"Unlocking the value of co-ops" – dispelling the mythical excuse for demutualisation

Peter Gates

Peter Gates is the Chief Executive Officer of The Mercury Centre Co-operative, a co-operative development agency. He has been a long time observer of Australian mutuals who says evidence in Australia on the effects of demutualisation points to both members and society being the losers.

He argues that when a mutual structure disappears it results in higher fees and reduced services. As well, the assets built over the years are lost as they are plundered by the organisers of the demutualisation coup.

The Wrong Mentality

Australia suffers from the political mantra of privatisation, supported by both sides of politics, that the private ownership always outperforms any other form of ownership. This mantra attempts to argue that the ownership structure has an absolute impact on business efficiency ignoring evidence to the contrary.

This attitude has led to many public assets being sold into private hands. Unfortunately for the mutual and co-operative sector, this mentality has been used to support the demutualisation of many member owned organisations.

A fragmented mutual sector has been unable to find an effective voice to counter the many spurious arguments used and as a result a large percentage of the sector has disappeared. The mutual is an effective form of business that has been part of Australian history but has been pushed into the background with the blind adherence to the economic rationalist approach.

Health Funds

One example of the 'privatise at any cost' approach has been the recent push by the current conservative national Government to convert the Government owned health insurer, Medibank, into private ownership. The health insurance sector is characterised by almost all funds other than Medibank being mutuals. The ideological nature of the push, rather than being a fact-based approach, is evident from comments from senior Government ministers.

The national broadcaster reported on 4 September 2006 that the Federal Finance Minister, Senator Nick Minchin said that a privately owned and operated Medibank Private would be able to reduce upward pressure on premiums in the industry.

The minister said it would be good to have a health fund listed on the Australian Stock Exchange and that a business adviser was examining the pros and cons of how the sale should be carried out. "We think that would bring a competitive and pro-commercial tension and enthusiasm to this industry," he said.

"It would bring greater accountability and better governance to this company and inject that sort of capitalist, entrepreneurial endeavour into an industry that has been highly protected and cushioned for very long. So our focus is on improving the competitiveness and cost effectiveness of this industry and providing benefits to consumers, more so than getting a particular return for the business."

Demutualisation

One of the most famous Australian cases of demutualisation is the National Roads and Motorists' Association (NRMA). Created in 1923 and fuelled by the Australian love of the motor car, the NRMA grew into a substantial business which included a major insurance operation. By 1981, NRMA Insurance was the largest non-government homes and contents insurer in NSW and the ACT.

The demutualisation process in 2000 split the organisation in two. One was the National Roads and Motorists' Association Limited, a mutual company owned by its members and operating as NRMA Motoring & Services, continues to provide roadside assistance, vehicle inspections, batteries, touring advice and other membership services for almost 2 million Members.

The other was Insurance Australia Group Limited (formerly NRMA Insurance Group Limited), a company listed on the stock exchange and owned by its shareholders. It has a number of operating subsidiaries which use the NRMA name. The company offers general insurance (car, home, caravan and boat) as well as health insurance, commercial insurance and home security systems.

Members received shares in Insurance Australia Group Limited when it was floated. The mutual company is a substantial minority interest shareholder in the Insurance Australia Group Limited. The two organisations put into place "a formal Business Relationship Agreement which allows them to work together to use the NRMA trademark" according to the NRMA's web site.

The NRMA's rivals in the insurance industry supported the association's privatisation as reported in the Australian Financial Review of 15 September 1994. Bill Jocelyn, the managing director of GIO Australia Holdings Ltd and a member of NRMA, said, "If that [share market listing] goes ahead there will be a big injection of free capital into the industry. That's got to lead to rationalisation. And also it's got to lead to rational pricing by the NRMA to produce profits to service its capital."

The chief executive of FAI and another member of NRMA, Rodney Adler, said it "will be good for the industry. It will bring common sense back to pricing. In the end it will make a level playing field. It's always been very hard for shareholder companies to compete with mutual companies."

The same article says "The senior officers in the NRMA are out there busily promoting it [privatisation] as hard as they can when it's illegal to do that when they're not declaring their interest, because they stand to make an awful lot of money", said Ted Mack an independent Federal MP. The AFR article also reports Ted Mack as saying "that senior officers would receive special share issues".

