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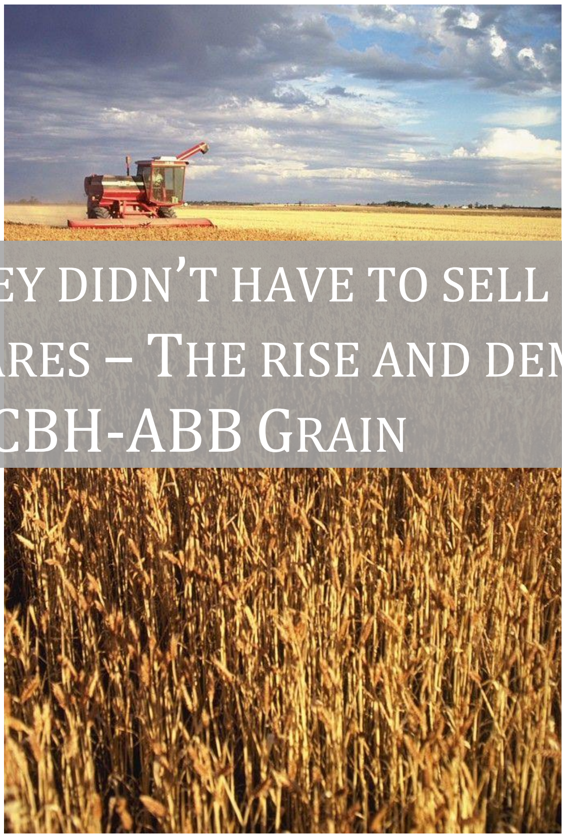

CASE STUDY

THEY DIDN'T HAVE TO SELL THEIR SHARES – THE RISE AND DEMISE OF SACBH-ABB GRAIN

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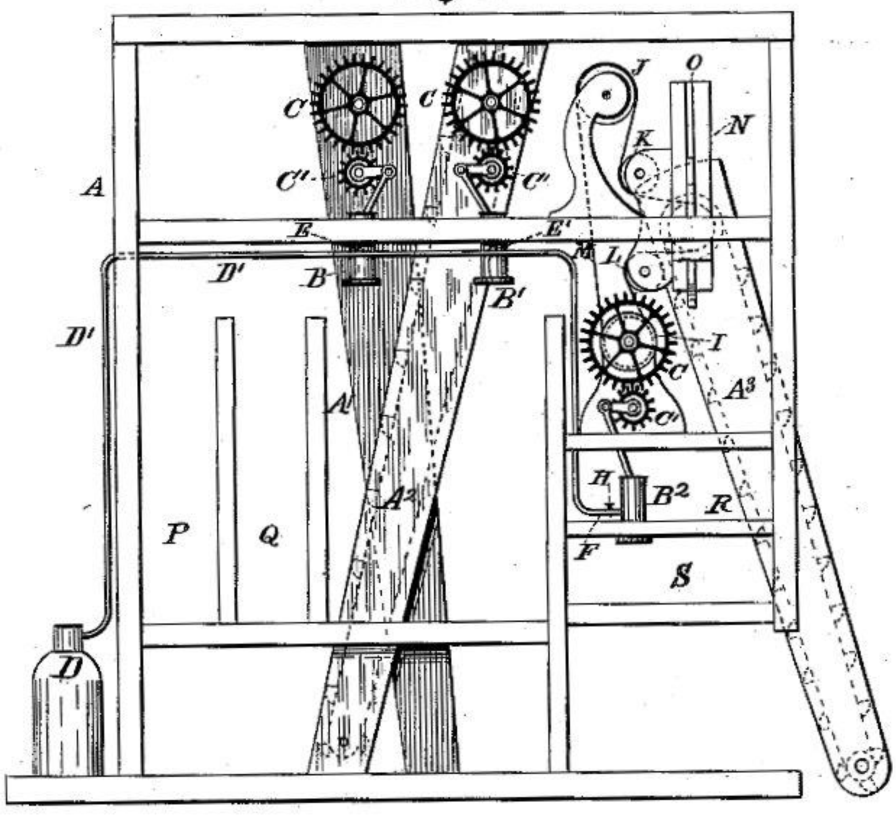
INTRODUCTION

Grain production, in particular wheat and barley, commenced in Australia from the time of the first European settlement in 1788 (Hancock, 1957). The main grain growing regions had been established by the time of Federation in 1901, with rapid expansion of the sector in the 1920s and 1930s (Donath, 1953). Large scale exporting of grains, primarily to the United Kingdom, started in 1898, and grew steadily in the first decade of the 20th Century, made possible by the introduction of steam ships and improved loading systems (Planner, 1988). Despite improvements in shipping, road and rail transportation, the Australian grains industry remained constrained due to inefficiencies imposed on farmers having to use jute bags to store and handle their crops (Ayris, 1999; Thomas, 2006).

Bulk handling of grain emerged in the United States in 1780, with the invention by Oliver Evans of the first bucket grain elevator. This was followed in 1843, by the invention of an improved grain elevator by Robert Dunbar, which led to the rapid expansion of grain elevators to facilitate grain loading and unloading from ships throughout North America, supported by associated bulk storage and management facilities (Fornari, 1982).

Fig.1.



Robert Dunbar's Grain Elevator Patent 1880 (source: US Patent Office)

Attempts to bring bulk grain handling and storage facilities into Australia began in the first years of the newly established Commonwealth. For example, in 1906 an attempt was made to establish a grain elevator system in New South Wales (NSW). However, it failed due to the cost, and a lack of suitable shipping, similar initiatives took place in Victoria and South Australia during the period 1912-1914, again without success (Thomas, 2006).

Prompted by the need for more efficient storage and handling of grain during the First World War, state governments, with federal government support, initiated the introduction of bulk grain handling and storage systems. For example, Grain Elevator Boards were established in New South Wales (NSW) in 1916, and Victoria in 1934, with Western Australia establishing Co-operative Bulk Handling Ltd. (CBH) in 1933, supported by the Bulk Handling Act, 1936 (WA), which gave that co-operative a monopoly over grain handling and storage in that state (Ayris, 1999).

RISE AND DEMISE OF SACBH-ABB GRAIN

The South Australian Co-operative Bulk Handling Ltd. (SACBH) was established in 1954 and took the state's grain industry from the laborious and inefficient use of jute bags for the handling and storage of grain, into the contemporary era of bulk handling and storage.

The foundation of the co-operative was itself a battle that local growers were forced to wage against their state government and vested interests throughout the first half of the 20th Century. By the 1980s, after a period of steady growth from its foundation, SACBH was operating bulk storage and handling infrastructure with more than 4 million tonnes capacity and had an active membership of over 17,365 growers throughout the state (Thomas, 2006).

However, changes to the national grains industry during the 1980s led to market deregulation and the corporatisation of many statutory authorities in the decades that followed. Faced with this changing environment in 2000, SACBH transformed from a co-operative into a hybrid business model, AusBulk-UGH.

This comprised a public company AusBulk Ltd., which was 51% owned by the grower-owned private company United Grower Holdings (UGH). By 2004, increasing pressure from members and outside interests led the company to merge with ABB Grain Ltd., the former Australian Barley Board (ABB), which was privatised in 1999.

In 2007 ABB Grain Ltd. was restructured, resulting in the loss of grower control over the business. The following year the company was publicly listed on the Australian Stock Exchange (ASX), for total of $187 million. At that time ABB Grain Ltd. was Australia's largest agribusiness, operating across a diverse business portfolio comprising grain, malt, wool, fertilisers, chemicals, export marketing, bulk storage, and handling, and with subsidiaries in several overseas countries (Mazzarol et al., 2014). However, in 2009 the newly listed company was acquired by Canada's Viterra for $1.6 billion and is now owned by the Anglo-Swiss Glencore, which acquired Viterra in 2013.

The following sections provide a chronological summary of the history of SACBH-ABB Grain.

EARLY YEARS AND THE EMERGENCE OF A PROBLEM 1908-1945

In 1908, a Royal Commission was held into wheat marketing in South Australia, which examined the introduction of bulk handling systems. Although the Commission (comprising seven state parliamentarians) were aware that bulk grain handling and storage was already well-established in North America, they recommended against its introduction. This set a pattern of political resistance to the establishment of bulk grain handling and storage in South Australia that would last for about 50 years (Thomas, 2006).

In 1914, as the First World War commenced, a review by the Canadian company John Metcalf & Co. recommended the establishment of bulk handling systems in Australia. Their report noted the significantly higher costs associated with jute bags as compared to bulk handling and storage. This included the cost of the bags, labour costs, and the time involved in manually loading and unloading at road, rail, and port facilities. In addition, there were much higher rates of spoilage due to water, insect and vermin infestation associated with jute bags, plus bottlenecks at transfer points (West Australian, 1918).

Grain handling and transport 1900s (source: Battye Library)

The Metcalf Review was widely reported across Australia and led to the formation of the Grain Elevator Boards in other states. However, in South Australia political resistance to bulk handling was significant. For example, on 23 August 1916, a motion was put to the state House of Assembly proposing the establishment of bulk grain elevator terminals at Port Adelaide, Wallaroo, Port Pirie, and Port Lincoln, plus a network of regional grain elevators to supply the ports from local bulk storage receival points. The anticipated cost of this, not including the land, was around £1.1 million. Despite extensive debate the motion failed to pass.

This lack of support within the state parliament for bulk handling was noted with alarm by the farming community and the local media. For example, a scathing article appeared in the Daily Herald newspaper in 1916 lamenting the failure of South Australia to accept the recommendations of the Metcalf Review to establish a bulk handling system. The article noted that while the state Labor Government was in support of the scheme, the “Liberals” were “standing in the way” (Daily Herald, 1916).

Resisting the shift to bulk handling and storage were the licenced jute bag receivers, and ‘free-market’ state parliamentarians who continually rejected farmer submissions to follow the lead of other states, citing arguments over the cost of the system, and fears of a monopoly. Other concerns included the potential for bulk handling to create unemployment amongst the rural labour workforce, and concurrent social problems in regional towns (Thomas, 2006). Some politicians even argued that jute bags were a superior option (Advertiser, 1922).

However, as Thomas (2006) notes, there was also a geographic issue that related to the way in which South Australia’s farming sector is located. The coastal geography of the Spencer and St Vincent Gulfs meant that grain movement and shipping had evolved around many small ports around the gulfs’ coastal areas. It was not economical to establish bulk handling facilities at all these ports, which meant that those farmers who were geographically more distant from any of the new bulk handling ports would be liable to incur higher freight charges.

Despite these obstacles, farmer agitation in favour of the shift to bulk handling continued throughout the following four decades. In 1922 the Farmers’ Bulk Handling of Grain Co-operative Company Ltd. was established, with 2,400 farmers subscribing to purchase 200,000 shares. The formation of this co-operative was initially supported by both the South Australian and Commonwealth governments.

An agreement with the state government enabled the new company to purchase the plans and specifications for grain elevators originally prepared by the Metcalf Review, and to establish a network of bulk handling facilities across the state (Kapunda Herald, 1922). However, despite the optimism expressed at the co-operative’s first shareholder meeting in August 1922, the state parliament again failed to pass the necessary legislation to allow the scheme to proceed, with the Bill defeated after its third reading (Thomas, 2006).

Further attempts to set up a bulk handling system in South Australia continued during the 1930s and 1940s. Assisting this process was the decision by the Federal Government to create the Australian Wheat Board (AWB) and Australian Barley Board (ABB) in 1939 at the start of the Second World War. These statutory authorities were created to provide single desk marketing organisations to coordinate the nation’s grain markets. This initiative was a response to the impact of the Great Depression (1929-1933), and the challenges of the Second World War (1939-1945).

These organisations began to invest in the establishment of bulk grain storage facilities. For example, during 1941-1943, at the height of the war, and when enemy action led to a serious shortage of shipping, AWB commenced the construction of bulk storage facilities in Victoria and WA. However, despite plans to build similar facilities in South Australia, no action was taken due to the easing of hostile threats to shipping after at the war turned against the Axis powers from 1944 (Thomas, 2006).

COMMUNITY ACTION AND THE FOUNDATION OF SACBH 1945-1955

By the 1950s the level of frustration within South Australian growers was profound. It was clear from the success of bulk handling and storage in other states that the continued use of jute bags was inefficient and costly. The main advocacy group for the growers was the South Australian Wheat and Woolgrowers' Association (SAWWA). They had unsuccessfully attempted to set up a bulk handling system in 1939, and now with the war now over, their determination to move the state's grains industry into the modern era was strengthened.

