"Are Rural Co-operatives still relevant in New Zealand?"

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Executive Summary

This report was aimed at discussing and presenting the ideas surrounding the future of the co-operative business structure in rural New Zealand. This was achieved through a review of relevant literature and surveying key co-operative members and employees to gather their opinions on how they saw the co-operative structures relevance today and in the future.

A brief summation of four key rural co-operatives was expanded upon throughout to build a picture of why these entities operated the way they do. The author found that all co-operatives researched had very clear business values and a simple vision. All surveyed were of the opinion that these values and visions were critical in the discussion of relevance both today and in the future and that any move away from these could lead to the demise of the business structure.

The grassroots and highly visible nature of the New Zealand farmer lends itself to the co-operative structure nicely. Farmers in New Zealand make up a very small percentage of the population but are responsible for the delivery of a large proportion of export revenues. The collaborative approach of co-operatives enables the New Zealand farmer to be represented to the wider public without fear of standing alone. As such it is the opinion of the author that the co-operative business structure in rural New Zealand remains as relevant today as it was when the first rural NZ co-operatives formed in the 1800’s

Keywords*: co-operative, rural, New Zealand, relevant, success, performance, Fonterra Co-operative Group Limited, Alliance Group, Ballance Agri-Nutrients Limited, FMG Insurance Limted,*

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Disclaimer

References provided in this report are from a combination of sources. Sources are referenced in full at the conclusion of the report. Where the reference states "Person…" this relates to a confidential interview conducted by the author with either a co-operative member or a co-operative employee. These interviews were opinion based and the information cited should be taken as such. Not all of those interviewed have been referenced due to repeated information.

The ideas, opinions and conclusions presented in this report are the solely of the author or those interviewed, and should not be taken as Fonterra Co-operative Group Limited's.

Introduction

Most businesses around the world are totally focused on the pursuit of profits and growth or expansion into new markets, however this is not universal. Co-operatives are a different beast; they are often much more focused on increasing vertical and horizontal integration than their corporate counterparts. {Leo Paul Dana, 2009 #12} However, the world has vastly changed since the first co-operatives were formed, and with these changes, co-operatives have had to adapt and evolve or risk becoming obsolete as an economic structure. The co-operatives discussed in this report are similar in nature and principle, however different in their approach to business and market development. All of them have developed significantly from their formative years and faced many challenges along the way. For the majority of these businesses technological advancement has played a huge role in their ability to meet the needs of their members. Globalization, deregulated economies, the convergence of technology and development of connective resources such as the internet and electronic banking have led to firms to focusing on specializing on a core set of value adding activities. {Leo Paul Dana, 2009 #12} Often co-operatives are the last to adopt accepted contemporary centralized business operations such as call centers, such is their link to the members they were created to benefit. This is especially the case in rural New Zealand. {Standing, 2005 #14} The uniqueness of co-operatives in the business world requires an alternative skillset in their management teams as problems can arise from seemingly straightforward business issues, often this is related to the integration of the entity, the very component that allows the co-operative to exist. When taking all of this into context, one should consider how this business structure has not only survived in modern times, but thrived.

In New Zealand, economic reform has led to the removal of the government established marketing boards, these reforms have required the co-operatives in these industries to adapt to the challenges of international business. The change in the way the products of these co-operatives are marketed to the world has caused many to question the success of the co-operatives, however often the criticism fails to appreciate the new environment in which these co-operatives have to work in since the disestablishment of the marketing boards. Further research will no doubt be carried out in this area, however I first am looking to answer the question of the co-operative business structures relevance in today's world.

The aim of this project was to provide a gauge to the reader on the sentiment of both members of New Zealand co-operatives and their employee's as to how that co-operative is relevant in today's environment and continues to be relevant in the future. This also explores whether that co-operative has performed to the level expected as measured by opinion.

