

# Creating co-operatives

**Crafting co-operation**







CO-OPERATION  
HONESTY  
RESILIENCE  
RESPECT





# Introduction

## Co-operative Bonds

### *Leaders growing member owned enterprise:*

- Planning and Strategy
- Governance and Policy
- Finance and Funding
- Member Culture
- Social Responsibility
- Measuring Impact.

OUR FUTURE IS  
COOPERATIVE

### Antony McMullen

- Disability attendant carer
- Student union president / university council
- Social policy specialist
- Community legal centre president
- Community services CEO
- Consultant Employee Ownership Australia, Catholic Social Services Victoria

Qualifications in **social impact** (social entrepreneurship), **community development** and **co-operative leadership & governance**.



# Antony McMullen

- **Co-operative Development Coordinator** (at Common Equity Housing Limited)
- Consulting to Australian Business Council of Co-operatives and Mutuals (**co-drafted governance code for the sector**)
- Secretary co-founder - **Co-op Incubator**
- Chair and co-founder - **888 Co-operative Causeway (co-working)**

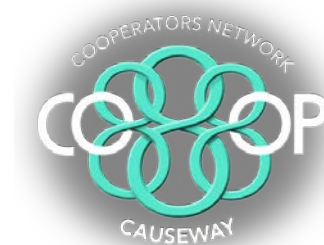
Support to a range of co-op start-ups including:

- **bHive** (Bendigo sharing economy platform co-operative)
- **Cooperative Power Australia**
- **Earthworker Co-operative** (also a member) (Earthworker Co-ops Redgum Cleaners Cooperative and Earthworker Energy)
- **ORICoop** (member)
- Vice-President of the **Victoria Day Council** (Victorian of the Year award).
- Member: Australian Services Union and Professionals Australia

▪ RSA Fellow.



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# Agenda

- Why co-operate?
- What is a co-operative (including investment)?
- Focus on enterprise-owned co-operatives
- Working together
- Working with Earthworker
- Building a co-operative business model – questions for you
- Facing barriers and opportunities with Elinor Ostrom
- Practicalities.



# Why co-operate?

**The big picture**









Top stories



Jury awards man \$113m in Roundup cancer trial

Sydney Morning Herald  
2 days ago



Monsanto Loses Roundup Cancer Trial to the Tune of \$80 Million

Earther - Gizmodo  
1 day ago

\$10.72





JUST

8

BILLIONAIRES OWN THE SAME  
WEALTH AS THE POOREST

3.6 BILLION PEOPLE

(SO FEW THEY'D FIT IN THIS GOLF BUGGY)



**Two Australian billionaires are wealthier than the bottom fifth of the population, a global report by Oxfam into wealth inequality shows.**



# Inequality – and crashes

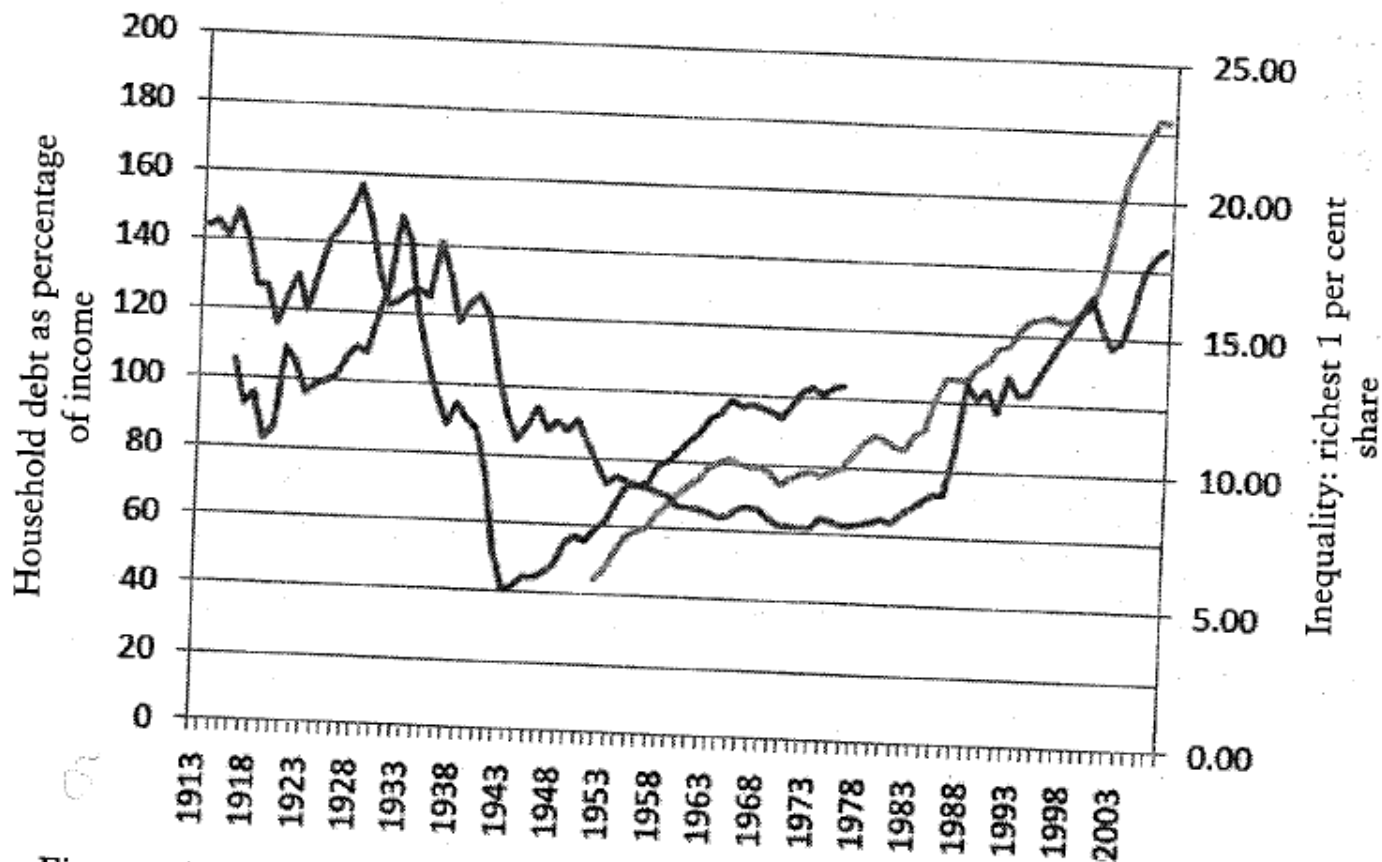
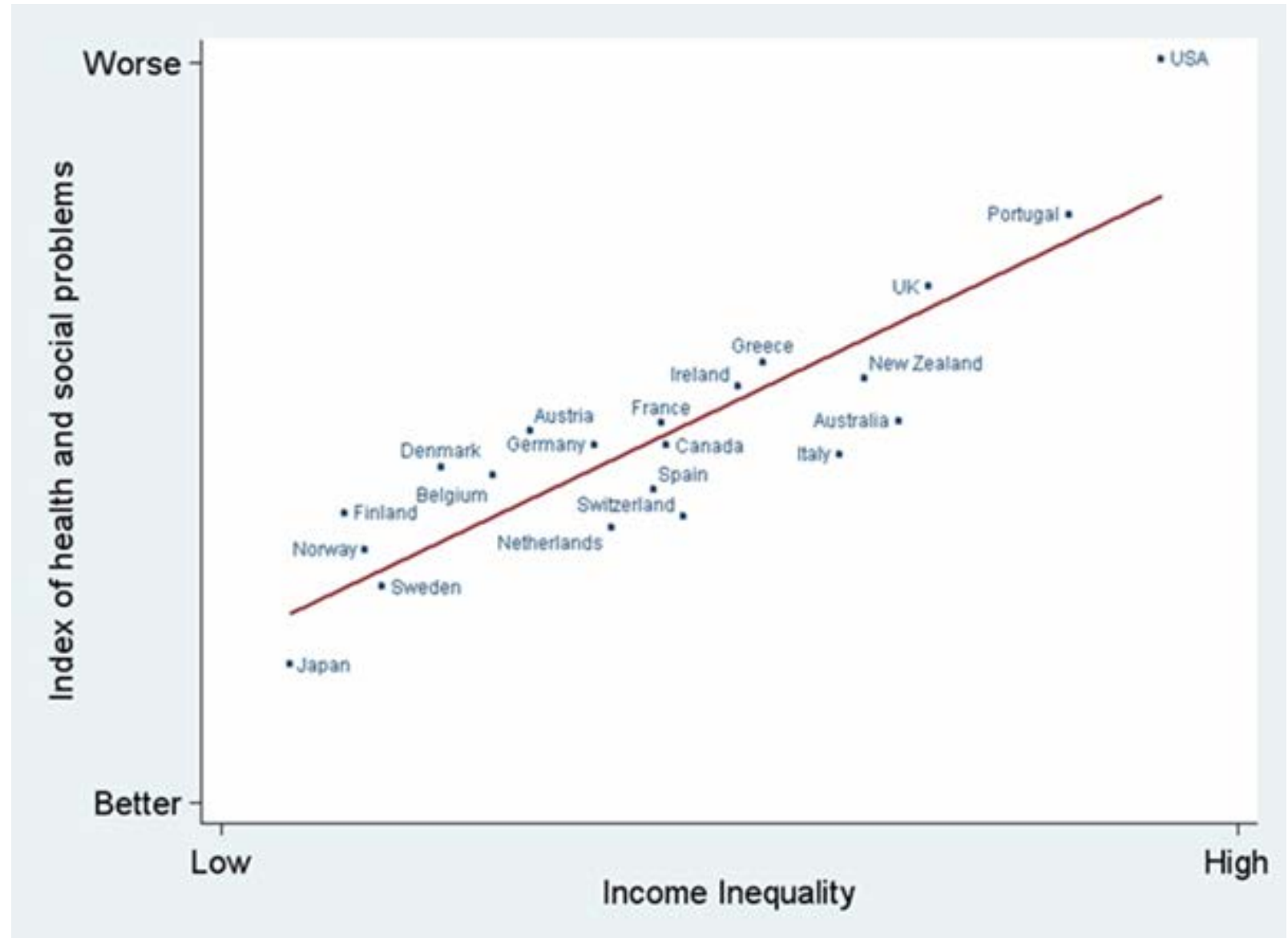