An opportunity emerged in 1948 when the mining company Broken Hill Proprietary Ltd. (BHP) constructed a ship conveyor loading facility for dolomite at port of Ardrossan on South Australia's St Vincent Gulf. This infrastructure could also be used for grain loading. By 1951 an agreement was reached between the state government, BHP and AWB to construct a bulk grain handling facility at the port, a decision motivated in part, by a shortage of jute bags at the time. This facility was opened the following year, and AWB agreed to transfer ownership to either the state government, or a future bulk handling company at a depreciated value (Thomas, 2006).

With this activity occurring the SAWWA was concurrently moving to get a bulk grain handling co-operative established. In 1950, the Association decided at its annual conference to establish a South Australian Wheatgrowers' Co-operative Bulk Handling Company Ltd. This was to be financed by shares issued to growers in conjunction with a levy on grains supplied to the company. In addition, the state government was to be asked to provide start-up capital that would be repaid from the levy, but the co-operative would be owned and control by its grower members (Advertiser, 1950). As noted at the time:

> "With the nearing completion of the one-million-bushel silo at Ardrossan, constructed by the Australian Wheat Board, growers in this area will have the opportunity of having the advantage of a first-class facility, made possible by the co-operation of the Broken Hill Proprietary Company, the S.A. Government, and the Board. … A Farmers' own company with strong support financially, must be created, to be in the position, if necessary, to take over it, and when, required (Chapman, 1952)."

Finally, in 1954 SAWWA submitted a proposal, along with a draft bill, to the state government proposing the establishment of a bulk gain handling co-operative to be granted a monopoly over wheat. The entity was to be a non-distributing co-operative, with no share capital or dividends paid on shares. It was to only focus on bulk handling and storage of wheat and was not to become a grain trading business. For the legislation to proceed, a ballot of all eligible growers (i.e., those sowing more than 50 acres of wheat), had to be held to demonstrate grower support. If successful, assistance would be obtained from CBH Ltd. in WA to provide an engineer to design the entire system across the state (Pioneer, 1954).

Under the proposal, growers would be required to pay the co-operative a compulsory toll of 3d per bushel for all the wheat they produced. Such tolls were to be recognised as advances to the company and would not carry interest. They would also be repayable after 12 years and would provide the underlying capital base for the co-operative. The state would be divided into four regions, Wallaroo, Port Lincoln/Thevenard, Port Pirie, and Port Adelaide (Thomas, 2006).

However, once again there was resistance from the state parliament, with the government arguing that the imposition of a compulsory toll upon members was unconstitutional as it could be deemed to be an excise duty, and therefore fell within the powers of the federal government. As noted by Thomas (2006, p. 23):

> "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 response to the campaign was overwhelming, and the Secretary of the SAWWA, Tom Stott, was in the forefront. At the Association's annual conference in 1954 he addressed the membership and noted that in the preceding seven years the state's farmers had lost more than £23 million due to the failure to establish bulk handling equipment. He declared the matter was now "so urgent that it warranted the Government appointing a special commission to handle it exclusively", South Australian farmers were facing increasing competition and could not continue to operate at this disadvantage. He also noted that the farmers who were able to deliver grain via the port of Ardrossan were "enthusiastic" about the benefits of bulk handling (Tribune, 1954).

There were also numerous letters to the editor of local newspapers written by growers who highlighted the positive experience of WA growers who were members of CBH Ltd. One such letter by an R.S. Norris, urged SA growers to join the newly formed SACBH, and commit to the toll for their 1955-1956 season's crop to secure the necessary funding (Norris, 1954).

With grower pressure on the state government of Sir Thomas Playford mounting, the Bill to support the establishment of a bulk handling system was returned to parliament in 1955. Led by Mr Stott, the SAWWA was able to present the government with audited figures of grower signatures suggesting an overwhelming commitment to paying tolls on their wheat crops to secure the necessary funding for the scheme. However, even with this momentum, the Bill was still subject to a vigorous parliamentary debate and went to a third reading before being finally passed on 7 July 1955, formally establishing the Bulk Handling of Grain Act, 1955 (SA) (Thomas, 2006). The final passage of this legislation provided the newly formed SACBH with the opportunity to move forward with the development of the state's bulk grain handling and storage system.

THE YEARS OF GROWTH AND CONSOLIDATION 1955-1979

Following the foundation of the co-operative in 1954 and the successful passage of the state legislation the following year, granting SACBH with a monopoly over bulk grain handling in South Australia, the company embarked on a steady period of growth that lasted until the end of the 1970s. One of the first major acquisitions was the purchase of the AWB storage and handling facilities at the Port of Ardrossan in 1955. This was followed by a succession of major infrastructure projects, which are summarised in Appendix A.

By the end of the 1960s SACBH had constructed bulk handling facilities at Wallaroo (1957), Port Lincoln (1958), Thevenard (1961), Port Pirie (1962), Port Adelaide (1963), and Port Giles (1969). These port facilities were supported by a regional network of storage and receival points across the state.

This period was characterised as a stable environment for SACBH, in which the state and federal statutory arrangements that had been enacted in the 1940s and 1950s remained in place allowing the co-operative a monopoly position. However, for its members this also ensured stability of income benefits. From a regulatory perspective, several issues created challenges for the co-operative.

SACBH Building South Terrace Adelaide 1962 (source: Trove)

The first in 1963, with the Commonwealth Government amending its Exports (Grain) Regulations. This tightened the standards of inspections of wheat exported from Australia to ensure that it was free from insect infestation. The aim of this change to regulation was the desire to keep Australian wheat exports competitive with those coming from Canada and the United States, which had already introduced such inspections several years before. All wheat exports were to be inspected and certificates issued to confirm the shipments were insect free (Canberra Times, 1963).

Although SACBH had commenced spraying with the insecticide malathion in 1961, the issue posed a significant challenge. For example, inspections were required of the grain, storage silos, and even the ships to ensure that insect infestations did not occur. The cost of such infestations could be high, as AWB found in 1965 when it was fined £1 million damages for exporting a contaminated cargo. In addition, the first malathion resistant weevils were discovered in 1970 and significant research was undertaken by the CSIRO during the next two decades to find viable alternatives, which served to push up pest control costs (Thomas, 2006).

In 1964, the state Bulk Grain Handling Act was amended to include oats, which increased the volume of grains managed by SACBH, and the co-operative also began handling barley crops for ABB, and by the early 1970s, rapeseed and lupins. However, a significant problem for the co-operative was the legal structure of the logistics management for the grain loading at ports. Unlike other states, where the bulk handling company had control from receival point to ship, in South Australia, the co-operative's authority only extended to the wharf. The loading of the ship was the responsibility of the State Harbors Board.

Although most grain terminals made use of grain conveyor belt systems, at the port of Wallaroo the Harbors Board decided to use rail truck jetty-tip loading methods, which was a highly inefficient technique. Despite protests from SACBH and protracted negotiations between the co-operative, the Harbors Board, and the State Public Works Committee (who were responsible for the loading infrastructure), the introduction of a seamless silo to ship conveyor loading system did not get installed until 1997 when the state government privatised the port loading facilities and sold them to SACBH (Thomas, 2006).

Market deregulation 1980-1989

By 1980 SACBH was at its peak. The co-operative's membership stood at over 16,300 growers, and it operated bulk grain storage facilities with a capacity of more than 4 million tonnes. However, there were mounting pressures for reforms to Australia's highly regulated grains sector, which since 1939 were marketed centrally by single desk statutory authorities such as the AWB and ABB. Apart from WA and SA, which had bulk handling co-operatives operating under state legislation, the other states bulk handling was undertaken by Grains Elevator Boards, which were dominated by grower directors who approached their roles more as advocates for the farmers than company directors (Whitwell and Sydenham, 1991).

Inefficiencies were also found in relation to transportation of grains by state-owned rail authorities, which were less cost-effective than road haulage. At the federal government level, the Australian Industry Assurance Commission (IAC) had been advocating for greater flexibility in the wheat marketing sector from as early as 1978, with demands to have the AWB's single desk authority removed. In 1983, the President of the Australian Wheatgrowers Federation Trevor Flugge (who later became Chairman of AWB), called for the deregulation of the national domestic grain handling system (Brewin, Bielik and Oleson, 2008).

As the decade ended, pressure was mounting for the deregulation of the industry. For example, in 1987 tensions erupted between AWB and the IAC when the latter recommended for the scrapping of the guaranteed minimum pricing scheme, and both domestic and export wheat marketing be open to competition (Canberra Times, 1987a). In addition to these issues the global marketplace had become more competitive from the 1970s , with commodity prices falling and the cost of production rising. There was also pressure on the Federal Government for it to guarantee farm gate prices when production costs were rising, and global market prices were falling, which further increased the desire within Canberra to seek reforms (Mazzarol et al., 2014).

The Federal Labor Government of Prime Minister Bob Hawke was open to market deregulation, and keen to see the Australian economy become more internationally competitive. A severe recession had impacted the country in the early 1980s, and the farming sector was also impacted during the decade by a series of droughts, which negatively affected production. However, the federal opposition remained divided over deregulation of the wheat industry, with the Liberal Party broadly in favour, but their coalition partner the National Party strongly opposed to any change (Canberra Times, 1989).

There was also the criticism of how bulk grain handling was being undertaken, which triggered a Royal Commission in 1986, headed by Jim McColl. This investigated bulk grain storage, handling, and transport throughout Australia. It criticised what it saw as inefficiencies in storage, handling and transport throughout the industry and recommended deregulation (Canberra Times, 1987b).

For SACBH the Royal Commission recommendations threatened the co-operative's monopoly over bulk grain handling in South Australia. Although SACBH had cooperated with the Royal Commission, it disputed several of its recommendations, which it rejected on either technical or legal grounds. This led SACBH to seek public support from growers to maintain the monopoly rights enjoyed by the co-operative.

However, the push for market deregulation eventually won out with the passage of the Wheat Marketing Act, 1989 (Cwth). The legislation removed the monopoly power of the single desk marketing authorities (e.g., AWB and ABB), as well as that of the state-based bulk handing businesses such as SACBH (Ryan, 1994). This triggered what was to become a period of significant change throughout the following decades and place the co-operative under extreme pressure.

STRATEGIC CHOICES 1990-1999

Despite the significant changes to the industry being heralded by the Wheat Marketing Act, SACBH started the 1990s with optimism. The 1989/1990 grain harvest was the largest that South Australia had experienced to that time, with the co-operative receiving a record 4.5 million tonnes. Three of the seven export terminals were filled, a further three were only able to take grain into bunkers, and the last terminal was only accepting grain on a "truck to ship" basis (Thomas, 2006).

However, as the decade of the 1990s unfolded the pressures of market deregulation began to mount on SACBH. The first of these pressures were related to its operations. The outbreak of the first Gulf War (1990-1991), impacted the availability of shipping and forced the co-operative into constructing over 500,000 tonnes of additional bunker storage, to ensure that there was sufficient capacity to accommodate the 1990/1991 season's harvest. The subsequent 1992/1993 season also created challenges due to what was to have been a bumper crop being affected by rains that led to 75% of the harvest being downgraded. SACBH found itself engaged in a scramble to meet market demand, address the shortage of storage capacity, and develop forward planning systems (Thomas, 2006).

Alongside the impact of weather and war, the process of market deregulation led to changes in the operations of AWB and ABB. Both statutory authorities began to change their approach to dealing with bulk handling and pricing arrangements. A key criticism levelled by the McColl Royal Commission related to the grain pooling arrangements employed by AWB and ABB, which treated all growers similarly regardless of their geographic location. For example:

> "McColl was critical of some aspects of both AWB and ABB's pooling arrangements. He pointed out that port costs were pooled and that growers in different regional areas did not have the sea freight benefits reflected back to them if the majority of their wheat and barley was shipped to geographically close markets as opposed to ones which were more distant (Thomas, 2006, p. 104)."

Another issue raised by the Royal Commission was the lack of recognition of the financial benefits in shipping grain in larger bulk carriers, and such savings not being returned to the growers. As a result, both AWB and ABB introduced differential charges between ports, which impacted negatively upon growers who were shipping out of smaller ports. For SACBH this was a more significant issue than other bulk handing firms due to the geography of South Australia, as noted earlier, the long coastal areas of the Spencer and St Vincent Gulfs meant that the state had significantly more grain export ports than other states, with many being small and incapable of taking the larger bulk carriers. Discussions over the construction of deep-water ports had commenced as early as 1966, and a Seaport Development Committee was established in 1983, but these deliberations were still only in the planning stage by 1992.