Methodology

Firstly, to discuss the concept of whether a business is relevant, the author will provide an overview of what the co-operative came from and what they originally set out to achieve as well as the values under which they are run. The author has built these overviews from a review of the literature referenced in the reference section of the report. Following this the author will draw on the opinions of 20 interviewed members and employees of the co-operatives (referenced confidentially) to discuss their ideas in relation to the question. Lastly the author will form a conclusion based on his own sentiment analysis, the literature reviewed and the opinions gathered. Due to the author's closeness to the Fonterra Co-operative many of the discussion points center around the dairy co-operatives relevance and effectiveness however they not the opinion of Fonterra Co-operative Group Limited or it's subsidiaries.

Co-operatives

What is a Co-operative

Formal definition – A co-operative is an autonomous association of people united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled business. {International Co-operative Alliance, 2016 #1}

This is developed further by the definition below.

"*A co-operative is an organization in which those who transact with (i.e. "patronize") the organization also own and formally control the organization, and derive significant benefits from those transactions over and above any financial returns they derive from their investment in the organization."* (Evans and Meade 2005)

Put simply, co-operatives give their members more power to conduct their business . Collectivization allows greater buying power and or selling power as purchasers are reduced in their ability to force suppliers to compete in the marketplace. Furthermore, co-operatives enable those that have formed the co-operative to benefit more because of their association than just better prices.

Inherently co-operatives operate similarly to investor owned companies however there are a number of characteristics that make co-operatives unique in the business world. {Barton, 1993 #15}

- Owned and controlled by their members, often this means that directors of the co-operative are democratically elected to represent the interests of the members. The board of Directors will then set a management team up to achieve the goals of the members. (Co-op 2016)
- Co-operatives generally utilize the goods/services offered by their members preferentially and will only go outside of this if it will benefit the members.

- Surpluses made by the co-operative are returned to the members depending on how the constitution dictates. Usually this relates to the members use of the co-op, as opposed to the value of their investment.
- Often profit is not the major focus of a co-op, needs of the members are met by purchasing the members' goods/services at the best price, however a co-operatives success is underpinned by its profitability. So a balance is often struck.(Heddell 2015)

Co-operatives have had a long history in the agricultural world, collaboration between produces has been identified as far back as ancient Egypt and Babylon {Karki, 2005 #13} The basis of the formation of co-operatives from ancient times still forms the basis of their existence in today's business world, that the co-operatives is focused on increasing the economic well-being of the producer or owner of the co-operative. {Barton, 1993 #15}

NZ Co-operatives

Fonterra Co-operative Group Limited

Fonterra Co-operative group was formed in 2001, however its roots can be traced back to the first co-operative that was formed in 1871 in Otago. {Fonterra, 2016 #10} This initial co-operative was the first of over 600 to form in NZ. By the late 1990's these co-operatives had been amalgamated and changed to leave only four New Zealand Dairy Group, Kiwi Co-operative Dairies, Tatua and Westland. Fonterra was formed when two of the major co-operatives in New Zealand Dairy Group and Kiwi Dairies merged in 2001. {Fonterra, 2016 #10} {Lind, 2013 #5}

Fonterra Co-operative group is owned by its shareholder farmers and is entirely focused on maximizing the total payout to its farmer shareholders, this is done through maximizing the farmgate milk payout per kilogram of milk solids supplied and paying a dividend on shares held by investors.

Figure 1; Fonterra Co-operative Group Values (adapted from Fonterra Co-operative website 2016)

Ballance Agri-Nutrients Limited

Ballance is a New Zealand farmer owned co-operative set up to help its customers to farm more sustainably, productively and profitably. Their core business involves the manufacture and distribution of fertilizers and nutrients to its member base. The co-operative has strong values centered around increasing productivity while minimizing the impact on the environment. Ballance looks to further provide a service to its members through the development of an advice proposition backed by science. Ballance Agri-

Nutrients Limited was relaunched when the four entities that operated in the co-operative decided to consolidate their proposition, using the name Ballance as a tribute to the late Prime Minister, John Ballance, who was instrumental in creating the legislation that opened the way for New Zealand's rapid, agricultural based economic expansion in the late 19th century. Ballance achieved its goal of being 100% farmer owned in 2005 when it purchased the final 20% shareholding from Yara. This progression was key in the ability of Ballance to move into the next phase of its development. {Ballance, 2016 #16}