Figure 17.5 *The financial crashes of 1929 and 2008 took place at high points in inequality (continuous line on graph) and debt (two broken lines on graph).*<sup>452</sup>

# Inequality – and social impact

## Index of:

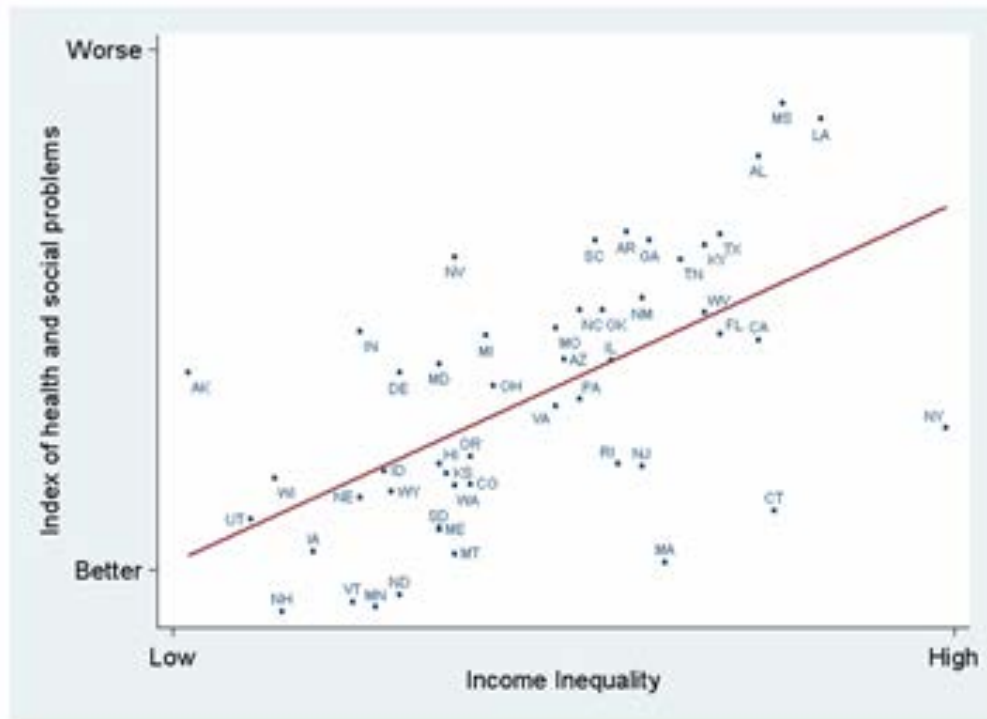
- Life expectancy
- Math & Literacy
- Infant mortality
- Homicides
- Imprisonment
- Teenage births
- Trust
- Obesity
- Mental illness – incl. drug & alcohol addiction
- Social mobility





# Addressing inequality – tax/transfers and broad-based ownership

**Vermont – *tax and transfers***  
**New Hampshire - *ownership, wages***



# Extractive or generative economy?

## EXTRACTIVE ECONOMY

Has a financial purpose – maximising profits in the short term

Has absentee ownership – disconnected from the life of the enterprise

Has governance by the markets – control by capital on autopilot

Is casino financed – where capital is the master of the enterprise

Is part of commodity networks – where trading is focussed solely on price and profits

## GENERATIVE ECONOMY

**Has a living purpose – creating the conditions for life over the long term**

**Has embedded membership – ownership in human hands**

**Has mission controlled governance – control by people who are dedicated to social mission**

**Is stakeholder financed – where capital is a friend**

**Is part of ethical networks – offering collective support for ecological and social norms**



# The co-operative quest for a 'middle way' is a choice

“Where people have selected co-operation as a practical strategy they have done so as an alternative to the retention of unacceptable conditions, on the one hand, or the adoption of acquiescence of undesirable solutions on the other.”

The co-operative 'quest':

- A 'middle way' ... centering on choices made by individuals, groups, communities, and governments in dynamic circumstances responding to economic and social problems where co-operation has presented a possible solution
- Create democratic economic enterprises addressing economic and social problems.



Garry Lewis, 1992

# What is a co-operative?

**Co-operative enterprise and success**





Co-operatives

80%



The rest

41%



x2

Twice as many co-operatives survive the difficult first five years than other businesses.

## Co-Ops – it's complicated but ...

- \* Only four in ten new businesses in the UK survive their first five years
- \* **Eight out of ten UK co-operatives created in the last five years still going strong.**
- “A combination of sharing risks, harnessing the ideas of many and the stake members have, means co-operatives demonstrate significant business resilience.”**
- The UK co-operative economy 2015: an ownership agenda for Britain, Co-operatives UK

# Co-ops in Australia – survival rate



## Registry of Co-operatives & Associations

### COMPONENTS OF SUCCESSFUL CO-OPERATIVES -

#### 'An analysis of formations over a five year period'

Contact: Jodie Matheson | Project Officer  
(02) 6333 1423  
Email: [jodie.matheson@services.nsw.gov.au](mailto:jodie.matheson@services.nsw.gov.au)

Registry of Co-operatives & Associations |  
Compliance & Enforcement Division |  
NSW FAIR TRADING.

