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History and Development of Cooperative Business in New Zealand: A Case Study of Allied Farmers Limited

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Cooperatives have been a feature of New Zealand agricultural scene since late 19th century. Although cooperatives did arise in a greater degree in the agricultural sector in New Zealand, evidence show that it has been not too different to that found in other jurisdictions. Using a case study methodology, this study analyses the history and development of cooperative business and explores the establishment and demise of Allied Farmers Limited in New Zealand. Using agency-theoretical perspective and hubris it is argued that Allied Finance Limited's expansion was of concern from the start and was most likely to cause financial crisis. The evidence supports the view that the managerial overconfidence was the key factors leading to the demise of Allied Farmers Company Limited.

Keywords: Hubris, cooperatives, agency problem

Introduction

Allied Farmers Limited (hereafter AFL) is a Taranaki[1] based company that is providing rural and finance services to all New Zealanders. Its rural services operate in the name of *Allied Farmers Rural*, while the finance services operate under the name of *Allied Farmers Investments*. AFL is listed on the New Zealand Stock Exchange and currently has around 20,800 shareholders with market capitalisation NZ$2,370 million (NZX, 2012). Allied Farmers Rural provides the livestock and real estate services to the rural population of New Zealand and is a subsidiary of AFL. AFL acquired Hanover Finance and United Finance in December 2009 and started its investments section as a holding company of all the assets, investments and loans (Allied Farmers Limited, 2012).

Background

The history of *The Farmers Co-operative Organisation Society of New Zealand Limited* dates back to early 1880s. It was a period when the farmers of the Taranaki region had no compensation for their farming activities and hence were selling fungus 'Taranaki wool' for their survival. The export sale of fungus was £72,000 in 1885 which was greater than the export value of butter at the time. During the same period, farmers faced many difficulties and did not have any local body representing them or make decisions on their behalf (Evans & Meade, 2006). As a consequence, Hawera-based farmers formed an association in 1884 to bring all the local farmers together, calling themselves *Egmont District Agricultural and Pastoral Association*. Although the association formerly started in 1884, talks relating to the formation of such an association had been going on since 1881. The business of the association was formulated which was well supported by the farmers and the residents of the town. In addition, the start of the annual spring show in the same year attracted many people and was recognised as the 'premier dairy show of the country' (Standing, 2009) at the time.

Another association, the *Patea Agricultural and Pastoral Association* started in 1875 and was successful in its operation during its existence. It played an important role in terms of improving the farming activities in a variety of ways in the locality. They formed the West Coast Meat and Produce Export Company and Patea Oil and Fibre Company (Calder & Tyson, 1999). Even though the association was conducting an annual spring show it was not as recognised as the Egmont A&P Association of today. The main purpose of the Egmont A&P Association was to organise the annual show. Hence a bit of envy struck both associations and in 1889, the officers of the Egmont A&P Association wanted to extend their functions and make more money. As a consequence, *Egmont Farmers Union Limited* was formed in March 1889 and the company was registered under The Companies Act 1882. The company initially started with 500 shares of £5 each and the bankers were the

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Bank of New Zealand. The farmers of the Hawera-based association were over-joyed and enjoyed their success in establishing a union. John Brown owned a piece of land on the north-west of Hawera and agreed to lease it to Egmont Farmers Union. The land was referred to as "union yards" or "Fantham yards". It was the major saleyard for Hawera farmers for more than a century. Sir Arthur Fantham was selected as the auctioneer/manager of the company while W. E. Dive was selected as the chairman of directors. The company showed enormous profit during its first year of operation and 1000 new shares were introduced during the meeting while entering into a second year. Arthur Fantham died in 1904 and Egmont Farmers Union was passed on to his son, Bret Fantham II (A.A Fantham II), who within the year purchased the company's assets and changed the name of the company to *Fantham Bros. & Co.* During this time the company's main focus was on auctioneering and as a general commission agency. Two distinguished and highly respected men, Arthur William Gillies and Ernest Edward Nalder joined Bret Fantham II to form a partnership. The three traded together in the name of *Gillies, Fantham and Nalder*. All the assets of Fatham Bros. & Co. and those leased from Egmont Farmers' Union were transferred to Gillies, Fantham and Nalder including the "union yards" mentioned above. Additionally, the partnership purchased another property of 48 acres and named it "TuruTuru Paddock" which included Turu Turu Mokai Pah[2]. By the end of June 1905, Bret Fantham was bankrupt and wanted to leave the partnership. All the properties purchased were turned into suburban building sections, residential sections and commercial and retail development sections (Philpott, 1937).