The Attitude

Eric Dodd was the Managing Director of NRMA Insurance Limited and Chief Executive Officer of NRMA Limited during the period 1998 to 2002.

He spoke at the Credit Suisse First Boston Asian Conference in Hong Kong in March 2001 wearing his insurance hat. Among the things on record from his presentation are:

"Our major brand is NRMA itself - which we share with our former sister mutual, the road assistance organisation which founded the insurance company. This brand is one of Australia's top 10 corporate brands, albeit that it is mainly associated with New South Wales, Australia's most populous state."

"Our mutual heritage and past business success meant that the Group we listed had a very strong capital position, as evidenced by our Standard & Poor's ratings of AA+ for both insurer financial strength and counter-party risk. "

"In the past we have been hampered by the lack of clarity of purpose inherent in a large and financially successful mutual whose directors were chosen by biennial popular elections. Once it was clear that these shackles were being removed, we were able to leverage the underwriting skills and data we had and remove the cross-subsidies that had become endemic in parts of our New South Wales portfolio. "

"These cross-subsidies had evolved over a number of years as rating changes were held back. Our more purposeful approach occurred at a time when our competitors were becoming more focused on the need for a reasonable return from their personal lines portfolios with the result that the market appears to have followed our lead and we have managed to grow policies in force in spite of some significant price increases in areas of our book."

"We came to the market as a strongly capitalised mutual and, similar to other financially strong mutuals in this position, had no gearing. Whilst one can say that this was acceptable and appropriate as a mutual insurer, it creates a drag on our returns as a listed entity. We were unable to do anything about this prior to listing due to the processes surrounding our listing proposal."

"Further privatisation of government underwritten employer liability schemes would provide a very attractive source of growth for us."

The Issues

The three issues often suggested as drivers for demutualisation are capital, growth and governance. Let us look at each of these issues in turn.

Capital

One of the arguments often put forward as the reason for demutualisation is that of unlocking the wealth - gaining access to the stored capital.

Let us for a moment considered capital. Nigel Pittaway in his paper "Enhancing Shareholder Value Through Capital Risk Management" delivered at conference in 2001 says "Capital is a scarce resource and should be treated as such." This statement is true for both non-mutuals and mutuals alike.

He goes on to say that shareholders demand both more and less capital at the same time.

"For, on the one hand they like to see a company with solid levels of capital so as to:
- Provide the ability to pursue growth opportunities;
- Minimise the business risks stemming from poor underwriting results
- Avoid the heightened costs of recapitalisation at a time when capital is in less plentiful supply.

On the other hand, shareholders also require a high return on capital, and minimisation of excess capital. Ultimately shareholders demand that capital is used efficiently within the firm, or, alternatively is returned to shareholders."

But is this not also true of mutuals?

Under the heading "Lazy capital will not be tolerated" the paper says:

"Closely associated with returns is the concept of productivity of capital. In other words, all available capital needs to be put to a productive use. This has been extremely relevant in recent years, as a number of insurance mutuals have come to market both in Australia and overseas. Most of these have listed with extremely strong levels of capital. However, the cost of this is that not all capital has been employed in uses generating acceptable returns."

The paper goes on talk about NRMA Insurance: "Again, NRMA serves as an example here, as on listing it promised either to utilise surplus capital or make a capital return to shareholders by 30 June 2001. Importantly too, this is an obligation is has fulfilled." This was quoted as "the $A400 million share buy-back".

Managing capital is a vital concern for any enterprise and that is true of mutuals. If the capital was non-productive in the NRMA as a mutual, it can only be concluded that the board and management were at fault.

Balance, Risk and Rewards

One of the advantages of the mutual structure is the ability to collect profits and retain them as capital without the need to pay shareholder dividends. A good mutual board balances the need to provide appropriate pricing to members with the need to retain a percentage of profits for the future. As the years pass and the capital grows, it creates a source of free funds to put to use for the benefit of the members.

As the generations change, the moral ownership of this capital is the community of members and it is incumbent upon the board to ensure it is managed well and used to provide additional member benefits.