In NSW a study of 44 co-op formations found that **55% were still in existence after five years.**

Key factors for success:

- **People (communication)**
- **Function (quality)**
- **Cash (cover operating expenses)**

Compare to:

- About 75% mainstream failure rate (UTS 2005 study) over five years
- Anywhere from three-quarters to **90 per cent of all start-ups "fail"** - they don't make it to a trade sale or IPO, and are wound up (AFR 2017)

# What's a co-op anyway?





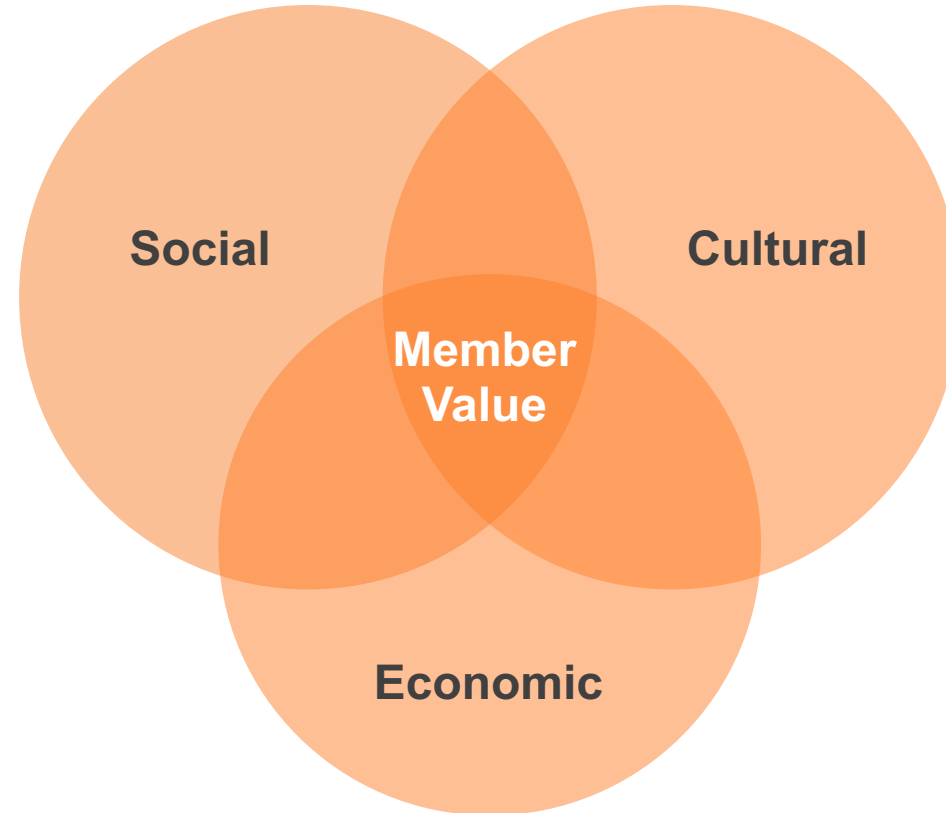
# The Co-operative Model

A co-operative is an autonomous **association of persons** united voluntarily to meet their common **economic, social, and cultural needs** and aspirations through a **jointly-owned** and **democratically-controlled** enterprise.

coop



# The Co-operative Trifecta



Precautionary environmental approach, initiatives to promote greater environmental responsibility and development and diffusion of environmentally friendly technology (UN Global Compact) (endorsed by ICA)

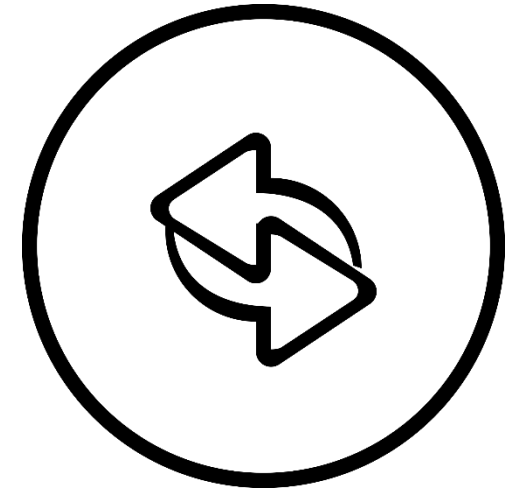


# The Co-operative Model – Ethics and Values

Co-operative members believe in the traditional ethical values of honesty, openness, **social responsibility** and caring for others.

Co-operatives are based on the values of self-help, **self-responsibility**, democracy, equality, equity and **solidarity**.

**SELF-RESPONSIBILITY**



**SOLIDARITY**



# SEVEN COOPERATIVE PRINCIPLES

Education



Training  
&  
Information

Concern  
for the  
Community



Member  
Economic  
Participation



COOPERATION



Among Cooperatives

AUTONOMY  
&  
INDEPENDENCE



Voluntary  
Open  
Membership



Democratic  
MEMBER Control



# Co-operative Principles

## 1st Principle: Voluntary and open membership

Co-operative membership is open to all able and willing to accept the responsibilities of membership.

Co-operatives function best as an inclusive team of members with long-term collective interests in the success of the business.



# Co-operative Principles

## 2nd Principle: Democratic member control

Co-operatives are democratic organisations controlled by their members, setting policies and making decisions.

Members serving as elected representatives are accountable to the wider membership.

Co-operatives succeed when all members participate in transparent, fair decision making; but also where members are given delegated authority to act on behalf of the membership as a whole.





# Co-operative Principles

## 3rd Principle: Member economic participation

Members contribute equitably to, and democratically control, the capital and finances of their co-operative. Members decide how to use surpluses (profits).

Co-operatives should provide benefits that members need and want, managing the business to provide them and protect its future.



# Co-operative Principles

## 4th Principle: Autonomy and independence

Co-operatives are independent, self-help organisations controlled by their members. If they raise capital from external sources, they must maintain their co-operative autonomy.

Co-operatives should actively plan and manage their co-operative to be a successful business and avoid becoming over dependent on any funder, supplier or customer.

# Co-operative Principles

## 5th Principle: Education, training and information

Co-operatives provide education and training for their members and employees so they can contribute effectively to the development of their co-operatives. They inform the general public about the nature and benefits of co-operation.

Co-operative members should become multi-skilled, so they can participate fully in the management and development of the co-operative.





# Co-operative Principles

## 6th Principle: Co-operation among co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, regional, national and international structures.

Principle 6 is the key to business success for co-operatives, enabling us to ethically outperform the privately owned opposition.



# Co-operative Principles

## 7th Principle: Concern for community

Co-operatives work for the sustainable development of their communities, through working according to policies approved by their members.

Co-operative businesses are rooted in community. By building good relations with your local and wider communities, you will create goodwill and opportunities for your co-operative and members.