Unsurprisingly, the introduction of port differentials proved extremely unpopular with those growers located in areas that distributed to the smaller ports. Many of these farmers were in the Eyre Peninsula where there was a lack of deep-water seaports. In addition, the introduction of these differential pricing arrangements in 1989 coincided with a drought that impacted growers on the Eyre Peninsula particularly hard.

In addition to these environmental and market pressures, the South Australian government began to raise the issue of repealing the Bulk Handling of Grain Act, 1955 (SA). This reflected the new federal legislative environment that gave AWB and ABB significant powers to override the state legislation. Although the Act was eventually repealed in 1996, the state government prevaricated for several years over legal advice warning the risk of significant tax liabilities and implications (Thomas, 2006).

The strategic environment in which the co-operative found itself as the century ended was highly uncertain. With the repeal of the Bulk Handling of Grain Act the monopoly rights it had enjoyed since its establishment were lost, and the market power enjoyed by AWB, and ABB was growing.

The once stable and amicable relationship SACBH had enjoyed with both statutory authorities transformed into a more competitive commercial one as the 1990s ended. AWB privatised in 1998, becoming AWB Ltd. the following year. ABB followed in 1999 becoming ABB Grain Ltd. Both organisations eventually losing their grower shareholders and consolidating all "A" class shares into publicly trade ordinary shares.

Faced with this more competitive environment SACBH began to modernise. In 1996 the members voted to change the constitution and board structure, which led to the appointment of the first independent director Perry Gunner to the board. The following year it acquired the bulk handling facilities at the seaports from the newly privatised Harbors Board then known as Ports Corp. This finally gave the co-operative total control of the handling channel from receival point to ship. In 1998 SACBH installed new computer data capture systems designed to speed up the collection of harvest receival data. Finally, in 1999 the final report of the Deep-Sea Port Investigation Committee was handed down, which recommended major upgrades to the Port Adelaide inner harbour, and secondary upgrades to Port Giles and Wallaroo.

Demutualisation 1989-2000

In 2000 SACBH demutualised, abandoning its non-distributing co-operative business structure for a hybrid structure consisting of AusBulk, a conventional company limited by shares, and a holding company, United Grower Holdings a solely grower owned public company that owned 51% of AusBulk. The business being known as AusBulk-UGH. It is worth examining the process that SACBH went through before the demutualisation.

It commenced in 1998, the SACBH board, in response to the rising competitive market pressures embarked on a major strategic planning review to develop a long-term strategy. This involved reviewing the co-operative business model which they felt lacked sufficient clarity of ownership. They sought a company structure that would ensure ongoing grower control of the bulk handling and storage infrastructure, but that could also offer greater commercial flexibility. Of interest was a desire to diversify the firm's business activities and pursue opportunities now available within the future deregulated market. This position was summarised by the Chairman Kevin O'Driscoll, in the 1999 Annual Report:

> "Whilst the current structure has service members well in the formative stage 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. Clearly, establishing ownership and improving operating flexibility have become key imperatives for your board (Thomas, 2006, p. 106."

This move by the board to restructure the company and move towards demutualisation was not initially well received by most growers. After decades of fighting to get SACBH established and having been told that they owned the co-operative (with signs stating as much prominently located at all SACBH receival points), there was some disquiet. Many growers also expressed concern over just what they would own should they cease supplying grain to the co-operative.

Although the board was now of the view that the co-operative business model was no longer appropriate for the long-term sustainability of SACBH, they were unclear as to what structure might best replace it. A series of national and international study tours were undertaken, with visits to Irish dairy co-operatives, and consideration of the share structures that both AWB and ABB had adopted using "A" class shares for growers, and "B" class shares for non-growers. Of importance was the need to develop a structure that protected the rights of the grower members and made it difficult for the company to become a takeover target.

The board was also keen to ensure that existing members secured direct ownership of the company via the issue of shares, that offered full capital and income participation rights. Thereby addressing the vaguely defined ownership rights that were inherent in the SACBH structure as a non-distributing co-operative. In addition, the board wished to protect the democratic governance model of the co-operative, to avoid any individual shareholder being able to accumulate a controlling interest in the company. There was also a desire to make share ownership contingent on the members' ability to demonstrate active trading, by linking any share distribution to a volume of tonnage delivered to the company over a given period. Finally, the future structure needed to provide shareholders with good returns to their investment and access to a liquid market where they could trade their shares (Thomas, 2006).

By 1999, the SACBH board had decided to adopt a hybrid structure comprising a holding company owned 100% by the growers, and a trading company with 51% ownership by the holding company. A series of grower meetings were held across the state, with generally favourable responses from the members. Yet, there was some concern over how the new structure would protect the company from becoming a takeover target. Another concern was the loss of tax-exempt status that would accrue from abandonment of the non-distributing co-operative structure. Although this was generally acknowledged as a price to be paid for operating in a more dynamic competitive commercial environment.

However, the most concern was expressed by the growers from the Eyre Peninsula in relation to the proposal to base any entitlement to shares in the new company based on grain deliveries over the ten-year period from 1990 to 2000. Growers from that region demanded that the timeframe commence from 1989 as that was the co-operative's most successful harvest, compared to 1990, which had suffered from storm damage, thereby reducing their share distributions.

Following the period of consultation with growers the board outlined its case for the new business structure and the justification for demutualisation. Copies of this were sent to all members and this was followed by a further extensive process of grower consultations that involved meetings at which the members could ask questions and challenge the board's proposal. As noted by Thomas (2006, p. 107):

> "A lot of work was required to reach this stage. Demutualisation was not a simple process."

One issue that arose was the need to enter discussions with the Australian Taxation Office (ATO) over how to assess the share distributions to growers. SACBH argued that these assessments should be based on the grower's deliveries to the co-operative and not the tolls levied.

Further, the AusBulk-UGH business structure was not a true holding company but a hybrid model. Members were to be issued shares in both AusBulk, the trading company, and UGH, the holding company. The Taxation Act did not have any provision for this type of structure at the time. SACBH was required to seek ATO and federal government approval for the Tax Act to be amended to allow for the demutualisation of the co-operative into this new hybrid structure. In addition, an ATO ruling had be obtained in relation to the cost base of the share capital issued to members for capital gains tax purposes.

AusBulk grain silos 2005 (source: Scott Davis)

In addition to these external regulatory and compliance matters, the demutualisation process required SACBH to undertake substantial internal administrative changes. This included a review of the co-operative's toll records to make sure that all potential shareholders could be identified. The SACBH constitution stated that active membership ceased if the member had failed to deliver any grain over a period of four years. Therefore, all records over the period 1996-1999 had to be reviewed. Further, the co-operative's membership included a range of other organisations such as charities, that had become members when grain had been donated by growers via these entities.

On 18 August 2000, at a special general meeting, SACBH was formally demutualised with a vote of more than 96% of members agreeing to restructure the company into the AusBulk-UGH hybrid. A total distribution of 171 million shares was made to grower shareholders across both AusBulk and UGH, with entitlements of more than $360 million based on the net asset backing of the shares (AusBulk, 2000).

Aftermath 2001-2003

As noted by Thomas (2006), in the official history of SACBH, in relation to the demutualisation of the co-operative:

> "Without a doubt it was the most significant change since the company was formed in 1955 and set the scene for a range of business diversification decisions that saw the company transcend its roots of being a storage-only service provider for SA growers. It also created a vehicle that enabled the company to merge with ABB through a share exchange arrangement in 2004, although these posed challenges given the A and B class share structure of ABB and the holding company structure of AusBulk (p. 108)."

The first few years after demutualisation were generally optimistic for the newly created AusBulk-UGH. For example, in late 2000 the company set up its first online grain trading system *Ezigrain*. The following year the company recorded an after-tax profit of $37.5 million in 2001 and issued a maiden dividend payment to shareholders of 11 cents per share fully-franked. It also upgraded its storage facilities by 1.25 million tonnes, acquired the Port of Ardrossan, and established a subsidiary company Southern Wharf Services to operate its bulk loading plant (AusBulk, 2001).

In 2002 AusBulk recorded an after-tax profit of $55.6 million and issued an unfranked dividend of 5.25 cents per share. It also received the largest harvest in the history of SACBH-AusBulk with 8.6 million tonnes supplied. Total storage capacity was over 10 million tonnes, the company acquired the downstream business Adelaide Malting.

In 2003 the South Australia government also announced plans to construct a new deep water grain port facility at the Port Adelaide Outer Harbour. AusBulk reported a diminished net profit-after tax of $11.1 million caused by drought, but still paid an unfranked interim dividend of 3 cents per share. Total annual revenue was $518 million, of which non-storage and handling business units contributed the majority (75%) of the earnings before interest and tax (EBIT). The company also continued its diversification strategy by acquiring Joe White Maltings, and The Lentil Company (AusBulk, 2003). A key strategic aim of the company was to publicly list on the Australian Stock Exchange (ASX), as noted in the Chairman and Managing Director's Report:

> "When AusBulk demutualised in 2000 it was foreshadowed in the accompanying Explanatory Statement that the company "be listed on the ASX in the foreseeable future subject to market conditions, performance of the business and other relevant considerations". Listing AusBulk on the Australian Stock Exchange continues to be a key goal of the Board as this is the best way to maximise the value of shares held in the company and provide shareholders with a simple market mechanism for the purchase and sale of shares (AusBulk, 2003, p. 7).

However, the privatisation of ABB into ABB Grain Ltd. in 1999 had created a highly competitive business entity within South Australia. The initial privatisation process had seen ABB Grain raise around $35 million in share capital, although it also resulted in the loss of its exclusive right to the marketing of domestic malting barley in July 1999, and the single desk export rights to barley from both South Australia and Victoria in July 2001.

The atmosphere within the Australian grain industry in at the time was highly competitive, with the newly privatised AWB Ltd. and ABB Grain Ltd., along with the newly demutualised AusBulk-UGH, all keen to maximise their shareholder returns via diversification, acquisition, or mergers.

ABB Grain was active in this manner acquiring the grain trading firm Jossco in 2003 (SMH, 2005), followed by Professional Grain Services the following year.

MERGER WITH ABB GRAIN AND ENDGAME 2004-2009

For AusBulk-UGH the competitive environment also made them a takeover target, something that the growers had been concerned about during the demutualisation process of SACBH. Despite the reassurances given to growers at the time, in September 2004 AusBulk-UGH merged with ABB Grain Ltd. in what effectively became an acquisition for the latter.

To understand the factors that led up to this merger it is necessary to go back to 1990 when the then General Manager of ABB John Tansell retired and was replaced by his deputy Michael Iwaniw. The new GM of ABB was more commercially competitive and entrepreneurial. As the deregulation process moved through the grains industry throughout the 1990s, Mr Iwaniw provided the guidance to privatise ABB into ABB Grain Ltd. and embark on an ambitious path of diversification and growth. By 2002 ABB Grain Ltd. had listed its B class shares on the ASX raising $22 million. This funding was then employed to undertake the expansion plan (Mazzarol et al., 2014).

According to Iwaniw the commercial environment within the Australian grain industry at the start of the 21st Century was something of a free-for-all with AWB and AusBulk each making bids to takeover AWB Grain Ltd. At Christmas 2003, the Chairman of ABB Grain contacted Iwaniw to inform him that representatives from AusBulk were interested in a merger and he was tasked to prepare a proposal. In response he prepared a detailed merger proposal which he presented to the board just prior to taking his annual leave. However, the next day he received a call to come back immediately from leave because AusBulk had accepted ABB Grain's merger proposal estimated to be worth around $700 million (Iwaniw, 2010).

After some urgent board deliberations and an agreement to progress the merger, the deal collapsed after AusBulk suddenly withdrew their offer in February 2004. Iwaniw suspects that this might have been driven by the long-standing Chairman Kevin O'Driscoll and the AusBulk Managing Director John Murray (Iwaniw, 2010).

> "So, we got together a committee on vote, and started talking, and what happened then was in February the talks collapsed, and the chairman of AusBulk didn't want it to happen …. The General Manager didn't want it to happen. … We were on our way to New Zealand and handling, this email from their Chairman withdrawing everything that had happened. Just saying none of this is going on. We are not going to do this. We are out of here. He even got on the radio and said this is not going to happen (Iwaniw, 2010)."

What followed was a backlash within AusBulk against O'Driscoll who resigned in March 2004 after eight years as Chairman, citing personal reasons. According to media reports at the time, his health had deteriorated because of the unsuccessful merger talks with ABB Grain, and he had lost the support of most of his fellow directors (Age, 2004).