Ultimately, capital is about balance. The capital of a mutual is hard earned. It needs to be utilised in a way that balances reward and risk. The greater the reward sought, the higher the risk will be.

Growth

In 1946 a mutual health benefits fund was formed known as Medical Benefits Fund. This has become MBF Australia Limited. Eric Dodd joined the company in October 2002 as Managing Director and Chief Executive Officer.

Sydney Morning Herald of 27 December 2005 carried an article entitled "Sell Medibank Private to boost sector's health, says MBF".

The article reported the view of Eric Dodd as: "He is hoping the sale or float of Medibank Private will trigger a round of consolidation and force the sleepy mutuals that dominate the $10 billion sector to become more transparent and accountable."

Speaking about health funds, he is quoted as saying "It's a very difficult industry to grown (sic) organically. It's virtually impossible."

The article also says "Mr Dodd is more focused on growing the business rather than looking at a listing at this stage. He says it is important for health funds to have scale so that they are on an equal footing when negotiating with hospital groups."

Growth and Scale

Natural growth is to be encouraged but should be seen in relationship to the needs of members.

A word once used in the credit union system to describe the field of membership is "bond". It came from the concept of what held the members together. It was sometimes being employees of an organisation and sometimes living in a particular community. It enabled the credit union to say who their members were and to respond to the specific needs of those members.

But as the penetration into this bond increased, the more difficult it became to grow the credit union which was usually one of the measures of success for the Chief Executive Officer. It was not unusual to achieve growth by including another group in the bond rather than focus on how the credit union could be meaningful to its original group from which members came. Again and again boards failed to set meaningful measures of success for their CEOs to achieve.

There are times where scale is an advantage in obtaining better prices and services for members. But scale can be achieved in ways other than the mutual itself growing. An advantage open to mutuals is the concept of co-operation, working together with other mutuals to achieve a common goal. The Co-operatives UK is a good example of scale being achieved by collaboration where recycling, energy, and communications are just some of the joint ventures. There are examples in the Australian credit union system where services such as training and computing have been obtained by the establishment of jointly owned special purpose co-operatives and companies. Wholly owned credit union service companies provide access into the payments and financial interchange systems as well as access to products such as credit and debit cards.

The "get big" charge is usually aided and abetted by CEOs driven by a personal interest as their remuneration is based on the size of the enterprise. They are unchallenged by unthinking boards who failed to set appropriate performance indicators for their management team.

Growth and Structure

There is no evidence that the mutual structure needs to change as a result of growth. A board that is not alert or aware of the issues of membership, where the focus on customer service turns the member into a customer, can develop a very blurred picture of what is good for the members.

There are many examples of satisfactory structures to engage with membership. Collegiate bodies, regional groupings and values councils are some of the many variations. Crédit Mutuel, a mutual which is the fourth largest bank in France, holds a three day consultation every three years of 10,000 managers and directors from their local branches throughout France. Each of their branches has a local board of directors drawn from the community the branch serves.

The Australian Corporations Act is clear. "The business of a company is to be managed by or under the direction of the directors" [s198A(1)]. In an enterprise of any size, a chief executive officer is engaged by the board to manage the day-to-day operations of the organisation. The board is charged with running the business. The directors must have the skills, knowledge and attributes that allow them to fulfil their role.

The answer for many large mutuals is the creation of an additional structure with clear roles to maintain the member focus and be the custodian of the membership values.

When the credit union system converted from being state-based to national in the early nineties, the services company that was formed to provide the backroom activities was given a board. At the same time, a membership council was formed to be the defender of the credit union principles to which the system adhered, the council comprised of elected directors and managers from affiliated credit unions.

The implementation of this structure recommended by the change agent known as Project Renewal was thwarted when the services company rather than the industry association was made the primary body. The tail wagged the dog. Over time, the membership council was emaciated and eventually abolished. It was, some say, a pointer to the future for credit unions in Australia.