# Co-operative member hats (Tim Mazzarol et al)

CERU / Tim Mazzarol



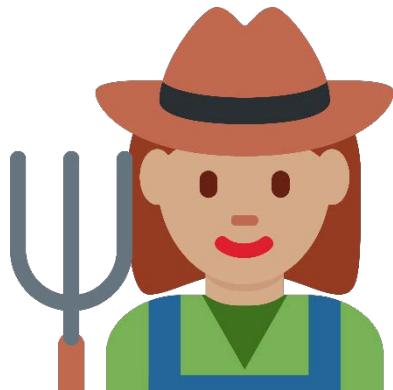
Patron



Members wear many hats



Community member



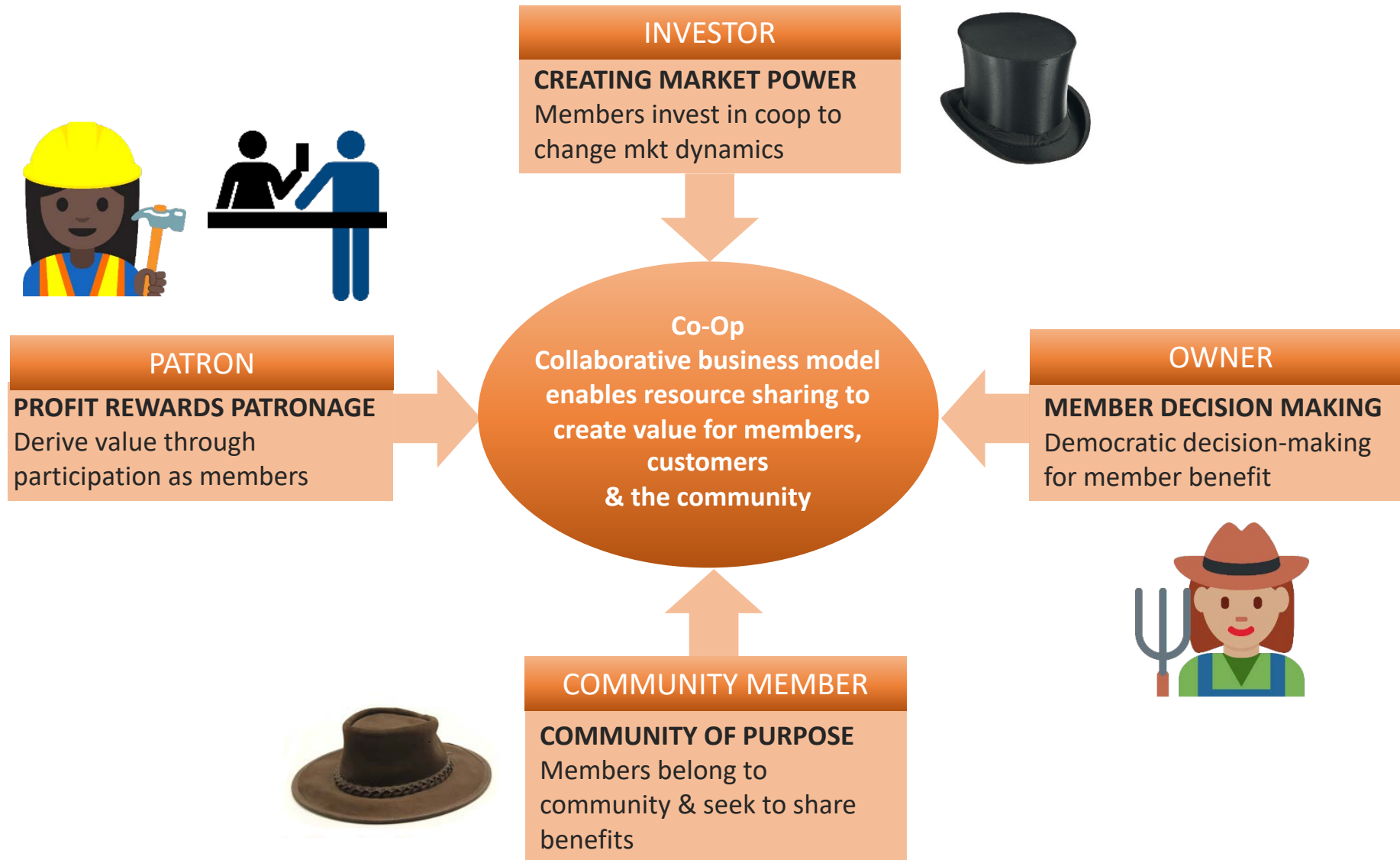
Owner



Investor



# Co-op Collaborative Business Model





# Co-operative Types

## Primary:

- **Consumer owned**
- **Employee owned**

## Secondary:

- **Enterprise owned** (incl. Producer owned)
- **Co-operative Groups**

**Tertiary** – coordination and representation

**Hybrid** – **multi-stakeholder** (combination)



Aidan Jones under a Creative Commons Licence



# Co-operative Platforms



Stocksy  
CO UNITED OP

*“Industry faces a bigger challenge from the so-called “gig economy,” which is seeing work practises becoming more flexible, while jobs become less secure.” – Jim Stanford, Australia Institute.*

Image: Gig Economy by Mark Warner

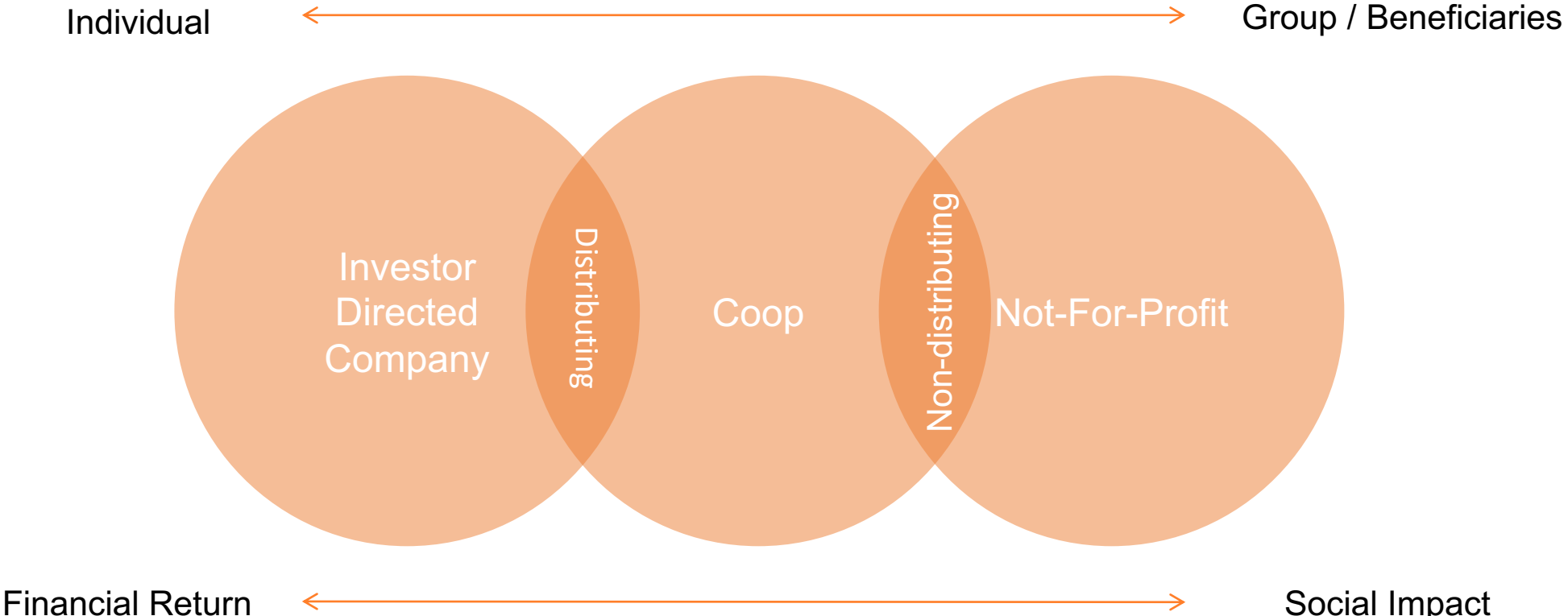
# What about mutuals?