Another notable person in this history was James Rondall Corrigan, a north Cantabrian who left school early and got involved in farming activities out of interest. The drought and flooding in 1893 in the region forced him to move to the Hawera region of the North Island ("Stock and Station Agencies. Farmers' Cooperative,"). He assisted Arthur Fantham with the Egmont Farmers Union and A&P activities where he developed an in-depth understanding of farming techniques. As the Egmont Farmers Union was smashed, the farmers had no specific body to control them. In the meantime, advertisements were posted by the auctioneers stating that the commission for selling stock would increase to 4% from 1 January, 1906. This kindled James R. Corrigan to write to the editor,

"to earn a paddock commission the auctioneer very often has to hire a horse and gig and drive 10 or 12 miles to show the stock, etc. to the would be purchaser, very often without doing any business. Yet he is satisfied with 2 and half per cent, but if the farmers get up at 4 o'clock in the morning, and drive his stock 10 or 12 miles to the sale yard and saves the auctioneer the expense of the trap, agent etc., he has to pay four per cent. The farmers can get on very well without the auctioneers by co-operating and running their own business. But I fail to see how the auctioneers are going to do if they lose the support of the farmers, as every business in the district depends on the farming community. My advice to the farmers of the district is to co-operate together and have a voice in matters relating to their own welfare as we have been dictated to long enough by trade unions, labour unions, etc. and lastly, auctioneer unions"(Standing, 2009).

Beyond this, James Corrigan also sent letters to the farmers and landowners to attend a meeting on the proposed new *"Farmers' Co-operative Association"* and around 60-70 of them reached the Opera House for the meeting on January 6, 1906. James Davidson was the chairman and James R. Corrigan was selected as the prime mover of the newly found association. During the meeting, James stated his idea of starting a company with 5000 shares of £10 each, £2 on application and £3 on allotment. The idea was finally accepted after some negotiation. It was decided members of the association be given five per cent discount on all their purchases from the storekeepers and other businesses. The directors for the association were elected and this is the only things did not go smoothly. At their next meeting, the threshold for the number of shares was never decided as there were disputes between attendees about the number of shares which needed to be finalised. Hence, the company was dissolved and an advertisement was placed in the paper informing readers about the de-registration of the company (Philpott, 1937).

At the start of 20th century, the population of New Zealand was 1,000,000, of which 30% were involved in agriculture. The majority of that 30% were European and all over the country they appeared to be working on a co-operative basis, evidenced by the establishment of branches of *NZ Farmers Union* (now Federated Farmers of New Zealand Incorporated) in almost all districts. The union started to make progress in all aspects of everyday farming life in New Zealand, and the union proved the significance of co-operation at national level. With the support of a few farmers/politicians in the unions, the union turned to form a *"Farmers' Parliament"*. The Taranaki-based union worked enthusiastically and managed to pass several bills to the parliament. A few of the successful activities by the Taranaki Farmers' Union were the Farmers' Mutual Fire Insurance Association and a number of mutual insurance associations throughout the country (Stratford, 1992).

The interests of south Taranaki farmers in their union encouraged them to form a co-operative that dealt with farmer-owned stock and station. George Buckeridge from Nelson, who had arrived with his brother at Eltham, was an organiser for several farmer unions around the country. With his own personal interest and initiative, he arranged for a meeting on Saturday 16 December 1911 "to consider the advisableness of starting a co-operative business". Charles Cleverley Tarrant was appointed chairman for the meeting. Likewise, George Buckeridge took the initiative and travelled all over south Taranaki to talk about the benefits of forming a co-operative association and several meetings took place to discuss this. Meantime, James Corrigan who had visited England learned how New Zealand products were being received there. On his return, he visited the New Zealand immigration office and advised opening up immigration to increase New Zealand's population. He felt that an additional population of 15 million would help achieve vast improvement that was needed in the economy.

After some intense negotiation, share values were confirmed at £10 each. Finally, in 1913, *'The Farmers' Co-operative Organisation Society of New Zealand Limited'* was incorporated 2001 shares valued at £10 each were allotted. John Turton was appointed as the auditor for the organisation and several officers were appointed to canvass the share marketing in the region of Taranaki and Hawera. At a meeting the following year George Buckeridge pointed out two other companies who were working as co-operatives and were amongst the most successful companies of New Zealand. They were 'Farmers' Co-op Association' with headquarters in Canterbury and the 'Farmers' Co-operative Auctioneering Company' with head offices in Waikato. George H. Buckeridge was chosen as the first chairman of the Farmers' Co-operative Organisation Society of New Zealand (Farmers' Co-op) and Alex Hunter was given the position of deputy chairman (Standing, 2009).

On February 13, 1914 the Farmers' Co-op received an offer from Gillies and Nalder to buy their business. The decision was not taken immediately, and several meetings were conducted to decide on how to react to this offer. Gillies and Nalder chose to sell their property because they could not compete with the newly formed Farmers' Co-op and hence decided to join them to operate in a symbiotic way. Gillies and Nalder was purchased by Farmers' Co-op on 1 April, 1914 and Arthur Gillies was appointed honorary general manager and Edward Nalder as the head auctioneer (Philpott, 1937).