Figure 2: Ballance Agri-Nutrients (adapted from Ballance Agri Nutrients)

Alliance Group

Alliance group was formed to process and market high quality meat and associated products to the international market. It was not originally started as a co-operative however at a re-structure in 1980 the ownership structure was adjusted and business became farmer owned and farmer run. Tough times, following the removal of Government subsidies in the mid 1980's, led to a requirement of Alliance Group to rationalize plant operations and develop new ways to improve product range and efficiencies. By 2001, a big year for many of New Zealand's farmer owned co-operatives, Alliance Group was processing in excess of 7 million lambs, 1 million sheep, 140,000 cattle and 80,000 deer annually in 7 strategically placed South Island plants. {Alliance Group, 2016 #17} By 2016, Alliance has formed a strong business with processing and distribution facilities in both islands of NZ. Alliance Group is built on fundamental co-operative principles centered around maximizing operational efficiency and increasing captured market value. Shareholders represent the backbone of all company operations. The company lists six key principles as the basis of its strategy. They are as follows;

- Shareholders at the heart of every decision.
- Highest pricing in the long term over any other processor.
- Processing capacity allocated to shareholders first and only to others if it adds to the profitability of the co-operative.
- Shareholders are rewarded for the consistent supply of livestock
- Shareholders want to become fully shared up over time
- Shareholders' investment in the co-operative needs to match livestock supply and will change overtime in line with supply. {Alliance Group, 2016 #17}

Figure 3: Alliance Group Rural Roots and History (Adapted from Alliance Group

FMG

Farmers' Mutual Group (FMG) is a co-operative insurance company known as a mutual. Mutual have their roots in the early in early Britain among working class groups banding together to protect themselves against life's hazards. (Evans and Meade 2005) FMG can trace its roots back to 1905, where a group of farmers, in search of a better deal, pooled their money together to self-insure the members of the group. This was a bold move, but put control of the insurance pool firmly in farmer hands. For the move to be successful some fortune was required in the early years, backed up by a model set up to not just pay for damage, but rather to prevent losses from occurring. It could be construed that the farmers self interest in preserving their own initial investment led better risk management within their businesses.

Figure 4: FMG Branding and Rural Connection (Adapted from FMG Marketing Material)

Discussion

What makes NZ and its co-operatives different?

New Zealand has many unique factors that make it the country it is today. However at the core of the New Zealand story is a link to agriculture and especially its integrated farm management systems. This remains the case in 2016 despite the many changes in technology and development of urban economies both domestically and globally. While New Zealand is not unique in its adoption of the co-operative mentality, it is relatively unique to have an agricultural economy underpinned by export trade and how collaboration and co-operatives facilitated this to take place. This is further exacerbated due to the development of these export routes at such an early stage in the history of the country. This originated with the first refrigerated ship leaving NZ's shores in 1882, which proved to be a turning point for the economic history of not only the agricultural sector but of New Zealand's entire economy. {Stringleman, 2008 #18}. It would take time before the trade was consistently profitable however the sector grew quickly with the characteristics of NZ's natural environment providing a competitive edge compared to alternative markets. The technological development of refrigerated shipping also increased the viability of smaller farms. In the dairy industry, many small farmers eventually discovered that utilizing specialist factories to carry out specific aspects of the milk processing increased efficiency and enabled their milk to reach more and more valuable markets {Scrimgeour, 2008 #19}. As collaboration between farmers to take advantage of transport efficiencies became more prevalent, the seeds of an integrated co-operative industry took hold. By 1890 40% of the dairy factories in NZ were co-operatives and by 1900 this number had grown to be in excess of their corporate counterparts. {Scrimgeour, 2008 #19}. From 1920 to 2001 over six hundred co-operatives became just three.

The transport inefficiencies discovered by small farms producing in the 1800's remains today. However, rather than movement of the raw product from farm to a domestic consumer or market, the inefficiencies now relate to export of a perishable product to a global market.