*“A mutual entity is defined as a company registered under the [Corporations] Act that provides its members with no more than one vote.”*

**Mutuality principle (ATO):** *an organisation cannot derive income from itself.*

- A number of persons contribute to a common fund created and controlled by them for a common purpose
- Any surplus arising from the use of that fund for the common purpose is not income (the principle does not extend to include income that is derived from sources outside that group)
- Not all dealings involving members are mutual dealings.

# Australian Co-operatives





# What is a co-operative?

**Co-operative investment**



# Co-operative Investment

- Co-ops make money to do good stuff (not doing stuff to make money)
- Co-ops are 'profit-minimising'
- Surplus is to cover costs (allow for risk, make provisions for future, pay back investors)
- Important – balance internal and external investment
- External investors – community of interest or geographical
- External investors – can be bought out by members.



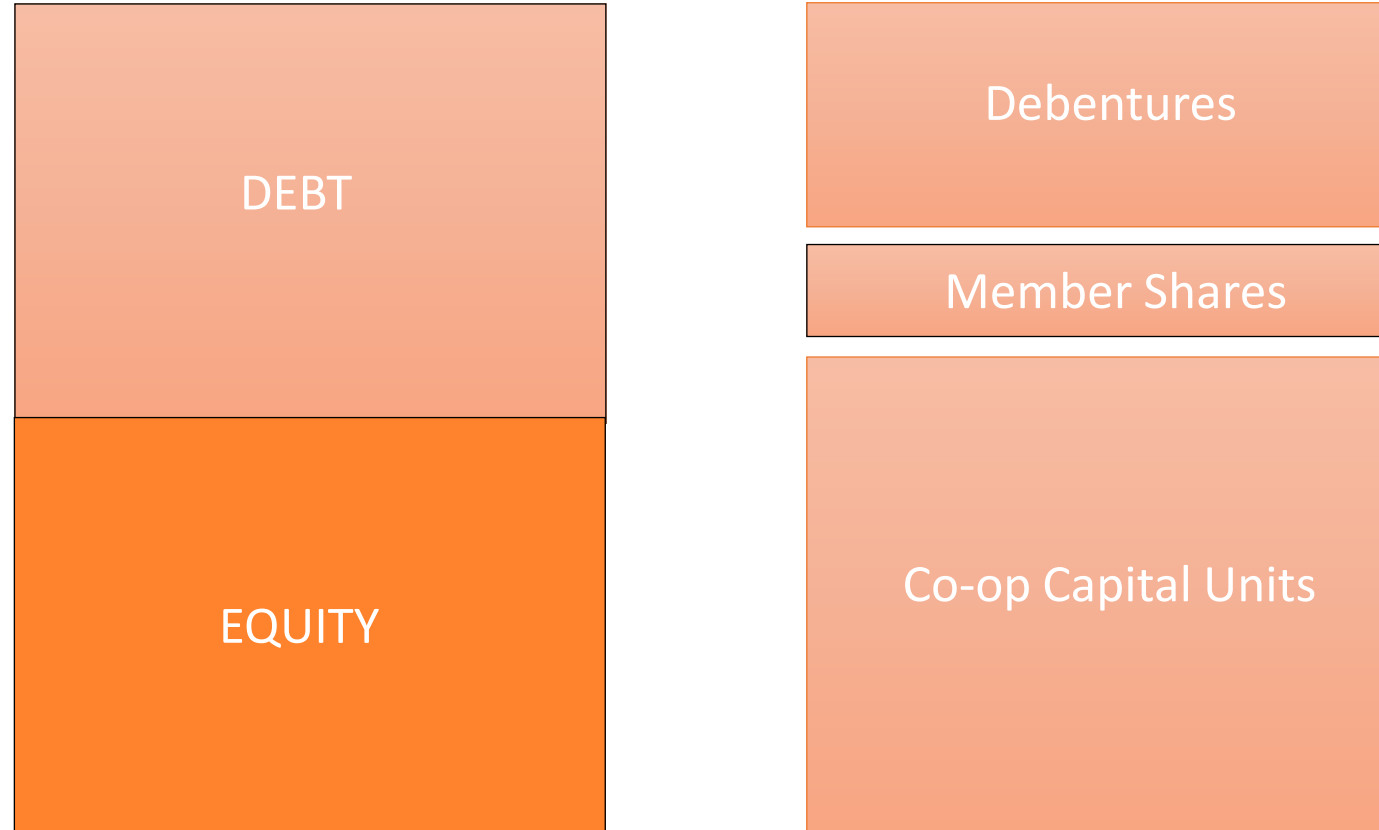
# Co-operative investment

Members:

- **Member entry fees and subscriptions**
- **Members can buy shares (up to 20%)**
- **Debentures (can be external)**
- **CCUs (can be external)**



# Co-operative Investment





# Enterprise owned co-ops

**Staying small but acting big!**



# Enterprises co-operating

## APPROACH



- Allow local small-to-medium enterprises (NFP or for-profit) to collaborate across sector – to compete with larger for-profit entities moving into market (if a co-op of co-operatives a ‘group’)
- Invest in sector-wide infrastructure for benefit of community sector
- Lower costs by negotiating exclusive or preferred access to products at competitive prices
- Create systems to reduce transaction and logistic costs
- Access competitive prices for services such as insurance, fleet, leases etc
- Access marketing, advertising and merchandising support
- Develop sector education and training to increase effectiveness and profitability, and facilitate members sharing best practice.