Governance

The Sydney Morning Herald article on the sale of Medibank Private of 27 December 2005 says "Health insurance and financial services group Australian Unity came out last week and said that, following a review, it saw no compelling business reason to float. Mr Dodd says the same goes for MBF and quotes Mr Dodd as saying 'Like Australian Unity, there's nothing driving us (MBF) at the moment. The issue at NRMA was clearly one of governance in my view and that's why we pushed so hard at management level to get that. It was inevitable in terms of growth that we would have to move down that path anyway.' "

There was no question that governance at the NRMA was a problem, and it is a challenge to see through the haze of claim and counter-claim with the myriad of legal cases. What is apparent, however, is that the interests of member had been lost and that an appropriate governance structure was not in place.

There are many definitions of governance but essentially it is the way the organisation manages itself and the relationships with its stakeholders. The word governance comes from the Latin "gubernare" which means to steer or rule. If you are a mutual, members are an integral part of governance. It was in this area that the NRMA failed.

The member relationship with a mutual has two strands - one of customer and one of owner. Successful mutuals see these two interlaced strands as complementary. The member/customer wants a good business relationship that delivers a reasonable price with reasonable service that is value for money. The member/owner wants their needs serviced in an effective, efficient manner by an organisation they can trust.

It is a balance. A good business that services members needs in a fair and equitable manner.

Part of the mix is member involvement in the organisation. Seen by some as interference and a major overhead, it is the glue that holds the mutual together. It is the relationship. It is what for-profit business attempt to create with marketing. It is why businesses want you to become a "member" of their special club to give you the look and feel of what mutuals inherently have in their membership.

The Outcomes for the Members

It is not clear whether the research exists on the impact of the NRMA demutualisation on direct fees and charges but there are sufficient indicators that the outcome for members was negative.

Take for example, a quote from John Trowbridge from Suncorp, a major Australian insurance player. At a Strategy Briefing in June 2003 he said that the demutualisation of NRMA "imposes new pricing disciplines on these companies to ensure that they are providing appropriate returns to shareholders".

In other words, the members pay more for their insurance services so that the shareholders can get a greater return. Meanwhile the motoring organisation in 2003 was being reported in the Sydney Morning Herald of having an increase in fees "by up to a third".

Old Members - New Shareholders

According to the NRMA Annual Report for the year ending 2001, members received an average of $2,000 in shares and the NRMA received more than $350 million in cash and shares from the demutualisation.

Many of the members now held shares on the stock market for the first time. This small shareholding was manna from heaven for most and few understood its value. Many sold their shares as the price increased. There was more than one of these new shareholders that was a victim of the likes of David Tweed, described in The Age as "a shareholder predator".

An article in the Sydney Morning Herald on 30 December 2004 tells the story. "Tweed told the Federal Court recently that he made $10 million in a year simply by trading shares in four big insurance mutual pools that had been turned into public companies. As in all deals like this there are losers, and Tweed has apparently lost no sleep in turning the former policyholders of these old insurers and other companies into his natural prey."

"Through the clever use of companies that have an official ring to them - Country Estate and Agency Company, National Exchange Corporation and, more recently, Australian and New Zealand Exchange - he has made low offers for the shares at half the market price."

"Many of the beneficiaries of demutualisations are elderly, some are infirm and many have poor English language skills. Their shares were issued in recognition of a lifetime of financial prudence, by companies with whom they had saved and insured. Few of these battlers have held shares before or had contact with sharebrokers and they would have little idea of how to find out the price on the stockmarket."

"For 14 years Tweed, 40, has sought to turn the naivety of others to his advantage, and the $10 million he brags of having made in 2003 is not the half of it. Some sources estimate his wealth at $30 million and possibly higher. Tweed has ploughed windfall gains from the demutual swindles into similar scams on farmers in primary industry co-operatives and investors in pine plantations."

On the ABC Radio program PM on 12 September 2003, the then Parliamentary Secretary to the Treasurer Senator Ian Campbell said "We've done everything that we can possibly do to the extent of actually changing the law, bringing in special regulations, which are basically David Tweed specific, quite frankly, and of course ensuring that ASIC is properly resourced to do whatever they can to stop him. They've been successful in putting new specific conditions on that license, if not licenses so we have been very, very active."