Undeterred, ABB Grain Ltd. responded by making a bid to acquire AusBulk, but it took some time and a second unsuccessful round of negotiations before the merger took place. As Iwaniw explained, the machinations within the AusBulk board reflected not the overall idea of the merger, but the specific details of what was being negotiated:

> "Well, the first document was just a dot point list, boom, boom, boom, and it is all these things. When you do acquisitions then you have to put meat on them and that's where the problem is – the devil is always in the detail (Iwaniw, 2010).

According to Iwaniw, at the time, ABB Grain Ltd. was the smaller of the two companies and had around half the capital of AusBulk-UGH, and only 60 employees compared to over 1,000. It was, he felt, like David taking over Goliath. However, the felt that the AusBulk business model was flawed because it couldn't sustainably grow due to the cost structure and the incumbent significant investment in grain handling and storage infrastructure, port facilities and other assets. By comparison, ABB Grain Ltd. was small, agile, and high market oriented:

> "I think that is probably more applicable to AusBulk than us. I don't think we were at that stage [Cook's 4th lifecycle stage] because one of the things was that because we were an international grain marketer we were in a very competitive environment, so there was a lot of challenges for our people. It was enough to sort of just do what we did well and grow. And because we also had the philosophy to give all the money, we ever made back to growers there were never any other pressures, but the pressure was coming but some of the things were free-loading; the members wanting to do their own thing and being forced to do - it wasn't a voluntary co-op (Iwaniw, 2010)."

The difficulties facing the merger related to the valuation of AusBulk, which was still privately owned with 54% of the share capital held by the holding company UGH. By comparison, ABB Grain Ltd. had already listed in 2002 and had a share price of $6.15, and a market capitalisation of $300 million (Age, 2004). This lack of transparency in the rather opaque business model of the AusBulk-UGH hybrid, was eventually resolved as the company began moving towards its own public listing scheduled for July 2004.

In the years that followed the merger of AusBulk-UGH with ABB Grain Ltd., the process of corporate expansion continued. ABB Grain Ltd. acquired the fertiliser company Direct Fertiliser in December 2004, and continued to develop its operations diversifying into malting, fertiliser, agrichemical supply, wool, and livestock businesses. Internationally, it also owned subsidiary companies in New Zealand and the Ukraine.

With a view to raising further capital to fund its strategic growth plans, ABB Grain Ltd. began to plan for a second public share float. However, this required a restructuring of the rather complex share capital that it had inherited from its own and AusBulk-UGH's history. In 2007, all A class shares held by growers were redeemed and converted to ordinary shares. While this served to clean up the company's share registers, it effectively removed any protection of grower interests.

The following year ABB Grain Ltd. embarked on a major capital raising of $187 million float on the ASX. This led to further acquisitions in New Zealand in 2008, and admission into the S&P ASX100 league by March 2009. Unfortunately, a succession of severe droughts impacted the business and made the company vulnerable to a takeover. This resulted in the acquisition of ABB Grain Ltd. by Canada's Viterra for $1.6 billion on September 2009. Shareholders were offered $9.11 to $9.59 per share in cash, with stocks and special dividends (Mazzarol et al., 2014). In reflecting on the experience of the history of SACBH-ABB, Michael Iwaniw made the following comments:

> "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 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 (Iwaniw, 2010)."

As he pointed out, ABB Grain Ltd., had been making around $50 million profit after tax even in a drought year, and about $100 million to $120 million after tax in the good years. However, the continuous droughts impacted not only the board, but also the growers who retained most of the shares, and with many growers planning to retire, the pressure was mounting on the future of the industry. The opportunity to sell their shares and go buy a beach house to enjoy their retirement was too strong for many growers. As explained 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, 2010)."

Viterra acquires ABB Grain Ltd for $1.6 bn (source: Globe & Mail 2009)

MOCA AND THE MEMBERSHIP VALUE PROPOSITION

As the short history of SACBH and the AusBulk-UGH outlined in previous section illustrates, the co-operative's emergence required a protracted battle between growers and the state government of South Australia that lasted around 50 years.

The final establishment of the co-operative in 1954, and the passage of the much-delayed Bulk Handling of Grain Act, 1955 (SA), demonstrated the importance of social cooperation as was shown in the work of the South Australian Wheat and Woogrowers' Association (SAWWA) in its long campaign to get the co-operative off the ground. However, the subsequent demutualisation of SACBH into AusBulk also highlights the challenge that co-operative and mutual enterprises (CMEs) face in relation to managing the sustainable delivery of member value in highly turbulent environments. It is important, therefore, that we examine the SACBH business model and how it dealt with marketing its co-operative advantage to members, and the member value proposition (MVP) it sought to offer.

Marketing Our Co-operative Advantage

According to Webb (1996) the key difference between co-operatives and other forms of business is that they are people-centred rather than capital-centred. Their focus on member welfare and benefit, both economic and social, makes the co-operative an enterprise that should be actively marketed in terms of the value that it offers.

The concept of 'Marketing Our Co-operative Advantage' (MOCA) was developed by Webb (1996) to help co-operatives understand how best to engage their members. At the heart of this concept is the notion that the education of members in relation to the co-operative's purpose, principles and values is a fundamental part of wining the trust and loyalty of the membership:

> "When the member walks into the store you are educating. What they see when they go into that store tells them a lot about what you believe in, what your principles and values are. If they go into a co-op store and they see the same attempts to rip them off that they see in any other store, you have taught them something that $10 million worth of pamphlets or 200 courses will not change; you have taught them not to trust you" (Webb 1996 p. 12-13).

According to Webb (1996) most businesses undertake 'image marketing' that seeks to get the customer to believe that value is defined by short-term discounts, special offers and new or improved features.

However, such value is transient and rarely engenders long-term loyalty. By contrast the better approach is what he calls 'character marketing', which focuses on communicating the authentic nature of what the business has as a core purpose and what it should matter to the customer.

For example, he suggests that:

> "Character marketing creates the basis for deeper relationships. For co-operatives, that is a unique advantage. It is not hard for co-operatives to build deep relationships; that is their uniqueness. Co-operatives are relationships. Relationship or character marketing for co-operatives is just a natural (Webb 1996 p.14)."

Well managed co-operatives have a clear purpose, and a coherent MVP that they use to engage current and potential members in an education process to communicate the value they offer. Where this is delivered with honesty, integrity and passion, the co-operative can win the trust and loyalty of its members.

MEMBER VALUE PROPOSITION

The ability of a co-operative or mutual enterprise (CME) to engage with its membership and secure their loyalty starts with the overall value that it offers to its members. This *Member Value Proposition* is a key starting point for any CME seeking to attract and retain a loyal membership base (Mazzarol *et al.* 2011; 2013; Suter and Gmur 2013).

Research into how members view the value propositions that they get from their co-operative or mutual enterprise, suggests that it comprises both social and economic motivations. For example, a large-scale study of members of credit unions found that value was perceived in terms of 'technical' factors (e.g., interest rates, access to services, credit etc.), and 'relational' factors (e.g., interpersonal relationships with credit union staff, sense of ownership and right to 'have a say' in its operations, feeling that the credit union listens and cares). Of these, the relational factors were the most important (Byrne and McCarthy 2014).

CMEs are essentially service enterprises through which members trade as buyers or sellers, and they can be broadly classified into consumer-owned, producer-owned or hybrids that do both (Birchall 2011). The value that the member perceives is often dependent on the nature of their engagement with the co-operative, which can include one of four roles or 'hats' that they wear. These are the roles of: i) a patron (producer seller, or consumer buyer); ii) an investor (shareholder); iii) owner (member with voting rights); and iv) community member (member of a community of purpose for which the co-operative was established to serve).

A study of three large Australian co-operatives (Mamouni Limnios *et al.* 2018) examined how these 'four hats' were understood by the senior managers and directors of these co-operatives, and then communicated to the membership as an MVP. What emerged from this research is summarised as follows:

The 'Patron Hat'

The value perceived by members from the 'patron hat' is about the quality and efficiency of service transactions with the CME, as well as prices paid. Value comes from use and those that trade more will derive more value than those that don't. However, the directors and managers of the co-operatives understand that they provide a service that is about enhancing the member's value rather than the value to the co-operative as a business.

The 'Investor Hat'

The 'investor hat' is understood in terms of dividends paid to members, as well as the rise in the value of the shares as an investment where such share structure exists. For CMEs that have share structures that allow for distribution of dividends, the accumulation of shares is typically based on patronage, and members can often choose to receive dividends, or have their share distributions reinvested into the CME. In CMEs that don't distribute dividends, the investment value is often understood in terms of the value that any investment provides to the member through their patronage.

The 'Owner Hat'

The 'owner hat' is broadly understood in terms of the members as owners, who have the democratic right to participate in the CME via AGMs, and who have equal rights via the one-member-one-vote principle. For the directors of the board, the CME must view itself as existing solely for the benefit of its members.

The 'Community Member Hat'

The 'community member hat' is closely related to the purpose for which the CME was established. Its value is perceived in terms of how the CME fulfils that purpose and helps to deliver the economic and social benefits to its members and the communities that they represent. This is often grounded in the antecedent forces, typically an economic or social problem, that led to the establishment of the CME in the first place. This serves to mobilise the community to collaborate to solve the problem through the application of a CME business model. This mobilisation of the community, to cooperate, pool their collective resources, and establish a mutually-owned enterprise around a common purpose and shared values has been articulated in the academic literature as either 'social cooperation theory' (Birchall and Simmons, 2004), or the 'theory of community-based enterprise (Peredo and Chrisman, 2006).

In essence the CME must understand what its members perceive as value, and how value is perceived and delivered around the 'four hats' that comprise the key roles played by members. Its ability to make a coherent and compelling MVP to its members is an essential element in the success of a CME.

SACBH MVP

SACBH's establishment was driven by the market failure of South Australia's tardy adoption of bulk grain handling and storage systems. The level of community mobilisation within the grower community throughout the first half of the 20th Century highlight the importance of social cooperation in marshalling the resources required to establish the co-operative, but also the forces that shaped both the purpose and MVP of SACBH (Mazzarol et al., 2014).

The emergence of this social cooperation was evident from as early as the 1920s when the Farmers' Bulk Grain Co-operative Company Ltd. was launched in 1922. Local media reports from that time highlight the interest in and enthusiasm for the establishment of bulk handing systems in the state (Register, 1921). When the SACBH was founded in 1954, letters to the editor were being written in local newspapers calling on growers to support the co-operative.

For example, one R. S. Norris wrote numerous letters promoting the benefits a co-operative would deliver to growers and highlighting the success of the CBH Ltd. co-operative in WA:

> "I cannot urge too strongly the necessity for every grower in this State to co-operate and do his part by signing the form and seeing that it is returned to Head Office of the Wheat and Woolgrowers' Association … A complacent response to this request could result in our losing our first, last and only chance of ever owning and controlling our own scheme … The Company will not be able to accept your wheat unless you are a member – there is no advantage in delaying membership – actually, there is much to lose! (Norris, 1954).

As a non-distributing co-operative SACBH relied heavily upon a system of tolls to provide its revenue. The company's profit formula was built on the commitment by members to supply a certain tonnage of grain upon which were levied tolls that were essentially membership fees allocated on a per tonne basis. Growers agreed to pay 3d per bushel in the initial years of foundation, which was increased to 6d per bushel if the delivered to a bulk handling facility. Where the network was unable to provide this, and jute bags were still used, the toll was only 2d per bushel (Thomas, 2006).

These tolls were used to raise the necessary capital to enable the co-operative to build the bulk handling infrastructure across the state. Repayment of the tolls, which were treated as a non-interest-bearing loan from the growers, were repaid after 12 years. An advantage of this toll system was that it did not disadvantage growers in bad seasons when drought or other factors reduced crop production, while maximising the income stream to the co-operative during good seasons when it was often necessary for SACBH to expand its storage facilities.

