

Co-operative Governance: Ownership and Control

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What is Governance in Co-operative and Mutual Enterprises?

Definitions, theories, regulation.

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Research into Co-operative & Mutual Enterprise (CME) Governance

Governance is one of the most highly researched areas relating to the co-operative and mutual enterprises (CMEs)

- However, it has been described as a “black box” from a research perspective.

The importance of democratic governance

- One-member-one-vote principle is a defining feature of the CME.
- This differentiates CMEs from other firms such as investor-owned firms (IOFs), state-owned enterprises (SOEs), and many not-for-profit enterprises (NFPEs).

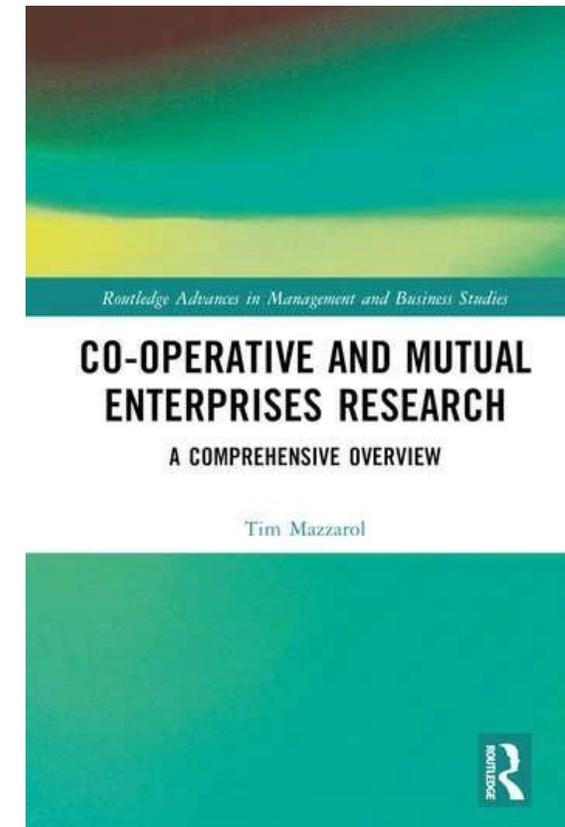
Building blocks of the CME business model

- Democratic governance, active member participation, shareholding linked to patronage, board represents the members, majority member directors¹.

Theories of CME governance

- Co-operative economic theory highlights the “economic democracy” or “associative democracy” that defines the CME.
- Major issues are member control and ownership rights, member homogeneity, organisational complexity and efficiency, active patronage and adherence to governance rules.
- CME governance is also influenced by government legislation and regulation.

¹Co-operatives mainly



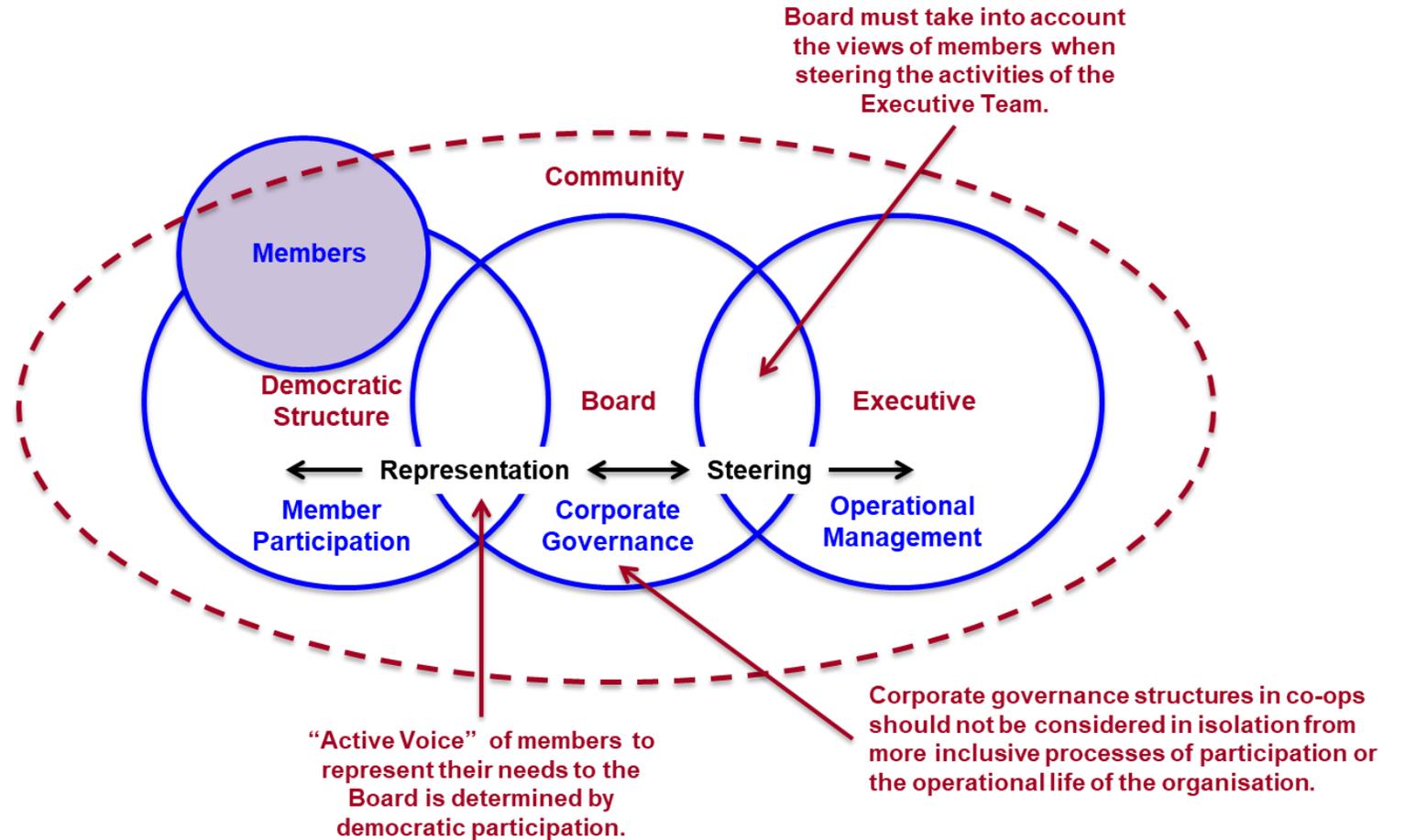
Source: Mazzarol (2024)

Defining Governance

There is no universally accepted definition of corporate governance.

Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

OECD (2023).



Source: Simmons et al .(2007)

Generic problems of CME business models

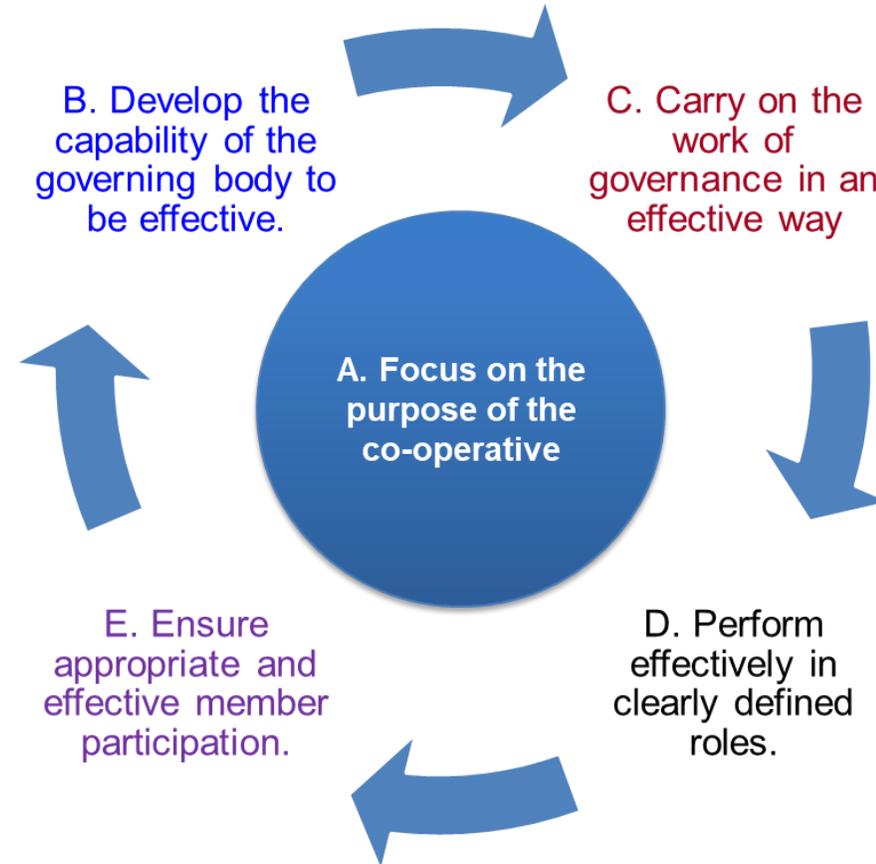
Problems	Description	Implications for governance
Free Rider Problem	Where non-members or later members benefit from existing members' efforts, or some members actively trade , and others don't.	Problem can be addressed by imposing active membership rules within the constitution that require a minimum level of patronage or other activity or risk losing membership. Under Co-operatives National Law (CNL), inactive members must be removed.
Horizon Problem	Where the residual claim a member has on the CME's assets is shorter than the productive life of the asset – caused by members inability to transfer or trade ownership rights.	Problem has been addressed by some CMEs by allocation of share capital that can be redeemed, transferred, or traded . However, a research study of Swedish agricultural co-operatives found no evidence to suggest that the Horizon problem is a concern.
Portfolio Problem	Lack of transferability and liquidity of ownership rights with benefits linked to patronage of the CME.	Problem arises when members place more importance on share ownership than patronage. This can be addressed by offering non-voting share capital (e.g. CCUs) .
Control Problem	Caused by divergence of interests between members and the CME's management or board.	Problem arises as CME grows and becomes more complex or has more heterogenous membership. Can be addressed by appointing independent directors with specific expertise.
Influence Cost Problem	Emerges where the strategic goals of the CME's management and the membership are not aligned.	Problem relates to decision making and is caused by growth and diversity of purpose. Requires active engagement, education, and communication with members by board and management .

Sources: Cook & Iliopoulos (1999); Mazzarol (2024)

Co-operative Corporate Governance Wheel

The five key elements of governance that CME boards should pay attention to are:

1. Build all decisions around your **Purpose**.
2. Ensure that the **governance** of the organisation (e.g., constitution, by-laws, policies, board structure) is effective and well-managed.
3. Ensure that **the board operates effectively** in its decision making.
4. Ensure that the **roles and responsibilities** of the board and the executive are **clearly defined**.
5. Ensure that the **members can actively participate** in the governance.



Source: Birchall (2014)

Implications:

Compliance and Stakeholder models must focus on ownership rights and member participation, and how the management team is rewarded and performance managed.

Democratic models should focus on *social exchange theory* that seeks to balance individual and collective economic and social goals, and how exchange relationships are managed.

CMEs with powerful managers and a heterogeneous membership should employ a Democratic model and financial operational efficiency.

CMEs with less-powerful managers and a homogeneous membership should employ a Stakeholder model and financial risk management.

CMEs with heterogenous membership and resource constraints should seek alliance partners and use independent directors.

CMEs with Rubber Stamp models should appoint independent directors to create a balance of expertise against powerful managers.



Compliance Model (Agency theory)

- Members and managers have different interests, but members have power. Board is composed of members' representatives tasked to safeguard the members' interests, oversee management and check compliance.



Partnership Model (Stewardship theory)

- Members and managers have common interests, and board is comprised of experts with a focus on improved performance, value-adding to strategy, and supporting management.



Democratic Model (Democratic perspective)

- Members and public have different interests, and board is composed of lay members' representatives who make policy and control management via political process.