"I think David Tweed would probably feel that he's been picked on. We had aggressively chased his activities because he has in a number of ways sought to take advantage of uninformed investors."

"He has in the past made offers to buy shares off market, that is outside the stock exchange, to people who have in a number of cases picked up shares through de-mutualisations, for example the de-mutualisation of the AMP and a number of other companies, making offers often three, four, five, often ten times below the market price, hoping that the people don't actually know what the market price of those shares are."

"Many people, for example, don't even know that they own shares until they get letters from this bloke. We have passed a law that says if people are to buy shares off market they are required to quote in that offer what the market price on that day is."

And surprise, surprise, Insurance Australia Group Limited (IAG) website was updated on 20 September 2006 with the warning to shareholders of "Tweed targets IAG Ordinary shares again".

It says: "Insurance Australia Group Limited (IAG) is today warning its shareholders that Mr David Tweed, through his company Direct Share Purchasing Corporation Pty Limited (DSPC), may be preparing to launch another unsolicited offer for IAG ordinary shares. IAG does not endorse any unsolicited offer by DSPC or any other company."

"IAG Head of Investor Relations & Capital Planning, Ms Anne O'Driscoll, said Mr Tweed, through DSPC, had again requested and paid for a copy of its ordinary share register, indicating that he may be preparing to launch another unsolicited offer for shares."

""IAG has been obliged under the Corporations Act to again provide certain information from its ordinary share register to DSPC, including shareholders' names, addresses and the number of shares held. This will allow DSPC to again contact shareholders in relation to their shares," Ms O'Driscoll said."

"This would be the sixth unsolicited offer for IAG shares made by companies associated with Mr Tweed since 2002."

""While the form of Mr Tweed's earlier offers has differed, most have substantially undervalued IAG shares when compared with the prevailing market price. Shareholders who took up these offers would have done so at a significant financial disadvantage relative to what they could obtain in the open market.""

""Whether or not any offer for IAG shares follows the form of these earlier offers, we encourage every shareholder to seek independent advice before considering whether to accept any unsolicited offer, "Ms O'Driscoll said."

A Say in the Future

A component of the member/owner relationship with a mutual is the right to vote and have a voice in the direction for the future.

The 2006 Annual Report shows that the top twenty shareholders of IAG own 41.58% of the company with the top shareholder being J P Morgan Nominees Australia Limited with 15.16% (241 million shares) and the twentieth being ANZ Nominees Limited holding 0.24% (3.8 million shares).

The former NRMA members now play no effective part in the governance process.

Outcome for the Community

Joe Hockey, the then Minister for Financial Services and Regulation said in Parliament on 19 September 2001:

"The Australian Stock Exchange has been greatly buoyed over the years by demutualisation and privatisation. That has helped to significantly increase the cap of the Stock Exchange. Look at some of the companies that are in the top 10 stocks today compared with, say, 10 years ago - the Commonwealth Bank, AMP, Qantas, NRMA and a number of other companies - that were either government owned or mutuals a few years ago and today they are listed, or they are part of larger conglomerates like Woolworths is part of the IEL group. The market has changed quite dramatically over the years, and that is a good thing because it has helped to increase the size and scale of the equities markets in Australia."

This reflects the view of both sides of politics, more particularly the conservative side, that the market will take care of people. An assumption that if Australia is doing well then so are its people.

Credit Unions

The credit union system in Australia is at a crisis point from a mutual perspective. During the nineties, credit unions moved from state to national legislation following the deregulation of the financial sector in the previous decade. An unsuccessful push for national credit union legislation on the basis of a unique mutual structure meant that credit unions were placed under the national corporations Act.

During this time, there was a clear failure on the part of the many credit union boards to be the flag bearers for the credit union values. The comparison with large private financial institutions led to seduction by the bright lights. The importation of technical skills from the private banking sector was not accompanied by a strong push to ensure a mutual ethos remained.

The number of Australian credit unions in 1975 was 748. In the following 30 years, 600 of them have disappeared, the majority of them absorbed into other credit unions. Many small community based credit unions have disappeared and the sector has evolved into medium and large.