The Farmers' Co-op then hatched a plan to enter into motor-car and machinery sales dimension because most farmers were buying more cars and other farm machinery for their day-to-day operations. Even though the co-operative had little knowledge of the motor vehicle and farm machinery industries, they wanted to enter into this market because of the growing demand and seeing its future potential. In 1915, they entered the automotive market with the help of a third party, R.H.Leece. The association formed a partnership with Messrs Leece, Sagar and Pickering to sell machinery parts on a commission basis. In March 1916, the association agreed to sign a three-year lease with Booth McDonald, who was constructing a new building from which the Farmers' Co-op would sell cars and the automotive parts. The Co-operative was working with Hupmobile and Chevrolet cars initially and was searching for a similar third company. Petrol, referred to as motor spirit was usually imported from America.

The first annual general meeting of the Co-op was held on June 5, 1915 where the chairman highlighted the progress and success of the association so far. In its short life, the co-operative had purchased Gillies and Nalder, opened up a machinery sales division, and acquired Opunake sale yards. George Buckeridge resigned as the chairman of the company. There is no specific reason mentioned anywhere in the minute book or records for his resignation but at a meeting the following year, Buckeridge played a vital role in the discussion and with the association having a deficit of directors he was appointed one of the directors. Alex Hunter took the chairman's position. Soon after its one year of successful operation, the company started to expand by setting up stores and sale yards further afield, targeting Eltham and Hawera in the first instance. On April 20, 1920 the Co-op opened a new store in Eltham with 500 coming to the opening ceremony. The building constructed by the association was another major investment and it was very spacious, measuring an area of 160ft by 65ft in total (Philpott, 1937).

The following decade, the society was engaged in establishing sale yards and stores all over the region. In January 1925, the society conducted a sheep and cattle fair in Whangomomona. Ned Shewry was appointed as the stock agent of the region for all the trades and fairs. In June 1930, Scheweiter replaced Shewry; however there is no proper reference as to why Shewry was replaced. But it wasn't long before he was reappointed. It was one of the directors, a Cleland who suggested the appointment of Ned Shewry once again. He showed and proved that the new stock agent Scheweiter was not very successful or ambitious at his work. Hence Shewry was reappointed in 1933 and by the 1940 Shewry had transferred eight acres of his own land to Farmers' Co-op. This land was named "Shewry Yards". The society started expanding by opening up several stores and yards in Inglewood, Eltham, Stratford, Waverley, Kaponga, and Waitara. Another important milestone for the society was the purchase of the building from Sash & Door Co. at Wanganui. The building was used for housing wool (McKinsey & Company, 2009).

In the following decade, the society saw J. C. Hobbs, head of Farmers' Co-operation stock department as the most efficient officer during hard times. Clement G. Trotter who was the head auctioneer was re-appointed to assistant general manager of the society and Hewitts was appointed as the general manager. The officers who were more efficient at solving problems were promoted to higher positions. The decade also saw the death of Newton King, one of the pioneers and entrepreneurial businessmen. He was the first man to ship butter to London in cold containers. In the year 1928, the society announced a three per cent dividend to its shareholders because of its increase in profits that year. In the following year, New Zealand was expected to face economic downturns and the society was well-prepared for that. The society and the people of New Zealand expected that exports would fall by 45%, income would decrease by 40% and around 70,000 people would be unemployed. The co-op had branches all over the Taranaki region and the society formed the new slogan as described below:

"All roads lead to the farmers and true co-operation must lead to mutual success" (Standing, 2009).

The society also started dealing with land sales, finance, insurance and retail sales in addition to its auctioneering and stock and station operations. In retail sales, they were selling wool, butter and cheese. Similarly the car sales operation was operating at Hawera and Stratford and a new dealership was being built in New Plymouth. Another major accomplishment by the society was the publishing of a journal. In December 1927, the first copy of the "*The Co-operator*" was printed by W.A Parkinson & Co. Ltd. It was a 25 to 35 page journal filled with many interesting columns and special columns were directed at women and on the "Ladies' page". The journal itself was interesting on its own. It included comic poems, stories, jokes, etc. At one point, they decided to print another version for their clients named *"Taranaki Co-operator"* and sell it for 3/6d subscription for a year. As the economy downturn hit all over the country, the society began to see it as a burden and decided to stop publication. Hence the last issue published was in October 1934 (Standing, 2009).

