on the business model's configuration and how it generates perceived value for the members. Managers need to recognise that each of the elements within the conceptual framework plays an important role.

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