A key difference of the New Zealand Co-operative scene is the "smallness" and isolation of the country in terms of population and geography. This "smallness" allows for a greater engagement of the member base than is available to overseas co-operatives {Person A, 2016 #20}. Further to this, New Zealand co-operative engagement with their members is less centered around economic engagement but more around co-operative participation and voice. This grassroots approach makes New Zealand somewhat of an anomaly in the global co-operative environment {Person A, 2016 #20}.

As mentioned earlier, New Zealand has a competitive advantage over many farmers in the world in the ability to convert sunlight into food with relatively few extra inputs or infrastructure requirements, one disadvantage is in our distance from the demand. Co-operatives have enabled New Zealand producers to band together to alleviate the huge capital constraints of moving their products to the world markets, most importantly, they have done this that allows the producer to retain control of the supply chain. Barton, (1993) discussed the importance of the ideal that the activity of the co-operative remains focused on increasing the economic wellbeing of the member.

How effective are NZ co-operatives on the global stage?

Central to the concept of effectiveness is the measure by which we evaluate the performance and further to that the yardstick that we use to gauge it on the world stage. Person A (2016) and Person D (2016) both opined that the key to effectiveness of the co-operative was centered on the ability for the shareholder or member to comprehend the strategy of the co-operative. Fonterra Co-operative Group is a good example of this. Often when a consensus is taken from the wider shareholder group, Fonterra's effectiveness is inherently linked to the overall price it can pay for each milk solid it collects. {Fonterra Co-operative Group, 2016 #26}. However, the reality of the milk price calculation is that Fonterra only has a limited control of the price is can pay. This is due to the use of the Global Dairy Trade Auctions to set the price of the five reference commodity products from which the revenue generated is paid back to the farmer suppliers after operating and overhead costs have been accounted for. (Figure 1 illustrates how this works.)