By 1997 the mission statement of SACBH was expressed as follows:

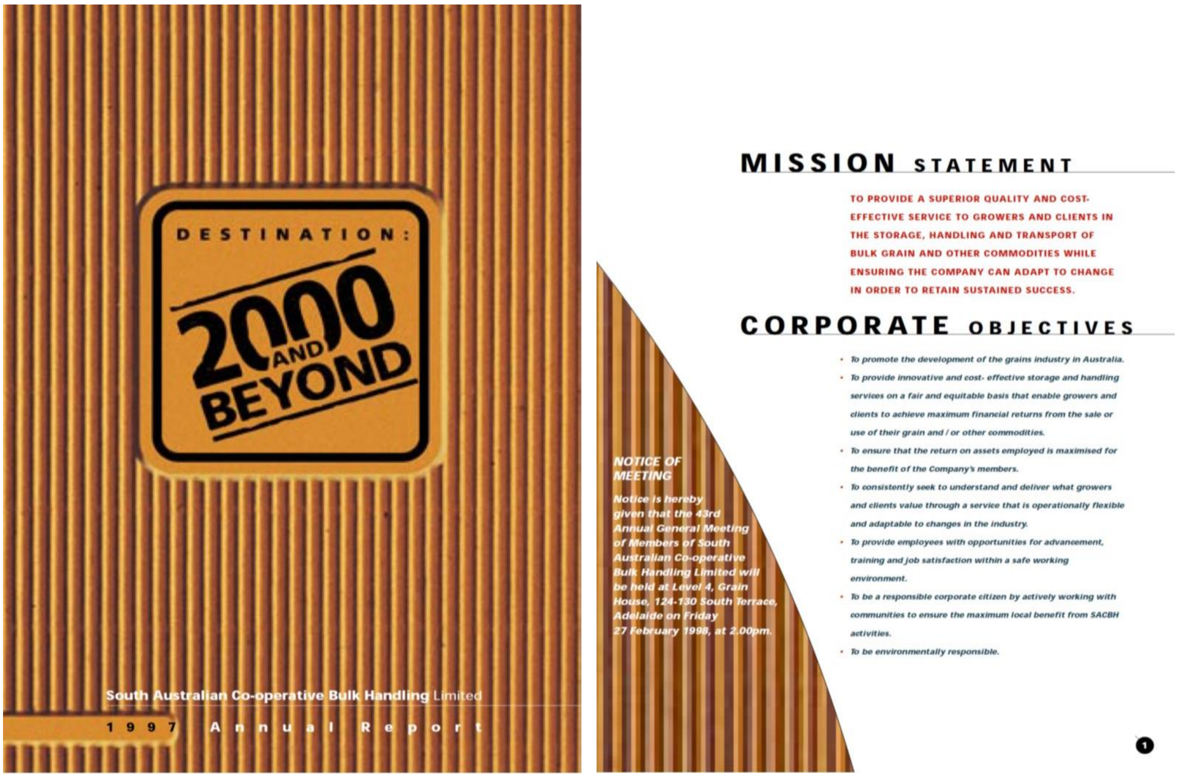
> "To provide a superior quality and cost-effective service to growers and clients in the storage, handling and transport of bulk grain and other commodities while ensuring the company can adapt to change in order to retain sustained success (SACBH, 1997, p.1)."

The company's objectives, as officially stated, included the following statements:

> "Corporate objectives:
>
> - To promote the development of the grains industry in Australia.
> - To provide innovative and cost-effective storage and handling services on a fair and equitable basis that enable growers and clients to achieve maximum financial returns from the sale or use of their grain and/or other commodities.
> - To ensure that the return on assets employed is maximised for the benefit of the Company's members.
> - To consistently seek to understand and deliver what growers and client's value through a service that is operationally flexible and adaptable to changes in the industry.
> - To provide employees with opportunities for advancement, training, and job satisfaction within a safe working environment.
> - To be a responsible corporate citizen by actively working with communities to ensure the maximum local benefit from SACBH activities.
> - To be environmentally responsible (SACBH, 1997, p. 1)."

In the Chairman's statement for the Annual Report of 1997, Kevin O'Driscoll declared that the board believed they were meeting the mission statement. Telephone surveys for that year showed that 55% of members who responded felt that the co-operative's service quality had improved when compared to previous seasons. A further 41% indicated that they felt things had not changed, leaving 2% who felt service quality had declined. That same year SACBH conducted the first survey of its clients, which found that 81% of respondents felt that service was either good or excellent (SACBH, 1997). This was the start of a systematic process of regularly surveying members and clients over service quality (SACBH, 1998).

Two major initiatives relating to MOCA were commenced in 1998. The first was the establishment of thirty-one Strategic Site Committees, which provided a grass-roots, member-level engagement mechanism designed to help facilitate the restructuring process that the board was implementing. The second initiative was the expansion of the co-operative's communications and publicity activities. This saw the co-operative making regular use of the ABC's Country Hour and Stock Journal, and the distribution of printed material, to deliver news and information to members across the state about the work being undertaken by SACBH. During the harvest season of that year a total of 4,500 news and information press releases were issued by the Customer Services Department (SACBH, 1998, p. 12).



SACBH Annual Report 1997 (source: SACBH 1997)

MANAGING THE MVP DURING THE DEMUTUALISATION

The decision to demutualise SACBH and restructure into the hybrid business AusBulk-UGH took several years to negotiate and required considerable consultation with members. The issue dominated the SACBH Annual Report of 1999 and noted the recent privatisation of ABB that same year. As many of the co-operative's grower members were also shareholders in ABB and as such their response to such corporatisation had already been tested. As explained by Payne and Donovan (1999) in the official history of ABB:

> "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)."

This illustrates some of the underlying psychology that motivates membership of CMEs, particularly producer co-operatives. Member loyalty is strongly influenced by the members' emotional value and affective commitment to the CME, which reflects their sense of belonging to the company, feeling good about their relationship with it, and pride in being a member, these attributes will not only reinforce member loyalty, but encourage them to provide positive word of mouth (WOM) referrals to others to consider joining (Mazzarol, Soutar and Mamouni Limnios, 2019).

In the 1999 Annual Report, the SACBH board highlighted the need for the company to protect the members' ownership over the physical assets that had been built since 1955, estimated to be worth more than $300 million. Further the board argued that in addition to this issue of vaguely defined ownership rights, the co-operative business model was restrictive as it did not allow for "accessing sources of capital at competitive rates and entering into strategic alliances" (SACBH, 1999, p. 3).

The proposal that was put before the growers, who under SACBH already had a one-member-one-vote active voice democratic structure and mutual ownership of the co-operative and all its assets, was the hybrid structure, a change of share capital, and 100% ownership of the holding company, United Grower Holdings, but only a majority stake of 51% or more of AusBulk share capital. In this case they had to share ownership with external investors.

The guiding principles for the new demutualised structure that the board hoped to reassure the membership with were stated as:

1. To pass direct ownership of SACBH to grain growers through the issue of permanent shares with full capital and income participation rights;
2. To maintain grain growers' control over the activities of SACBH; and
3. To ensure that, notwithstanding the need for grower control, no individual shareholder can, through their voting entitlement, exert undue influence over the direction of the company (SACBH, 1999 p. 4).

Additional commitments were made in relation to the fair and equitable treatment of all members, the maximisation of growers' investment, access to a liquid market for their shares, and ensuring that members' entitlements to shares was based substantially upon the grain they had delivered over a reasonable period, which proved to be four years.

The demutualisation process that occurred in 2000 would have been considerably more difficult had the co-operative not made significant changes to its constitution in 1989. During that year, SACBH changed the co-operative's articles of association to allow membership to lapse if the member did not trade with the company for a period of more than four consecutive years. Additional changes were made to how toll charges were levied to create greater transparency of trading where members had partnership arrangements, thereby reducing the risk of members double voting (Mazzarol, et al., 2014). As the official history of SACBH explains:

> "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)."

These changes to membership status undertaken in 1989 served to deny all retired growers the ability access the value that they had built during the co-operative's first 42 years. Yet at the time of the demutualisation, there was a growing concern amongst the active members that with the deregulation of the grain industry, and repeal of the Bulk Handling of Grain Act, that should anything happen to the co-operative, requiring it to be wound-up or sold, that none of them would receive any financial benefit for a business they were told was owned by them. Further, there were additional fears that the state government would take control over the company's port facilities and inland gain storage and handling systems. This assumption was based on the loan guarantees that the government held as a legacy of the co-operative's foundation and expansion years.

MOCA WITHIN SACBH-AUSBULK

During the first four decades of SACBH's operations, the primary means of implementing MOCA was via the Annual General Meetings (AGMs), and consultations between the board, the employees of the co-operative and the members. However, as the 1990s ended a more systematic approach to member engagement was commenced, such as the regular members and client surveys that were introduced in 1997.

In 1999, SACBH established a new Corporate Relations Department (CRD) to "provide a more independent and pro-active approach to client service" (SACBH, 1999 p. 10). The CRD gave members a single point of contact for all member communications, dissemination of information and the resolution of any problems that members might have. In addition, the CRD managed promotional and sponsorship activities targeted at rural community groups across the state.

However, the decades of the 1980s and 1990s had seen the grain industry change not only in relation to market regulation, but also in terms of the demographics of the farming community. Many of the grower members who had fought for the establishment of SACBH were now retired, and the trend in broad acre farming was for fewer but larger farms. From the peak of more than 17,365 members in 1980, down to around a quarter of that number by the end of the century. For the growers who were still active, the sense of wanting to extract value from the company that had been built up over 50 years was a major motivation. As the former CEO of ABB Grain 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, 2010)."

This trend towards fewer growers with larger farms resulting in declining membership of the co-operative has been attributed as a factor in the demutualisation of SACBH. However, the concurrent restructures within the industry, and the strong conviction of the board that the co-operative had to be demutualised and converted into a grower owned company to ensure both grower ownership and company sustainability, were compelling arguments.

However, the outcome of the restructure and demutualisation of 1999-2000 was, as discussed earlier, the ultimate loss of all these goals. The original MVP that motived members to join SACBH was the desire to build a state-wide bulk handling and storage system. Further, the co-operative structure guaranteed democratic governance and mutual ownership by growers. This was funded by the tolls that provided a fair and reasonable levy based on patronage.

The MVP in that original co-operative business model addressed the members' patron hat and appealed to their owner and community member hats. However, it was less compelling in relation to the investor hat, at least in terms of the residual ownership rights a member would have over the equity built up in the company balance sheet over time. It was this issue of vaguely defined ownership rights that compelled the board of SACBH to progress the move towards demutualisation and the creation of AusBulk-UGH. However, the outcome was to replace the co-operative business model, with a grower-owned company structure where the dynamics changed from membership of a CME to being an investor shareholder and supplier patron to an investor-owned firm (IOF).

THE CAPITAL STRUCTURE AND FINANCING OF SACBH

The South Australian Co-operative Bulk Handling Company Ltd. (SACBH) was established in 1954 as a non-distributing co-operative. The firm's Memorandum and Articles of Association (Constitution) declared that members who wished to join had to agree to pay tolls to the company as set by the SACBH board as outlined in Article 5A of the Constitution. These set the initial rates as follows:

> a) "In respect of the 1955-56 season a sum not exceeding three pence per bushel.
>
> b) In respect of each subsequent season and until the provisions of sub-paragraph (c) hereof shall apply,
>
> > a. A sum not exceeding sixpence per bushel on wheat delivered in bulk and received by the company in any country bin or combined terminal elevator (other than on transfer from a country bin), established or acquired or operated by the Company.
> >
> > b. A sum not exceeding two pence per bushel on wheat whether in bulk or not delivered in bags to any authority other than wheat referred to in sub-paragraph (a) hereof.
>
> c) In respect of each season after the Company shall have installed and commenced to operate country bins, terminal elevators, and combined terminal elevators throughout the whole of the State of South Australia a sum not exceeding threepence per bushel. The Company shall be deemed to have installed and commenced to operate country bins, terminal elevators, and combined terminal elevators throughout the whole of the State when the Directors so certify in writing (SACBH, 1954)."

These tolls were levied to secure the initial start-up capital required by SACBH. The tolls were a fair and equitable way for growers to fund the co-operative, as they operated as a value in use motivation, and were costed at a rate that considered the total volume of grain being supplied by each grower, as well as differentials relating to whether the member had access to the new bulk handling and storage infrastructure that the company was raising the capital to build. Further, in poor seasons (e.g., drought years), the rate at which the tolls were levied was consistent as it was based on volume not as a flat per grower fee.

The tolls were treated as a non-interest-bearing loan from the growers and were therefore to be repaid after a period of 12 years. The method of repayment, as outlined in the Constitution of SACBH (Article 5B) read as follows:

1) "The Company shall keep a toll register and enter therein against the name, and to the credit of each member, the amount of tolls paid by each such member in respect of each season.
2) Upon expiration of 12 years from the date of the first credit being entered against the name of any member the Company shall ascertain the total amount standing to the credit of sch member in the toll register and issue to such member a certificate stating the amount thus due to such member and that such amount shall be repaid by the Company to the member by 12 equal annual instalments, the first instalment being payable on a date 12 months after date of the expiration of the said 12 years and thereafter on the same date in each succeeding year until the whole amount is repaid and the Company shall repay the said amount accordingly.
3) Upon the expiration of each subsequent period of 12 years the Company shall with respect to each member ascertain the total amount standing to his credit in the Toll register in respect of such subsequent period of 12 years and shall issue to such member a certificate in respect thereof and containing similar provisions to those provided in Sub-section (2) hereof and the Company shall repay the said amount accordingly.
4) Amounts standing tot the credit of any member in the Toll register shall not carry interest nor shall the same be, or be deemed to be, a charge upon or over the assets of the Company.
5) Notwithstanding the foregoing the Company shall have the right at any time or from time repay to any member the whole or any portion of the amount standing to his credit in the Toll register (SACBH, 1954)."