Stakeholder Model (Stakeholder theory)

- Stakeholders have different interests, and board is composed of stakeholders' representatives. It uses a political process to balance stakeholder interests, make policy and control management.



Co-optation Model (Resource dependency theory)

- Stakeholder and managers have different interests. Board is chosen for its ability to have influence with key stakeholders. It is focused on boundary spanning, securing resources, managing stakeholder relations, and focusing on external not internal issues.



Rubber Stamp Model (Managerial hegemony theory)

- Members and managers have different interests, but managers have power. Board is composed of members' representatives but is only there in a symbolic manner to ratify decisions and give legitimacy to managers' decisions.

Sources: Cornforth (2004) Mazzarol (2024)

Structure and Sources of Co-operative Law

Co-operative Law is the organisational law of business enterprises that encompass the range of sectors dealing with Co-operative and Mutual firms. It deals with key issues such as:

- Definition.
- Formation and Governance.
- Organisational and Financial structure.
- Allocation of surpluses.
- Operations and Member Relations.
- Mergers, Demergers, Conversion and Dissolution.

It can also encompass Laws relating to taxation, labour relations, competition, insolvency and contracts. Many different systems across the world but in general they are characterised by:

- Legislation that deals exclusively with Co-operatives.
- Or provisions in other legislation (e.g. corporations' law) with special reference to Co-operative or Mutual firms.
- These laws can be found at state and federal level.



“In some countries the number of special laws on cooperatives is so high, and the aspects they cover so numerous, that special laws end up prevailing *de facto* over the general cooperative law, in the sense that there is no need to refer to the general cooperative law for the formation and management of these special cooperatives. In some cases, it is not even understandable why there is a special law for certain types of cooperatives, since the particular reasons for a special regulation are not clear.”

Sources: Cracogna, Fici and Henry (2013)

Differences between Corporate and Co-operative Law

A major area of difference between Co-operative and Corporations Laws are the issues of “**purpose**” and “**identity**”.

- Co-operative's purpose and identity are complex issues consisting of many often-interrelated areas.

Example: Under EU Company Law a company (*Societas Europaea*) there is no specific mention made of the purpose of a company.

- However, under EU Cooperatives Law a Co-operative (*Societas Cooperativa Europaea*) the purpose and distribution of profits are clearly stated.

Stipulating the cooperative identity within the law provides an “**enabling function**” helping to codify the Co-operative’s requirements to be focused on the values of democratic governance, equality and member benefit.



“Stipulating the cooperative identity and preserving their distinguishing features should therefore be considered the primary objective of cooperative law.”

Sources: Cracogna, Fici and Henry (2013)

European Union Co-operative Law

In the EU social enterprises including Co-operatives are characterised under legislation by governance, economic and social criteria.

Governance criteria:

- They have a degree of autonomy as independent legal entities.
- Members have right of “voice” and “exit”.
- Decision making power is not based on share ownership.
- Ownership is collective.

Economic criteria:

- They are typically not lobby or advocacy groups but carry on an economic activity producing, buying or selling goods and services.
- Employees are generally paid to work for these firms.

Social criteria:

- They have an explicit purpose to benefit their members or the community.
- There is a limited distribution of profits.



Sources: ECNL (2012)

European Co-operative Society (SCE)

In 2003 the EU established a legal framework for a **European Co-operative Society (SCE)**, which enables co-operatives to operate across the EU and the European Economic Area (EEA).

- The SCE aims to facilitate cross-border activities while providing a legal structure for co-operatives build economies of scale and collaborate over R&D.

It is an optional legal form, but the members of an SCE cannot be located in the same country.

Definition of an SCE:

- A legal entity that allows its members to carry out common activities, while preserving their independence.
- Its principal object is to satisfy its members' needs and not the return of capital investment.
- Members benefit proportionally to their profit and not their capital contribution.



Sources: EEC (2003)

Regulation CMEs in Australia

Co-operatives:

- Registered with State or Territory Co-operatives Acts and Registries, now unified under the Co-operatives National Law and National Regulations 2012.
- Registered with Australian Securities and Investments Commission (ASIC) under the Corporations Act 2001 but governed along Co-operative principles.

Mutual enterprises:

- Registered with Australian Securities and Investments Commission (ASIC) under the Corporations Act 2001.
- Financial mutual firms regulated by the Australian Prudential Regulation Authority (APRA).
- State and territory Associations Incorporation Acts.

Sources: ABS (2012); Mazarol (2019); AustLii (2019).

Co-operatives National Law and Regulations Background

Work commenced in 2005 on the creation of mutual recognition laws for Co-operatives from overseas.

In 2007 this moved towards a “template” law for nation-wide Co-operatives legislation.

In 2009 a draft Co-operatives National Law (CNL) was circulated for consultation.

Is **NOT** a federal statute, but an agreement between all state and territory governments.

Australian Co-operative Laws Agreement:

- NSW to first pass the Co-operatives National Law.
- All states and territories to follow.
- However, Queensland initially did not join, but did so in 2020, and WA passed the [Co-operatives Amendment Act, 2016](#) to align with the CNL.
- [Co-operatives National Law 2012](#)

Source: ABS (2012)

Key provisions of the Co-operatives National Law (CNL)

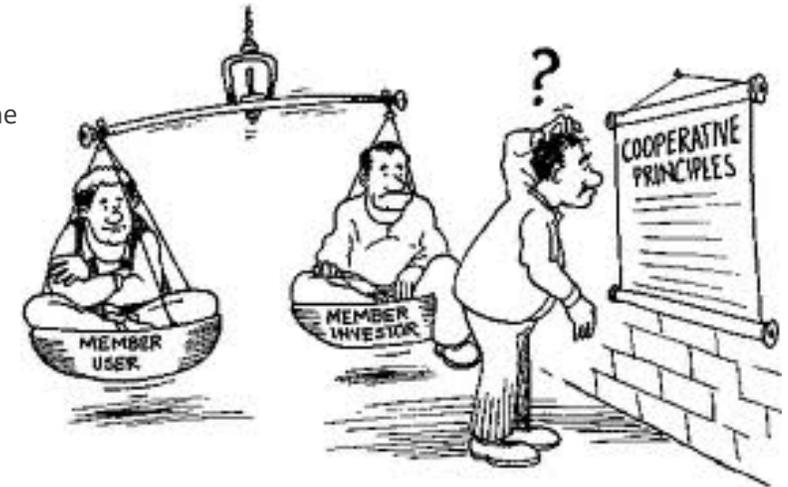
Harmonizes the different laws across the states and territories: Requires that states and territories maintain uniform laws and administrative procedures. Allows for Co-ops registered in one state or territory to trade across jurisdictions without fear that they will be subject to different laws or regulations.