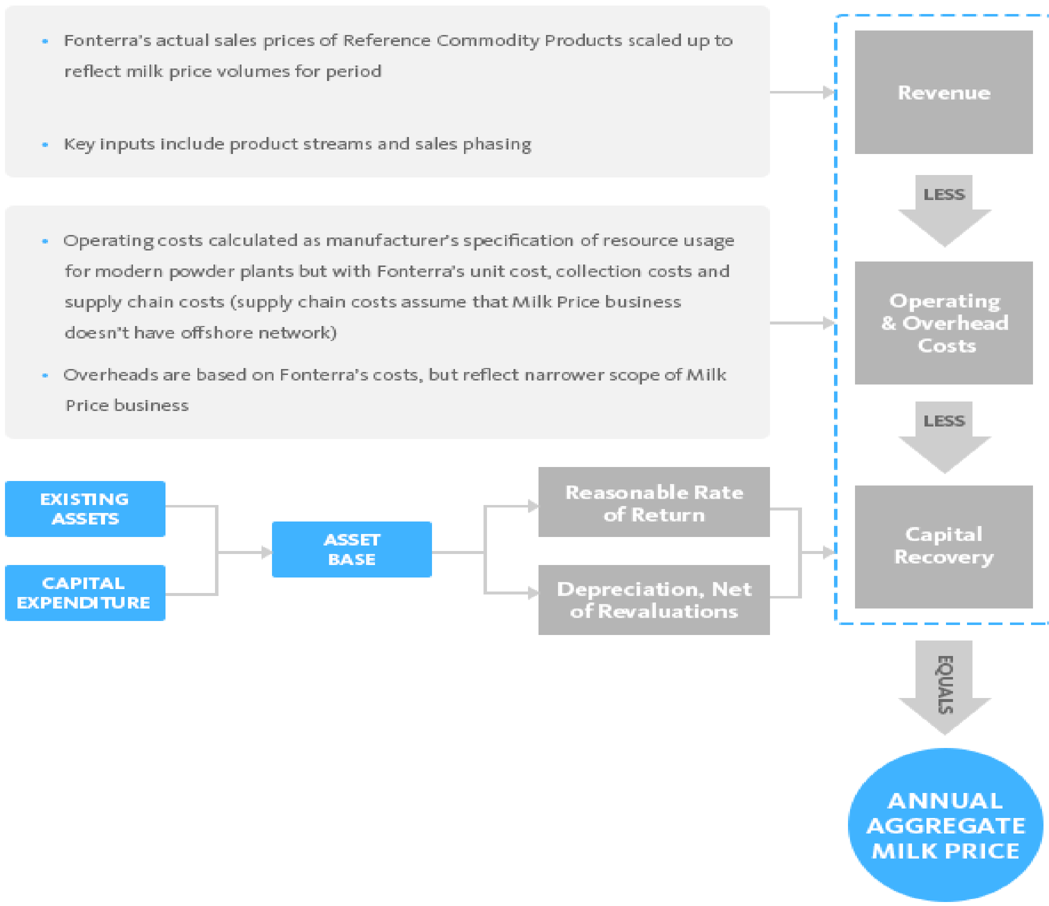

Figure 5:MILK PRICE METHODOLOGY (adapted from Fonterra Co-operative website 2016)

It could be argued that a far better gauge of Fonterra's effectiveness could be found in the performance of the dividend. The major drawback of this measure relates to the disparity between the cost of the shares required to belong to Fonterra between farmers based on when they entered the co-operative. A member who was required to purchase shares at an $8.00 share price will require a higher cash dividend to see a decent return on investment than a member who was required to purchase shares at $4.50 at the same dividend. Both members are treated equally in the co-operative and both members supply a similar product yet their return on investment will be vastly different. Of further interest to note in this discussion is the ability of the member questioned to appreciate the use of price risk management tools available to mitigate exposure to the volatility of the dairy world. Singh, (2015) discusses the availability and use of PRM tools in her Nuffield paper and commented that New Zealand farmers did not use the tools, nor did they have access, to the tools that their counterparts in the USA and Europe did. As such the New Zealand farmer has been left exposed to market volatility. This in turn can lead to the farmer member attributing the financial stress associated with the industry volatility to the co-operative they are a member of.

Interestingly, when Fonterra introduced a guaranteed milk price it had little uptake among the vast majority of its shareholder base, only five percent of shareholders adopted it for the two seasons that it was in place, the uptake was considered to be proportionate to Fonterra's shareholder base by both size and geography {Singh, 2015 #8}. In the first few years of the GMP being available, milk price rose internationally beyond the fixed GMP so little mind was paid to the option by the majority smaller scale shareholders, however once the international milk price began to fall, the businesses that fixed their revenue streams were able to maintain margins. There was a perception among the wider co-operative that the GMP was against the principles of the co-operative. With particular reference to the fact that when milk price was lower than the GMP, that farmers outside of the programme were subsidizing the farmers in the programme. As such GMP was removed from the co-operative for the 2016 season.

Farmers Mutual Group is very much a New Zealand business. However at one stage it ventured into the Australian domestic insurance market but quickly withdrew. At the core of FMG's mantra is helping New Zealander's take risks, with a focus on ensuring that rural New Zealand gets a better deal. What makes up a "better deal" is subjective and can vary between farmers, businesses and domestic consumers. However at its core a "better deal" will provide the purchaser with confidence that they have made a good decision. FMG's effectiveness at providing this confidence could be measured via its underwriting profits or losses, its annual total profit or loss result, its claims accepted to claims declined ratio or rather whether the members of the mutual believe that the company is searching for solutions to the risks that they face from day to day. Insurance in general, is often considered to be a burden to the consumer, another cost required by banks to provide back up to lending. FMG has been quite strategic in the setting up of the four values and ensuring that these values are at the forefront of employee's minds when they work with the members and holders of each policy. It could be argued that this is not only a major component of FMG's effectiveness as a business but also as a co-operative. It could be further construed that FMG's market share in its core market is directly related to the application of these values and synergy with the vision of the business when it began in 1905 to give farmers a better deal {Standing, 2005 #14} {Person B, 2016 #21}.