This capital raising was required for SACBH to build 100 country sidings with an average capacity of 270,000 bushels (approx. 7,348 tonnes). The total estimated cost of the scheme was £4,85 million, or about 3s/7d a bushel based on the average annual wheat crop production of 27 million bushels (approx. 734,820 tonnes) (Thomas, 2006).

Under the agreement negotiated between the South Australian Wheat and Woolgrowers' Association (SAWWA) and the South Australian government in relation to the newly formed SACBH, the State Government would provide loan guarantees and the commitment to passing the Bulk Handling of Grain Act, 1955 (SA). However, the government required that the new company had to secure sufficient signatures from growers to underwrite the payment of 3d per bushel on 12 million bushels (approx. 326,586 tonnes).

With a concerted grass-roots campaign, led by the SAWWA and SACBH Secretary Tom Stott, the co-operative was able to present the state government with audited figures of grower signatures committing to tolls of 12.4 million bushels (approx. 336,928 tonnes) of wheat (Thomas, 2006).

This funding model served to underwrite SACBH for much of its initial period of growth. Rabobank (2011) suggest that a co-operative should have a strong profit margin and aim to retain 50% of the annual profits for ongoing operations and distribute the remaining 50% back to members either as shares or cash dividends on a proportional basis based on volume of patronage. As a non-distributing co-operative, SACBH distributed back only the tolls, which carried no interest payments.

Further, throughout years leading up to the deregulation of the grain industry in the 1980s, the sector was subject to quotas set by both state and federal government authorities. The 1960s was also something of a golden era for wheat production, with favourable seasons leading to bumper harvests, such as the largest crop on record from South Australia of 95 million bushels (approx. 2.6 million tonnes) for the 1968-1969 season (Thomas, 2006).

However, the quota system did create issues for SACBH as such large crops required the construction of more storage facilities. As noted in the official history of SACBH:

> "These seasons represented a watershed. They graphically demonstrated that the company, after little more than 12 years, had been able to construct sufficient storage for even the largest crop and the most adverse marketing conditions. In these years, bagged wheat ceased, and growers could now enjoy the lower costs and convenience associated with bulk handling (Thomas, 2006, p. 51)."

SACBH'S FINANCIAL PERFORMANCE IN ITS FINAL YEARS AND AUSBULK'S OUTLOOK

Table 1 outlines the financial performance and trading history for SACBH over the final years before its demutualisation into AusBulk-UGH in 2000. As shown, the trend in grain receivals from 1993 to 1999 was one of steady increase, with the final year's harvest of 5.66 million tonnes described in the Annual Report as "the largest and most diverse crop the Company has ever handled (SACBH, 1999, p. 1).

The 1999 financial year also saw the co-operative record a 25% increase in revenue, and a record surplus of $38.6 million. In addition, the co-operative's expenditure on capital works had grown steadily to $60.6 million, with over $33 million allocated for the construction of a further 285,000 tonnes of permanent storage facility (SACBH, 1999, p.1).

Table 1: SACBH Trading History 1993-1999

Financial Year	1999	1998	1997	1996	1995	1994
Grain received	5.7 m/t	5.0 m/t	4.9 m/t	4.8 m/t	2.2 m/t	4.5 m/t
Gross revenue	$118.4m	$95.8m	$80.1m	$74.2m	$40.0m	$78.2m
Operating costs	-	$65.6m	$61.6m	$62.1m	$55.9m	$70.3m
Gross profit	-	$30.2m	$19.3m	$13.4m	($14.7m)	$8.0m
Interest income	$3.8m	$3.2m	$3.8m	$2.9m	$2.1m	$2.5m
Net profit	$38.6m	$33.4m	$23.1m	$16.3m	($12.6m)	$10.5m
Cash balance	-	$59.8m	$60.4m	$44.5m	$26.6m	$37.6m
Capital spends	$60.6m	$55.7m	$27.3m	$9.7m	$11.1m	$40.0m
Toll receipts	$5.4m	$4.9m	$4.8m	$4.7m	$2.2m	$4.5m
Toll payments	$4.7m	$2.2m	$4.5m	$4.5m	$3.1m	$1.7m
Toll balances	-	$14.4m	$11.6m	$11.3m	$11.1m	$12.1m
Member equity	$338.3m	$229.7	$266.1m	$243.0m	$226.7m	$239.6m

Sources: SACBH (1997; 1998; 1999), AusBulk (2000)

Following the demutualisation AusBulk reported an operating profit for the financial year 1999/2000 of $18.6 million, which was a significant decline from the final year (1998/1999) figure of $38.6 million reported by the former SACBH. The company did note that their reported extraordinary loss of $34.7 million for the year was largely due to the capitalisation of the holding company UGH Ltd. However, they still reported investments of $35 million into the expansion of storage facilities and upgrades to the transportation networks. With the comment that their launch into the grain marketing business had got off to an 'excellent start' and had made 'a positive contribution to earnings' (AusBulk, 2000, p. 1).

Table 2 shows the trading history of AusBulk over its short life from 2000 to 2003, prior to its merger with ABB Grain Ltd. in 2004. As can be seen, the company's overall equity grew steadily, over the four years following demutualisation. However, while revenue from grain handling remained relatively stable, revenue from grain sales and the marketing of other commodities increased significantly. This reflected the company's transition from a bulk handling and storage business to a diversified agribusiness enterprise.

Table 2: AusBulk Trading History 2000-2003

Financial Year	2003	2002	2001	2000
Grain received	3.0 m/t	8.6 m/t	7.1 m/t	4.2 m/t
Grain handling revenue	$90.0m	$170.5m	$131.5m	$89.9m
Sale of grain & commodities	$424.5m	$370.9m	$205.2m	$62.4m
Revenue from operating activities	$514.5m	$541.4m	$336.6m	$152.2m
Revenue from other activities	$3.4m	$4.3m	$4.7m	$3.3m
Gross revenue	$517.9m	$545.7m	$341.3m	$155.5m
Operating costs	$502.0m	$470.1m	$285.7m	$136.9m
Gross profit	$15.9m	$75.6m	$55.6m	$18.6m
Income tax expense	$4.8m	$20m	$18.1m	-
Net profit	$11.1m	$55.6m	$37.5m	$18.6m
Total equity	$408.7m	$378.1m	$340.3m	$322.2m

Sources: AusBulk (2000; 2001; 2002; 2003)

The diversification of the company away from bulk handling and storage to other business operations, included the acquisition of Joe White Maltings and the integration of AusMalt with the Adelaide Malting Company, plus the acquisition of The Lentil Company in 2003 (AusBulk, 2003).

As a company limited by shares, AusBulk Ltd. regularly issued dividends from the total pool of 182.6 million shares held by 2003. Dividends were issued as either franked or un-franked and commenced from the financial year 2001. For example, in 2002 a fully-franked dividend of 5.25 cents per share was issued, and the following year this fell to 2.25 cents fully-franked (AusBulk, 2003).

During the final year of AusBulk's existence the board proudly declared that their strategy of demutualisation from a co-operative into an investor-owned firm (IOF) with a strong focus on diversification and growth had been successful. They now had a strong balance sheet with net assets of $409 million and a net debt to equity ratio of 46%. In addition, gross revenue was around $518 million, with the majority being sourced from non-storage and handling business units. For example, in 2003 the company's earnings before interest and tax and amortisation (EBITA) comprised 57% from the AusMalt operation, 21% from the AusBulk grain marketing business, and 22% from storage and handling.

ASSESSING THE DEMUTUALISATION PROCESS

LeVay's (1983) 'wind-it-up' theory suggests that co-operatives can be dissolved simply because "their initial objectives have been achieved" (LeVay 1983, p.28) as competitors adjust their prices or improve their services. In the case of SACBH the original purpose for which the co-operative was established had essentially been achieved by the end of the 1980s. By that time, the co-operative was operating a modern, highly efficient, and effective bulk handling and storage business that met the needs of the South Australian grain growers.

The 50-year battle to establish bulk handling and storage in South Australia had been won, and by the time it came, the environment had changed dramatically. The 1990s was a period of market deregulation that impacted the future of the co-operative. These forces impacted SACBH in several ways.

First, the removal of wheat quotas and the privatisation of the single-desk grain marketing authorities AWB and ABB, led to the removal of price stability for growers who had, since 1939 been able to plan due to price stability, a minimum price (based on the cost of production) guaranteed by the government, and a single domestic price that provided fairness between producers and buyers.

Second, the removal of the monopolies enjoyed by the likes of SACBH, CBH Ltd. and the NSW and Victorian Grain Elevator Boards, over bulk handling, and storage within their respective states, generated a threat to the significant assets that the growers had built with their payment of tolls over the decades.

According to LeVay (1983) a successful co-operative that can offer highly competitive pricing can also become a 'Pacemaker', able to set prices and help to force competitors to match them. SACBH, due to its non-distributing co-operative structure, and focus on the critical task of providing its grower members with the most cost-efficient bulk handling and storage system and services served the role of being a 'Pacemaker' within South Australia.

However, the changing market environment was viewed by the SACBH board as requiring the demutualisation of the co-operative in favour of an IOF business model, to protect the members ownership and control over the capital assets, and to provide them with more certainty of ownership than could be provided with the poorly defined ownership rights inherent in a non-distributing co-operative's business model.

As history has shown, the outcome of the demutualisation was the ultimate loss of control over the company and its assets by the growers, and with it their ability to contain costs and prices in their favour. Over a decade since ABB Grain was acquired by Viterra, South Australian growers remain eager to reclaim control over their bulk handling and storage, with the foundation in 2017 of the Eyre Peninsula Co-operative Bulk Handling Company Ltd. (EPCBH), with the purpose of providing growers in that region with cost-effective logistics and an export port facility. So, for the growers who founded, built, then sold SACBH, and now seek a *raison d'être* to recreate the co-operative, the following may comment may apply:

> "The very existence of a successful co-operative makes for greater efficiency amongst the competitors, so that even when price and service adjustments have been effected, the organisation is kept in being to fulfil a pacemaker role" (LeVay 1983, p.28).

THE IMPORTANCE OF GOOD GOVERNANCE

Leadership and good governance are essential to the success of any business enterprise. However, the co-operative and mutual enterprise (CME) provides a particularly challenging environment with studies highlighting poor governance as one of the key weaknesses facing such businesses (Birchall and Simmons, 2009).

The role of a board of a co-operative is not only to ensure the efficient operation of the business, but to ensure that the overall purpose for which the enterprise was created is fulfilled, and the 'cooperative identity' of the organisation preserved (Othman, Mohamad, and Abdullah, 2013).

> "In a manner of speaking, an indifference to the affairs of the co-operatives indicates members do not engage themselves in the operations and management of cooperatives, opting to leave the matters to the management to make decisions as deemed fit to their intentions" (Othman et al. 2016, pp. 8-9).

On 7 December 1954, the South Australian Co-operative Bulk Handling Company Ltd. (SACBH) was established to address a market failure caused by the lack of bulk handling and storage facilities for South Australian grain growers. Its founding came after a protracted campaign by growers, over some 50 years, to get the state government to support the creation of the co-operative and the introduction of bulk handling and storage systems.

Despite successful growth over the period from 1955 to 1980, the following decades found SACBH facing external challenges from market deregulation that led to it changing its governance structure before ultimately demutualising in 2000.

THE FOUNDATION OF SACBH

In the arrangements that led to the foundation of SACBH and the passage of the Bulk Handling of Grain Act, 1955 (SA), the co-operative would be non-distributing and possess a monopoly right to the handling of wheat across the state. The growing areas over which SACBH would operate were organised into four divisions comprising:

- Wallaroo, on the western side of the Yorke Peninsula facing the Spencer Gulf;
- Port Lincoln/Thevenard, on the Eyre Peninsula;
- Port Pirie, on the east coast of the Spencer Gulf, and
- Port Adelaide, on the east coast of St Vincent Gulf.