Introduces new financial capital raising tools without risk of demutualisation: Allows all Co-ops to issue Co-operative Capital Units (CCUs) for capital raising – Mutuals now have Mutual Capital Instruments (MCI) available under the revised Corporations Act, 2001 (Cth).

Aligns Co-operative Law more closely to the Corporations Act: Clarifies the relationship between Co-ops law and the Corporations Act 2001 (Cth) by providing a clear indication of what provisions of Corporations' Law apply to Co-ops.

Other key attributes:

- Updates key areas of corporate governance relating to the duties and qualifications of directors.
- Simplifies the financial reporting for smaller co-ops via a risk management model.
- Co-ops must operate within the spirit of the co-operative principles.
- Membership based on “active participation”, share capital and distributions based on patronage.
- Shareholding is limited to members and limit of 20% of total share capital per member, share price is fixed.
- CNL does not precisely define a co-operative – can be any entity that operates under co-operative principles.
- Co-ops must focus on the best economic and social interests of their members. Multi-stakeholder and co-operative groups permitted.
- Co-ops cannot be authorized deposit-taking institutions (ADI), insurance or superannuation entities.
- Income Tax Assessment Act, 1936 (ITAA) ss117-120 provides tax incentives for co-ops (if 90%-member trade).



Sources: ABS (2012); Apps (2020)

Co-operative versus Corporations Law

Element	Company	Co-operative
Legal model	Company (limited by shares) registered with ASIC under Corporations Act 2001 (Cth)	Co-operative (distributing) registered with state registrars under Co-operatives National Law 2012 (CNL)
Ownership	Minimum – 1 shareholder Maximum – 50 shareholders (proprietary) Unlimited for public companies (e.g. listed ASX)	Minimum – 5 members or 2 co-operatives in a co-operative group Maximum – unlimited (CNL, Sect 18, 19)
Capital structure	Share price is variable Shareholding is not limited	Share price is fixed Shareholding is limited to maximum of 20% (CNL Sect 76(2) 363(1))
Governance	Shareholder governance of 1-vote = 1-share at general meetings	Member governance of 1-member = 1-vote at general meetings (CNL, Sect 178(1))
Board	Board of directors & secretary – independent directors recommended by voluntary code of good corporate governance	Board of directors & secretary – majority of directors must be active members; independents can be appointed (CNL Sect 174)
Directors' duties	Legal & fiduciary duties to maximise profit and share value	Legal & fiduciary duties to create, protect and return member value consistent with ICA Principles (CNL Sect 192-196)
Engagement	No shareholder participation in business is required by law (company shareholders may be passive investors)	Member economic participation in the co-operative's primary activities is a legal requirement of membership (CNL Part 2.6 "Active Membership provisions")

Source: Apps (2016)

Governance in practice

Duties of directors, governance in the business model, common issues and challenges in CME governance.