The New Zealand meat industry is often a topic of conversation on farms all throughout the country. Comments are often related to the fractured nature of the industry, with comparisons frequently made to the dairy and horticulture industries {Person C, 2016 #22}. There are many reasons as to why more co-operation between suppliers of New Zealand meat processors has not occurred and this report will not delve into them, however gauging the effectiveness of Alliance as a co-operative requires an appreciation of the sentiment that feature in the farmer base. Put simply, the meat industry co-operatives need to do better {Person E, 2016 #24} {Person F, 2016 #25} {Person C, 2016 #22}. The nature of the raw product supplied from farms is central to the ability of the processor to process it. With the meat industry, multi-faceted and expensive plants are required to deal with the varying animals that are presented, in Alliance's case these have been owned by the farmers since the 1980's. Alliance was strategic in the setting of 6 principles that it governs its co-operative by. These principles relate firstly to the shareholder being at the heart of every decision, and are followed by priority processing, highest long term pricing and that investment matches supply. In practice when considering the effectiveness of the co-operative Alliance was considered by those interviewed to be effective {Person C, 2016 #22}, {Person E, 2016 #24} {Person F, 2016 #25}.

Discussion regarding alternative co-operative membership was met in different ways, some were of the opinion that it made sense to have a foot in both camps, while others were vehement in their support of only their co-op. This exposes the underlying issue facing the meat industry in that its multi company approach limits its ability to truly capture value and be as effective as the shareholders expect it to be. The impact of an individual co-operative such as Alliance on the global stage is muted as returns to supplier shareholders are required to be higher than competing processors internally. This absorbs company resources in competitive disruptors such as in Fonterra's case, setting up ventures like My Milk Ltd. Ventures such as My Milk absorb resources that could be otherwise used to improve marketing of superior products to global consumers. As such, the majority of product is sold without significant differentiation and thus receives lower prices, compounding the issue. In order to get around the issue of limited capital to develop better assets, new capital must be sourced. However, this is hard to come by from cash-strapped suppliers so therefore must come from either new suppliers or outside investors. Recently the major competitor of Alliance Group sold 50% of the company to a foreign investor after ratification by the farmer shareholder. It could be argued that an effectively performing co-operative would not have needed this equity divestment. However perceived poor performance related to limited access to capital and limited market access made it a necessity. This could be construed as the co-operative model being ineffective in the meat industry {Person C, 2016 #22}.

Strengths and weaknesses of New Zealand Co-operatives.

The major strength of all co-operatives in New Zealand but also abroad centers around the people. The people that banded together to form the entity, the people that physically build the assets, the people that work inside of it and the people that work alongside it to help. The relevance of the co-operative structure in the future will hinge on how well each co-operative can integrate the ideas of the people involved, communicate their vision and strategy, meet their markets and manage risk. The ability of the co-operative, or any business for that matter, to mobilize the people in the heart of the business to feel as if they've achieved something is crucial to the prosperity of the business and its shareholders. For a co-operative, this idea is critical as the shareholders not only own the company, often their livelihoods are significantly linked to it's success and continued relevance.

A major disruptor to the co-operative structures success can be derived from what makes it unique, and that relates to the "noise" that is generated from those who make up the business. {Person A, 2016 #20}. The investment from both management and the Board both financially and as time is significant. This is a cost not borne to the same extent by corporate counterparts in the same industry. However, that is not to say that it is not valuable to the co-operative to invest this time and money. As discussed throughout this paper, the largest idea relating to relevance of the co-operative structure is built from the ability of that business to not only provide a financial return to its shareholders but to deliver on the vision and values that were the catalyst for it's formation. In saying this, it must be understood that success in this state is relative, therefore a co-operative shareholder's understanding of how their business differs from others in the same industry is crucial. Resources invested in shareholder relations cannot be excluded from a relevance discussion.