In the early 1930s, Clement Trotter became the general manager of the society and W. A. Hewitts was appointed as the inspector. Up until then, the society's head office was located in the Winter Show Company's premises in Princes Street Hawera. In the year 1931, the society received an offer from Nolan's Estate property asking to purchase the property for £36000. At the same time, George and Doughty made an offer to lease their property for £500 pounds a year. The society was in great confusion, unable to make a choice, and that confusion lasted until 1933. That year, the society appointed Duffill from Duffill & Gibson architects to calculate which property would be more suitable for the society. Duffill recommended Nolan's property for a 12 year lease. The lease for the first ten years was £6.10s.0d per week. For the remaining two years, the lease would be revised between £6.10s.0d and £8.0s.0d. The society had its first meeting at Nolan's building on Saturday 30 June, 1934. This notable event marked a new era for the Farmer's Co-operation Society. In 1939, plans to purchase all the Nolan properties hit the brains of the top management of the society. They decided to have a meeting with Nolan on 30 May 1939 and the society decided to form a subsidiary company with £11,000 capital to buy the Nolan's Estate property (Standing, 2009).

On the other hand, the economic downturn had hit the country and continued throughout the 1930s. In February 1931, the society's annual turnover was £525,897 while annual turnover the previous year was £744,020. All expenses decreased except salaries and travelling expenses. Trotter, the general manager received an offer from Andrew Clement & Sons Ltd, (one of the produce importers of London) for the import of cheese and butter. It was a huge order of about 1200 tons of cheese/butter with a possible further addition of 300 tons. This resulted in an increased profit of £1000 in the first year. In the same period, the society was prepared to offer the Hawera yards to Newton Kings Ltd & New Zealand Loan & Mercantile Co., with proviso the society is allowed to trade in Douglas & Tokirima. A settlement was finally arrived at after negotiation. It was decided that when one of the three firms was operating, the other two should not operate on the same day. On February 16, the 1933 sheep sale took place at the Tokirima sale yard. The society expected to sell 3000 sheep during the sale, but the sale went better than expected and they sold 4000 sheep that day. The good fortune was highlighted at the next annual general meeting in February 1934, with the balance sheet showing the increase in profits for all the society's businesses, of the but especially in sheep which had doubled in profit. Stock commission also increased by £1,930 (Philpott, 1937).

Unfortunately, the society had to face the death of Cressey in February 1935. He was the accountant of the Hawera branch and had contributed a lot to the society. In the same year, floods damaged a considerable amount of inventory in New Plymouth and Waitara. Reconstruction of the damaged places took all the money. The society planned to expand its Stratford business building and the expansion was estimated to cost £10,000 by Duffill. Trotter was not really interested in the expansion of the Stratford building, yet Belton and Wickham carried out the planning and construction work began in 1936. At the same time, there were some replacements going on. Herbert M. Caselberg, manager of the society at Hawera and one of Trotter's right hand men resigned in 1936 and he was replaced by R.R Henderson. In the same year, Rickard, superintendent of the motor car section was replaced by J.W Boyd. Peter Fraser, who was the acting Prime Minister agreed to open the Stratford building at 2 pm on June 8, 1937 (Philpott, 1937).

During the latter half of the decade, the society was making very good profit. The year 1936-37 was the most profitable year for the society in its 23 year history showing a profit of about £34,891.17s.4d. This influenced the society to expand its business. They established sale yards in Douglas by purchasing land from a Brown. Also the Newton King land, Kohuratahi was acquired. And in the year 1939, gross profit was over £40,000. In the same year, the society stepped into the finance business by capturing West Coast Mortgage & Deposit Co Ltd. and as the business flourished the Second World War began. The society employed 205 staff, but due to the war, several of the societies' employees were sent overseas to serve on the war. In fact, a five per cent bonus was given to all the staff that went to serve on the war. As a consequence, the society faced shortage of employees and at the same time had to produce more food for export to help the war effort. New staff was appointed to overcome the staff deficit. Production and exports increased and so did profits. In 1942-43, the profit was £42,937. In November 1942, the society purchased NZ Loan and Mercantile Agency Co for £33,290.19s.1d including the plant, cars, property, stock and sundry debtors. Now the society decided to shift the Hawera produce department in Union Street to the newly acquired building of NZ Loan and Mercantile Agency in Princes Street. This building was also closer to the head office of the society in Regent Street. Once the produce department was re-located, the society decided to use the Union Street building as the wool store, but before they could, they had to re-roof the building. At the same time, the chairman of directors Alex Hunter's health started deteriorating and he passed away in June 1944. The meeting on July 1944 was chaired by C.D Dickie, deputy chairman of the society.