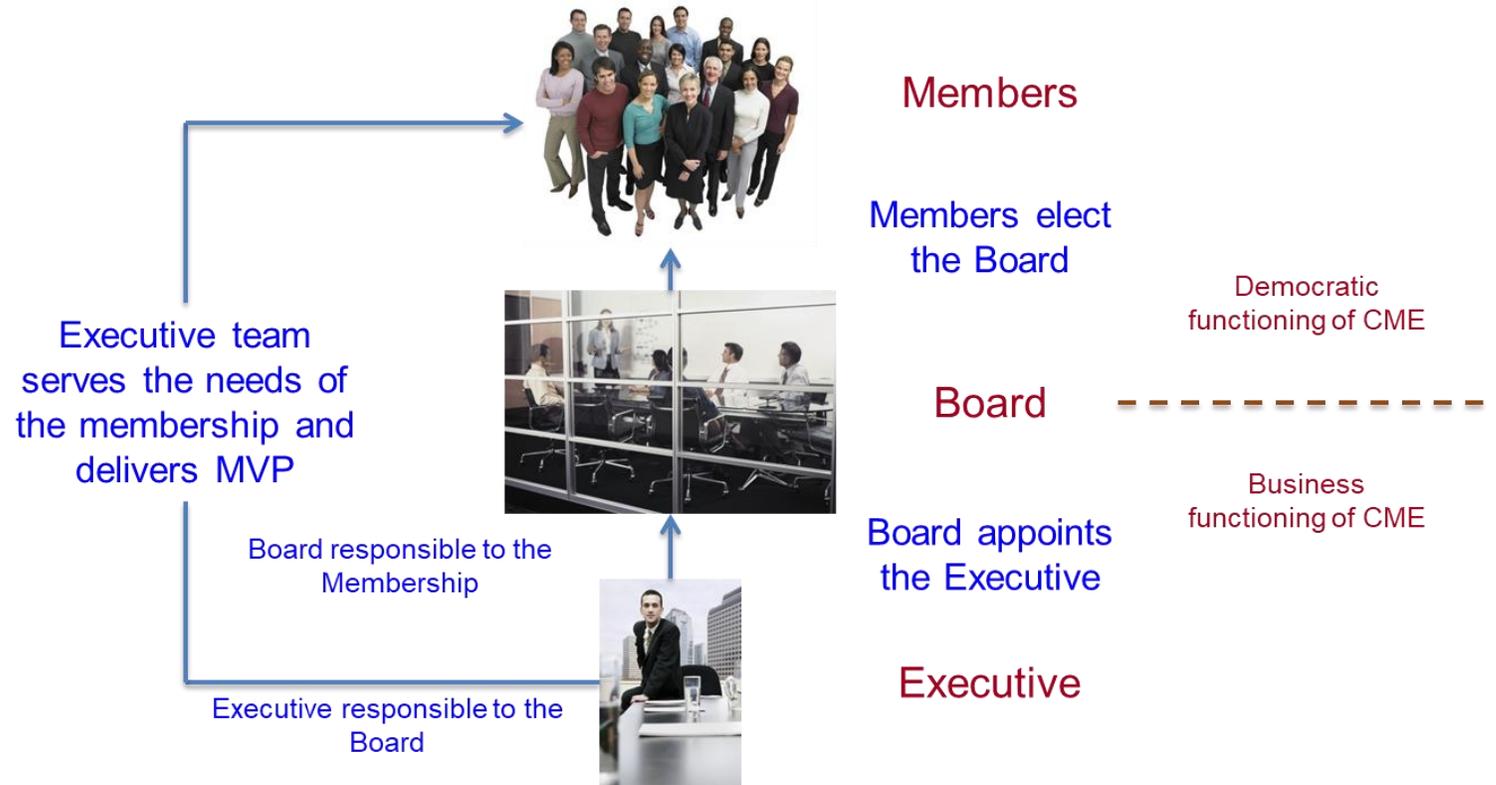


Leading the Board

The Board of Directors of a CME have four primary roles:

1. **L**ink to members
2. **E**nact policies
3. **A**ssure performance
4. **D**ream the future

University of Wisconsin (2000).



Source: Hendrikse (2007)

Role and structure of the board

The board of directors oversees the management of the company.

Directors are defined as “officers” with the powers and duties coming under the legislation and rules of governance.

Number of directors can vary depending on the size of the company and its activities, but also the type of company and the legislation it is under.

Under Co-operatives National Law most directors should be “member directors” who must be elected by the members.

If the rules allow employees or third persons can be appointed by the board as “independent directors”.

Sources: AICD (2012); DMIRS (2019); Department of Commerce WA (2011)

Duties of directors

Four basic duties:

1. **Duty of care and diligence** - To make good, well-informed decisions for the organisation.
2. **Duty of good faith or “fiduciary duty”** – To act in good faith in the best interests of the organisation and its purpose.
3. **Duty of proper use of position** - To not improperly use their position to gain an advantage for themselves or others, or to the detriment of the organisation.
4. **Duty of proper use of information** - To not improperly use the information they gain in the course of their director duties to gain an advantage for themselves or others, or to the detriment of the organisation.

Sources: AICD (2012); DMIRS (2019); Department of Commerce WA (2011)

Directors' responsibilities

- Develop basic guidelines for control of business.
- Appoint, supervise and remove the CEO.
- Call special meetings when requested /needed.
- Approve general business activities / contracts.
- Handling financial matters & management.
- Keeping records of board and other meetings.
- Exercise prudent decision making over debts.
- Act with honesty and in good faith.
- Declare any conflicts of interest and not seek personal gain.
- Exercise a reasonable degree of care and diligence.

Sources: AICD (2012); DMIRS (2019); Department of Commerce WA (2011)

Board and Management Responsibilities

Responsibility Area	Board	Management
Accountability	<ul style="list-style-type: none"> To members 	<ul style="list-style-type: none"> To board
Use of Resources	<ul style="list-style-type: none"> Results. Prudent and ethical constraints. Relationship with management. Board's own process. 	<ul style="list-style-type: none"> Achievement of results. Operational decisions. Means of activities.
Information	<ul style="list-style-type: none"> Request, review. 	<ul style="list-style-type: none"> Develop, analyse and provide.
Decision Making	<ul style="list-style-type: none"> Authority delegated by members. Decisions structured from broad to specific. Stop making decisions when reasonable interpretation can be accepted. 	<ul style="list-style-type: none"> Authority delegated by board and implement board decisions. All remaining decisions within policy framework.
Management Evaluation	<ul style="list-style-type: none"> Set policies regarding results to be achieved and boundaries on activities. Establish criteria for success. Monitor progress towards results, plus compliance and boundaries. 	<ul style="list-style-type: none"> Provide information to board for monitoring.
Operations	<ul style="list-style-type: none"> Determine expected results Set boundaries and monitor with set KPIs 	<ul style="list-style-type: none"> Conduct activities, provide information and inform board of policy compliance.
Perpetuation	<ul style="list-style-type: none"> Assure financial viability of business and succession of capable management team, and future board. 	<ul style="list-style-type: none"> Assure short term success, develop and support management succession plan.
Board Process	<ul style="list-style-type: none"> Determine structure and process, set calendar and agenda and conduct self-evaluation. 	<ul style="list-style-type: none"> Support and cooperative with board calendar and agenda.
Constraints	<ul style="list-style-type: none"> State and Federal Law, plus Articles and By Laws. 	<ul style="list-style-type: none"> State and Federal Law, Articles, By Laws and Board policies.

Source: University of Wisconsin (2000)