Similarly mentioned already in this report is the limitation co-operatives often have in access to capital, both at formation but also throughout their growth. For many co-operatives, new capital has been generated through the acquisition of assets through strategic mergers, growth in member raw materials supplied, capital investments from members or even divestment of shares to non-supplying investors. The rules around who can own, and therefore have a say in what happens in the co-operative, are usually strict and investors must meet predetermined criteria to receive membership. In the co-operatives discussed in this report this membership centers around the use of, or supply of the key raw materials that the co-operative supplies, processes, sells or insures. To become eligible for membership requires the investor to already have the raw or the rights to them. This comes at a cost, a cost that can be then prohibitive to further spending elsewhere, such as in a co-operatives shares. Fonterra is a good example of this, where membership is based on the kilograms of milk solids supplied and the purchasing of the equivalent shares, however to produce the milk solids to become eligible, one must first invest in property, cattle, plant and machinery or a combination of all or purchase the rights to these items. There is a risk that funding can be entirely utilized on eligibility criteria and leave nothing left for share purchase. {Person A, 2016 #20} {Person B, 2016 #21} {Fonterra, 2012 #2}. This idea was put very succinctly in Johnson's (2000) report on the analytics of dairy company amalgamation where it was written that an inherent structure of co-operative companies is that payout be in proportion to raw materials supplied.

Relevance in today's world

The co-operative business structure is often one of the first that comes under criticism when there are downturns in markets or major revaluations of input requirements. Criticism largely relates to the inability of co-operatives to execute rapid changes in direction or new investment. The reasons for this are primarily due to the need to preserve the principles that formed the co-operative, those being that the co-operative is controlled by its shareholders, that goods and services are utilized and provided for members of the co-operative first and foremost, the payment of profits out to shareholders' dependent on their stake or utilization of the business and the balance between running profitably and maximizing the overall benefit of the shareholder owners.

When assessing relevance, it is the opinion of the author that we look at three main areas;

- the co-operatives success in delivering a better result for its shareholder members
- the closeness the co-operative works in accordance with the values that it operates under
- Public acceptance of the co-operatives action within the industry and environment

Success of a business is hard to accurately measure at any one point, but a better handle can be gained on it when a business is compared to others in the same industry. For the large dairy co-operative Fonterra, success has been both enabled and hindered by the Dairy Industry Restructuring Act (DIRA) that was passed to allow its existence. On one hand because of the DIRA legislation, the shareholder has the ability to choose their supply company with little risk involved of exclusion from Fonterra but on the other, Fonterra is required by the legislation to provide milk to competitive processors at no economic benefit to its members. Despite this, Fonterra has ridden an extremely volatile dairy commodity market while growing and consistently paying a dividend to its shareholders. One would be hard pressed to argue entirely against Fonterra Co-operative

Group being successful, although many have claimed it should have been more successful than it is. {Person A, 2016 #20} {Person D, 2016 #23}

Similarly, in regards to Farmers Mutual Group, success can be attributed to many different measures. The Mutual has established a dominant market share in its core area, rural New Zealand and has led the way in the risk prevention and management through the successful implementation of an advice proposition. It can be argued for the Mutual that a large proportion of this success has come from the strategic alignment of its members and employees to the values of the company and common goal of getting a better deal for the rural community. {Standing, 2005 #14} From a public acceptance point of view, FMG has been very effective at aligning itself with initiatives such as Farmstrong, promoting rural health and wellbeing. These initiatives, alongside sound business management and sustainable practices' have led to FMG being largely excluded from public opinion and discourse relating to its operation.

Likewise, success for Ballance is difficult to quantify, but if we look at the results posted in the 2015 annual report, the chairman leads with the business looking after its shareholder members as a priority, it achieved this through the bringing forward of the dividend it paid in a year of tight on farm income. {Ballance, 2015 #30} Additionally, during this tough time, more product was moved through the business than before and market share dominance was maintained. Fertilizer companies are often the target of environmental sustainability groups due to their business being the removal of nutrients from one environment into another, Ballance manages this public relations risk through ensuring that a strong science component is delivered with each product before deployment and use. Incorporated into this is a commitment to limit environmental impact on both the farms where the product is used as well as the source of the nutrient.

Along the same lines as Ballance, Alliance's success is difficult to quantify entirely, looking at the numbers alone, Alliance has faced challenges in terms of delivering a significant profit in their most recent annual results, {Alliance, 2015 #31} Just like Ballance and Fonterra, the primary message to shareholders is about a commitment to deliver on their support to farmers and keep the shareholder at the heart of every decision. The CEO and chairman have committed to conducting a strategic review of the co-operative to ensure that a plan to lift profitability is executed and value is delivered to the shareholder. The social perception of meat companies is at risk of becoming a major issue in New Zealand in the future, when compared to the dairy industry, the red meat sector has been perceived to be slow to react. {Person E, 2016 #24}Part of this relates to the focus of local and regional council on the dairy industry compliance but also it relates to the economic viability of the land in which the stakeholders of the industry reside. A major challenge awaits the industry in relation to the protection of the natural environment in which it works. It is the opinion of all interviewed that co-operatives proactively engage regulatory authorities to ensure that desirable and attainable outcomes are achieved.