At the annual general meeting in February 1945, the chairman C. D. Dickie announced that Clem Trotter, general manager of the society would be sent to London for a wool conference as a New Zealand delegate. The government would pay all his expenses and H.F Wooffindin, branch manager at New Plymouth would be the acting general manager spending one or two days a week in Hawera. When Clem Trotter returned from the conference in 1945, he was appointed to the board of NZ Wool Disposals Ltd. With the continuous success, the Farmers Co-op's turnover in the year 1945 was £1,750,000. This increase was due to the rapid increase in the price of goods and livestock. During the Second World War, the society helped the government by donating to Red Cross, St. John's Ambulance sick and wounded fund. Work to build the sale yards in Tarata started in March 1945. Sheep, ewe and lamb fairs were held at the Tarata yard (Standing, 2009).

At the annual general meeting of March 31, 1946, the chairman C.D Dickie announced that turnover for the year 1945/46 was over £2,000,000. It was seen as the year of immense growth in the history of the society. The expansion works kept continuing with acquisition of Cape Egmont Diary in Pungarehu. After some renovation the Pungarehu store was opened in August 1948.

The hard work of Clem Trotter was recognised and after much discussion, the directors recommended he be promoted to Managing Director of the society. This promotion was dedicated to his excellent management and the administration skills that he had been contributing to the society so far. C.R Honeyfield was appointed as the new chairman of the directors following the departure of C.D. Dickie. However the reason for the sudden departure of Dickie was not disclosed publicly. The society continued to make high profits and in the year 1951, the turnover passed £5,500,000. This was a rapid increase in turnover and the society celebrated its success.

With the continuous expansion of the society, keeping tracking of the activities of all its branches was a difficult task. Hence the society decided to form a subsidiary that would solely take care the purchasing and distribution of goods in all the branches. The subsidiary was registered as a wholesaler and was named *"Taranaki Farmers' Wholesale Ltd"* and it was a joint venture of the society and the West Coast Mortgage & Deposit Co Ltd. With the formation of the subsidiary, the directors of the society were planning for the increase in nominal capital to £600,000 from £300,000. H.F. Wooffindin was appointed general manager in order to reduce the work load of Clem Trotter. ANZ Bank confirmed a loan of £500,000 and additionally offered an overdraft amount of £625,000 to be taken prior to 31 March. This matter was thoroughly discussed by the board and it was decided that £300,000 of shares be approved at 1 pound each share. The society also expected that with the 5% rebate, many outsiders would be attracted to buy shares. But to their dismay, only shares worth £14,026 were sold. In the same year, the society had to invest £1,500,000 in the motor department, which had started selling Austin cars in most of its stores. The investment came from Post Office savings and the credit balances from banks. The periodical monitoring and analysis of all the sales and purchases helped the society to overcome all the hardships it was facing. Meantime in 1950s several properties were purchased and expanded to store surplus goods.

The three subsidiary companies of the society were Nolan's building, West Coast Mortgage & Deposit Co Ltd & Taranaki Farmers Wholesale Ltd and they were all making good profit. W.O.

Williams assumed the new chairmanship in 1956 and R.M. Cathie was appointed deputy chairman. A large three-storey building store was built in New Plymouth which had its grand opening on 25 October, 1960. This store was claimed to be the biggest store built in New Zealand after the Second World War. Clem Trotter retired as managing director in September 1960 and Henry Wooffindin took over. Four years later Wooffindin retired and L.B. Smith was appointed as the new GM. The society had set up stores in Ohura and Maitere by purchasing them from Boyd and Margan. They survived until the 1980s. The society decided to celebrate its 50th Jubilee by offering a bonus dividend to all its employees along with a golden seal attached to the letter heads of the shareholders. Clem Trotter also attended this gathering. At this point, the total staff working for the society numbered 650. The following slogan was adopted by the society and its members after celebrating the jubilee:

"No limit to scope for development in the next half century" (Standing, 2009).

The Department of Lands and Survey was selling wool through the society for a year and through Newton Kings Ltd for the following year. Several ideas and plans were discussed for joining the two companies. In 1964, it was decided that the Farmers' Co-op would focus on the wool sales of central Taranaki while Newton King Ltd concentrate only on the northern Taranaki region. As a result, the society had the privilege to sell 625 bales while Newton King sold 400 bales of wool. In the mid-1960s the overall turnover of the company decreased, however the profit from New Plymouth store continued to increase. The society decided to reduce its expenses in order to overcome the decline in profit. A. Smith and B.D Veitch replaced R.M Cathie and T.S Cocker in the next election. The defeat of Cathie and Cocker broke up what had been the 'usual' set of directors in the society. T.C Tarrant was elected as the new chairman and D.E. Rider was elected deputy chairman.