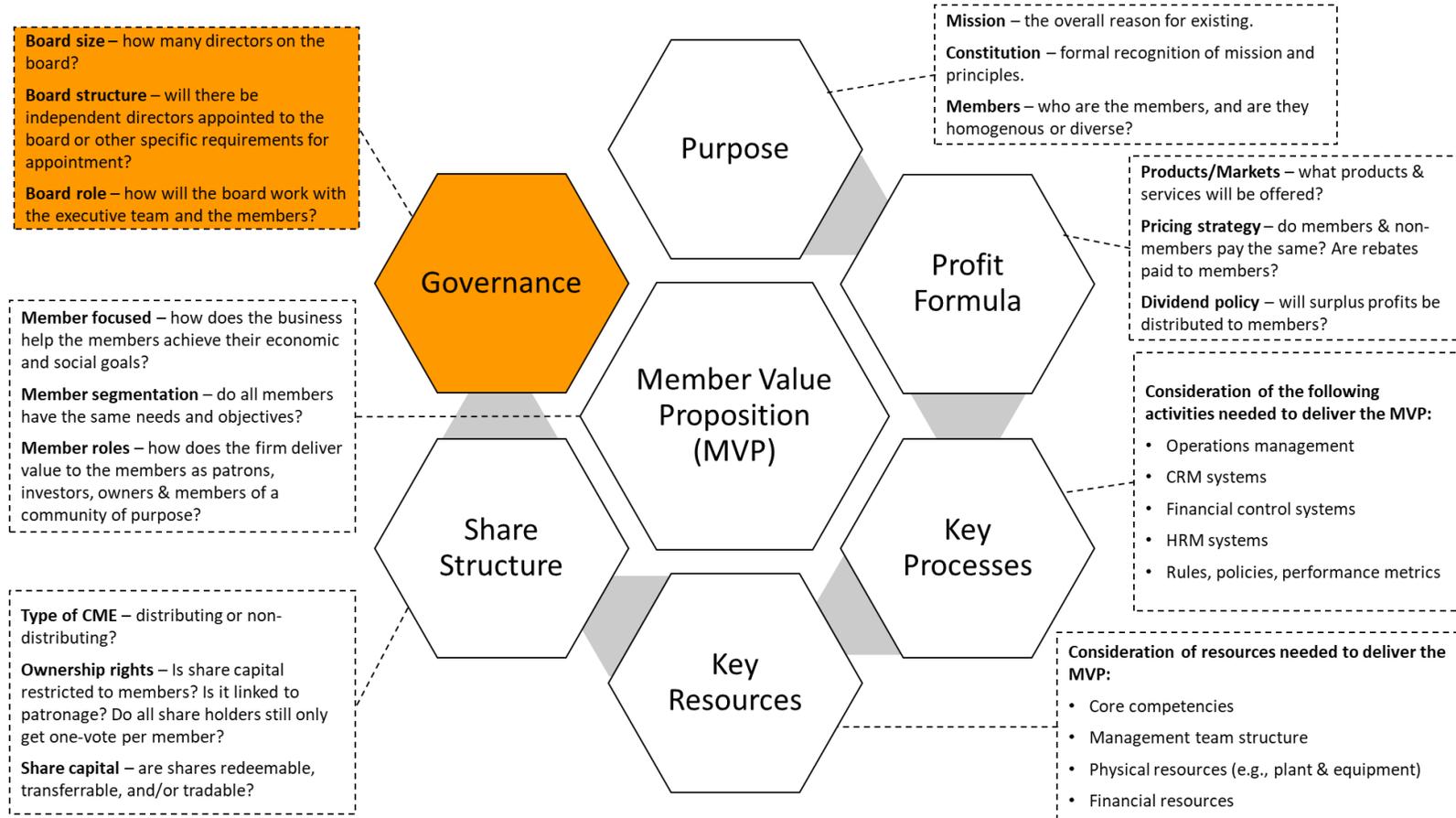
Governance in the Business Model

The Board must have a clearly defined **Purpose** with economic and social goals.

This should be supported by a well-developed **Member Value Proposition (MVP)** that helps deliver the Purpose.

Profit distributions, the management of key processes and resources, and the allocation of share capital are all **key responsibilities of Governance**.

Key issues for Governance are the size of the board, the appointment of both member and independent directors, and the board's engagement with the members and management.



Source: Mazzarol (2024)

Common governance problems experienced by CMEs

Limited ownership rights: “one-member-one-vote” and vaguely defined ownership rights to share capital makes the board role more one of “trustees” than directors.

Scale and complexity: Governance systems designed for small CMEs cannot be readily applied to major companies.

Collective action problem: Too many members promotes ‘free riding’. Problem of lack of information: Lack of “market signals” makes it difficult for members to get access to information.

Problem of managerial capture: Executive managers often assume too much control and insufficient responsibility and CMEs cannot easily offer share options.

Lack of focus: The CME board must focus on both social and economic goals with multiple stakeholders.

Issues and tensions specific to governance in CMEs

Attributes specific to CMEs	Implications
Members as patrons	Homogeneous memberships allow for high member cohesion, but heterogenous membership can weaken member cohesion.
Financial participation of directors	Board members can be conflicted by their role as owners, investors, and patrons in making decisions that can be influenced by their intrinsic and extrinsic motivations.
Member ownership	The board represents the interests of the members as owners and must remain independent of the executive team. However, this can create tensions between their need for control over the firm, and collaboration with the executive team.
One-member-one-vote	Active member participation in CME governance requires the need for balancing the operational efficiency of the firm, with the need to satisfy the collective interests of the members.
Board election by members	Member directors are often elected for their ability to represent the membership rather than their expertise. The appointment of independent non-member directors is a solution.
Emphasis on economic & social purposes	There are good metrics to measure economic (e.g. financial) performance, but fewer metrics to measure social goal attainment. This can create governance tensions between the pursuit of both economic and social objectives.
Hybrid – dual purpose focus	In highly competitive and contested markets it can be difficult to maintain a focus on the identity and integrity of the CME business model rather than as an investor-owned-firm business model.

Sources: Mazzarol (2024); Michaud & Audebrand (2022)

Adopt a member-governance approach

Builds on key strengths of:

- High-trust relationships.
- Alignment of member, board and management interests.
- Ability to monitor board and management via clear goals and focus on member value proposition.

Four main design principles:

- Board must have a clear purpose that is central to the members' aims and goals.
- Board must get the right operating system and business model.
- Board must ensure patronage cohesive governance that aligns member engagement with the firm's strategic goals.
- Board must secure, retain and continuously nurture member allegiance.

Source: Birchall (2014)

Case Studies of Co-operative Governance

Highs, lows and lessons of CME corporate governance.