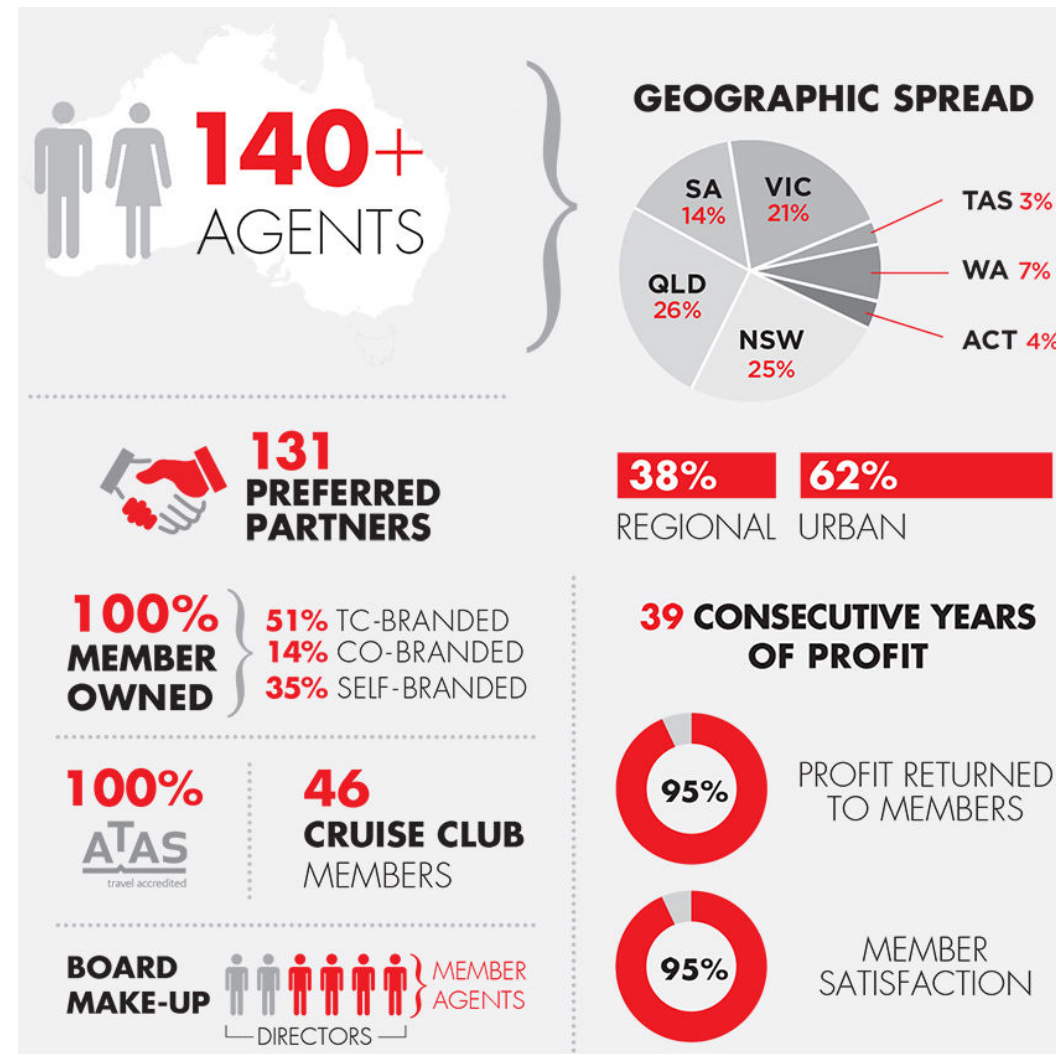
# Enterprise owned co-operative network

## TRAVELLERS CHOICE

INDUSTRY  
BASED

TRAVELLERS  
CHOICE

- 2015 Australia's Best Travel Agency Group National Travel Industry Awards
- Extensive preferred supplier portfolio and competitive commission arrangements
- Distribution of supplier overrides through annual trading rebates.
- Comprehensive national, state-based and local area marketing services.
- Access to company Senior Management Group in conjunction with your State Business Development Manager. Benefit
- Access to corporate office resources
- Human resources support and documentation
- Industry training events and eLearning library.



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# Enterprise owned co-operative network

## INDEPENDENT LIQUOR GROUP

INDUSTRY  
BASED



independent liquor group

- Return all surpluses to members in the form of subsidised wholesale prices and patronage rebates
- Wide range wholesale distribution centres across the country
- Diverse business models, ILG owns five distinct banner groups in Bottler, Super Cellars, Pubmart, Clubmart and The Liquor Coop
- Buying power with enhanced marketing opportunities through specific advertising under these banner groups
- Logistics Contract Warehousing and Distribution Solutions, extend warehousing, handling and distribution services, as well as customised supply chain solutions for the Liquor Industry
- **Growth in every category of its business, with an improvement in net assets sitting at \$18.7m (last year \$16.8m).**



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# Enterprise owned co-operative network

CO-OPERATIVE BULK HANDLING (CBH)

INDUSTRY  
BASED



- Owned and controlled by 4,200 WA grain growers
- Covers value chain from grain storage, handling, transport, marketing and processing
- Total assets of more than \$2b
- Employs 1,100 permanent employees (1,800 casual employees during harvest)
- The core purpose of the CBH Group is to create and return value to growers.





# Co-operative Networks

bHive

PLACE BASED



Local people. Local place. Local economy.

-  **Stuff**
-  **Spaces**
-  **Logistics**
-  **Transport**
-  **Work**
-  **Energy**
-  **Money**
-  **Food**

## Vision

We own our local digital sharing economy together

## First mission

Create a digital platform that allows Bendigo people to create, own and run sharing enterprises, providing access to shared local goods and services.



online sharing,  
trade, equity.



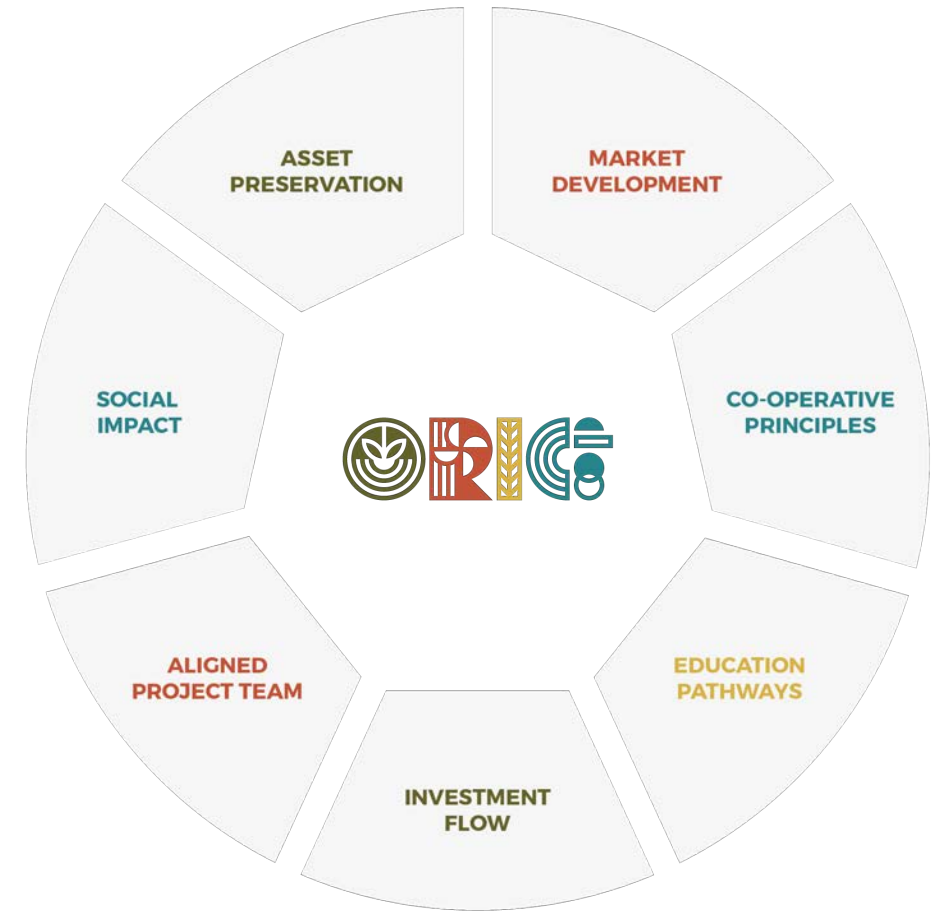
# Co-operative Networks

INDUSTRY BASED

INVESTMENT

## Organic Certified Organic Farmland Preservation “Healthier land, farmers, eco-systems and communities”

- Preserve organic farmland
- Employs organic farm managers
- Provides succession for retiring farmers
- Enables localised management
- Enable ORICoop members to invest – real financial return (4-5%)
- Provide educational pathways
- Partner with other Cooperatives