Rural co-operatives in New Zealand are held to high level of scrutiny due to the natural environment in which they are based and the small percentage of the population that make them up, compared to their corporate counterparts in the business world. The grassroots nature and highly visible work environment of the shareholder also leads them to be in an ambassadorial role for the co-operative when it comes with dealing with the public. Today, in New Zealand, this forms a large part of what is known as a 'Farmers social license to operate'. A relevant rural co-operative must have a good handle on this to preserve its ability to conduct business. All the co-operatives discussed throughout this report continue to receive this, however not without question. One only has to review at the recent media stories prompted by the activity of Forest and Bird or activist groups such as SAFE in the dairy sector to understand that an environmental impact will not go unpunished and gross negligence could lead to the rising of the public against the industry despite economic benefits enjoyed by all. {Pennington, 2016 #29}

Transformation of the co-operative and continued relevance

As seen throughout the dairy and fertilizer industries history's and to a lesser extent the meat industry, for the co-operative to continue to meet the needs of their members they must grow, develop markets and innovate. For the dairy industry, growth meant consolidation, over 600 co-operatives were distilled down to three. {Scrimgeour, 2008 #19} As the co-operatives amalgamated they could increase efficiency as well as develop new products and overall become more attractive to consumers with their ability to differentiate their product offerings. The development of the differentiated products built from the amalgamations but flourished under the new ability of a larger entity to invest resources into innovation and research. Innovation is not limited to new and improved products and plant, it also must include the development of stronger relationships with stakeholders. This may be facilitated through transparent Governance structures or relatable communication mediums. For the dairy co-operatives to continue to be relevant in the future they must ensure that innovation, market development and integration are invested in, this ties into the need for members to understand the entity that they own and control. {Person A, 2016 #20} {Person B, 2016 #21}

Similarly, in the meat and fertilizer industries, growth through the amalgamation of many companies facilitated investment to be focused on ensuring that the core values of the business were always at the forefront, both for supplier investors and for customers. These co-operatives must continue to transform in both their applicability to the market in which they operate but also in their interaction with the owner members, failure to do so will lead to a gradual but sure loss of relevance. Collins, (2001) makes the point that good companies were those that ensured values were promoted over processes, he went on to state that great companies always kept faith with their people. This idea is integral to the strength of a co-operative structure. Faith must be kept with the people that make up the co-operative. Person A (2016) was emphatic in their opinion that through any transformation process, maintenance of the pillars of the co-operative were key to the adoption of new governance structures, strategy and innovation.

Conclusions

The idea of relevance is broad and upon reflection the author would advise of a more targeted approach to the evaluation of each co-operative. As discussed, the crucial factors to a relevant rural co-operative in New Zealand are built around the setting of a clear vision and values when the company was formed and the relatability of those values to the farmer owners. Incorporated into the application of these values the co-operative must also deliver a return on investment to the shareholder, either through growth, market protection, share performance or highest payment of goods. By nature a co-operative must make trade-offs in delivering in each of these areas. The underlying premise of relevance is ultimately built on the shareholders' opinion, this being influenced by the factors above. There was a consensus among all of those surveyed, that the co-operative business structure remained relevant in today's business environment so long as the people of the co-operative were central to both the governance and management of the entity.

Recommendations

In regards to all of the co-operatives discussed it is the opinion of this author that all in order to remain relevant each co-operative must invest in the understanding of the shareholder as to why they conduct business the way they do. Taking the members of the co-operative on "the journey" will ensure that a shareholder is better able to understand why things are done the way they are. This understanding and relation to the vision of the business is central to continued relevance as without the people the co-operative is lost.

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