The Memorandum and Articles of Association of the co-operative provided for a one-member-one-vote democratic governance model, with membership open to all growers within the state. The first board comprised nine directors, who were described in the SACBH official history in the following terms:

> "The members of this team were highly motivated leaders amongst their peers and were strong advocates in the public bulk handling campaign that was quickly gathering momentum (Thomas, 2006, p. 25).

The founder directors of SACBH were:

- Mr L. H. Heaslip who was the first Chair of SACBH.
- Mr Cecil Chapman, who was the South Australian grower representative on the AWB board, a past President of the South Australian Wheat and Woolgrowers' Association (SAWWA), and long-term advocate for bulk handling.
- Mr Elliot Day, President of the SAWWA.
- Mr Tom Shanahan, Executive member of the SAWWA, who would go on to become SAWWA and a grower representative on the AWB board.
- Mr. J. B. Golding, President of the Loxton Branch of the SAWWA.
- Mr. Max Pearce, a future growers' representative on the ABB board.
- Mr. G. C. Bruce, grower director.
- Mr. F. W. Clasolm, grower director, and
- Mr. Key Payne, grower director.

In addition, Tom Stott, who was Secretary of the SWWA, also become the Secretary of the SACBH. Following its establishment, the co-operative appointed Perce Sanders as its first General Manager (Thomas, 2006).

For the first 35 years, the focus of the SACBH board was the construction of the state-wide network of bulk handling and storage infrastructure. This growth process involved continuous negotiations between the co-operative and the state government department of public works in relation to the construction of grain storage and handling facilities, and the Harbors Board over loading at seaports.

As one of the founder directors Harry Philbey observed, the early years were largely tied up with this type of negotiation:

> "It was often quite demanding being a director in those early days, having to travel to Adelaide three times in one week to try to resolve a major disagreement with the Government. This was in relation to their rail truck tipping method which was proposed for ship loading at the about to be constructed Wallaroo Terminal. The Harbors Board wanted storage to be connected by a rail line to the wharf from where it would be scraped out of the wagon into a hopper below deck level, and then elevated by a chain conveyor connection direct from the silos to the shipping

> gantry. The Harbors Board proposal was operationally inefficient and would have resulted in the AWB charging growers a freight differential of 3/4d per bushel, whereas the cost of a conveyor would have been absorbed into the AWB's national charges for storage and handling (Thomas, 2006, p 117)."

There were also substantive negotiations that the board had to undertake with the two main statutory authorities that managed single-desk marketing for grains. This was the Australian Wheat Board (AWB), and the Australian Barley Board (ABB).

These negotiations included such things as the purchase of the AWB storage facilities at the port of Ardrossan in 1955, and the construction of an in-transit barley storage facility for ABB at the same port in 1957. By 1962, SACBH had committed to an agreement with ABB to construct barley storage facilities across the state. Such negotiations and collaboration were made easier in 1963 when SACBH, SAWWA and ABB all co-located into office accommodation at Grain House, 124-130 South Terrace, Adelaide.

As Philbey recalls, the governance process of SACBH in the years from foundation to the 1980s was highly democratic and marked by a strong and active engagement with the grower members. These members understood that the co-operative was building the bulk handling network for them and that this would result in lower costs and more efficient operations. The board was very hands on and focused on listening to the members. As explained in the official SACBH history:

> "Harry also believes the company enjoyed strong support from growers because it listened to their demands. He made sure that at the company's AGM, growers were able to put their view: 'While it was not constitutional to accept resolutions from the floor, I always made sure that they were able to submit recommendations and that the Board subsequently reported back on these', (Thomas, 2006, p. 117)."

CONSTITUTIONAL AMENDMENTS

Throughout its history SACBH had two major amendments of its Memorandum and Articles of Association (Constitution), both of which were to have significant bearing on later organisational restructures that ultimately led to its demutualisation in 2000. The first of these took place in 1989 when at a Special General Meeting of members, the Constitution was changed to redefine the definition of active membership within the co-operative.

This change enabled SACBH to deem a membership to have lapsed if the member had not been engaged in active trading with the co-operative for a period of more than four consecutive years. The significance of this emerged in 2000 when the SACBH was moving to demutualisation into the hybrid grower owned company AusBulk-United Grower Holdings (AusBulk-UGH). During that time, the ability to ascertain which members were to receive shares in the new entity was made substantially easier as the records only had to be traced back to 1995 rather than 1955.

The second major constitutional amendment took place in 1996. This was part of a move by the co-operative to modernise their governance in the face of what had become a more dynamic and commercially competitive market environment. The original constitution had provided for a mixture of state and regional directors, aimed at ensuring the co-operative's board was able to fully represent the grower community.

An important issue underlying this governance model was the geography of South Australia's grain producing regions. The coastal geography of South Australia is considerably different to other grain producing states. The Eyre, Yorke, and Fleurieu Peninsulas, which are divided by the Spencer and St Vincent Gulfs, create a significant logistics challenge for the transportation of bulk goods such as grain. It is why South Australia has so many coastal grain distribution ports, and why proximity to a suitable deep-water harbor, able to accommodate bulk grain ships, and the related bulk handing facilities, posed a major strategic issue for SACBH throughout its history.

The 1996 amendments to the SACBH constitution focused on several key issues. The first was the restructuring of the electoral zones that led to the state and regional directors. This proved highly contentious within the membership, with many members concerned over the threat that it might pose for their democratic representation on the board. The need to treat all regions equitably in relation to services and facilities was a major consideration.

After protracted discussions the constitution was amended to have all directors elected by all members, but subject to regional requirements. At least one director had to be drawn from each of three geographic regions, which comprised: the Eyre Peninsula, the Mid North, and the Eastern and South-eastern regions.

The second issue addressed by the 1996 constitutional revisions was the ability for SACBH to appoint independent directors to the board. This coincided with the introduction of the new Co-operatives Act, 1997 (SA), which was part of a national movement across all states and territories in the 1990s to modernise the co-operatives legislation. Enabling co-operatives to appoint independent directors to bring to the board expertise in relevant areas, was a major part of that reform process. However, the legislation required that there must be a majority member directorship present on the board (CNL, 2012).

Under the SACBH constitution, as amended in 1996, the board comprised a maximum of nine directors. Six of the directors were to be member directors and the balance to comprise three independent directors. The positions of Chair and Deputy Chair required the office holders to be member directors and were appointed by the board. The tenure for independent directors was three years, but with the ability to hold a maximum aggregate term of eight years. Election of member directors was via the AGM and followed a first past the post system (SACBH, 1999).

This amendment brought Perry Gunner to the board as SACBH's first independent director. He would then go on to become the Chairman of the board of ABB Grain Ltd., following the merger of AusBulk with ABB in 2004.

Other major changes to the SACBH constitution undertaken in 1996 were related to the objects of the company, a clearer definition in relation to how tolls were to be used, and a more precise definition of what a 'grower' was. This latter issue was important because by that stage many growers were operating via a range of business entities. The revisions also addressed the following:

- Introduction of the notion of eligibility for company membership; and

- Overhauling the election procedures for directors to provide a 'first-past-the-post' system to replace the existing preferential system, which was open to criticism.

These changes were to prove strategically important when SACBH moved towards demutualisation only four years later. As noted by Thomas (2006):

> "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 (p. 106)."

NEW LEADERSHIP SEEKING CHANGE

The SACBH Chair at the time of these constitutional changes was Kevin O'Driscoll, who served through until the merger between AusBulk-UGH and ABB Grain in 2004. He came to the board in 1992 when a casual vacancy opened. According to Thomas (2006), O'Driscoll was from:

> "… a new generation of growers who were prepared, as Trevor Flugge had been at the national level, to challenge the status quo and ask hard questions. However, Kevin went one step further and saw that if he was to be effective it was not sufficient to challenge from the outside but change things from the inside (p. 120)."

O'Driscoll was elected Chair in 1996 and immediately embarked on a reformist agenda. This focused on several key issues:

- **Extensive investments in capital works** to ensure that the co-operative could provide adequate storage to all growers, but to deliver this storage at the lowest cost. This transformed into the company's strategic silo plan, which was in response to rising grain production in the previous years.

- **Market deregulation**, which enabled SACBH to expand outside South Australia and across a wide variety of grains and industry sectors.

- **Restructuring the board**, which involved the changes mentioned above and appointment of independent directors.

In the SACBH Annual Report of 1997 O'Driscoll declared that the board had delivered on the mission of the co-operative by providing "superior quality and cost-effective service to members and clients, while ensuring that the Company can adapt to change in order to retain sustained success" (SACBH, 1997, p. 2). He also referred to the constitutional reforms undertaken during the previous year and the restructuring of the board that formed part of that process. As he noted:

> "The Board restructure, set in train by changes to the Memorandum and Articles of Association which were sanctioned in October 1996 by members, has commenced. In April, the Board appointed Mr Perry Gunner as an Appointed Director of the Company. This, the first step in an evolutionary process, requires members sanction at the forthcoming Annual General Meeting. Perry's contribution to the proper functioning of corporate governance and management performance has already been evident in Company accomplishments. The next stage in the evolution will be the election of in September 1998 of six member Directors as required by the Articles (SACBH, 1997, p. 2)."

The final years of the co-operative and the governance of AusBulk

By 1998 the process of demutualisation was already underway with a major strategic planning review (see: Group Problem Solving Exercise 1), which led to the development of a new business model comprising a hybrid structure with a grower owned holding company UGH, owning an operating company AusBulk, with a minimum of 51% of shares in the latter owned by UGH.

In 1999, the composition of the board was six member directors and two independent directors. These were Kevin O'Driscoll as Chair, and Brendan Fitzgerald as Deputy Chair, with Jeff Clift, Adrian Glover, Kevin Shaefer and Michael Shanahan as member directors, and Perry Gunner and John Bastian as independent directors. The CEO was John Murray (SACBH, 1999).

Board meetings were held on a regular monthly basis, and the board was assisted by five committees:

1. **Audit Committee**, comprised of three directors, which met on a quarterly basis with the CEO, and Executive Manager Commercial, and the Chief Financial Officer attending as required. The committee focused on assessing business risks, developing performance metrics, overseeing regulatory compliance, internal and external audits.

2. **Works Committee**, comprised of three directors, which reviewed the co-operative's capital works budget and oversaw major planning and tendering processes and the awarding of contracts for major capital works. This committee also drew in the CEO, Executive Manager Operations and Engineering and the Engineering Services Manager.

3. **Nominations and Remuneration Committee**, comprising four directors, which included the Chair of the Board, who also chaired this committee. This committee managed the process of selecting the independent directors, setting remuneration packages for senior executives, and reviewing the remuneration of directors.

4. **Communications Committee** focused on reviewing and developing policies relating how SACBH communicated with its stakeholders.

5. **Risk Management Committee**, focused on the development of risk management policies, strategies and controls following the establishment of grain marketing division.

Following the demutualisation in 2000 the board structure of AusBulk the new constitutional structure allowed for a minimum of six and a maximum of ten directors. Each director's tenure was three years, with the longest serving one-third of the board required to retire each year, but able to offer themselves for re-election at the next AGM. The Chair was to be elected by the Board (AusBulk, 2000).

AusBulk Ltd. Board 2003 (source: AusBulk Ltd. 2003)

The first board of the newly established AusBulk comprised a total of eight non-executive directors and the Managing Director (CEO). Kevin O'Driscoll continued as Chair, and Brendan Fitzgerald as Deputy Chair, member directors Jeff Clift, Adrian Glover and Ken Schaefer were all re-elected, while Michael Shanahan resigned, and replaced with Garry Hansen. Both Perry Gunner and John Bastian remained on the board, and John Murray continued as CEO (AusBulk, 2000). The principal difference between the former SACBH and AusBulk being that the election of grower members to the board was no longer a requirement.

The new company structure changed the organisation from that of a company limited by guarantee, to a company limited by shares. Members were issued shares in both the holding company UGH Ltd and AusBulk Ltd. through a 50/50 share split with AusBulk shares held directly and the UGH shares held indirectly. UGH was incorporated on 26 May 2000 for $1 as a wholly owned subsidiary of AusBulk Ltd. (AusBulk, 2000).

As with SACBH, the board of AusBulk also delegated responsibilities to several standing committees. These were:

1. **Finance and Audit Committee**, chaired by John Bastian, it focused on coordinating the internal and external audit programs, as well as ensuring that the company's capital reserves and working capital were sufficient to support its strategic goals.

2. **Works Committee**, chaired by Brendan Fitzgerald, it served a similar role that found within the SACBH overseeing capital works planning and tendering processes.