The top 12 credit unions now comprise almost 50% of the assets of the entire sector. The top 48 are now almost 83% of the assets. But the largest national credit union at $A5 billion in assets under management must been seen in comparison with the smallest of the four national domestic banks whose assets stand at $A293.

The major credit unions have attempted to complete with the major banks on a purely product and pricing basis, many attempting to create an individual brand rather than co-operating and building a credit union brand by focussing on the unique benefits of a mutual. The performance measures set by boards for the chief executive officers are among the influences driving this trend.

Apart from the impact on the existing members, the large-is-good approach influences the mentality of the national credit union association. The bywords of financial co-operatives - membership, diversity, community - disappear under marketing spin.

While the medium to small credit unions have in most part retained their values and their connection to the membership, there is little support from the larger credit unions. The word “member” is hard to find on the internet home pages of the 12 largest credit unions.

Bendigo Bank and its Community Banks

Some in the credit union system argue that going back to and concentrating on the community roots of credit unions in Australia is not a viable commercial strategy. But what of the success of the Bendigo Bank?

The trend away from “the member” in credit unions is in contrast to one of the regional banks, Bendigo Bank. Eleven years ago Bendigo launched its Community Bank strategy. This is where a local entity forms a community based company to raise investment funds locally and purchases from Bendigo Bank the right to run a banking branch. Net profit is shared between the Bank and the community company for use within the community.

Bendigo promotes these branches by saying “by supporting your Community Bank branch, you are directly supporting your community.”

In June 2006, Bendigo reported that this approach had resulted in almost one quarter of Bendigo Bank's balance sheet coming from direct business partnerships with community groups. This equates to over three billion dollars.

Bendigo says “Our Community Bank® communities had received a total of $127 million in income until 30 June 2005 and we expect that to grow by another $60 million in 2005/2006. That has translated to more than 800 direct jobs in their towns and suburbs, and $8.5 million has already been distributed through funding for local projects or local shareholder dividends.”

“From Bendigo’s viewpoint, community banking has enabled us to expand our distribution network by 178 branches, has delivered almost $8 billion in banking business and last year contributed 12.4 per cent of our after-tax profit.”

“Seventy-four Community Bank® branches are already in accumulated profit and a further 71 have run operating surpluses for three or more months.”

In any other country with a credit union system operating effectively and engaging with their local communities, there would be little space for this type of development to occur.

Credit Unions and Demutualisation

One credit union that recently proposed demutualisation was StateWest in Western Australia. In June 2006 the merger between Home Building Society and StateWest Credit Society was approved by the Federal Court. Upon merger, the entity proposes to apply for a banking licence. StateWest members will receive a one-off special dividend. They will be paid a total of $3,246 in shares and dividends.

The rumours are that this will not be the last.

It is interesting to note that the merger was pushed back by six months after StateWest was forced by the courts to republish its demutualisation document to include the financial benefits of its chief executive as the merged company's managing director.

A Focus on Members

One of the starting points is often the importation of people with skill sets to manage a growing organisation, usually a chief executive officer from a non-mutual. While not a problem in itself, it is must be accompanied by the board clearly setting out the mutual ethos and vision, and an unambiguous value set. Commitment to these ideas should be part of the criteria for the role as a senior manager in a mutual.

If this leadership by the board is not shown, the organisation runs the risk of being management driven rather than member driven, where the interests of the management are put before the interests of the members. Over time, boards are lured and led to regard members as customers to be marketed to rather than the "reason for being" of a mutual.

Dr. Ursula Franklin in a piece entitled "Canada under Occupation ....by an army of marketeers" describes this seduction as shown in the following extract:

"The goal of the occupiers is privatization (sic), which, in its most brutal terms, means to provide investment and profit opportunities in all those areas that people previously had set aside as common holdings - culture, health care, education, publishing, housing, nature, sports, prisons. Once dismantled, the 'public sphere' can be more easily 'occupied' - turned over to what I call the Empire of the Marketeers. These warlords will convert the ill-health and misery and basic needs of our neighbours into investment opportunities for the next round of global capitalism."

"Regrettably, our occupiers, unlike their German military predecessors, do not wear uniforms, and so we can't identify them as easily as military occupiers could in the past. But this in fact is more of a technicality than a matter of substance. There are other and equally effective ways of identifying our corporate overseers and their agents."