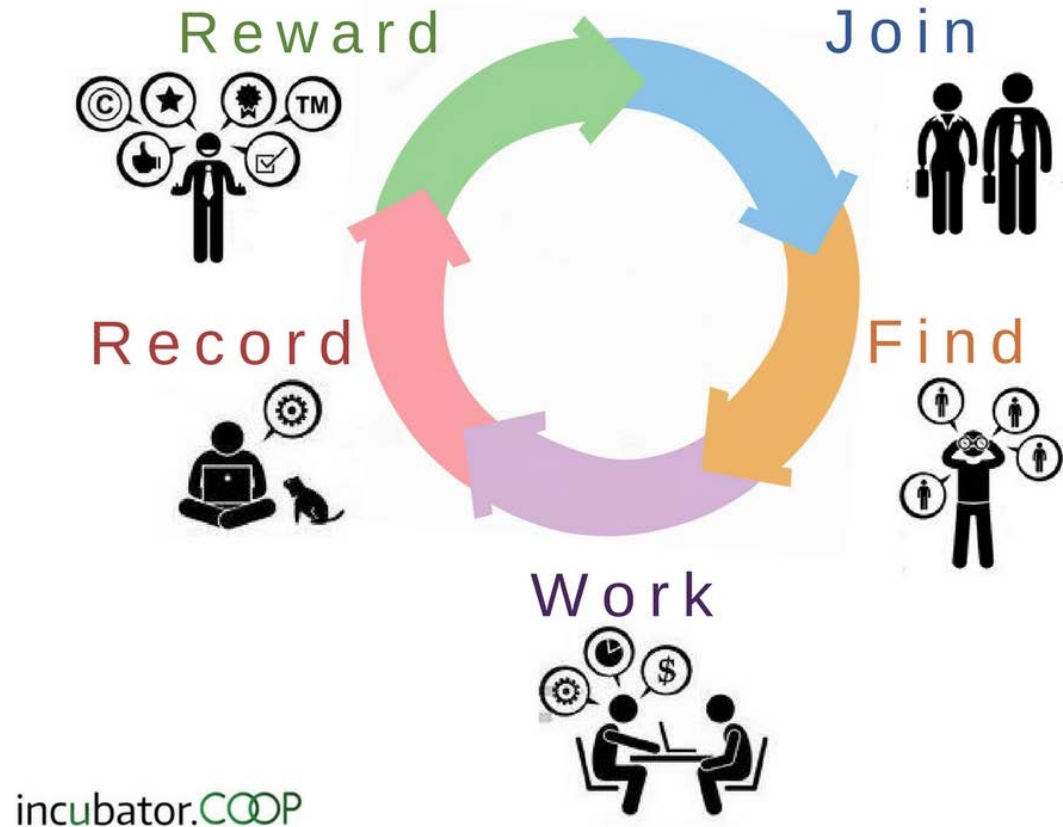


# Co-operative Networks

## Co-op incubator

### PLATFORM BASED

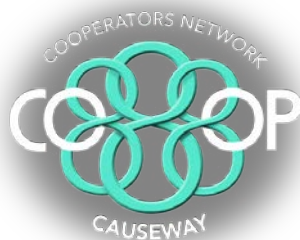
- **You can create a “Proposal”** and seek support from like-minded people to turn that into a “Project” and ultimately a co-op
- **You can support a “Project”** that is looking to become a co-op
- Cost - \$25 (Group Membership – discount).



# Co-operative Networks

## 888 Co-operative Causeway

PLACE BASED



Home Mission Membership

### About 888 Causeway

888 Co-operative Causeway is the first registered co-operative co-working space in Victoria. Located in the 1920s, palazzo-style Causeway House (formerly the Union Bank Building) in the Melbourne CBD, our co-working space has wi-fi, kitchenette, toilet and printing. Located in Causeway Lane (adjacent to Bourke Street Mall), it is a short walk to trams, trains and buses.

Our diverse founding members are all individuals and organisations that support the development of co-operative and community enterprise.

As members, we work together and pool resources in the co-op to obtain the following benefits:

- A Little Collins St address in the heart of the Melbourne CBD at the best price
- Access to the [Kelvin Club](#) through the co-op's corporate membership
- Being part of and strengthening a community of likeminded individuals and organisations
- Access to regular events on topics of interest to members at member rates.

*If you are you interested in joining our community in 2019, or providing a bursary, we would love to talk to you.*



bondscoop



# Working together

**Co-operative problems**



# Collaborative Relationships

## PROBLEMS FOR CO-OPERATIVES



- **Free Rider Problem** – where non-member or some members only give patronage occasionally
- **The Horizon Problem** – member conflict over short-term reward vs those with long-term vision
- **The Portfolio Problem** – lack of liquidity in shares & benefits linked to patronage alienates some members
- **The Control Problem** – where managers or directors interests diverge from those of members
- **Lack of Information Problem** – lack of market signals makes it difficult for members to track performance





# Collaborative Relationships

## FOUR MAIN DESIGN PRINCIPLES



- **Board must** have a clear purpose that is central to the member's aims and goals
- **Board must** get the right operating system and business model
- **Board must** ensure that decisions align member engagement with co-operative's strategic goals
- **Board must** secure, retain and continuously nurture member allegiance



# Earthworker

**How Earthworker works**



# Co-operative Networks

EARTHWORKER

INDUSTRY BASED

PLACE BASED



**EARTH  
WORKER**  
COOPERATIVE



- **Earthworker Energy Manufacturing Cooperative:** A renewable energy manufacturing business in the coal-dominated Latrobe Valley - providing dignified alternative livelihoods to the declining coal industry, and distributing quality solar hot water & energy storage products to households.
- **Redgum** started business in February 2018. Redgum has over 40 regular clients already. All employees are employed casually 2-3 days a week and there are prospects of transitioning to permanent part-time employment for all members. **Employee Ownership Australia SME 2018 winner.**



# Co-operative Networks

EARTHWORKER

**EARTH  
WORKER**  
COOPERATIVE



An Earthworker worker co-operative is a distributing co-operative with members employed by that cooperative

An Earthworker member organisation is a co-operative a democratic member-based organisation that supports co-operative principles and values

Member organisations enter into a contract of association that sets out binding mutual obligations, duties and arrangements between a member organisation and Earthworker.



# Co-operative enterprise

**Building a co-operative business model**





# Co-operative Business Model

- Member value proposition
- Membership & community
- Governance
- Engagement
- Key stakeholders
- Key capabilities
- Key resources
- Cost structure
- Revenue model



# Member Value Proposition

- Who are the members?
- What member problem(s) does this co-op solve?
- Do all members have the same needs?

What are the ways the coop creates value for members?

- What is the economic value and how it is distributed?  
(Operating margins, Rebates, Dividends, Charitable distributions)
- What are the social, cultural and environmental benefits?  
(and how is social capital, environmental performance measured?)

# The members

## Type:

- Consumer-owned, Employee-owned, Enterprise-owned, Hybrid (multi-stakeholder)

## Members:

- What are the active membership requirements?
- Are there any qualifications requirements for membership?
- What are entry and subscription fees? What is application process?
- How can membership be cancelled and what are consequences?

## Community:

- What are obligations to community?