On 14 December 1972, fire destroyed one of the two wool stores that belonged to the society in Wanganui. Some of the wool was in good condition, but most of it was destroyed. The NZ Farmers' Co-op Distribution Co Ltd (FCDC) offered some space in the front yard of their store to keep the wool. This made the society and FCDC to work together and form a subsidiary named *"Farmers' Co-op Wools Ltd"*. This new subsidiary held a 50% share of Wanganui Wool Dumpers Ltd but the partnership dissolved in 1997. Similarly, another subsidiary of the Farmers' Co-op society called Farmers Co-op Farm Supervision Department was closed. This was an era where the society found no profits which led to the closure of some of their subsidiaries. Another company called Allied Farmers was holding 20% of shares in Tucker Wool Processors Ltd in Hawke's Bay and 25% in Napier Wool Dumpers Ltd. Due to the continuous decrease in the number of sheep and meagre profit, Allied Farmers had to sell their company to Wool Industry Network Ltd in July 2008.

The year 1977 saw the death of GM L.B Smith and after an extensive search, replaced him with Tom F. Molesworth. The new GM was interested in forming an association for the former employees of the society in order to maintain cordial life-long relationships. This led to the formation of Farmers' Co-operative Organisation Society (FCOS) 25 year club on 7 March, 1979. Trevor was appointed as the company secretary and head office accountant in the same year. He suggested the modernisation of accounting machines. The society entered the computer age, installing them in their major stores. In the same period, C.H Campbell became a fully owned subsidiary of the Farmers' Co-op. At the annual meeting of 1980, L.B. Smith painted a grim picture of the financial situation and forecasted that it would continue to decline unless something was done. He pointed out the figures in comparison to the previous year. More than $2.6m was spent in excess when compared to 1979. He also mentioned that the bankers would not lend any more money. The society had to take some serious steps to overcome this scenario. Profits from all the branches were deteriorating except the motor department. One possible solution that was decided during the meeting was to stop giving cash rebates and instead allocate shares to all Co-op shareholders.

A.G.R. (Reeve) Williams became the chairman of the board of directors on 30 July 1981, following the retirement of T.C Tarrant. P.M Blyde was appointed deputy chairman. Seeing the financial situation of the society, they decided to appoint a financial consultant, a Taylor. He recommended several actions to improve the society's finances. He had also calculated the estimated profit to be around $1.5m by the end of June 1982. In addition to the financial consultant, the auditors had also asked for a financial controller to take care of the accounting, budgetary and reporting functions. As a result, T.J Harrop was appointed financial controller. West Coast Mortgage & Deposit Co. Ltd was established under FCOS Finance Ltd. The society was finally free from hardship and once again continued to purchase and expand.

Following the retirement of Tom Molesworth, Derek C. Evennett was appointed the new General Manager in July, 1985. He convinced his board of directors to adopt new ideas and take new actions as solutions for better profitability. The society decided to sell the Specialty Machinery Division as it was making huge losses. Similarly, the operations of the company were cut down from four districts to three, New Plymouth, Hawera and Wanganui, removing Stratford. It was the period when a company called Elders Pastoral from

Australia had entered the New Zealand market and there were other companies within New Zealand that wanted to establish stores nationwide. The society decided either to compete with them or join them and with that in mind, the society formed a bargaining team with the general manager, chairman and deputy chairman to sell their assets to Elders. Elders bought a few society properties in early February 1986, but the society continued to show losses of $360,000. Although different options were available as to how to improve the financial situation, the society chose to increase market share, quickly sell the non-profit making operations by refining policies for selling products, operation, etc. The society submitted reports to several purchasing companies that showed interested on purchasing like, Fletcher Challenge Ltd, Wrightson NMA, Elders Pastoral Ltd.

The Elders Pastoral Company agreed to purchase livestock, wool, real-estate, and the farm supplies division from the society. The society arranged for a meeting that all the shareholders were invited to attend. The chairman was hospitalised due to illness and hence deputy chairman headed the meeting. A large group of about 1200 shareholders attended the meeting and the directors, and the deputy chairman made a promise that if the properties were not sold to Elders, then they would resign from their positions. Time was given for the shareholders to address any objections or comments they had about the proposed sale. There was plenty of opposition and so a poll was conducted. More than 70% were against the sale. Following their promise, the officials resigned and new officials were appointed. Brian Train was declared the chairman. The officials strived to bring the society up to normal operating conditions as debtors were regularly knocking at the society's doors. The first plan was to sell the New Plymouth store and reduce the number of stock and station agencies. Competitor stock and station companies had only four branches but the society had 14 branches, so the plan was to close the stores that were not producing profit. The society set the price for the New Plymouth store $6.2m. There were many prospective purchasers but for any number of reasons, the deal could not be made. Ultimately, a Nelson syndicate agreed to sign the agreement for $6m. This was described as "the saving grace" by the chairman. The society now considered the appointment of a new general manager to replace the acting general manager Colin Morrison. Roydon I. Day was appointed.