Recommendations for CME directors: Case studies from France

Three French Co-operative Case Studies:

- FVA (wine) – 100 members, 27 staff, €7m turnover
- Atol (opticians) – 550 members, 215 staff, €153m turnover
- Dijon Cereales – 3,727 members, 650 staff, €438m turnover

Key findings:

- Directors support co-operative values.
- Strong unity between the board and executive team.
- Former directors act as role models to recruit new ones.
- Board is the representative of the membership and their collective interest.
- Good flow of information to all directors from members, executive, staff and other stakeholders.
- Management is focused on transparency and low information asymmetry within the organisation regardless of size.
- Facilitated by member committees or teams of directors.
- Close coupling of directors and managers in “binary teams”.



“Directors know that they can phone the chairman when they want and that they can ask any question they want. Since some people could be reluctant to speak in public during meetings, he explains to them at the beginning of each meeting that there is no silly question and that they shouldn’t hesitate to ask all the questions they think about.”

Source: Allemand, Brullebaut, Raimbault (2014)



Case Study: Independent Liquor Group Ltd.



independent liquor group

Established in 1975 by a group of independent hotel and bottle shop owners in Sydney.

It is now a major business comprising two separate but related co-operatives, Independent Liquor Group Distribution Co-operative Ltd., and Independent Liquor Group Suppliers Co-operative Ltd., with a combined annual turnover of over \$1 billion.

ILG's dual structure was adopted in 2000 with the objective of gaining the full taxation benefit of co-operative loans offered by the NSW Treasury Corporation.

The changed structure enabled ILG Group to build their first distribution centre.

The co-op has over 1,200 members across NSW, Queensland and the ACT who are small liquor stores, hotels, clubs and restaurants, and are members of both co-ops within the group.

While the management of two separate but interrelated co-ops comprising both suppliers and distributors may appear challenging to govern, this is not the case for ILG.

The ILG Distribution co-op requires the most proactive management due to the size and diversity of the membership, keeping the board and management focused on meeting the needs of different stakeholder groups.

Members are segmented into two tiers and operate under different "banner group" brands with different pricing and rebate structures.

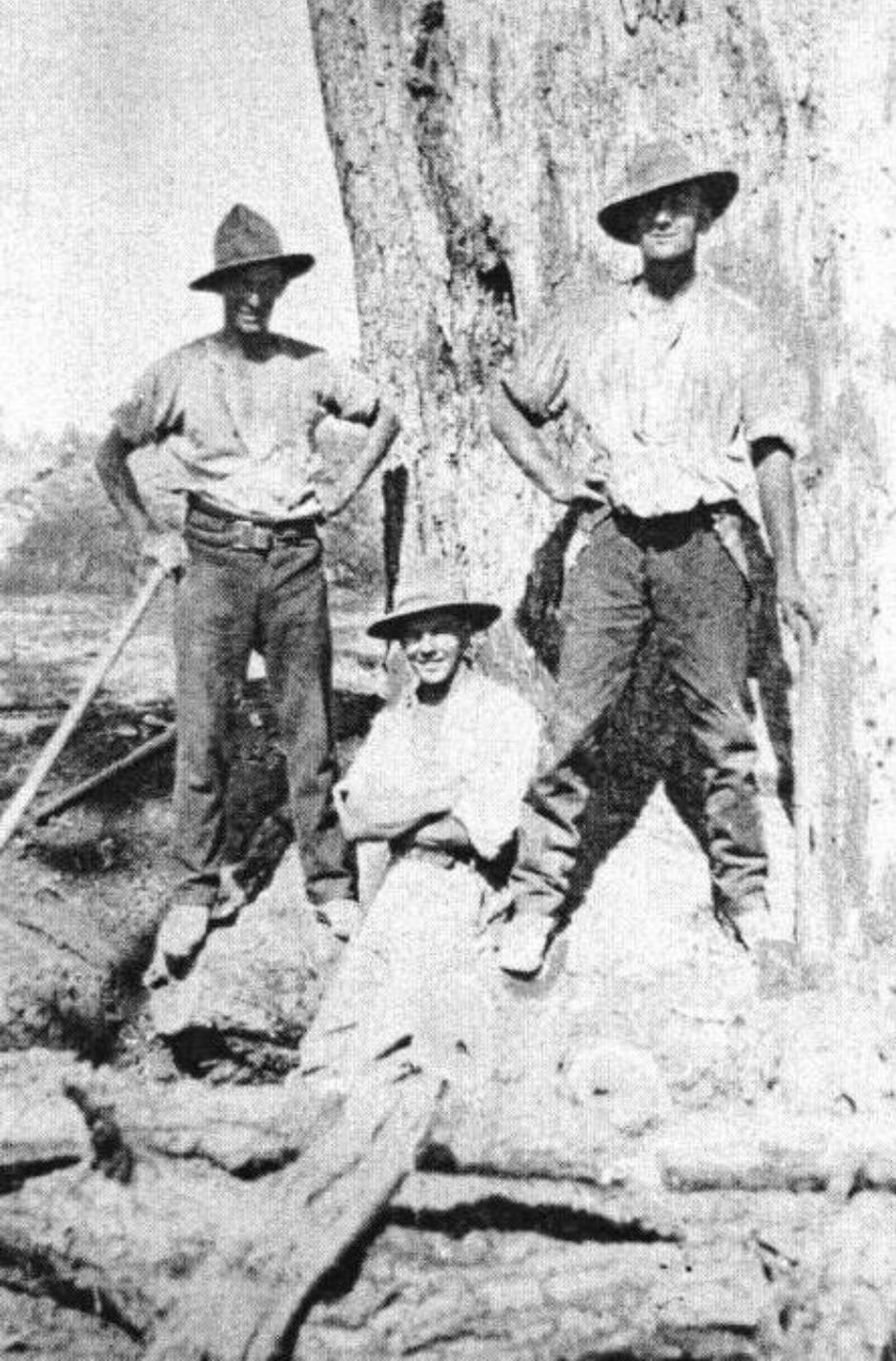
ILG is a distributing co-op but builds its MVP around pricing and rebates as it operates in a highly competitive and price-driven market competing with the major suppliers such as Woolworths, Wesfarmers, and Metcash.

Balancing the needs of the supplier and distributor members is an ongoing management and governance challenge but is managed by continuous engagement with members and responding with pricing, marketing, and rebate returns.