3. **Nomination and Remuneration Committee**, chaired by Kevin O'Driscoll, this performed the same functions as the one operated within SACBH, with the addition of having performance-based profit and equity share participation arrangements for executives now available.

4. **Risk Management Committee**, also chaired by Kevin O'Driscoll, this did the same role as its predecessor in SACBH, overseeing the operations of AusBulk's grain marketing division, and developing risk and credit management policies and procedures.

5. **Listing Committee**, also chaired by Kevin O'Driscoll, this committee was focused on the preparation of AusBulk for public listing on the Australian Stock Exchange (ASX).

In the Chairman's report for the 2000 AusBulk Annual Report, Kevin O'Driscoll noted that in the lead up to the demutualisation over 60 meetings were held around the state with growers as part of the company's member consultation process. These meetings were "positively attended in large numbers". He suggested that the conversion of SACBH to AusBulk had achieved several key goals:

- **Unlocking the company's value and placing it with shareholders**. Around 171 million shares were distributed to grower shareholders across both AusBulk and UGH. These share entitlements were estimated to be worth over $360 million based on the net asset backing of the shares.

- **Preservation of grower control via United Grower Holdings Ltd**. UGH, he stated was created to ensure that grower ownership and control was preserved over the direction of the operating company AusBulk.

- **The company now had a more flexible capital and share structure.** This would provide AusBulk with the ability to raise new capital for interstate and international growth via acquisition.

According to O'Driscoll in relation to the AusBulk-UGH hybrid structure:

> "Constitutional provisions for both companies make for a robust structure which would require a heavy majority Shareholder vote to overturn control of AusBulk (AusBulk, 2000, p.2)."

He went on to declare that:

> "The success of the Company's corporate restructure and name change proposals provide us with a solid base from which to expand the core business interstate, better take advantage of growth and investment opportunities, diversify revenue streams to ensure significant 'drought-proofing' of AusBulk, and in general increase the value of the Company for the benefit of Shareholders (AusBulk, 2000, p. 3."

The company vision and mission statement had also changed and now read: "Leading Australian Grain Business". Its statement of how this vision/mission would be achieved spoke of many things, but noticeably it made no reference to growers or the South Australian grower community.

Four years after the demutualisation of SACBH into AusBulk-UGH the company was merged with ABB Grain Ltd., which by 2007 saw the redemption of all A class shares held by growers and their conversion into ordinary shares, effectively removing any of the safeguards that had been so carefully developed and promoted by O'Driscoll and the SACBH board in the demutualisation process. Two years later ABB Grain Ltd. was acquired by Canada's Viterra.

ASSESSING THE FATE OF SACBH-AUSBULK

The agency and property rights theories suggest that the co-operative business model is prone to challenges and inefficiencies due to the separation of ownership from control and due to poorly defined property rights that lead to conflicts over residual claims and decision control. These challenges are theorised to emerge progressively when the co-operative has managed to correct the market and has assumed a pacemaker role, in which case transaction costs become more important, professional managers are brought in and ambitions for growth emerge.

Cook's (1995) life cycle theory suggests that at that stage the co-operative will either a) exit either through liquidation, a merger with another co-operative or a transformation to an investor-owned firm (the latter for the more successful co-operatives); b) continue as a co-operative but seek external capital or pursue a proportionality strategy of internally generated capital; or c) shift to a hybrid structure such as a 'New Generation Co-operative' (a co-operative structure that allows for share appreciation, increases share liquidity and eliminates external free riders).

SACBH entered the third stage of Cook's (1995) life cycle theory in the 1980s, by which time it had successfully corrected the market failure for which it was established and had built a state-wide network of bulk storage and handling facilities all owned and controlled in mutual by the growers. However, as a non-distributing co-operative it was prone to the generic problem of poorly defined property rights.

Nevertheless, SACBH did not appear to experience portfolio and horizon problems despite the poorly defined property rights. Free-rider concerns were also minor. This might be explained as an outcome of the toll system linked to patronage, and the fact that for most of its formative decades, the co-operative was still in a process of building and the members were motivated to get the bulk handling and storage systems in place. Influence-cost problems were also negligible due to the strong regional and state representation on the board under the original constitution, and the 'hands on' approach to member engagement demonstrated by the early boards as describe by Harry Philbey.

However, the market deregulation that was strongly felt by the board throughout the 1990s, and the privatisation of AWB and ABB, the latter of which was co-housed in the same office building in Adelaide appears to have a profound influence. The arrival of Kevin O'Driscoll onto the board at this time of significant change in the co-operative's market environment also played a significant role in shaping its ultimate destination. While O'Driscoll clearly wished to deliver the best value for growers. He also wanted to resolve the problem of poorly defined property rights, and the need for greater organisational agility in the newly deregulated market. Unfortunately, the fate of SACBH/AusBulk-UGH was the opposite of his vision.

LeVay (1983) argues that the birth of agricultural co-operatives has often been almost immediately succeeded by their demise. Something she suggests may be due to:

> "a lack of appreciation on the part of farmers of the risks involved in forward integration."

That may have been the case for SACBH, as both board and management were engrossed in their strategic drive for growth and diversification once they had resolved the initial problem that motivated the co-operative's foundation. Further, as they faced the challenges of the new de-regulated market that emerged in the 1990s, they failed to see the impact on their members' long-term on-farm needs which were not directly related to share ownership and dividends.

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Appendix A: Historical Timeline 1908-2009

YEAR	EVENT
1908	Royal Commission into South Australian wheat marketing rejects the introduction of bulk handling.
1914	SA Government commissions Canadian silo company John Metcalf & Co. to make recommendations on the establishment of a bulk handling system in South Australia.
1916	SA Parliament rejects the Metcalf Report and recommendations.
1939-1945	Outbreak of WW2 leads to establishment of ABB under the National Security Act (1939) to advise on regulation and control of the barley industry. All farmers were compelled to sell their barley to the ABB. The Board has no employees and sub-contracts to licenced receivers paid on commission. ABB controls storage facilities in WA and Victoria.
1948	BHP constructs a ship conveyor belt at Ardrossan to export dolomite
1952	A wheat bulk handling and loading facility is constructed at Ardrossan, following an agreement reached between BHP, SA Public Works, Harbours Board and AWB.
1954	The South Australian Wheat and Woolgrowers' Association (SAWWA) submits a proposal and draft Bill to the state government for the establishment of a bulk handling company. SACBH is incorporated.
1955	SAWWA submit audited figures of grower signatures pledging tolls on 12.4 million bushels of wheat. This paves the way for SA government to pass the Bulk Handling Grain Act (1955).SACBH purchases the AWB bulk grain storage facilities at the Port of Ardrossan.
1956	The first country storage facility is opened at Paskerville.
1957	The first export terminal is opened at the Port of Wallaroo, and SACBH builds an in-transit barley storage facility at Ardrossan for ABB.
1958	The Port Lincoln terminal and the first country storage on Eyre Peninsula are constructed.
1961	The first terminal at the Port of Thevenard is constructed. First use of malathion to protect grain.
1962	The Port Pirie terminal is completed and SACBH sign contract with ABB to construct barley storage facilities across the state. Grower deliveries of barley to Ardrossan commence.
1963	Port of Adelaide terminal is completed, and first bulk shipments of oats commence. SAWWA, AWB and SACBH all move into purpose-build offices at Grain House, South Terrace, Adelaide. Commonwealth government enacts Export (Grain) Regulations.
1964	Bulk Handling of Grain Act, 1955 (SA) is amended to include oats.
1965	SACBH celebrates 10th Anniversary and the construction of storage for 1.3 million tonnes.
1966	SA State Government establishes an expert committee to examine deep water ports.
1968	First repayment of grower tolls commences.
1969	Port Giles terminal is constructed, state government announces plans to upgrade shipping, wheat quotas are introduced, and grain production soars, resulting in a huge expansion of country and terminal storage.
1970	First malathion-resistant grain insects are detected.
1972	CSIRO Stored Grain Research Laboratory formed in Canberra.
1973	Rapeseed and lupins are received for the first time.
1974	The toll repayment period is reduced to nine years.
1975	The first Near Infrared Grain Analyser is introduced to protein test barley.

YEAR	EVENT
1976	The inaugural General Manager of SACBH, Perce Sanders retires. Founding father of bulk handling in SA, Tom Stott dies.
1978	AWB introduces state accounting. Storage and handling charges are no longer nationally pooled but differentiated on a state basis. The toll repayment period is reduced to 4 years
1979	Separate storage arrangements for barley are abolished.
1980	SACBH's storage capacity exceeds 4 million tonnes, and its membership more than 16,300 growers.
1983	The SA Seaport Development Committee is formed to examine port development options. Protein testing of Hard wheat on a load-by-load basis is introduced at terminals.
1984	First bunker storage is constructed at Ardrossan.
1987	The AWB introduces its Payment for Quality scheme. This paves the way for load-by-load testing of all wheat. The Siroflo fumigation system is introduced in SA.
1988	The Royal Commission on Storage, Handling and Transport hands down its final report. SACBH seeks public support from growers on retention of sole handling rights. Warehousing, common stocking systems and differentiated charging for export and domestic grain is introduced. Australia's Industry Assistance Commission push for deregulation in AWB single-desk export authority
1989	The first DOH stacker is developed to make bunker operations more efficient. SACBH carries out a major restructure of its membership arrangements. Domestic marketing of wheat is deregulated. Wheat Marketing Act deregulates compulsory bulk handling and establishes a Wheat Industry Fund for use by AWB
1992	Continuous ship loading arrangements are negotiated with unions. The grains industry reconvenes the Deep-Sea Port Investigation Committee. ABB accounted for 90% of malting barley exports from Australia. ABB controlled domestic barley market via single desk. Objective of ABB to 'maximise the net returns to growers who deliver grain to a pool controlled by ABB Board.
1993	A difficult, weather-affected harvest and large carryover accelerate development of SACBH's strategic site plan. New generation Tecator Infratecs are introduced, resulting in major improvements to protein testing.
1995	A serious fire at Port Adelaide terminal severely disrupts grain exports
1996	Members vote in favour of major changes to SACBH's constitution, which results in the appointment of Perry Gunner as the first non-grower board director. The Bulk Handling of Grain Act is repealed
1997	SACBH purchases bulk loading plants from Ports Corp
1998	New computer data capture systems are introduced to speed up the collection of harvest receival data. The Australian Wheat Board privatises to form AWB Ltd
1999	The Australian Barley Board privatises to form ABB Grain Ltd. Raises A$35m capital. (1 July 99)

YEAR	EVENT
	ABB loses exclusive rights for domestic malting barley (July 1999). Final report of the Deep-Sea Port Investigation Committee is handed down. It recommends a major upgrade of Port Adelaide Inner Harbour, and secondary upgrades of Port Giles and Wallaroo
2000	SACBH demutualises to form AusBulk and United Grower Holdings. A joint venture storage company, Australian Bulk Alliance, is formed with interstate marketer and handler Grainco. The internet portal ezigrain is created to provide growers and marketing clients access to AusBulk's databases.
2001	AusBulk receives its largest harvest ever: 8.6 million tonnes. Storage capacity reaches 10 million tonnes. ABB loses single desk export rights for Barley from SA & VIC (July 2001).
2002	competition in storage and handling within SA escalates when AWB Ltd builds storage at four country sites. 22 July 2002 ASX Listing and A$22m capital raising.
2003	The SA Government confirms that Port Adelaide Outer Harbour will be the site for the deep-water grain port. ABB acquires Jossco (1 July 2003)
2004	ABB acquires Professional Grain Services (5 Mar 04). ABB Grain Ltd, AusBulk and UGH merge. ABB Grain Ltd is the resulting company name (27 Sep 04). Merger includes "Joe White Maltings". ABB acquires Direct Fertiliser (1 Dec 04).
2006	New Pastoral and Rural Services Division formed (September 2006)
2007	ABB acquires Adelaide Wool (March 2007) Redemption of A Class Shares (July 2007) ABB acquires Wardle Co and Ukraine joint venture (August 2007) ABB acquires Stawool and expands into New Zealand (November 2007)
2008	Capital raising A$187m ABB acquires PCL, TAG (NZ) (July 08)
2009	ABB acquires NRM (NZ) (February 09) Admission to the S&P ASX100 (20 March 09) Viterra acquires ABB Grain for A$1.6 billion (30 September 09)

Sources: Payne and Donovan (1999); Dong, Marsh and Steigert (2005); Thomas (2006); Brewin, Bielik and Oleson (2008)

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