"Take language, for example. One of the things that anyone who has lived under occupation will tell you is that they refused to speak the language of the occupier. That is a good lesson to remember. We, too, should refuse to speak the language of the occupier, which is now the language of the market. It's a language that reflects, as all languages do, the moral values (or lack of such values) of those who speak them."

"We should shun such market euphemisms as 'the users and providers of health care,' or 'the consumers of education.' These are doctors and nurses and patients; they are teachers and students. They are friends, families and communities."

Or in the case of mutuals, they are members not customers.

The Signs of Change

Other things also change as the trappings of non-mutuals start to appear.

The concept of a managing director comes from the time when the substantial shareholder ran a company - the owner also being the manager. There is a question mark over the practice in commercial operations with one academic giving the reason for managing directors as insecurity. The worldwide move in corporate governance practice in multi-shareholder companies is away from the board being the same as management to ensure the shareholder representatives are able to independently review the performance and direction of the company.

A mutual, however, is another thing. There are no substantial shareholders. The chief executive officer has the same membership rights as other members. Why then should they be on the board? “Look at the corporate sector. They have managing directors. We are as good as them, aren’t we?” You almost expect them to then say “If you only knew the power of the dark side”.

Board rooms are remodelled with a focus on style rather than functionality. Conferences overseas that were previously learning experiences are now used as an excuse to include the entire board with their partners as a reward for their hard work with the generous director’s fees ignored.

The member benefits that were once obvious are less easy to find. Member service becomes sales. The focus on members becomes a focus on the organisation as the talk is about delivery rather than access.

Subtle ways are used to extinguish the member/owner component of the relationship. With the pretext of cost saving and protecting the environment, and with no alternate strategy for member engagement, members are asked whether they wish to opt out of receiving the annual report as well as notices of member meetings.

This is institutionalised by the creation of a special form, located on the forms database under marketing. An approach to a permanent staff member for a copy of the form draws a blank. Understandable that one might not be aware, the staff member makes four phone calls to others, all to no avail. Finally it is found accidentally. They are unaware of any reference point for member/owner questions.

Social capital

Mutual structures have a number of shapes and are established for many reasons. The common thread is people coming together to achieve what they could not achieve alone. The primary driver is satisfaction of their own needs. Dependant on the form, they have a number of values which range from maximising profit to not-for-profit service to the community.

If this group of people is successful and serve the membership well, the organisation grows. As the organisation grows and it is managed well, there is an accumulation of assets (retained profits) to support and build the organisation.

The concept of demutualisation seems only to come about when there is stored value in the mutual structure with the campaigns to “unlock” this stored value.

There is a strong argument that this stored value is social capital - legally but not morally belonging to the current members.

As Race Mathews said in a 1997 paper “We are the trustees for assets which others before us created, to which we therefore have no moral entitlement and from which others after us are entitled to benefit no less than ourselves.”

The same paper tells of a co-operative in Detroit. “The co-operative in question was formed in the nineteen-thirties in response to a pressing social need for affordable, hygienic household milk delivery services. When the corporate dairies moved in with comparable services at a comparable price, the co-operative re-invented and re-positioned itself so that the social capital it had accumulated was applied to meeting a pressing social need for affordable optometrical testing and the supply of spectacles. When this function in turn was taken up by the optometrical corporations, a further re-invention of the co-operative took place. The co-operative at this point re-tasked itself to meet a pressing social need for accommodation and support services for older people. It now operates condominiums - large apartment blocks - for older people across America. Each condominium is now a free-standing, self-governing co-operative in its own right, within the over-arching co-operative structure.”

Should not this social capital in successful mutual structures be used as an investment in making a better world and giving the disadvantaged an opportunity to accumulate their own assets?

Rights and Responsibility

Members are sovereign and have the right to choose to demutualise.

However, boards have the responsibility to educate and inform the members of the value of their mutual now and into the future.

Peter Gates
The Mercury Centre Co-operative Limited
May 2007

Authors note: All quotes used in this paper are on the public record and were found using an internet search engine.