According to ILG CEO Paul Esposito,

"You talk about the bigger challenges, we've got suppliers who basically pay for certain compliance, and getting our distributor members complying with it is our biggest challenge to me. So, its complex but I think all co-operatives have the same issues."

Source: Mazzarol (2018)



Case Study: Yenda Producers Co-operative Ltd.

**YENDA PRODUCERS
CO-OPERATIVE**
"Your Partners in Farming"®

The Yenda Producers Co-operative Society Ltd., is one of Australia's oldest continuously operated co-operatives, located in the town of Yenda, within the Riverina district of NSW. It is also one of Australia's largest co-operatives with an annual turnover of more than \$152 million in FY2022/23. The co-operative has around 1,500 members and employs more than 100 full and part-time staff.

Located in the Murrumbidgee River irrigation area, the town of Yenda was founded in 1916, as an administrative centre for the emerging agricultural activity enabled by the irrigation work that commenced in 1904.

Yenda Producers Co-op was established in 1922 when the Yenda Tobacco Curing Society Ltd. (est. 1921) changed its name. The co-op grew in the 1920s with the influx of World War 1 veterans attracted to farming because of the soldier settlement schemes.

Starting out as a tobacco co-op, Yenda Producers moved into general merchandising, bulk fertilizer, fuels, oils, and machinery parts. During the 1960s, 1970s, and 1980s, the co-op expanded into bulk grain handling and storage, fruit packing, chemicals and other products. It opened stores and offices in adjacent towns, and in 1998 acquired a local stock and station agency and slowly growing into a Group structure comprising irrigation, bulk grain storage and handling, general merchandise, seeds, fertiliser, insurance, fuels & oils, livestock production, vehicles and equipment.

The survival of the co-op has been attributed to its successful governance, competent management, and ability to offer value to its members. Looking at the history of Yenda Producers suggests that the periods when things worked well, were associated with good boards and management staff. During the 1990s the co-op grew rapidly under the leadership of a "fairly aggressive" CEO, who was willing to take risks.

However, by the mid-1990s the financial management of the co-op had become too loosely controlled, and a new Company Secretary raised his concerns to the CEO, leading to some initial tensions, but a subsequent tightening of governance and financial control The rapid growth had outstripped the co-op's systems. The dominant CEO had been reporting to what was described as a "tick and flick" Board, who rarely challenged his decisions.

What followed was a systematic review of the co-op's governance, financial management, operations, WHS compliance and related matters. New directors were appointed, and all new Board members must complete the AICD courses within 12 months of their election. Although the co-op does not have independent directors, it has worked to create a balance of gender, age, and background on the Board. Yenda Producers is a multi-stakeholder co-op with a diverse membership that the Board needs to reflect.

Source: Mazzarol (2019)

Case Study: Co-operative Bulk Handling Group Ltd.



Established in 1933 by Grain Pool WA and the Westralian Farmers (Wesfarmers), the CBH Group is Australia's largest co-op by turnover with total revenues of \$6.19 billion in FY2022/23.

It is also one of Australia's largest marketers and exporters of grain servicing over 200 customers across 30 countries, with handling and storage of more than 21 million tonnes of grain annually through its 100 receival sites located across the WA Wheatbelt. CBH has a total membership of 3,500 members and employs around 1,100 permanent and 1,800 casual employees.

CBH is a non-distributing co-operative, and a registered charity with the Australian Charities and Not-for-profits Commission (ACNC) within its bulk handling business.

CBH has a board of 12 consisting of 9 member-directors, and 3 independent-directors. In addition, CBH has a Grower Advisory Council (GAC) comprising 16 members elected from each of the co-op's regional zones.

In recent years CBH has experienced some issues relating to governance. These have included:

- A lack of female representation on the board.
- Problems arising from board-level tensions and disputes, and
- A move to reduce the number of member-directors by two, which resulted in heated debates and its eventual rejection by AGM in 2021.

During 2016 there was a takeover bid led by a disgruntled group of members known as Australian Grains Champions. They pushed for CBH to be demutualised. Although this was rejected by a majority of members, it led CBH to undertake a governance review that strengthened the requirements for demutualisation (e.g., 75% of vote by more than 50% of all members). It also led to the co-op securing ACNC charitable status for its core business.

As stated in the CBH Annual Report (2022):

"CBH has developed a comprehensive Corporate Governance Charter that outlines the role, responsibilities, and powers of Directors and documenting the way the Board of the co-operative functions. The Corporate Governance Charter is regularly reviewed and revised, as necessary."

Source: van Aurich, Mazzarol & Baskerville (2024)



Key Lessons and Recommendations:

- Directors and managers need to focus on the needs of members and be proactive in the pursuit of the **Purpose** and delivery of the **Member Value Proposition (MVP)**.
- Where members are heterogenous it is more important for directors and managers to be proactively focused on addressing the needs of stakeholders but also emphasizing the importance of working for a **common Purpose** and the overall **collective benefit** of the membership community.
- There must be a clearly understood demarcation between the Board and the Executive Management. Directors should know their duties and responsibilities and not be a rubber stamp for management, nor interfere in the daily operation of the business. **A collaborative and mutually supporting partnership is best.**
- Directors should **undertake relevant courses in corporate governance**, and Boards should aim to recruit directors who are representative of the membership, gender balanced, and professional. Appointing **independent directors** is an effective way to strengthen corporate governance and bring new expertise and experience to the Board.
- Create a **Corporate Governance Framework**, which outlines the following:
 - Role and responsibilities of the Board.
 - Role and responsibilities of the CEO and Executive team.
 - Board structure (e.g., size, composition).
 - Induction of new Directors.
 - Role of individual Directors and conflicts of interest.
 - Meetings of Directors.
 - Board access to information and independent professional advice.
 - Directors and officers' insurance and deeds of indemnity and access.
 - Board diversity, knowledge, skills, experience, and education.
- Establish **Committees of the Board** (e.g., Audit & Risk, Finance, Governance, Board remuneration and nomination, WHS).



Questions

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Thank you for your attention



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