# Barriers / Opportunities

**Identifying opportunities via Elinor Ostrom**

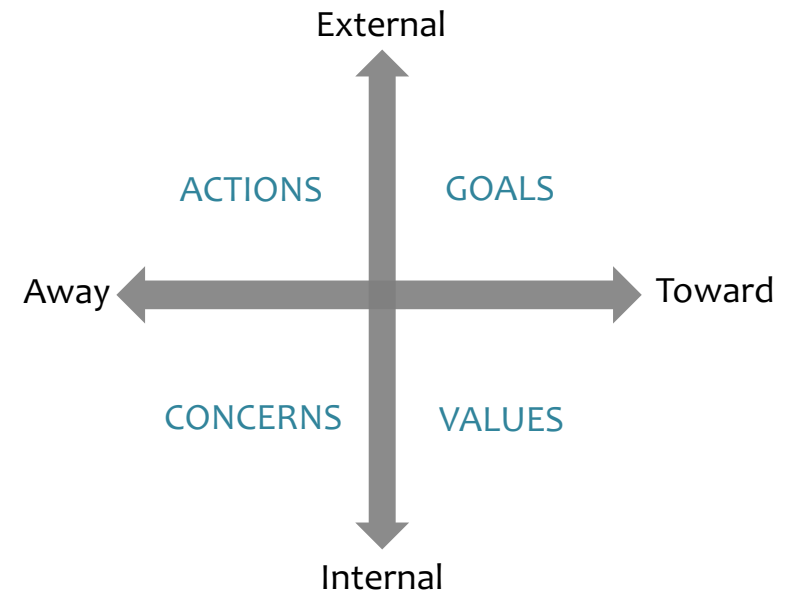


# Building on the co-operative advantage

Co-operatives are based on relationships not products

Aim is to foster deeper relationships:

- Shared purpose drives goals & milestones
- Build on values that members believe in
- Understand and accommodate your differences
- Practice transparency and equity to build trust



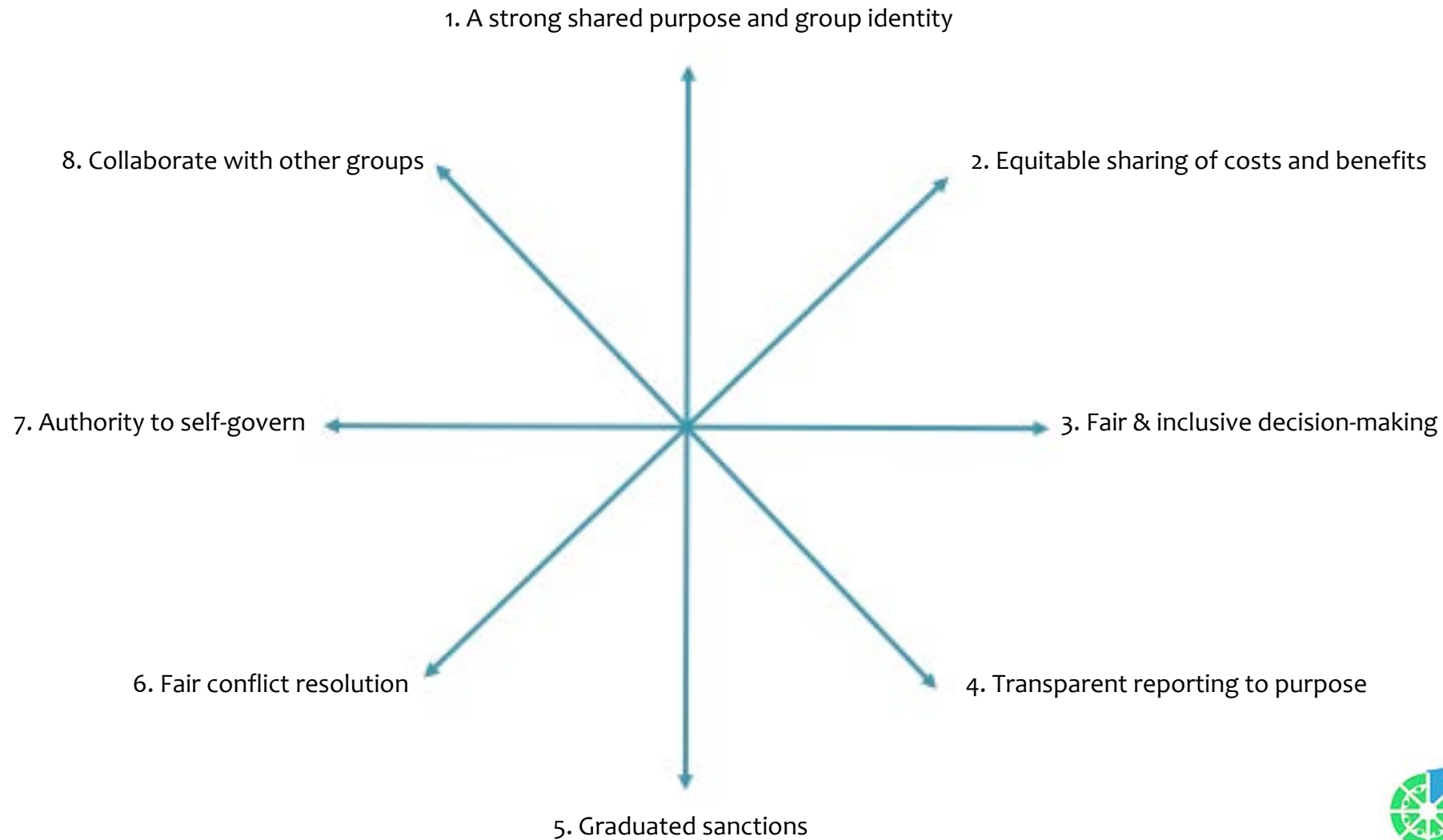


# Elinor Ostrom design principles for collaboration

1. Strong group identity and understanding of purpose
2. Fair distribution of costs and benefits
3. Fair and inclusive decision-making
4. Transparent reporting of actions
5. Graduated responses to transgressions
6. Fast and empathetic conflict resolution
7. Authority to self-govern
8. Collaboration with other groups



# Aligning interests – Ostrom framework for collaboration results



# Establishing

**Practical steps to set up your co-op**



# Establishing the co-operative

- Form 'promoter' team - min 5 people
- Establish a non-incorporated association member-owned bank account (optional tip)
- Finalise Rules and coop name
- Create Formation Disclosure Statement (if distributing or as good practice)
- Pre-approval compliance with Registrar
- Promoters hold Formation Meeting
- Provide Formation Meeting Minutes, Rules & application form to Registrar
- Registrar approves
- Get a .coop address.



# Disclosure statement

## **Formation Disclosure Statement (only required for distributing co-ops but good practice to do):**

- Estimated costs of formation
- Active membership provisions
- Rights and liabilities attached to shares
- Capital required at the time of formation
- Projected income and expenditure for first year of operation
- Information about any contracts the co-operative will need to enter into.



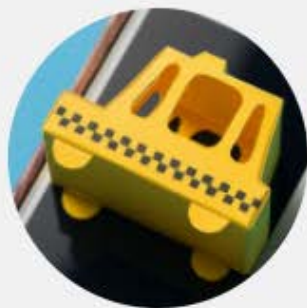


# Rules and disclosure statement



## Ready to start now?

Choose your Get Mutual Co-op Builder



### Distributing Co-operative

Produces both Constitution + Disclosure Statement

Select Co-op Type



### Non-distributing Co-operative with Shares

Produces a Constitution with rules for share capital

Select Co-op Type



### Non-distributing Co-operative without Shares

Produces a Constitution

Select Co-op Type



# Where to next – networks and resources

- **Business Council of Co-operatives and Mutuals** - <http://bccm.coop/>
- **Get Mutual** - <https://www.getmutual.coop/>
- **Co-operative Bonds** - <https://bonds.coop/>
- **Co-op Incubator** - <https://www.incubator.coop/>
- **Co-ops NSW** - <https://nsw.coop/>
- **Co-operatives WA** - <http://www.cooperativeswa.org.au/>
- **Farming Together** - <https://farmingtogether.com.au/>
- **Co-operative Enterprise Research Unit (CERU) (Uni WA)** - <https://cemi.com.au/>
- **Employee Ownership Australia** - <https://employeeownership.com.au/>
- **Consumer Affairs Victoria** - <https://www.consumer.vic.gov.au/>



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# Where to next – networks and resources