Once the company started its normal operations and showed some profit, elections were conducted for the board members and the chair positions. Brian Train was once again elected as the chairman with Paul Harris as his deputy. As the cost cutting continued, the society cut merchandise staff by 32, reduced motor department staff, closed its Waitara stores, and reduced the number of livestock agents, etc. It became cautious about expansion. The 75 year jubilee was celebrated in Stratford in a grand manner considering the previous two decades of struggle. In 1990, the society produced a record profit of $1,294m after tax and in the same year, the general manager had to retire due to family reasons. The hunt was on again for the society to find an efficient replacement. Barry Whelan, former general manager of Waikato-based Allied Farmers Ltd was appointed in February 1992 for a three-year contract. In the same year, the finance division showed more profit than expected and the real estate division showed less loss than expected. While the society searching for another company to form an agreement and work with on a mutual basis, the Southland Farmers' Company said it they wished to join with Farmers' Co-op in Taranaki and work collaboratively. Out of the nine board directors, six would be from Farmers' Co-op and the remaining three from the Southland Farmers' Co. In 1993, the society entered into the meat processing business by purchasing 51% of the shares of Te Kuiti Meat Processors Ltd, but this partnership failed to make the expected profits which led to the selling of all 51% shares in December 2001. With the completion of the three year contract, Whelan had to resign and Peter J. Burt took over the general manager seat in February 1995.

The Farmers' Co-operative Organisation Society of New Zealand Limited was not a co-operative company on its own. It was just incorporated with the name co-operative to denote the co-operation of all the farming community involved in the Taranaki region. The Co-op was registered under the Companies Act 1908 and as a co-operative firm it also had to be registered under the Companies Act 1993 and as a co-operative company under the Co-operative Companies Act 1996. So, the society was in a situation to change its brand name in the year 1997. Already using different brand names, such as Taranaki Farmers, e King Country Farmers, Waikato Farmers; an alternative name was easier to find. Doug Hazard and David Simpson suggested the name Allied Farmers Limited as they were previously operating under the Auckland-based Allied Farmers Ltd and the company had stopped its operations under that name and the name was available to use. Paul A. Macfie was appointed as the new general manager in 1998 replacing Peter Burt. With all the shareholders favouring the purchase of South Port's shares in the poll, the society had to purchase over 2.8 million shares from South Port at $1.65. An opportunity to buy 51% shares of Wrightson Rural Supplies had arisen but due to several economic reasons, the society could not make it.

The year 2001 was another successful year in the history of Allied Farmers. It produced a 36%

increase in profit compared to the previous year. The continued increases in profit encouraged the higher officials in the society to list Allied Farmers' Limited on the main board of the New Zealand Stock Exchange. Following the listing on the NZSX board, the company's exposure started growing. The Allied Farmers' livestock section purchased two other dairy operations in the Manawatu region. By this time, the company owned a 50 per cent share in the Livestock centre and was believed to be the most modern in the North Island. In 2004, John J. Loughlin was chosen to replace senior director Rick Bettle and the general manager Paul Macfie was replaced by Philip Anstey. Allied farmers' also purchased the timber company in Wanganui called NDG Pine and later renamed it Allied Pine.

In January 2006, the company purchased the Mitre 10 store in Hawera to establish one megastore and named it "Taranaki Farmers' Mitre 10". Likewise, the company expanded its finance division by capturing Prime Finance Ltd in April 2006 and renamed it Allied Prime Finance Ltd. The company appointed David W. Bale as the CEO in November 2006 due to the retirement of Brian Train. By December, the company had appointed William Giesbers as chief financial officer and John D. Mallon as chartered accountant. The new CEO developed a '*five year strategic plan'* concentrating on the livestock, rural supplies and finance areas of the company.

Due to the continuous decrease in the number of sheep and smaller profits than expected in the wool division, the company sold its wool division in July 2008. David Bale, the CEO had a sound IT knowledge and with the help of Messrs Quayle and While, the company developed a website called *MyLiveStock.co.nz* which enabled trade in livestock to be carried out online. Within a year, the site was successful and most of the trading operations happened online. Expansion in the finance sector continued with the capturing of Nationwide Finance and the finance sector of the business became Allied Nationwide Finance Limited. The year 2008 saw the decline of Trevor Harrop and the CEO David Bale. Paul Macfie the general manager returned in 2008 after a five year absence. The resignation of William Giesber led to the appointment of Hayden Monk as the CFO.

The staff, shareholders and people of the Taranaki region had played an important role in the formation and development of such an immense company that Allied Farmers Limited continues to operate today.

Agency Issues and Hubris in AFL

Mark Hotchin and Eric Watson together brought Elders Finance in 1999 (Taylor, 2011), after Hotchin saw the potential market for financial services. Hotchin was initially involved with the property development projects. During that time, he noticed a gap prevalent between the banks and equity funds and this was his motivation to start a finance company with his business partner Watson. The partners grouped Elders Finance with a set of other financial companies to form the Hanover group of finance companies. Hanover Finance was the third largest finance company in New Zealand and had assets worth $NZD650 million (Taylor, 2011). The owners of the company were ranked 33rd and 34th richest men in Australia and New Zealand by Forbes in 2007 (Doebele & Allison, 2007). Hanover Finance was making huge profits. Following the global financial crisis in 2008, the company froze its repayments of $NZD554 million to its 36,500 investors (Macalister, 2008). The company had developed a five-year debt repayment plan to come out of this huge financial crisis (Slade, 2008). With 85% of the shareholders favouring the debt repayment plan, the owners decided to pledge the property, benefits and cash worth $96 million. However, accounting firm PricewaterhouseCoopers (PwC) valued them between $36 million and $56 million because of the reduction in property prices due to the global financial crisis. The company only managed to pay six cents per dollar to its investors in the first year. But the situation was getting worse day by day and the company had started seeking receivership. In July 2008 Hanover Finance collapsed owing $465 million to 13,000 investors On November 2009, Allied Farmers contacted the Hanover Group and United Finance offering to buy its assets. With 75% vote from the investors of Hanover and United Finance, the owners decided to swap their debts, notes and bonds in favour of shares from Allied Farmers (Gay, 2009). Hence Allied Farmers operated a separate subsidiary that took care of the assets acquired from Hanover and United Finance. The subsidiary was called as Allied Farmers Investments Limited (AFIL). Soon after the acquisition of the Hanover and United finance companies, AFIL started to show a loss. There was a loss of about $20.6 million in 2010 and a loss of about $9 million for six months till December 2011 (McBeth, 2012).

Furthermore, AFIL's other businesses also declined. This situation forced the company to sell its 14 rural retail stores which were been operated as King Country Farmers and Taranaki Farmers ("Allied Farmers divests," 2011).

Acquiring a company that was running at a loss was a bad move by Allied Farmers which caused other divisions in the company to lose business too. Reasons for the Allied Farmers' decision to purchase Hanover and United can be explained in two plausible ways.

First, the existence of agency costs between the management and the shareholders and second, operating in accordance to increase the value of the company's shareholders. In the case of Allied Farmers, top management decided to acquire the other finance companies (Hanover and United) in order to increase returns for their shareholders. According to Barney and Ouchi (1986), the main reason for the agency problem is the change in capital market. The capital market of Allied Farmers kept changing over a decade and hence top management decided to take the risk of acquiring the Hanover group of companies' in order to stabilise the market and show more profit. This decision was unlikely to be favoured by its shareholders. Thus this moral conflict resulted in the agency issues in the company.

A month before signing the agreement John Loughlin, one of the directors of Allied Farmers reported that acquisition of the companies would benefit both the parties "by being the owners of a very significant well-capitalised player in a sector that's been well rationalised" (*Allied Farmers to buy Hanover assets*, 2009). These words show extreme over-confidence among Allied Farmers (hubris). This action by Allied Farmers could be related to the synergy hypothesis. Allied Farmers presumed to believe that the profit from combining their company with the Hanover Group would yield higher returns than the individual firms on their own. This caused top executives at Allied Farmers to become over excited when evaluating the Hanover Group. They were over confident about the acquisition of Hanover.

Overconfidence within the Allied Farmers Company drove them to take the risks. The overconfidence in this context could be related to all three psychological processes as identified by Hubris ("Hubris," 2012). First, the overconfidence in knowledge; that is, Allied Farmers believed that it knew all the processes and information about the Hanover Group. Second, overconfidence in prediction; Allied Farmers predicted that the acquisition of Hanover Group would benefit them. Third, overconfidence in personal abilities; Allied Farmers' top management believed that even if they acquired the company that was running at a loss, they could turn it into profitability using their personal abilities. A few years back when the company was running at a loss, the top officials had taken several measures to recover the company from the sustained losses and, in fact, had successfully achieved it. This in turn could be the reason for the company to presume that even if they acquired the firm operating at a loss, they could turn it around by taking suitable measures.

Conclusion

The history of Allied Farmers Limited dates back to the late 19th century. It has achieved many successes over the years and has been instrumental in the development of cooperative business in New Zealand. AFL continues to be a listed company with market capitalisation of NZ$2,370 million and provides both farming and real estate services to rural communities. After the debacle of bad decisions relating to Hanover Finance, AFL continues to restructure and rationalise costs. This study highlights the importance of evaluating investment proposals with an independent view or by independent parties rather than management, which will minimise the effect of managerial overconfidence and/or provide to Board with alternatives such as "what-if" and scenario analysis to consider, thus leading to better decisions.

Notes

1. Taranaki is situated on the west coast of North Island in New Zealand.
2. Pah is also known as marae, traditional meeting place for the Maori people.

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